




SOUTHERN CROSS
CREDIT UNION

ANNUAL REPORT

2017





**EVERY DAY WE STRIVE TO HELP OUR
CUSTOMERS, OUR PEOPLE AND OUR
COMMUNITY REALISE THEIR DREAMS.**

OUR VISION

To become the first choice for easy to understand banking

OUR VALUES

Our values are a reflection of what is important to us, our customers and our community:

Customer Focus

We get to know our customers by making their banking experience personal.

Community

We connect and engage with our community.

Care

We care for each other, our community and our environment.

Integrity

We are professional, reliable and serious about the financial well-being of our customers.

Empowerment

We empower our customers to take control of their banking.



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**THE 2016/2017 FINANCIAL YEAR
HAS BEEN ANOTHER YEAR OF
OUTSTANDING PERFORMANCE
FOR SOUTHERN CROSS CREDIT
UNION, DESPITE US FACING A
VERY CHALLENGING
ENVIRONMENT.**

Through the implementation of our strategic plan focused on the delivery of an exceptional experience to our customers, our community and our team, we have been able to realise growth across key areas of the business including our customer base, lending, deposits and ultimately profit. Our success this year continues the trend of impressive performance from the 2015/2016 financial year. This success will allow us to continue to invest in our Credit Union, while maintaining a strong overall position and positive outlook for the future.

OUR FINANCIAL PERFORMANCE

This past financial year was very challenging with financial institutions facing a perfect storm of fierce competition, margin pressure and increased prudential regulation.

The macro drivers of change (political, economic, social, technological, legal and environmental) remain constant. Meanwhile the operating environment is becoming more complex and challenging due to increasing customer expectations, intense competition and quickly evolving technologies.

Despite these challenges we have been able to effectively balance our dual goals of remaining financially strong while investing in providing value to our customers through the delivery of an improved range of products and services.

BUILDING STRONG FOUNDATIONS FOR THE FUTURE

By early 2016 we had outgrown our head office space in Murwillumbah. We took this opportunity to move to an environment better suited to accommodate our expansion and support our strategic plans for growth and innovation by relocating to Kingscliff.

The roots of Southern Cross Credit Union are firmly embedded in Murwillumbah. We have maintained our branch presence at our historic location on Commercial Road and continue serving the needs of the Murwillumbah community and surrounding areas. As part of our continued commitment to invest in our network, we plan to undertake a refurbishment of our Murwillumbah branch in the coming 12 months.

Our new Corporate Service Centre at Kingscliff signals an important part of the Credit Union's evolution and provides our team with a space designed to enable collaboration and delivery of the best solutions and outcomes for our customers. The Corporate Service Centre has also been designed to be a non-traditional service point for our customers and is the perfect environment to expand our service offering through the introduction of Premium Banking.

We are extremely proud of our new Corporate Service Centre and thank our customers and our team for their overwhelmingly positive feedback.

+16%

deposits (m/\$)

'17	427.0
'16	369.4
'15	327.0
'14	305.8

deposit growth

482_m

dollars of
total assets



0.62

percentage
return on assets



17.5_k

customer
shareholders



4.22_m

dollars of
profit before tax



+15%

loans (m/\$)

'17	414.5
'16	360.4
'15	301.7
'14	285.7

loan growth

PUTTING PEOPLE FIRST IS AT THE HEART OF EVERYTHING WE DO

In December, we opened the first of our new Financial Service Centres at Tweed City. The opening continues our strategic investment in service channels to meet the changing needs of our customers and community.

The design of the new Financial Service Centre is guided by our belief in building and maintaining meaningful relationships with customers and putting people and conversations at the heart of the Southern Cross experience. At a time when many financial institutions are working on delivering concepts that digitise the in-branch customer experience, we are making a deliberate shift away from this to put one thing first – people. We want people coming into our Financial Service Centre, and our branches, to feel at home and comfortable to discuss their financial situation with us.

We have succeeded in our mission to create a modern, relaxing environment that is different to the traditional banking experience for which we continue to receive positive feedback. Due to this success, our Financial Service Centre design and philosophy will be progressively rolled out at our other locations.

SOUTHERN CROSS CREDIT UNION



OUR COMMITMENT TO 5 STAR SERVICE

We are absolutely focused 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.

To help guide us in achieving our vision, our entire team worked together to develop and establish our five star service principles:

- I will always make my customer feel welcome
- I will listen to, understand and emotionally connect with my customer
- I will always put my customer's needs above all else
- I will engage customers and empower them to make good choices
- I will do all I can to ensure our customers are our advocates

These service principles are embedded in our training, performance management and team building exercises. We encourage all of our customers to provide us with feedback on their experience.

INVESTING FOR YOU

Above all else, in 2017 we remained focused on investing in our business to deliver competitively priced banking products and exceptional service to our customers as we work toward achieving our vision to be the first choice for easy to understand banking.

In early 2016, we introduced our Contact Centre with the goal of meeting our compliance obligations and improving the effectiveness of our customer touch-points, functionality and most importantly customer experience. The Contact Centre is located alongside our new Financial Service Centre in Tweed City Shopping Centre.

We have some exciting things coming up and will always look for new ways to make improvements to our products and services to make your banking experience easier.

To support our business customers, we recently implemented the Xero Bank Feed integration. The integration with Xero in addition to MYOB Banklink, provides greater service to our business customers by significantly reducing the amount of work required to reconcile their business accounts each month.

We have also updated our NetBanking platform, released a new SCCU branded credit card and we are very close to launching our much awaited mobile banking app.

The new app is an exciting addition to our digital banking as it will offer the same functionality as NetBanking in the palm of your hand. Customers will truly be able to manage their banking anywhere, anytime on personal hand-held devices.

In addition to this, we understand that this is a tough time for First Home Buyers to get into the market. To help, we introduced a new 'honeymoon' home loan rate to assist our customers to open the door to home ownership that little bit sooner. We are constantly reviewing the competitiveness of our home loan offerings to ensure we are delivering value to our customers.



INTRODUCING PREMIUM BANKING

Technology is changing the way we bank, but one thing that will never change is the need for strong and meaningful relationships and personal face to face contact.

We are proud to be the first customer owned institution in Australia to introduce Premium Banking. The aim of Premium Banking is to deliver a personalised five star banking experience, tailored to suit the unique requirements of high net worth customers through the services of a dedicated Relationship Specialist.

The introduction of Premium Banking is another exciting point of competitive difference for us. The results and feedback we are receiving confirms our customers need for this service offering.

RECOGNITION & AWARDS

During the year our team have again been recognised for delivering outstanding professional service to our customers.

As an organisation, we were the category winner of the Excellence in Professional Services locally at the Tweed and Lismore Business Excellence Awards, and as winner of the same category at the Northern Rivers Business Excellence Awards.

We were also recognised nationally as a finalist in the 2017 Australian Lending Awards in the categories of Best Mutual and Best Secured Personal Loan Lender. For a Mutual of our size to be a finalist in a national award alongside financial institutions much larger than us is an outstanding achievement and a reflection of our dedication, strength and competitiveness.

Ali Overton from our Ballina Branch was recognised with a Rotary International Vocational Service Award. This award is bestowed upon employees of local businesses who have demonstrated a commitment to their vocation and community, supported by achievements and nominations from community leaders.

We are very proud to receive these awards in recognition of our achievements, success and commitment to providing professional, five star service to our customers and the greater Northern Rivers business community.

We would not have received these accolades without your continued support, custom and referrals. The support of our customers and our community is what makes Southern Cross Credit Union special and will ensure our continued success well into the future.

NSW
Business
Chamber



NSW
Business
Chamber

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Business Awards 2017
Excellence in
Professional Service
Regional Winner
Southern Cross
Credit Union



CELEBRATING 50 YEARS OF COMMUNITY BANKING

In 2016, we celebrated 50 years of community banking. A number of initiatives were undertaken to mark this special occasion and to say thank you to our community and customers for their support.

We supported the local community through the development of our inaugural Community Grants program with local community groups given the opportunity to apply for one of three \$5,000 grants.

The response we received was overwhelming. Recipients of the Community Grants were:

Liberation Larder for their Food Rescue Project aiming to divert tonnes of leftover food at Byron Shire's major festival away from landfill.

Big Scrub Orchestra a creative and musical project with Whian Whian and Dunoon Public Schools to coincide with Big Scrub Rainforest Day.

Community Owned Renewable Energy Mullumbimby (COREM) in support of their project to put solar on the Brunswick Valley Rescue shed.

Smaller grants were also awarded to Murwillumbah Cricket Club and Byron Youth Theatre to support their projects.

Supporting the local community is a key part of our philosophy, as well as an important and integral part of our organisation. As a customer owned financial institution, supporting and making meaningful contributions to our local community and positively impacting the lives of our customers and their families is important to us.

To celebrate our customers, we entered everyone in the draw to Win a Car. The lucky winner was long-time customer Michael Klatt and he was absolutely overjoyed to win the car, as were we to present it to him.

In 2017 and beyond we will continue to provide reciprocal benefits to our referral partners in celebration and recognition of the value of local, community based banking.

We have also removed all fees from community accounts to further support local, not for profit community groups and events.

KEEPING YOUR MONEY SECURE

Over the financial year we have considerably strengthened our corporate governance by undertaking a number of proactive initiatives with the goal of keeping your money safe and secure.

We have relocated the servers of our core banking and disaster recovery systems to expert providers located close by in Brisbane. We have also conducted extensive security and penetration testing with an external contractor and were extremely pleased to receive a positive review of our security practices.

To ensure the continued integrity and transparency of our operations we have secured the services of BDO to act as our external auditors. We would like to take this opportunity to thank our previous auditors Thomas, Noble and Russell (TNR) for their service and guidance during the tenure of our relationship.

THE REGULATORY ENVIRONMENT

The regulatory environment continues to add cost and complexity to our operations and its impact is expected to continue in the foreseeable future.

Increased regulation and oversight by regulators and the government to protect consumer interests has increased our obligations in the areas of monitoring and reporting. Despite these additional requirements, we are pleased to report we received a very favourable outcome in our recent prudential review by industry regulator, APRA.

We also welcome the recent announcement by the NSW government regarding the First Home – New Home Scheme, its intention to support entrants to the housing markets and addressing housing affordability.



THE YEAR AHEAD

Economic volatility continues globally and the uncertainty is impacting borrowing behaviour. This coupled with a low interest rate environment is creating additional competitive tensions amongst lenders as they struggle to balance low pricing with the costs of doing business and funding investment in technology to meet consumer expectations.

The year ahead is shaping up to be the most significant year in Southern Cross Credit Union's history and the most challenging we have faced. We will be investing in our business with the largest single year capital spend in the organisation's history. This investment will provide the financial, physical and cultural foundations to support our growth and success over the coming years.

We are embarking on a number of projects to continue our transformational journey, remain relevant and adapt to our customer's needs in an ever changing environment. We are focused on being future ready and delivering on what's best for our customers, our people and our community by making significant investment in technology. This will ensure we are as productive, effective and efficient as possible in every way we go about our business.

Over the next 12 months, we will be focused on banking system integration and improving our digital and technical offering which is a critical component of our strategy, as we commit to keeping up to date and doing our best to meet and exceed customer expectations.

To acknowledge that a growing number of our customers want to interact with us on social media, we have recently launched a social media presence which will be a key component of communication driving customer and community engagement and attracting new customers to Southern Cross Credit Union.

NEW DIRECTORS

We welcome back Pauline Ross as a Director after a short hiatus, and congratulate Alvaro Lozano on his election to our Board.

Alvaro has degrees in science and engineering, as well as a postgraduate degree in project management. Having lived in the Far North Coast for close to 14 years, Alvaro has been involved in senior management positions both in Local Government and private enterprise. Alvaro is experienced in the management of information technology projects having an expertise in business process efficiency initiatives.

Alvaro has joined the Board as a contributor to the decision making that ensures our customers are provided extraordinary value through a modern, efficient and friendly customer banking experience.



STUART EDWARDS - CEO

IN CLOSING

We would like to take this opportunity to thank you, our valued customers, for choosing to bank with Southern Cross Credit Union. We appreciate your ongoing support.

We are excited about the future and the ongoing transformation of our Credit Union and we look forward to continuing to provide our customers with market leading, five star service and products.



JOHN RUTLEDGE - CHAIRMAN

OUR 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	Diploma in Financial Services JP	Board Member since 27 July 2004	Chairman
Guy Bezrouchko	Bachelor of Business Certified Practising Accountant Diploma in Financial Services JP	Board Member since 20 June 2006	Deputy Chairman Member - 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 Commissioner of Declarations	Board Member since May 2016	Executive Director Chief Executive Officer
Pauline Ross	Bachelor of Health Admin Masters in Public Policy Graduate Australian Institute of Company Directors	Board Member since 29 November 2016 Previous Board Member from 30 August 2005 - 26 April 2016	Chair – Audit Committee, Member - Risk Committee
Alvaro Lozano	Graduate Certificate of Project Management Masters of Engineering – Electronics Engineering Bachelor of Science - Physics	Board Member since 28 February 2017	Member - Audit Committee Member - Risk Committee

*All Directors are Associate members of the Australian Mutual Institute and each holds one ordinary member share in the Credit Union.



◀ **GUY
BEZROUCHKO**
.....
**STUART
EDWARDS**
▼

▲
**JOHN
RUTLEDGE**
.....
**PAULINE
ROSS**
▼



▲
**BELINDA
HENRY**
.....
**ALVARO
LOZANO** ▶



DIRECTOR'S 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, 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.

DIRECTOR'S 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		AUDIT COMMITTEE MEETINGS *		RISK COMMITTEE MEETINGS *	
	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
John Rutledge	9	9	4	4	4	4
Guy Bezrouchko	9	9	4	4	4	4
Belinda Henry	9	9	4	4	4	4
Pauline Ross	6	6	3	3	3	3
Alvaro Lozano	4	4	1	1	1	1
Stuart Edwards	9	9	4	4	4	4

* Leave of absence was granted where Directors were unable to attend board meetings.

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

NAME	QUALIFICATIONS	EXPERIENCE
Brett Myles	Bachelor of Commerce Chartered Accountant - Institute of Chartered Accountants of Australia Member of the Australian Institute of Company Directors JCU	28 years of experience encompassing roles in a 'Big 4' accounting firm Senior Executive Roles at financial institutions and management consulting firms.

FINANCIAL PERFORMANCE

DISCLOSURES

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

REVIEW OF OPERATIONS	The nature of the Credit Union's operations from its activities of providing financial services to its members 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	<p>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:</p> <ul style="list-style-type: none"> • The operations of the Credit Union; • The results of those operations; or • The state of affairs of the Credit Union.

OPERATING RESULTS

The net profit after income tax was \$2,979,000 (\$2,966,000 in 2016), representing an increase of \$13,000. The results for the year were affected by:

- An increase in Net Interest Income of \$207,000 due to the growth in the loan portfolio of \$54,154,000, offset by a reduction in loan yield and increased customer deposit costs largely due to competitive market pressures
- An increase in Non-Interest Income of \$298,000, of which \$285,000 was directly attributable to the profit on the sale of the building at Murwillumbah
- An increase in Employee and Associated Expenses of \$128,000 as the Credit Union continues to expand its loan and deposits portfolio, and employ key specialist roles such as Premium Banking and Contact Centre operations
- Marketing and Advertising expense decreased by \$83,000 as a number of strategic marketing initiatives were undertaken in the previous financial year
- Rental expenses on operating leases increased by \$146,000 due to the sale and leaseback of the Murwillumbah building and the relocation of head office to the new Kingscliff premises
- A decrease in occupancy expense of \$62,000 following the amalgamation of the Lismore/Casino branches and the Ballina/ Lennox Head branches
- Visa costs increasing by \$167,000 as intensive fraud monitoring is conducted to protect customer's accounts following an increase in Visa Paywave usage, conversion of cards to the mandated EMV standard by eftpos, the discontinued Cue card offering and converting all cards to Visa
- A decrease in card expenses of \$35,000 following the conversion of all Cue cards to Visa debit cards, with the Credit Union now having a single debit card offering

CORPORATE

GOVERNANCE DISCLOSURES

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

Each Director must be eligible to act under the constitution as a member of the Credit Union and Corporations Act 2001 criteria and must also 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 COMMITTEES

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

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

- Financial Reporting
- External Audit
- Compliance
- Internal Audit and Internal Control
- Regulatory, Compliance and Ethical Matters

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

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

The Directors form the majority of these committees with executive management participation.

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.

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.

WORKPLACE HEALTH & SAFETY

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

Staff are trained in robbery procedures and offices are designed to detract from such acts by holding minimal cash levels and having cameras to detect and identify unauthorised persons.

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

REGULATION

The Credit Union is regulated by:

- The Australian Prudential Regulation Authority (APRA) for the prudential risk management of the Credit Union
- The 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.

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

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 Union's operations and internal controls.

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

EXTERNAL AUDIT

The annual audit of the Credit Union's financial report and compliance with prudential standards is performed by BDO Audit Pty Ltd (BDO), a Brisbane based firm. The firm of BDO has been auditing credit unions for over 30 years and has provided services to most of the entities in the Mutual Banking industry at some point over this period. The firm utilises sophisticated computer assisted audit software to supplement the compliance testing.

AUDITOR'S INDEPENDENCE

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



**GUY BEZROUCHKO -
DEPUTY CHAIRMAN**



JOHN RUTLEDGE - CHAIRMAN

**DECLARATIONS &
FINANCIAL REPORT**

**SOUTHERN CROSS CREDIT UNION LIMITED
ABN 82 087 650 682
AUDITOR'S INDEPENDENCE DECLARATION
FOR THE YEAR ENDED 30 JUNE 2017**



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DECLARATION OF INDEPENDENCE BY PA GALLAGHER TO THE DIRECTORS OF SOUTHERN CROSS CREDIT UNION LIMITED

As lead auditor of Southern Cross Credit Union Limited for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

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

A handwritten signature in black ink, appearing to read 'P A Gallagher', written over a light grey rectangular background.

P A Gallagher
Director

BDO Audit Pty Ltd

Brisbane, 28 September 2017

Director's Declaration

1. In the opinion of the Directors of the Credit Union:

(a) The attached financial statements and notes set out on pages 32 to 68 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 2017 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:



**GUY BEZROUCHKO -
DEPUTY CHAIRMAN**



JOHN RUTLEDGE - CHAIRMAN

Dated this 26th day of September 2017

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 2017

	Note	2017 \$'000	2016 \$'000
Interest Income	2	19,290	18,057
Interest Expense	3	<u>(7,873)</u>	<u>(6,847)</u>
Net Interest Income		11,417	11,210
Other income	2	3,889	3,590
Impairment expense	11	(388)	(69)
Employee benefits expense	3	(5,016)	(4,888)
Occupancy expense	3	(1,001)	(917)
Depreciation and amortisation expenses	3	(305)	(291)
Other expenses	3	<u>(4,379)</u>	<u>(4,434)</u>
Profit before income tax		4,217	4,201
Income tax expense	4	(1,238)	(1,235)
Profit for the year		2,979	2,966
Other Comprehensive Income, net of income tax			
Net changes in the fair value of cash flow hedges (1)		184	78
Income tax on items of other comprehensive income (1)		<u>(55)</u>	<u>(23)</u>
Other comprehensive income for the year, net of income tax		129	55
Total Comprehensive Income for the Year		3,108	3,021

(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 2017

	Note	2017 \$'000	2016 \$'000
ASSETS			
Cash and cash equivalents	7	4,655	6,397
Held to maturity financial assets	8	59,382	51,859
Other receivables	9	588	519
Loans and advances to customers	10&11	414,544	360,390
Available for sale property	12 (a)	-	748
Available for sale financial assets	12 (b)	577	577
Other assets	16	289	126
Property, plant and equipment	13	1,211	561
Deferred tax assets	14	474	491
Intangible assets	15	370	253
TOTAL ASSETS		<u>482,090</u>	<u>421,922</u>
LIABILITIES			
Deposits from customers	17	427,006	369,426
Payables and other liabilities	18	4,669	5,007
Derivatives	19	-	185
Current tax liability	20	363	304
Provisions	21	363	420
TOTAL LIABILITIES		<u>432,401</u>	<u>375,341</u>
NET ASSETS		<u>49,689</u>	<u>46,581</u>
MEMBERS EQUITY			
Redeemed preference share capital	22	397	376
Other reserves	23	2,764	2,916
Retained earnings		46,528	43,289
TOTAL MEMBERS EQUITY		<u>49,689</u>	<u>46,581</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 2017

	Asset Revaluation Reserve	Capital Profits Reserve	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 2015	514	229	350	(184)	1,882	40,769	43,560
Profit for the year	-	-	-	-	-	2,966	2,966
Net gain/(loss) on cash flow hedges, net of tax	-	-	-	55	-	-	55
Total comprehensive income for the year	-	-	-	55	-	2,966	3,021
Transfers to Redeemed Preference Share Capital	-	-	26	-	-	(26)	-
Transfers from General Reserve for Credit Losses	-	-	-	-	420	(420)	-
Balance at 30 June 2016	514	229	376	(129)	2,302	43,289	46,581
Profit for the year	-	-	-	-	-	2,979	2,979
Other comprehensive income	-	-	-	-	-	-	-
Net gain/(loss) on cash flow hedges, net of tax	-	-	-	129	-	-	129
Total comprehensive income for the year	-	-	-	129	-	2,979	3,108
Transfers to Redeemed Preference Share Capital	-	-	21	-	-	(21)	-
Transfers to General Reserve for Credit Losses	-	-	-	-	233	(233)	-
Transfer from Asset Revaluation Reserve	(514)	-	-	-	-	514	-
Balance at 30 June 2017	-	229	397	-	2,535	46,528	49,689

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 2017

	Note	2017 \$'000	2016 \$'000
i) Cash flows from operating activities			
Interest received		19,290	18,057
Dividends received		82	82
Other non interest income received		3,493	3,002
Interest paid		(7,865)	(6,947)
Payments to suppliers and employees		(10,505)	(9,991)
		<u>4,495</u>	<u>4,202</u>
Movements in operating assets and liabilities			
Net movement in member loans		(54,545)	(58,787)
Net movement in member deposits		56,976	42,233
Net movement in receivables due from other financial institutions		(7,523)	9,474
Deferred Income		110	-
		<u>(4,982)</u>	<u>(7,081)</u>
Income taxes paid		(1,216)	(304)
Net cash provided by / (used in) operating activities	36(c)	<u>(1,703)</u>	<u>(3,183)</u>
ii) Cash flows from investing activities			
Payments for property, plant and equipment and intangible assets		(1,073)	(133)
Proceeds from sale of property plant & equipment and intangible assets		1,033	448
Net cash provided by / (used in) investing activities		<u>(39)</u>	<u>314</u>
Net increase/(decrease) in cash and cash equivalent assets held		(1,742)	(2,868)
Cash and cash equivalents at the beginning of the financial year		<u>6,397</u>	<u>9,265</u>
Cash and cash equivalents at the end of the financial year	36(a)	<u>4,655</u>	<u>6,397</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 2017

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose financial report has been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001 and the prudential standards set down by the Australian Prudential Regulation Authority (APRA).

The financial 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 26 September 2017 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 and is based on historical costs except for 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 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.

Interest income for all interest earning financial assets are recognised using the effective interest rate method.

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.

SOUTHERN CROSS CREDIT UNION LIMITED
ABN 82 087 650 682
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

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.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

(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. Loans and advances are initially recognised at fair value plus incremental direct transaction costs and subsequently measured at amortised cost using the effective interest method.

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. Refer to note 11 for further detail.

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 HTM financial assets

Receivables from HTM financial assets are primarily negotiable certificates of deposit, floating rate notes 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.

SOUTHERN CROSS CREDIT UNION LIMITED
ABN 82 087 650 682
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

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

(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 financial assets

Held to maturity 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 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.

Impairment

Where there is a significant or prolonged decline in the fair value of an available for sale equity instruments below its cost (which constitutes objective evidence of impairment) the cumulative loss recognised in other comprehensive income is reclassified from the available for sale investments revaluation reserve to profit or loss as a reclassification adjustment. Reversals of impairment losses on equity instruments classified as available for sale cannot be reversed through profit or loss. Reversals of impairment losses on debt instruments classified as available for sale can be reversed through profit or loss where the reversal relates to an increase in the fair value of the debt instrument occurring after the impairment loss was recognised in profit or loss.

(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.

SOUTHERN CROSS CREDIT UNION LIMITED
ABN 82 087 650 682
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

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

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 10-33%	Plant & Equipment 10-33%
Computer Equipment 15-50%	Leasehold improvements 10-33%
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 initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method. Interest on deposits is recognised on an accrual basis. Interest accrued at the end of the reporting date is shown as a part of deposits.

(k) 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.

(l) Comparative Figures

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

(m) 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).

SOUTHERN CROSS CREDIT UNION LIMITED
ABN 82 087 650 682
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

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

(m) 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.

(n) 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.

(o) 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 2017, the VaR is \$424,292 or 0.88% of capital (30 June 2016 \$490,435 and 1.10% 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.

SOUTHERN CROSS CREDIT UNION LIMITED
ABN 82 087 650 682
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

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

(o) 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)	2017	2016
	\$'000	\$'000
A-1+/AA-	450	450
A-1/A-	13,053	2,005
A-2/BBB-	35,844	43,396
A-3/BB-	4,028	
Others / Unrated	6,008	6,008
TOTAL	59,383	51,859

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.

SOUTHERN CROSS CREDIT UNION LIMITED
ABN 82 087 650 682
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

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

(o) 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 at balance date.

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:	2017	2016
- As at 30 June	14.23%	13.95%
- Average for the year	15.31%	15.67%
- Minimum during the year	14.05%	13.94%
Liquid funds to total member deposits:		
- As at 30 June	15.00%	15.77%

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 level of the capital ratio can be affected by growth in assets relative to growth in reserves and by changes in the mix of assets. The capital ratios as at the end of each reporting period, for the past 5 years follow:

2017	2016	2015	2014	2013
19.6%	20.4%	22.2%	22.9%	22.1%

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

SOUTHERN CROSS CREDIT UNION LIMITED
ABN 82 087 650 682
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

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

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

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.

Capital is made up as follows:

	2017	2016
	\$'000	\$'000
Tier 1 capital		
Share capital	371	376
Capital reserve	229	229
Revaluation reserve	-	514
Retained Profit	44,988	41,851
Net Tier 1 capital	45,588	42,970
Tier 2 capital		
Credit losses reserve	2,535	2,302
Net Tier 2 capital	2,535	2,302
Total capital	48,123	45,272

(p) 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.

(q) 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.

SOUTHERN CROSS CREDIT UNION LIMITED
ABN 82 087 650 682
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

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

(r) Impairment of Assets (other than financial assets)

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

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.

(s) 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 2017 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>
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 but does not expect a significant impact as most of the Credit Union's revenue will be outside the scope of AASB15</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>

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

	2017	2016
	\$'000	\$'000
NOTE 2 - REVENUE		
Interest Income		
Cash and cash equivalent assets	31	49
Deposits with other financial institutions	1,327	1,272
Loans and advances	17,932	16,737
Total Interest Income	<u>19,290</u>	<u>18,057</u>
Other Income		
Dividends	82	82
Fees and commissions	3,133	2,982
Bad debts recovered	5	8
Profit on sale of property, plant & equipment	285	-
Other	383	518
Total other income	<u>3,888</u>	<u>3,590</u>
Total Revenue	<u>23,178</u>	<u>21,647</u>
NOTE 3 - EXPENSES		
Interest Expense		
Member deposits	7,873	6,847
Total Interest Expense	<u>7,873</u>	<u>6,847</u>
Other Expenses		
Employee benefit expense		
Wages, salaries and other employee benefits	4,590	4,479
Superannuation	426	409
Total employee benefit expense	<u>5,016</u>	<u>4,888</u>
Employee related on-costs expense	397	426
Rental expense on operating leases	657	511
Depreciation and amortisation expense		
Depreciation of buildings	4	12
Depreciation of plant & equipment	230	228
Amortisation of intangible assets	71	51
Total depreciation and amortisation expense	<u>305</u>	<u>291</u>
Other Expenses		
Fees and commissions	1,506	1,445
General administration	1,090	1,176
Occupancy expenses (excluding rental expenses on operating leases)	344	406
Information technology expenses	583	547
Marketing and promotion expenses	376	459
Telephone and communication expenses	223	206
Derivatives - fair value loss on interest rate swaps	-	-
- net loss on hedged item	170	144
Other expenses	35	33
Total other expenses	<u>10,702</u>	<u>10,532</u>
Total Expenses	<u>18,576</u>	<u>17,378</u>

SOUTHERN CROSS CREDIT UNION LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

	2017	2016
	\$'000	\$'000
NOTE 4 - INCOME TAX EXPENSE		
(a) The income tax expense comprises amounts set aside as follows:		
Provision for income tax - current year	1,223	1,093
Under / (over) provision for income tax in prior years	(3)	(2)
(Increase) / decrease in the deferred tax asset account	18	144
	<u>1,238</u>	<u>1,235</u>
(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%	1,265	1,260
Add tax effect of:		
Non-deductible items	11	13
Non-assessable income (fully franked dividends)	(35)	(35)
Other sundry items	1	(1)
Under / (over) provision for income tax in prior years	(3)	(2)
Total income tax expense	<u>1,239</u>	<u>1,235</u>
Applicable weighted average effective tax rate	29.36%	29.39%
(c) Income tax relating to items of other comprehensive income		
Cash flow hedges	55	23
(d) 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		
	<u>18,409</u>	<u>17,304</u>
Under the terms of the Credit Union's constitution the franking account credits shown above are not able to be paid.		

	2017	2016
	\$	\$
NOTE 5 - AUDITOR'S REMUNERATION		
Amounts received or due and receivable by the auditor for:		
Auditing the financial report	56,500	58,000
Other services - compliance matters including Prudential Audits	26,500	33,300
	<u>83,000</u>	<u>91,300</u>
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 2017

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 2017 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 KMP during the year, comprising amounts paid or payable or provided for, was as follows:

	2017	2016
	\$'000	\$'000
Short-term employee benefits	1,121	1,070
Post-employment benefits - superannuation contributions	97	92
Other long-term benefits - net increases in LSL provision	14	14
	<u>1,232</u>	<u>1,176</u>
Total compensation	<u>1,232</u>	<u>1,176</u>

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 KMP and close family members

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

- secured loans	2,485	2,628
- overdrafts	-	-

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

	5	5
Less amounts drawn down and included in (i)	-	-
Net balance available	<u>5</u>	<u>5</u>

(iii) During the year the aggregate value of loans disbursed amounted to:

- secured loans	-	1,834
- overdrafts		

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

101	66
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The Credit Union's policy for lending to KMP and close family members 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.

SOUTHERN CROSS CREDIT UNION LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
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2017 **2016**
\$'000 **\$'000**

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

(c) Deposits from KMP and close family members

Total value of term and savings deposits	734	249
Interest paid on deposits	17	

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

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

Other transactions with related parties

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

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

During the year the CFO purchased a used motor vehicle that was surplus to the Credit Union's requirements for \$6,500. The value was determined to be the market value of the vehicle by reference to Glasses Guide based on the age and condition of the vehicle.

NOTE 7 - CASH AND CASH EQUIVALENTS

Cash on hand	775	825
Deposits with ADI's	3,880	5,572
	4,655	6,397

NOTE 8 - RECEIVABLES FROM HELD TO MATURITY FINANCIAL ASSETS

Held to Maturity

Deposits with ADI's	59,382	51,859
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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	99	71
Sundry receivables	489	449
	588	520

SOUTHERN CROSS CREDIT UNION LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
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	2017 \$'000	2016 \$'000
NOTE 10 - LOANS AND ADVANCES TO MEMBERS		
Overdrafts	9,226	8,112
Term loans	405,752	352,361
Gross loans and advances	414,978	360,473
Specific provision for impairment	(435)	(82)
Net loans and advances	414,543	360,391
<u>Credit Quality - Security held against loans</u>		
Secured by mortgage over real estate	401,597	349,057
Secured by bill of sale over motor vehicle	9,453	8,482
Secured by other assets	514	439
Secured by funds lodged with the credit union	771	802
Unsecured	2,643	1,692
	414,978	360,472

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	82	65
Impairment expense	388	69
Bad debts written off	(35)	(52)
Closing balance	435	82

(b) Provision for impairment calculation

Prescribed provision required by prudential standards	377	20
Additional specific provision for impairment	58	62
Total specific provision for impairment	435	82

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

SOUTHERN CROSS CREDIT UNION LIMITED
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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.

Category 4 Facilities

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

	2017	2016
	\$'000	\$'000
(c) Impaired loans and advances		
Gross impaired loans	1,930	974
Past due but not impaired	332	673
Neither past due or impaired	412,716	358,826
Prescribed provision required by prudential standards	(377)	(21)
Additional specific provision for impairment	(58)	(61)
	414,543	360,391
(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	-	-
181 to 270 days	-	-
271 to 365 days	-	673
365 days or more	332	-
Carrying Amount	332	673

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NOTES TO THE FINANCIAL STATEMENTS
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NOTE 11 - PROVISION ON IMPAIRED LOANS AND ADVANCES (Con't)	2017	2016
(e) Loans and advances by impairment and security	\$'000	\$'000
(i) Against individually impaired		
Secured by mortgage over real estate	1,807	952
Secured by goods mortgage	-	-
Unsecured	123	22
(ii) Against past due but not impaired	-	-
Secured by mortgage over real estate	332	673
(iii) Against neither past due nor impaired	-	-
Secured by mortgage over real estate	399,458	347,432
Secured by goods mortgage	9,967	8,922
Secured by funds lodged with the Credit Union	771	802
Unsecured	2,520	1,671
Total Loans	<u>414,978</u>	<u>360,474</u>
(f) Restructured Loans		
The credit union does not carry any restructured loans at balance date.	<u> </u>	<u> </u>
(g) 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

Land

Freehold land at fair value	<u>-</u>	<u>294</u>
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Buildings

Buildings at fair value	-	466
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Additions at cost	-	-
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Less accumulated depreciation	-	(12)
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	<u>-</u>	<u>454</u>
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Land and Building	<u>-</u>	<u>748</u>
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The Credit Union's Board sold the building located at 2-4 Commercial Road, Murwillumbah NSW 2441 as is surplus to requirements with the relocated of Head Operations to Kingscliff, NSW.

SOUTHERN CROSS CREDIT UNION LIMITED
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NOTE 12 (b) - AVAILABLE FOR SALE - FINANCIAL ASSETS

	2017	2016
	\$'000	\$'000
Financial Assets, at cost		
Shares in unlisted entities - Cuscal	<u>577</u>	<u>577</u>
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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	2017	2016
	\$'000	\$'000
NOTE 13 - PROPERTY, PLANT & EQUIPMENT		
<u>Plant and equipment</u>		
Plant and equipment at cost	1,656	1,464
Less accumulated depreciation	(975)	(956)
	681	508
<u>Leasehold improvements</u>		
Leasehold improvements at cost	1,100	614
Less accumulated depreciation	(607)	(561)
	493	53
Work in Progress - Capital Additions	37	-
Total Property, Plant and Equipment	1,211	561

	Plant & Equipment	Leasehold Improvements	WIP	Total
	\$'000	\$'000	\$'000	\$'000
Balance at beginning of the financial year	508	53		561
Additions	370	486	37	893
Disposals	(12)	-		(12)
Depreciation	(185)	(46)		(231)
Carrying amount at the end of the financial year	681	493		1,211

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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NOTES TO THE FINANCIAL STATEMENTS
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	2017	2016
	\$'000	\$'000
NOTE 14 - DEFERRED TAX ASSETS		
Deferred tax assets	<u>474</u>	<u>491</u>
Deferred tax assets reconciliation:		
Opening Balance	491	636
Current year charge	(17)	(144)
Prior year adjustment	<u>-</u>	<u>-</u>
Closing balance	<u>474</u>	<u>491</u>
Closing balance comprised of the following:		
Leave provisions	228	233
Other provisions	156	62
Financial assets	-	55
Written down value of assets	(463)	(469)
Tax base of assets	<u>555</u>	<u>610</u>
	<u>476</u>	<u>491</u>
NOTE 15 - INTANGIBLE ASSETS		
(a) Computer Software	547	360
Less provision for amortisation	<u>(177)</u>	<u>(106)</u>
	<u>370</u>	<u>253</u>
(b) Movements in carrying amounts		
Balance at beginning of the financial year	253	193
Additions	188	111
Amortisation Expense	<u>(71)</u>	<u>(51)</u>
Carrying amount at the end of the year	<u>370</u>	<u>253</u>
NOTE 16 - OTHER ASSETS		
Deferred Premium Expense on Floating Rate Notes	146	-
Prepayments	<u>143</u>	<u>127</u>
	<u>289</u>	<u>127</u>
NOTE 17 - DEPOSITS FROM CUSTOMERS		
Customer at call deposits (including withdrawable shares)	176,765	161,354
Customer term deposits	<u>250,241</u>	<u>208,072</u>
	<u>427,006</u>	<u>369,426</u>

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	2017 \$'000	2016 \$'000
NOTE 18 - PAYABLES AND OTHER LIABILITIES		
Accrued interest payable	1,986	1,977
Accrued expenses	738	672
Annual leave	396	356
Deferred Income	110	-
Member suspense transactions	1,438	2,002
	4,668	5,007

NOTE 19 - DERIVATIVES

Interest rate swap contracts - cash flow hedges - fair value	-	185
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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 1.11%. 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 1.72% pa.

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

Settlement

Notional Principal

Less than 1 year	10,000	5,000
1 - 2 years	-	10,000
2 - 3 years	-	-
	10,000	15,000

Effective Average Interest Rate Payable

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

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 2017, 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 2017, the market value of the swaps for a 1% movement in interest rates is minimal as the final swap is due on the 9th of August 2017, thus any market rate movements would have an immaterial impact on the market value of the swap.

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	2017	2016
	\$'000	\$'000
NOTE 20 - TAX LIABILITIES/ASSETS		
Current income tax liability/(asset)	<u>363</u>	<u>304</u>
	<u>363</u>	<u>304</u>
NOTE 21 - PROVISIONS		
Long-term Employee benefits		
Long service leave & other post employment benefits	<u>363</u>	<u>420</u>
NOTE 22 - REDEEMED PREFERENCE SHARE CAPITAL		
Opening balance	376	350
Transfers from retained profits for redeemable preference shares	<u>21</u>	<u>26</u>
Closing Balance	<u>397</u>	<u>376</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.

SOUTHERN CROSS CREDIT UNION LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

2017
\$'000 **2016**
\$'000

NOTE 23 - OTHER RESERVES

Capital reserve

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

Hedging Reserve

The reserve for cash flow hedge records gains or losses on a hedging instrument in a cash flow hedge that are recognised in other comprehensive income. Amounts are reclassified to profit or loss when the associated hedged transaction affects

General Reserve for credit losses

The reserve for credit losses records amounts previously set aside as a general provision and is maintained to comply with the Prudential Standards as set down by APRA.

Capital reserve

229 229

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

Asset revaluation surplus

- 514

Opening balance

514 514

Decrease recognised on sale of assets

(514) -

Deferred tax benefit

- -

Closing Balance

- 514

The asset revaluation reserve records revaluations of non-current assets.

Hedging Reserve

- (129)

Opening balance

(129) (183)

Movement in fair value of cash flow hedge

184 77

Deferred tax benefit

(55) (23)

Closing Balance

- (129)

The hedge reserve records revaluations of items designated as hedges.

General reserve for credit losses

Opening balance

2,302 1,882

Add increase / (decrease) transferred from retained earnings

233 420

2,535 2,302

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

2,764 2,916

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

	2017	2016
	\$'000	\$'000
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	619	503
- Later than 1 year but not later than 2 years	499	386
- Later than 2 years but not later than 5 years	1,142	636
- Later than 5 years	369	316
Total Expenditure Commitments	2,628	1,841
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	11,949	15,291
- Undrawn overdraft, line of credit and VISA	6,807	11,064
	18,756	26,355

SOUTHERN CROSS CREDIT UNION LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

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
2017			
Overdraft facility	2,000	-	2,000
IOOF Wholesale Facility	27,000	17,000	10,000
	<u>29,000</u>	<u>17,000</u>	<u>12,000</u>
2016			
Overdraft facility	2,000	-	2,000
IOOF Wholesale Facility	27,000	12,000	15,000
	<u>29,000</u>	<u>12,000</u>	<u>17,000</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% of total assets to another credit union requiring financial support;

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

The value of any calls made and permanent loans advanced during the year was nil (2016 - nil).

SOUTHERN CROSS CREDIT UNION LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 27 - MATURITY ANALYSIS OF ASSETS AND LIABILITIES

AS AT 30 JUNE 2017

	Less than 12 months \$'000	Over 12 months \$'000	Total \$'000
ASSETS			
Cash and cash equivalents	4,655	-	4,655
Receivables due from other financial institutions	31,479	27,903	59,382
Receivables	588	-	588
Loans and advances to members	54,347	-	54,347
Available for Sale Property	-	-	-
Available for Sale Investments	577	-	577
Other assets	289	-	289
Property, plant and equipment	-	1,211	1,211
Deferred tax assets	474	-	474
Intangible assets	-	370	370
Total Assets	92,409	29,484	121,893

LIABILITIES

Deposits from members	424,049	2,957	427,006
Payables & other liabilities	4,557	112	4,669
Current tax liabilities	363	-	363
Derivatives	-	-	-
Provisions	74	289	363
Total Liabilities	429,043	3,358	432,401

AS AT 30 JUNE 2016

	Less than 12 months \$'000	Over 12 months \$'000	Total \$'000
ASSETS			
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
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	366,018	3,407	369,425
Payables & other liabilities	4,866	140	5,006
Current tax liabilities	304	-	304
Derivatives	44	141	185
Provisions	86	334	420
Total Liabilities	371,318	4,022	375,340

SOUTHERN CROSS CREDIT UNION LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

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 2017

	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	-	-	-	-	-	4,655	4,655
Receivables	-	-	-	-	-	588	588
Receivables due from other financial institutions	25,406	33,526	-	450	-	-	59,382
Loans and advances to members	12,142	5,876	23,791	114,145	463,151	-	619,105
Available for Sale Investments	-	-	-	-	-	577	577
On Balance Sheet	37,548	39,402	23,791	114,595	463,151	5,820	684,307
Undrawn commitments (Note 24b)	18,757	-	-	-	-	-	18,757
Interest rate swaps	-	10,000	-	-	-	-	10,000
Total Financial Assets	56,305	49,402	23,791	114,595	463,151	5,820	713,064
Financial Liabilities							
Deposits from members	237,719	66,280	128,613	3,069	-	-	435,682
Payables & other liabilities	4,669	-	-	-	-	-	4,669
Derivatives	-	-	-	-	-	-	-
On Balance Sheet	242,388	66,280	128,613	3,069	-	-	440,351
Operating leases (Note 24a)	52	103	464	1,640	369	-	2,628
Interest rate swaps	-	-	5,000	10,000	-	-	15,000
Total Financial Liabilities	242,440	66,383	134,077	14,709	369	-	457,979

SOUTHERN CROSS CREDIT UNION LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

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

30 June 2016

	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	-	-	-	-	-	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
On Balance Sheet	28,338	39,708	22,952	105,031	393,326	7,493	596,848
Undrawn commitments (Note 24b)	26,355	-	-	-	-	-	26,355
Interest rate swaps	-	-	5,000	10,000	-	-	15,000
Total Financial Assets	54,693	39,708	27,952	115,031	393,326	7,493	638,203

LIABILITIES

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
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

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 2017

	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	3,880	-	-	-	775	4,655	0.32%
Receivables	-	-	-	-	587	587	
Receivables due from other financial institutions	27,903	31,479	-	-	-	59,382	2.40%
Loans and advances to members	272,235	29,889	112,420	-	-	414,544	4.67%
Available for Sale	-	-	-	-	577	577	
Total Financial Assets	304,018	61,368	112,420	-	1,939	479,745	

Financial Liabilities

Deposits from members	-	397,534	29,472	-	-	427,006	1.98%
Payables and other liabilities	-	-	-	-	4,669	4,669	
Total Financial Liabilities	-	397,534	29,472	-	4,669	431,675	

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	-	-	-	-	-	-	
Investments	-	-	-	-	577	577	
Total Financial Assets	222,644	123,755	71,422	-	1,921	419,742	

Financial Liabilities

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	

SOUTHERN CROSS CREDIT UNION LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

2017 **2016**
\$'000 **\$'000**

NOTE 30 - 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	337,781	307,015
Queensland	72,403	51,179

Customer or Industry

Southern Cross Credit Union Ltd Employees	9,688	9,810
Public Health	10,002	12,464

NOTE 31 - WITHDRAWABLE SHARES

Prior to the 24th of November 2016 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	130	151
Junior Membership	2	3
	132	154

From the 25th of November 2016 Member withdrawable shares have a deferred subscription price of \$1.00, that is only payable if called upon in the winding up of the Credit Union.

NOTE 32 - 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 2017

NOTE 33 - 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.

	2017		2016	
	Carrying Value \$'000	Net Fair Value \$'000	Carrying Value \$'000	Net Fair Value \$'000
Assets				
Cash and cash equivalents	4,655	4,655	6,397	6,397
Receivables due from other financial institutions	59,382	59,382	51,859	51,859
Other receivables	588	588	519	520
Loans and advances	414,979	415,230	360,472	360,920
Available for sale investments	577	577	577	577
Total	<u>480,181</u>	<u>480,432</u>	<u>419,824</u>	<u>420,272</u>
Liabilities				
Members' Deposits	427,006	427,018	369,426	369,485
Payables and other liabilities	4,669	4,669	5,006	5,006
Derivatives	-	-	185	185
Total	<u>431,675</u>	<u>431,687</u>	<u>374,617</u>	<u>374,677</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 2017

NOTE 33 - 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
2017					
Recurring fair value measurements					
- land and buildings	13	-	-	-	-
- derivatives	19	-	-	-	-
2016					
Recurring fair value measurements					
- land and buildings	13	-	-	748	748
- derivatives	19	-	185	-	185

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 2017

NOTE 33 - 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 34 - 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, 30th June 17 \$3.5m, 30th June 2016 \$3.5m.

NOTE 35 - 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 2017

2017 **2016**
\$'000 **\$'000**

NOTE 36 - 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	4,655	6,397
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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	2,978	2,966
Non-cash flows in profit from continuing operations:		
Provision for loan impairment	392	69
Amortisation	71	51
Depreciation	234	240
Net loss/(profit) on sale of property, plant & equipment	(285)	(436)
Changes in assets and liabilities:		
Increase / (decrease) in interest payable	8	(101)
Increase / (decrease) in income tax liabilities	60	809
Decrease / (increase) in deferred tax assets	17	144
Decrease / (increase) in fees and commissions receivables	(28)	11
Increase / (decrease) in accrued expenses	66	153
Decrease / (increase) in other assets	(163)	5
Increase / (decrease) in employee benefits	(16)	7
Increase / (decrease) in swaps	(55)	(23)
Net cash provided by operating activities	3,279	3,897
Changes in operating assets and liabilities:		
Increase / (decrease) in deposits	56,976	42,234
Decrease / (increase) in member loans	(54,545)	(58,787)
Decrease / (increase) in receivables due from other financial institutions	(7,523)	9,474
Increase / (decrease) in Deferred Income	110	-
Net cash provided by operating assets and liabilities	(4,981)	(7,079)
Net cash provided by all operating activities	(1,702)	(3,182)



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INDEPENDENT AUDITOR'S REPORT

To the members of Southern Cross Credit Union Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Southern Cross Credit Union Limited (the Company), which comprises the statement of financial position as at 30 June 2017, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies, and the directors' declaration.

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

- (i) Giving a true and fair view of the Company's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

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

Other information

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

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



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

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

Responsibilities of the directors for the Financial Report

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

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

Auditor's responsibilities for the audit of the Financial Report

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

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

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

This description forms part of our auditor's report.

BDO Audit Pty Ltd

P A Gallagher
Director

Brisbane, 28 September 2017

Southern Cross Credit Union Ltd

ABN: 82 087 650 682

AFSL: 241000

Registered Office

Level 2, 38-42 Pearl Street
Kingscliff

Tel 1300 360 744

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

Auditors

External - BDO Audit Pty Ltd

Internal - Grant Thornton

Bankers

Indue Ltd

Cuscal Ltd

National Australia Bank

Westpac

Branches

Lismore	70 Woodlark St
Mullumbimby	56 Burringbar St
Ballina	Shop 46, Ballina Fair
Byron Bay	107 Jonson St
Murwillumbah	2-4 Commercial Rd
Tweed Heads South	Shop 515, Tweed City Shopping Centre
Cabarita	Shop 3/36 Tweed Coast Rd

Directors

John Rutledge	Chairman
Guy Bezrouchko	Deputy Chairman
Stuart Edwards	Executive Director
Pauline Ross	
Belinda Henry	
Alvaro Lozano	

Affiliations

World Council of Credit Unions

Australian Mutuals Institute

COBA – Customer Owned Banking
Association

Australian Institute of Company
Directors

CUFSS Limited