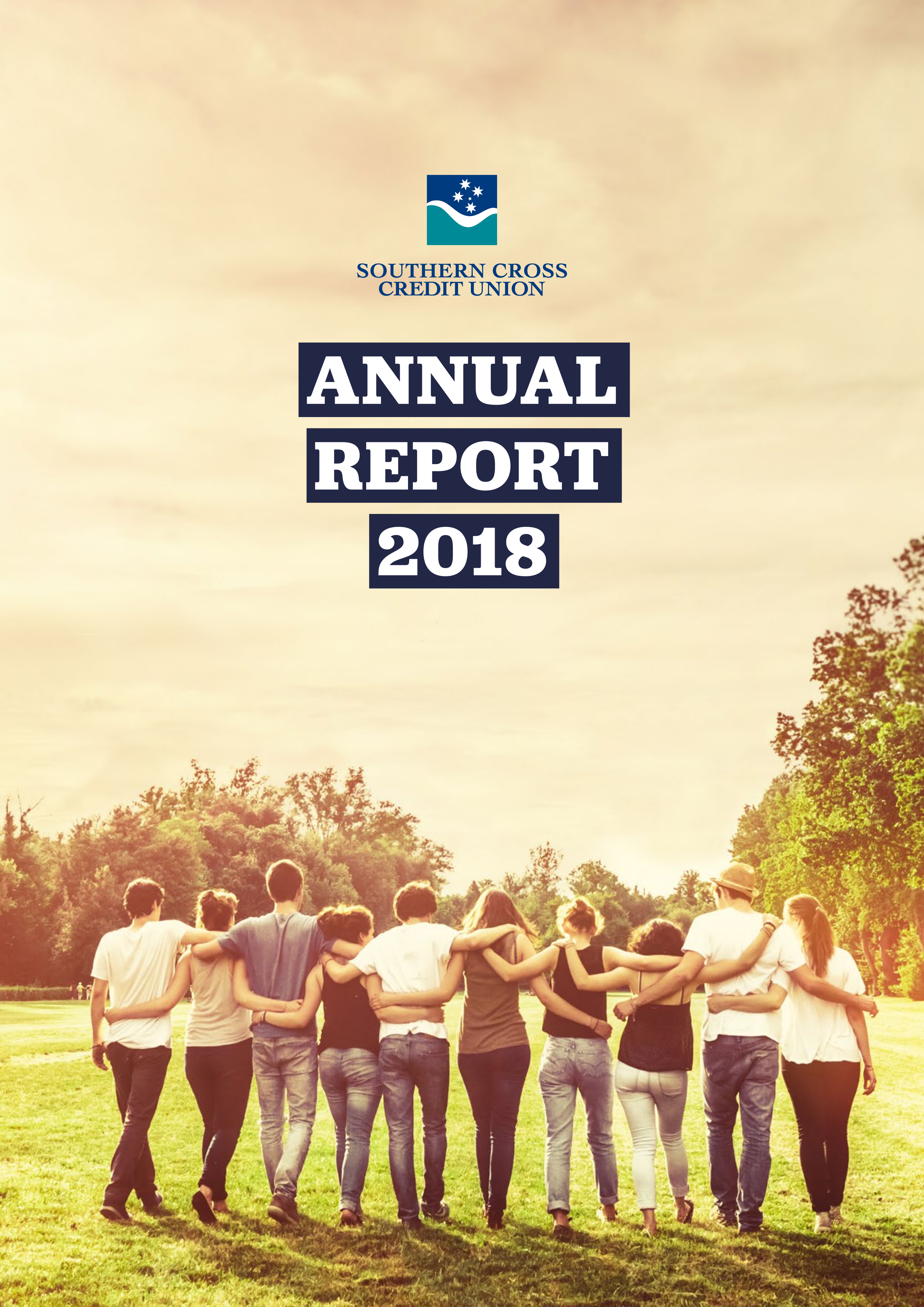
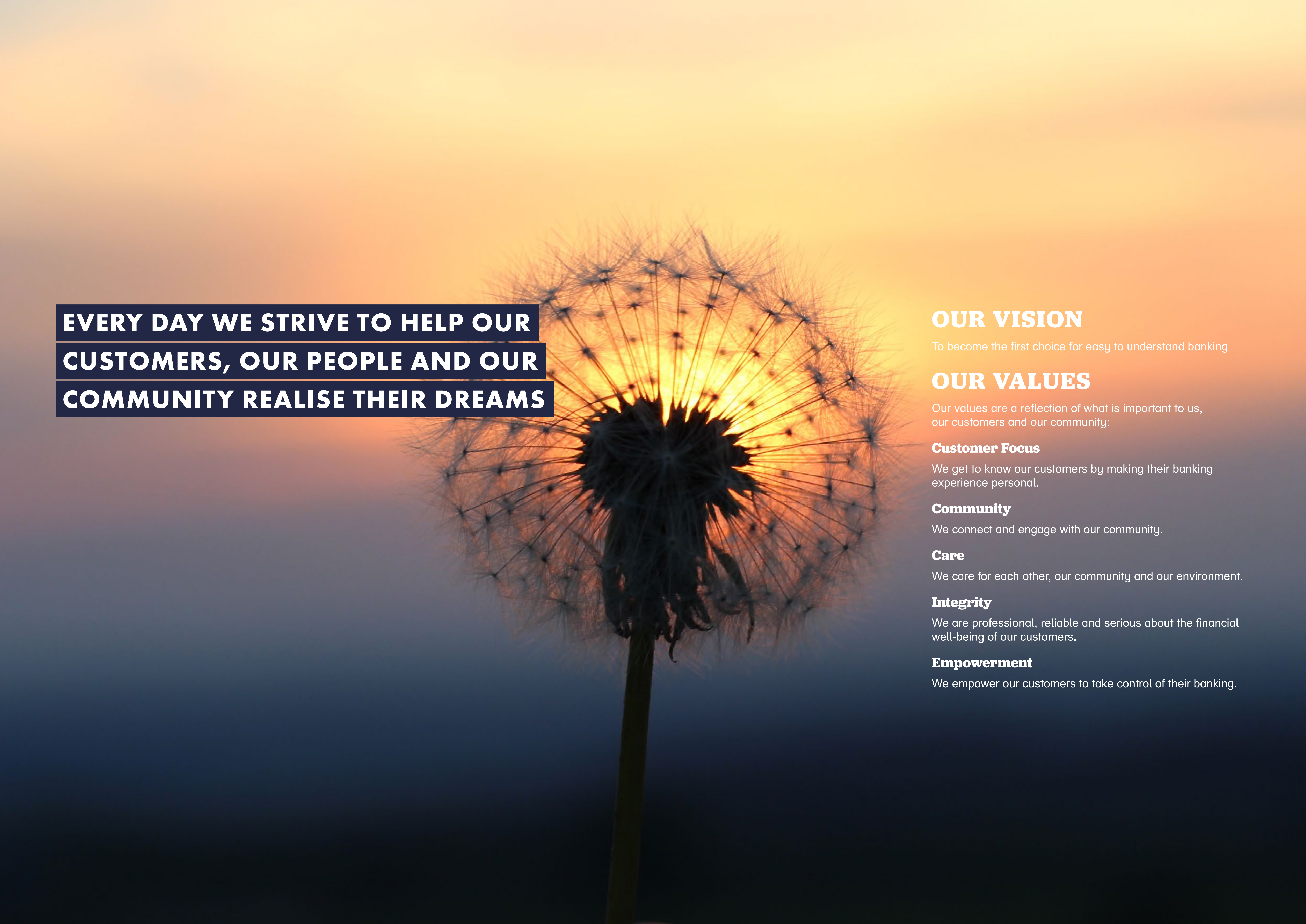
SOUTHERN CROSS
CREDIT UNION

ANNUAL REPORT 2018





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.

CONTENTS

THE 2018 FINANCIAL YEAR HAS SEEN OUR CREDIT UNION'S STRONG PERFORMANCE CONTINUE AND WE WERE DELIGHTED TO AGAIN BE RECOGNISED AS THE LEADER IN DELIVERING "EXCELLENCE IN PROFESSIONAL SERVICE" THROUGHOUT THE NORTHERN RIVERS.

Underpinning this strength has been the tremendous support received from our valued customers, community and our people, all of whom continue to make Southern Cross Credit Union the success it is today. Our performance has enabled us to re-invest heavily in our Credit Union, by providing you, our valued customers, with competitive products, services and improved technology to better manage your financial needs.

Keeping pace with an ever changing environment will continue to present one of the biggest challenges for financial institutions, now and into the future. With new technology, increased competition, regulatory change and 'neo' banks entering the financial services industry, we have continued to build capability and prepare ourselves to face these challenges head on.

FINANCIAL PERFORMANCE

Over the past financial year, the financial services industry has been shaped by an unparalleled shift in consumer payment behaviour coupled with regulatory changes that have dramatically affected financial institutions' ability to continue to offer a full suite of products. Add this to the increasing competition brought about by new FinTech platforms, housing affordability pressures and historically low interest rates, this year has been challenging.

Nevertheless, preparation and the ability to react to these changes has meant an ability to remain in a financially strong position whilst continuing to invest in the things that will deliver us long-term strength and stability.

+8.6%

deposit growth

deposits (m/$)	
'18	463.6
'17	427.0
'16	369.4
'15	327.0

522m dollars of total assets

482.1m	'17
421.9m	'16
376.4m	'15

0.59 percentage return on assets

.62%	'17
.70%	'16
.54%	'15

18.2k customer shareholders

17.5k	'17
18.0k	'16
18.6k	'15

4.34m dollars of profit before tax

4.22m	'17
4.20m	'16
2.89m	'15

+7.5%

loan growth

loans (m/$)	
'18	445.5
'17	414.5
'16	360.4
'15	301.7

CHANGING REGULATORY LANDSCAPE

A key focus over the past year has been observing and responding to the shifting regulatory landscape driven by increased scrutiny on the practices of financial institutions.

Due in part to the ongoing housing affordability crisis and low interest rate environment, APRA applied new lending caps on interest-only and investment lending. This resulted in a restriction on the supply of these loan types to the market, which had a negative impact on growth opportunities. Despite this, we managed to maintain our lending growth at levels above the industry average which is a tremendous achievement.

The recent announcement by APRA that this investment lending cap will likely be removed in the first quarter of the 2019 financial year is very welcome and will allow the resumption of servicing customers' investment lending needs.

Preparations are also underway to deal with outcomes of the Banking Royal Commission and other forecasted regulatory changes for the 2019 Financial Year. These impending changes are focused on improving customer outcomes within the industry, which is seen as a positive long-term outcome. However, the implementation of these changes will require considerable focus and resources, particularly for comparatively small institutions such as ours.

Innovation, digital disruption and cyber resilience will also have a high regulatory priority in the coming year. Financial institutions will continue to face pressures around data security, infrastructure and governance. We are ready to meet these challenges.

The main regulatory areas needing attention in Financial Year 2019 include:

The Banking Royal Commission Outcomes

Dependant on the recommendations tabled in both the interim report to Government due by 30 September 2018 and the subsequent final report due by 01 February 2019, there will likely be a range of new legislation and best practices to be considered and implemented.

Bank Executive Accountability Regime (BEAR)

This bill was passed in Parliament on 07 February 2018 and came into effect for the major banks on 01 July 2018. Credit Unions must comply with the new requirements by 01 July 2019. This requires SCCU to enhance the responsibility and accountability of our Directors and Senior Executives through detailed frameworks and standards.

Introduction of Open Banking

Following the Farrell Report being issued in February 2018 preparations have commenced for the sharing of financial data, across financial institutions, upon customer request. Whilst this data does not need to be shared until 2020, our systems need to be prepared to collate the data in the required formats.

Comprehensive Credit Reporting

This bill was introduced in Parliament on 28 March 2018 and requires financial institutions to supply comprehensive credit data including not only defaults, but positive credit data such as making repayments on time. This is designed to provide a more holistic picture of an individual's credit worthiness through credit reporting bodies. This will involve considerable work in establishing systems and processes to capture, sort and send data.

Information Security Management

From 01 July 2019 there will be a new standard introduced by APRA stipulating how organisations manage the protection of sensitive data, build robust mechanisms to detect and respond to information security incidents; and notify individuals of issues.

Australian Financial Complaints Authority

Replacing the Financial Ombudsman Service, this new body commences from 01 November 2018 and will require an update to our internal dispute resolution procedures.

CHANGING CONSUMER BEHAVIOUR

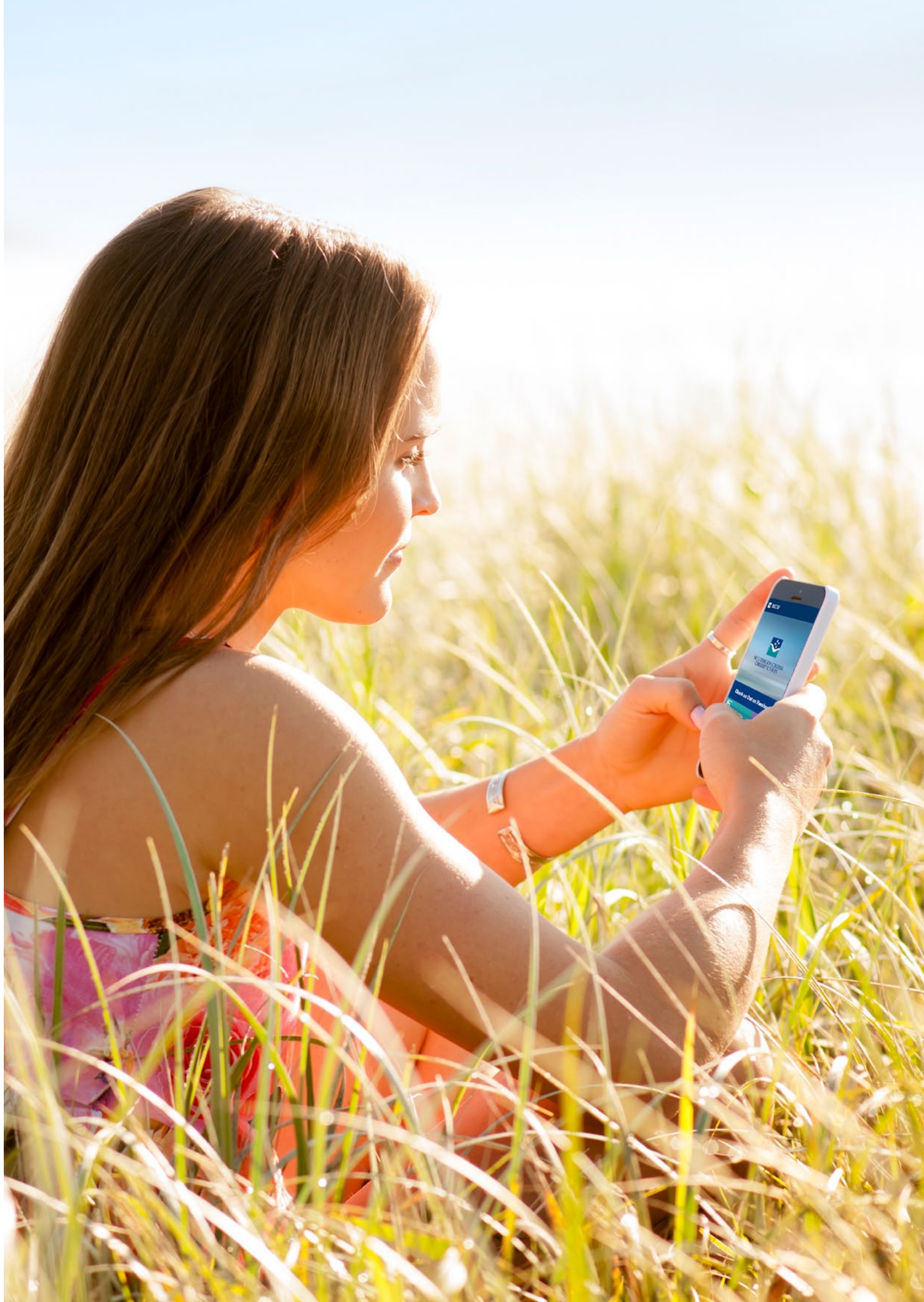
As technology continues to change in the financial services industry, so does consumer behaviour. This year in particular has seen important changes, particularly around purchasing habits.

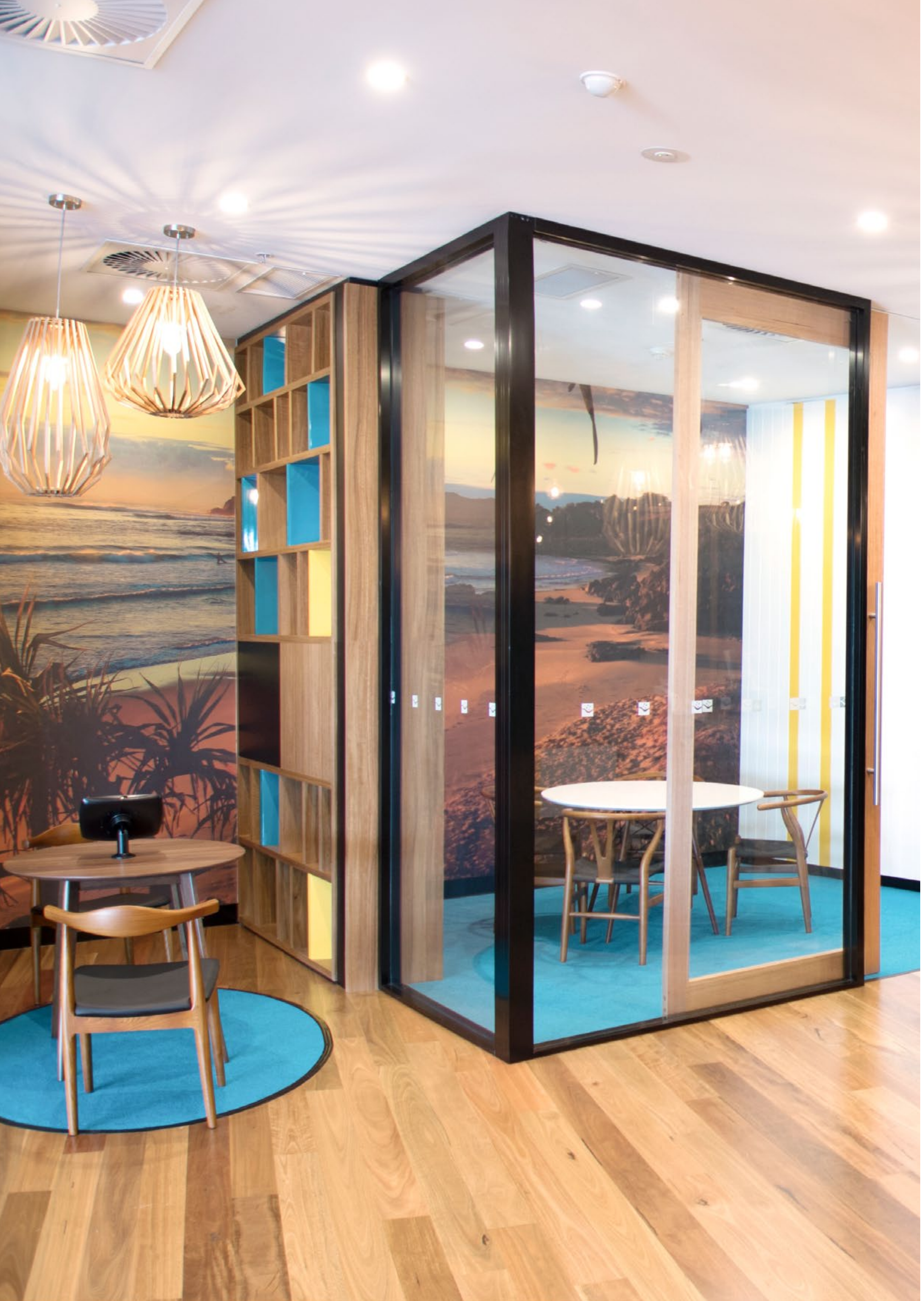
The dramatic rise of 'Tap and Go' payments has had a considerable impact on not only our business, but also the wider industry. The challenges that this presents cannot be underestimated and we have been proactive in responding.

The convenience of 'Tap and Go' payments and wider market acceptance, has precipitated a change in the way consumers pay for goods and services. The value of individual purchases by debit card have fallen significantly whilst the volume of transactions has exploded. For many financial institutions, two resultant effects of this have been the reduced usage of ATM networks and the overall cost of debit card products rising to unprecedented levels.

With our ATM network no longer viable, a tough but responsible decision was made to remove ATMs from our business altogether. Knowing that our customers have plenty of alternate fee-free options to withdraw cash including in-branch, from other institutions ATMs and supermarkets, reinforces the decision taken.

Another change in Consumer Behaviour that will affect the industry is the rise in usage of FinTech platforms. Whilst early days, usage of home loan origination platforms to aggregate offers from lenders is on the rise. Trialling several of these platforms has been investigated, to see which have the ability to contribute to our business and will continue to do so during Financial Year 2019.





BANKING THAT WORKS FOR YOU

Staying true to our values, investment has continued in providing competitive products, service and technology for our customers. Some of the key improvements this year included:

Mobile Banking App

The SCCU Mobile Banking Application launched in December 2017, and has swiftly been adopted by our customers.

Business Banking Offering

A review of the Business Banking products suite led to the introduction of a new Business Vehicle Loan offering and a new, competitive introductory rate on business loans.

Continued Refurbishment of our Financial Service Centres

The refurbishment of the Lismore and Ballina Financial Service Centres continues a commitment to investing in our physical network. Where other institutions are moving towards digitising the customer experience, we believe that people and conversations should be at the heart of this. The future of banking is in people and relationships. We have a commitment to balancing customer expectations with creating an experience that is focused on conversations and individual banking needs.

Basic Home Loan

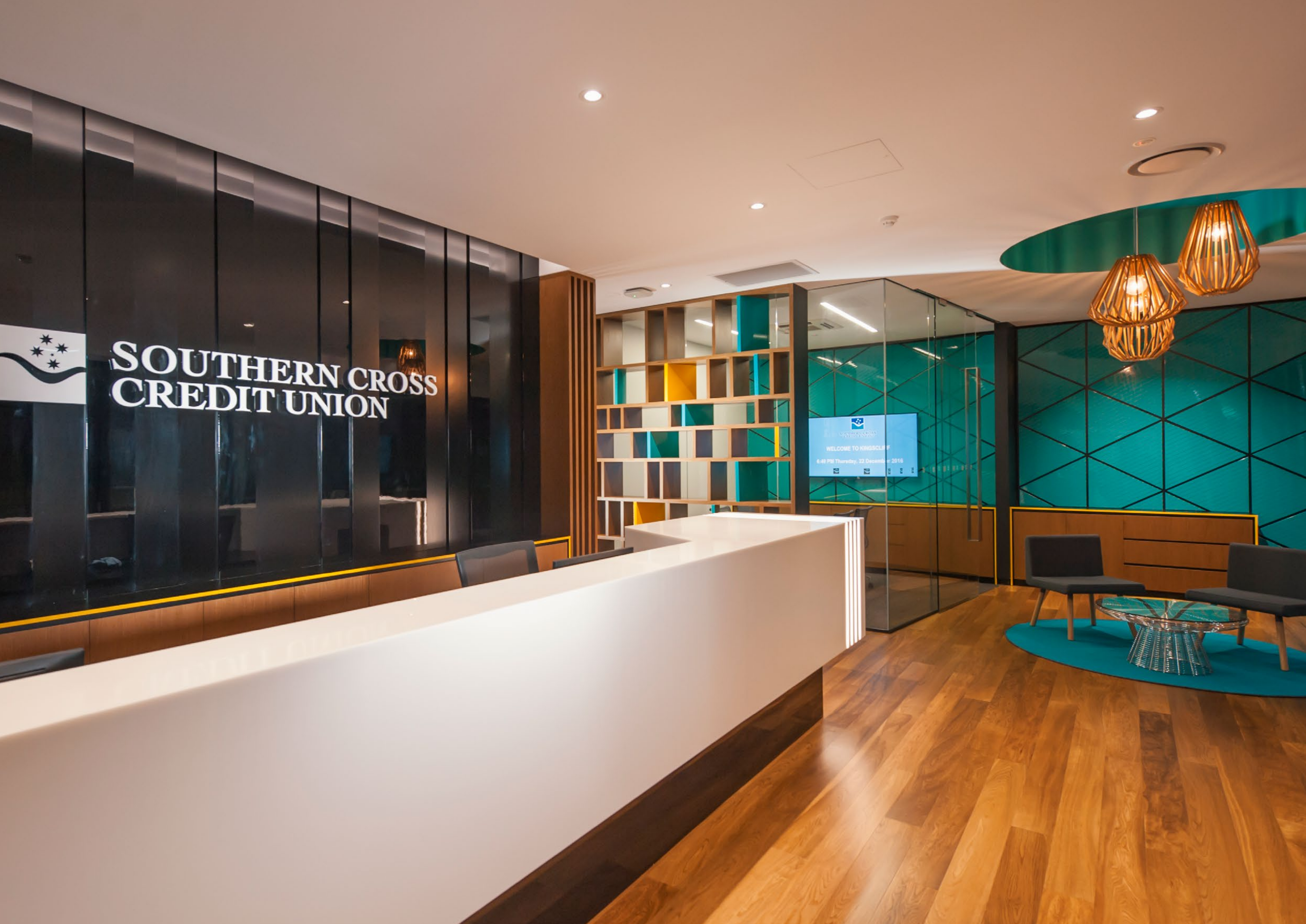
There is a real need in the market place for a basic, no frills home loan product that offers an extremely competitive rate with little-to-no ongoing fees. Responding to customer feedback, our new 'Basic Home Loan' was introduced. With no establishment or annual fees and a competitive rate, this is a product that rewards those who have saved a minimum of 20% deposit and don't require additional loan features.

AMEX International Payments

We became the first Australian financial institution to facilitate AMEX powered international payments online. This allows our customers to now send payments overseas directly from their Net Banking.

Offering our Products through Broker Channels

For many consumers mortgage brokers are the preferred channel when looking for finance. Since December 2017 a Broking solution has been offered for new customers who choose to use this third party channel to gain access to our products.


SOUTHERN CROSS
CREDIT UNION
WELCOME TO KINGSCLIFF

RECOGNITION AND AWARDS

Throughout the year our outstanding people and professional service has been recognised by several local, regional and national awards. We are extremely proud to have received this recognition of our commitment to providing an exceptional service to our customers and community.

To again win the Excellence in Professional Services award in the Northern Rivers and to be a finalist in two major national awards considering the other finalists were all large national institutions, is very humbling.

- Winner Excellence in Professional Services - Lismore Business Excellence Awards
- Winner Excellence in Professional Services - Northern Rivers Business Excellence Awards
- Finalist Best Mutual Lender - Australian Lending Awards
- Finalist Best Mutual - Australian Retail Banking Awards

CONNECTING NEW CUSTOMERS AND OUR COMMUNITY

Community Partnerships

Sponsorship has continued to local clubs, groups and events, providing financial and in kind support through our Community Partnership Program. Some of our key partnerships this past year included Rotary's Ballina Food and Wine Festival, Shaping Outcomes, The Cabarita Charity Cup, Murwillumbah Art Trail and Life Education.

New Customer Donation Initiative

Given the amazing response to our existing sponsorship programs and to reinforce customers' decisions to join Southern Cross Credit Union, we have introduced a new community funding initiative. When a new customer joins us, we donate $5 to an organisation or group providing important support services in our local community. The groups our customers are helping to support this year are:

- Murwillumbah - Wedge Tail Retreat
- Tweed Heads - Kids in Need Association
- Cabarita - Kamilaroi Equestrian Centre
- Ballina - The Breakfast Club (Ballina Public School)
- Byron - Alannah & Madeleine Foundation
- Lismore - Animal Rights & Rescue Group
- Mullumbimby - Mullum Cooking Kids (Mullumbimby Public School P&C)

Community Grants

Beginning in 2016, as part of our 50 year celebrations, the Community Grants program was continued again in 2017. Through this program three grants were provided to support special projects undertaken by local organisations in the areas of health and wellbeing, creative arts and heritage, education, sport and recreation and the environment. This year's recipients were:

Future Dreamers - Summer Holiday Program

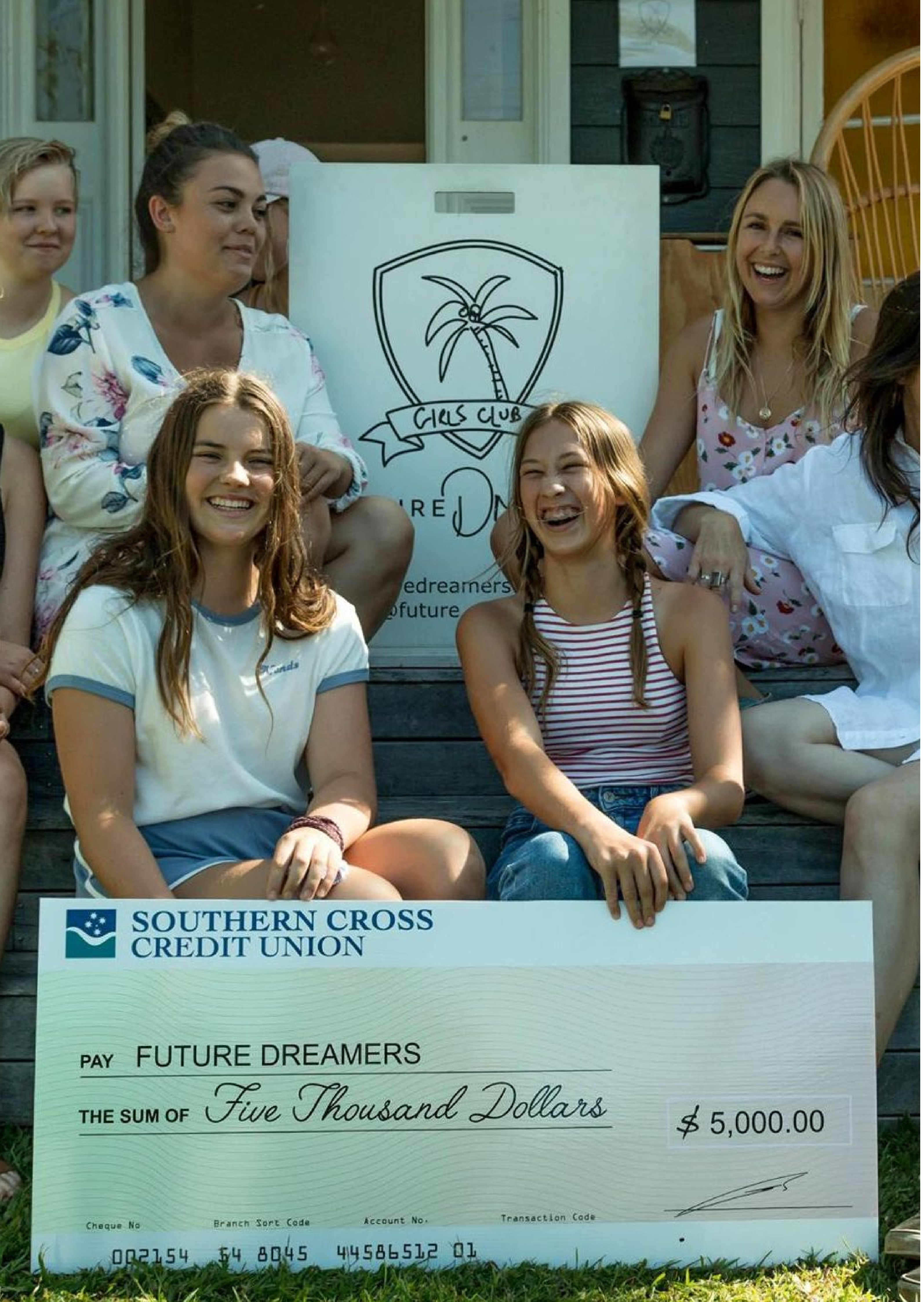
Future Dreamers is an inspiration hub championing positive futures for girls and young women 12-25 years old. They offer a range of engaging and uplifting workshops that encourage personal development, social connection and educational/vocational support. Each school holidays, Future Dreamers put on a variety of workshops and activities for girls, so they can enjoy themselves in a relaxed and nurturing environment whilst experiencing something new. In the 2018 Financial Year we were pleased to be able to help fund their Summer Holiday Program.

Tweed District Rescue Squad - New Lifesaving Equipment

As a volunteer responder to rescue situations, many people would not hear about the critical work that TDRS do until they experience it first-hand. Their Community Grant was used to purchase two Automatic External Defibrillators to help in instances of cardiac arrest.

Enova Community - Repower Byron Shire Project

Enova Community is the not-for-profit arm of Enova Community Energy Ltd, a social enterprise creating energy aware communities in NSW to protect the natural environment and lower energy costs for the welfare of all. Their Community Grant will be used to help drive the 2018 Repower Byron Shire Project which aims to engage, educate, inspire and empower ten street communities (100 households) in Mullumbimby, to take control of their energy use and commit to using 100% renewable energy.



CORPORATE SOCIAL RESPONSIBILITY

A Corporate Social Responsibility statement guides the creation and preservation of value for customers, our people, the environment and our community. Our approach to Corporate Social Responsibility is based on five principles:

Commitment to our Customers

Commitment to our customers is expressed in our mission statement, 'To help our customers, our people and our community realise their dreams for the future.' The aim is to achieve this mission by providing value to our customers through the delivery of competitively priced products and services, delivered by dedicated, professional people.

Commitment to our Community

Southern Cross Credit Union has contributed to the community since our inception in 1966. This contribution is made via direct community support, good corporate citizenship, ethical behaviour and generating value within the Northern Rivers economy. Over the past 12 months we allocated $65,000 to the Community Programs mentioned previously.

Commitment to the Environment

A responsible attitude is taken to minimise and offset the impact of our operations on water and energy consumption, the use of raw materials, including paper, and choice of company vehicles. Steps are taken to improve our environmental impact through participation and support of environmental initiatives aimed at reducing our carbon footprint.

Commitment to our Employees

Commitment to our team is critical to our success. We provide a supportive, safe and respectful work environment where learning and development are supported as an integral part of employment conditions. Employment conditions and benefits enable us to attract good people, build our experience and knowledge base and provide opportunities for our team to develop their skills. High standards are maintained in the areas of equal employment opportunities, diversity, employee satisfaction, recruitment and retention, training, work health and safety, health and wellbeing strategies and remuneration.

As part of this commitment, the Enterprise Agreement (EA) was successfully re-negotiated, passing through the Fair Work Commission and is now active in our business.

Commitment to Corporate Governance

The organisation is committed to maintaining a transparent and accountable approach to corporate governance across all areas of our organisation. This is supported through robust governance frameworks in the areas of Risk, Compliance and Finance. We are dedicated to conducting business in strict compliance with applicable laws and with the highest standards of personal and corporate integrity. These standards are defined in the Customer Owned Banking Code of Practice. In an era where data security is at the forefront of people's minds steps are taken to ensure we manage people's data appropriately including conducting regular, rigorous security and penetration testing.

LOOKING TO THE FUTURE

Although being a small financial institution, we have big dreams for the future for our organisation, our customers, our community and our people. There is a focus on continual improvement and innovation which will help us cement our place as one of Australia's top performing, most stable and secure customer owned financial institutions.

In Financial Year 2019, investment in the business will continue, ensuring customers have access to the products, services and tools they expect and demand, while also focusing heavily on building meaningful relationships. Some of the exciting new projects underway in the coming financial year include:

Upgrading our Branch Network

The Murwillumbah and Byron Bay branches will be completely refurbished and brought into line with our exciting new Financial Service Centre model. This model, which was a result of re-imagining the branch experience, provides a comfortable relaxing environment focused on personal connections, people and conversations.

Corporate Service Centre Expansion

The sizeable expansion of the Kingscliff Corporate Service Centre will include a boardroom and meeting complex that will also be made available for our community to use. With nothing similar on offer in the local region, this will provide a professional space for our local community partners to hold their meetings and presentations, whilst giving them an insight into the SCCU brand.

Amplifying our Online Presence

Major upgrades will be undertaken to our website and mobile banking app, with the intention of further improving customer experience. These updates will also create solid foundations for future digital growth and improve consistency of our branding. Opportunities will continue to be explored with new FinTech platforms to connect even more customers with our Credit Union and expose them to the benefits of Customer Owned Banking.

Digital On-boarding

The introduction of online applications for key products such as Savings Accounts, Home and Personal Loans will enable customers a greater level of self-service where desired. Exploration continues on the possibility of market leading ID verification services to make applications even easier for our customers.

Customer Advocacy and Referrals

We want to share our ongoing success with those who actively advocate for our business. In Financial Year 2019 it is intended to provide our customers and community rewarding opportunities to help us build our business through a dedicated advocacy framework.

Core Banking and Lending System Upgrades

A key project this year was to evaluate potential replacements for our lending system which has become dated and inefficient. Following an intensive review, the Ultradata Loan Origination system was selected as the most appropriate replacement, offering much improved functionality and an entirely new way of handling loan applications.

Once implemented, a major upgrade will be implemented to our core banking system that features a simplified design for greater customer engagement and faster processing of transactions with emphasis on the user experience.

New Payments Platform (NPP)

Introduced in early 2018, The New Payments Platform is Australia's new payments infrastructure, which enables real-time clearing and settlement for simple or complex payment solutions. It enables services such as OSKO, which provides a real-time payment alternative to BPAY (no more waiting days for money to be transferred) and PayID which allows a phone number, email or ABN to be used rather than a BSB and account number when transferring money. In Financial Year 2019 we envisage the NPP will be adopted which will further improve customer experience.

Continuing to Promote Customer Owned Banking

Particularly with the ongoing findings of the Banking Royal Commission, there has never been a more relevant time for Customer Owned Banking. We believe that working for customers, not shareholders delivers better outcomes for our customers, communities and local economies. This message will be reinforced through everything that we do in Financial Year 2019.

DIRECTORS

This year it was farewell to Pauline Ross as a Director. Pauline has been an integral part of the SCCU Board over a number of years. We thank Pauline for her counsel, support and leadership and wish her all the very best for the future.

THANK YOU

Thank you to our valued customers for choosing to bank with Southern Cross Credit Union. We acknowledge and appreciate your support. To our dedicated team, thank you for your hard work and commitment to make a difference to our business and the customers and community we serve.

We are excited about the future of Southern Cross Credit Union and look forward to the year ahead with open arms and extreme optimism.

STUART EDWARDS - CEO

JOHN RUTLEDGE - CHAIRPERSON

YOUR DIRECTORS

Your Directors submit their report for the financial year ended 30 June 2018. 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 Justice of the Peace	Board Member since 27 July 2004	Chairperson
Guy Bezrouchko	Bachelor of Business Certified Practising Accountant Diploma in Financial Services Justice of the Peace	Board Member since 20 June 2006	Deputy Chairperson 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
Alvaro Lozano	Graduate Certificate of Project Management Masters of Engineering – Electronics Engineering Bachelor of Science - Physics	Board Member since 28 February 2017	Chair - Audit Committee Member - Risk Committee
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 Resigned 1 March 2018	Chair – Audit Committee, Member - Risk Committee

*All Directors have held their office from 1 July 2017 to the date of this report unless otherwise stated. All Directors are Associate members of the Australian Mutual Institute and each holds one ordinary member share in the Credit Union.

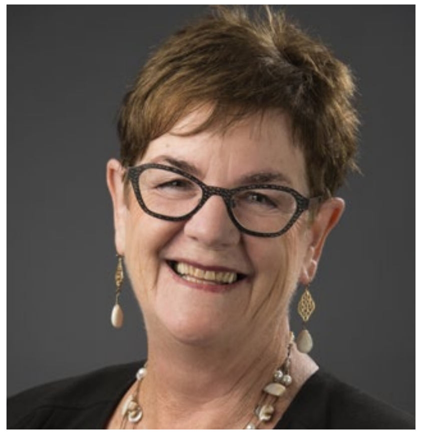

GUY BEZROUCHKO

STUART EDWARDS

JOHN RUTLEDGE

PAULINE ROSS





BELINDA HENRY

ALVARO LOZANO

DIRECTORS' BENEFITS

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

INDEMNITY INSURANCE

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

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

No insurance cover has been provided for the benefit of the auditor. No indemnities have been given to the officers or auditors.

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:

	DIRECTOR MEETINGS		AUDIT COMMITTEE MEETINGS		RISK COMMITTEE MEETINGS	
NO. OF MEETINGS	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
John Rutledge	8	8	4	4	4	4
Guy Bezrouchko	8	8	4	4	4	4
Belinda Henry	8	7	4	3	4	3
Pauline Ross	5	4	2	2	2	2
Alvaro Lozano	8	8	4	4	4	4
Stuart Edwards	8	8	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 - JCU Chartered Accountant - Institute of Chartered Accountants of Australia & New Zealand Member of the Australian Institute of Company Directors	29 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 SUBSEQUENT TO THE END OF THE REPORTING PERIOD	No matters or circumstances have arisen since the end of the reporting 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. The Credit Union's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.
LIKELY DEVELOPMENTS AND RESULTS	Further information about likely developments in the operations of the Credit Union and the expected results of those operations in future financial years have not been included in the report because disclosure of the information would be likely to result in unreasonable prejudice of the Group.

OPERATING RESULTS

The net profit after income tax was $3,063,000 ($2,979,000 in 2017), representing an increase of $84,000. The results for the year were affected by:

- An increase in Net Interest Income of $773,000 due to the growth in the loan portfolio of $30,936,000, offset by a reduction in loan yield and increased customer deposit costs largely due to competitive market pressures
- A decrease in Non-Interest Income of $678,000, of which $277,000 was directly attributable to the profit on the sale of the building at Murwillumbah in the previous financial year and $195,000 decrease in fee and commission in the current year
- An increase in Employee and Associated Expenses of $165,000 as the Credit Union continues to expand its loan and deposits portfolio, and employ key specialist roles
- Marketing and Advertising expense decreased by $112,000 as a number of strategic marketing initiatives were undertaken in the previous financial year
- Rental expenses on operating leases increased by $61,000 due the branch refresh and renewal program
- An increase in Information Technology costs of $68,000 as the credit union invests in new platforms such as the Mobile App and technology in branches such as TCR machines
- Interest rate swap contracts expired early in 2018 financial year saving the Credit Union $157,000 in interest rate swap payments
- Depreciation and amortisation expenses increased by $115,000 due to the refurbishment of branches and head office, continued investment in digital services for customers and telephone and core system upgrades over the last two years

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
- Internal Audit and Internal Control

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
- Regulatory, Compliance and Ethical Matters
- 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
- Cyber Risk Management
- Operational Risk Management
- Outsourcing Risk Management

CHIEF RISK OFFICER

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

EXTERNAL AUDIT

The annual audit of the Credit Union's financial report and compliance with prudential standards is performed by 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.

INTERNAL AUDIT

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

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

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

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ending 30 June 2018 forms part of this report and a copy of this declaration is set out in page 34.

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: https://www.sccu.com.au/get-to-know-us/our-governance/disclosures

PROCEEDINGS

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

ROUNDING OF AMOUNTS

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

WORKPLACE HEALTH & SAFETY

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

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

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

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

The Credit Union has established an WH&S committee of employees that meets regularly to consider any concerns for security or safety raised by employees or the public. All matters of concern are reported to the CEO for actioning by management. Secure cash handling policies are in place and lifting heavy weights are managed by proper techniques to minimise the risk of damage.

GUY BEZROUCHKO - DEPUTY CHAIRPERSON

JOHN RUTLEDGE - CHAIRPERSON

DECLARATIONS & FINANCIAL REPORT

Directors' Declaration

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

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

      i) complying with Accounting Standards, Interpretations and the Corporations Regulations 2001; and

      ii) giving a true and fair view of the Credit Union's financial position as at 30 June 2018 and of its performance for the year ended on that date; and

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

2. The notes to the financial statements include a statement of compliance with International Financial Reporting Standards.

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

John Rutledge **Chairperson**	**Guy Bezrouchko** **Deputy Chairperson**

Dated this 25th day of September 2018

SOUTHERN CROSS CREDIT UNION LIMITED
ABN 82 087 650 682
AUDITOR'S INDEPENDENCE DECLARATION
FOR THE YEAR ENDED 30 JUNE 2018

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www.bdo.com.au

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

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 2018, 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.

P A Gallagher
Director

BDO Audit Pty Ltd

Brisbane, 25 September 2018

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 2018

	Note	2018 $'000	2017 $'000
Interest Income	3	20,513	19,290
Interest Expense	4	(8,324)	(7,873)
Net Interest Income		12,189	11,417
Other income	3	3,212	3,889
Expenses			
Impairment expense	12	(219)	(388)
Employee benefits expense	4	(5,181)	(5,016)
Occupancy expense	4	(346)	(344)
Depreciation and amortisation expenses	4	(419)	(305)
Other expenses	4	(4,894)	(5,035)
Profit before income tax		**4,342**	**4,218**
Income tax expense	5	(1,279)	(1,239)
Profit for the year		**3,063**	**2,979**
Other Comprehensive Income, net of income tax			
Items that may be reclassified subsequently to profit or loss			
Net changes in the fair value of cash flow hedges		-	184
Income tax on items of other comprehensive income		-	(55)
Other comprehensive income for the year, net of income tax		**-**	**129**
Total Comprehensive Income for the Year		**3,063**	**3,108**

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
FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 $'000	2017 $'000
ASSETS			
Cash and cash equivalents	8	7,222	4,655
Held to maturity financial assets	9	65,458	59,382
Other receivables	10	650	588
Loans and advances to customers	11&12	445,480	414,544
Financial assets held for sale	13	577	577
Other assets	17	289	289
Plant and equipment	14	1,438	1,211
Deferred tax assets	15	459	474
Intangible assets	16	388	370
TOTAL ASSETS		**521,961**	**482,090**
LIABILITIES			
Deposits	18	463,631	427,006
Payables and other liabilities	19	4,971	4,669
Derivatives	20	-	-
Current tax liability	21	291	363
Provisions	22	316	363
TOTAL LIABILITIES		**469,209**	**432,401**
NET ASSETS		**52,752**	**49,689**
MEMBERS EQUITY			
Redeemed preference share capital	23	406	397
Other reserves	24	2,969	2,764
Retained earnings		49,377	46,528
TOTAL MEMBERS EQUITY		**52,752**	**49,689**

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 2018

	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 2016	**514**	**229**	**376**	**(129)**	**2,302**	**43,289**	**46,581**
Profit for the year	-	-	-	-	-	2,979	2,979
Other comprehensive income	-	-	-	-	-	-	-
Net change in 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 from 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**
Profit for the year	-	-	-	-	-	3,063	3,063
Other comprehensive income	-	-	-	-	-	-	-
Net change in cash flow hedges, net of tax	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	3,063	**3,063**
Transfers to Redeemed Preference Share Capital	-	-	9	-	-	(9)	-
Transfers to General Reserve for Credit Losses	-	-	-	-	205	(205)	-
Transfer from Asset Revaluation Reserve	-	-	-	-	-	-	-
Balance at 30 June 2018	**-**	**229**	**406**	**-**	**2,740**	**49,377**	**52,752**

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 2018

	Note	2018 $'000	2017 $'000
Cash flows from operating activities			
Interest received		20,513	19,290
Dividends received		48	82
Other non-interest income received		3,198	3,493
Interest paid		(8,048)	(7,865)
Payments to suppliers and employees		(10,559)	(10,505)
		5,152	**4,495**
Net movement in loans and advances		(31,105)	(54,435)
Net movement in deposits		36,599	56,976
Net movement in held to maturity financial assets		(6,076)	(7,524)
		(582)	(4,983)
Income taxes paid		(1,337)	(1,216)
Net cash provided by / (used in) operating activities	36(c)	**3,233**	**(1,703)**
Cash flows from investing activities			
Payments for plant and equipment and intangible assets		(666)	(1,073)
Proceeds from sale of plant & equipment and intangible assets		-	1,033
Net cash (used in) investing activities		**(666)**	**(39)**
Net increase/(decrease) in cash and cash equivalent assets		2,567	(1,742)
Cash and cash equivalents at the beginning of the financial year		4,655	6,397
Cash and cash equivalents at the end of the financial year	36(a)	**7,222**	**4,655**

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

NOTE 1 - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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 principle activities of the Credit Union during the year comprised the raising of funds by deposit and the provision of loans and associated services to the members, as prescribed by the Constitution. The financial report was authorised for issue on 25 September 2018 by the directors of the Credit Union.

Basis of Preparation

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 statements of Southern Cross Credit Union comply will all International Financial Reporting Standards (IFRS) in their entirety.

This financial report has been prepared on an accruals basis and is based on historical costs except for certain other financial assets and financial liabilities (including derivative instruments) for which the fair value basis of accounting has been applied. The presentation currency of the financial statements is Australian Dollars.

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

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Credit Union and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest income and interest expense

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

Origination fee and transaction costs that are direct and incremental to the establishment of the financial instrument are deferred and amortised as a component of the calculation of the effective interest rate.

Origination fee and transaction costs that are direct and incremental to the establishment of the financial instrument are deferred and amortised as a component of the calculation of the effective interest rate.

The effective interest rate method calculates the amortised cost of a financial instrument by discounting the financial instrument's estimated future cash receipts or payments to their present value and allocates the interest income or interest expense, including any fees, costs, premiums or discounts integral to the financial instrument, over its expected life.

Fees and commissions

Fees charged on loans after origination of the loan are recognised as income when the service is provided. Fees and commissions are recognised on an accruals basis when service to the customer has been rendered and a right to receive the consideration has been attained.

Dividend income

Dividend income is recognised on an accruals basis when the Credit Union's right to receive the dividend is established.

All revenue is stated net of the amount of goods and services tax (GST).

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

(c) Cash and cash equivalents

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

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

(d) Impairment of Loans and Advances

A provision for losses on impaired loans and advances is recognised when there is objective evidence that impairment of loans and advances has occurred. All loans and advances are subject to continuous management review to assess whether there is any objective evidence that any loans or advances or group of loans and advances is impaired. Evidence of impairment may include indications that the borrower has defaulted, is experiencing significant financial difficulty, or where the debt has been restructured to reduce the burden to the borrower.

Impairment losses on loans and advances are measured as the difference between the carrying amount of loans and advances and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the loans and advances original effective interest rate. Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of the impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The amount provided for impairment of loans is determined by management and the Board. The Prudential Standards issued by APRA enable the minimum provision to be based on specific percentages of the loans and advances balance, contingent upon the length of time the repayments are in arrears, and the security held. This approach is adopted by the ADI. Management and Board also make provision for loans and advances in arrears for credit losses on a portfolio basis where the collectability of the debt is considered doubtful where specific identification not yet practicable.

In addition, a general reserve for credit losses is maintained in equity to cover risks inherent in the loan portfolio.

Movements in the general reserve for credit losses are recognised as an appropriation of retained earnings in compliance with APRA requirements.

Bad debts are written off, as determined by management and the Board, when it is reasonable to expect that the recovery of the loan is unlikely. All write-offs are on a case-by-case basis, taking into account the exposure at the date of the write-off. On secured loans, the write-off takes place following ultimate realisation of collateral value.

Bad debts are written off against the provision for impairment where impairment has previously been recognised in relation to loans and advances. If no provision for impairment has previously been recognised, write offs for bad debts are recognised as expense in profit or loss.

(e) Receivables

Held to Maturity (HTM) financial assets

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 customers and other sundry clearing accounts.

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 the Credit Union does not sell immediately in the near term. Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at amortised cost using the effective interest 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.

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.

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

(g) Plant and equipment

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

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 2018

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

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

Furniture & Equipment 10-33%	Motor Vehicles 20%
Plant & Equipment 10-33%	Leasehold improvements 10-33%
Computer Equipment 15-50%	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) Deposits

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 has used 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).

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) 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 and advances

Management have made accounting estimates when applying the Credit Union's accounting policies with respect to the specific impairment provisions for loans - refer Note 12.

(p) 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.

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

(p) Fair Values (Con't)

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.

(q) 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.

(r) 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 2018 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	***Financial Instruments (mandatory for financial years commencing on or after 1 January 2018)*** 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). The Credit Union has assessed the impact of AASB 9, the major impact will be on the impairment provisioning of loans under AASB 9 which based on modelling will reduce. However, to ensure the minumim APRA provisioning requirements are met the impairment provision will be base on the higher of the two model. The Credit Union is in the process of performing a detailed assessment of the impact of the application of AASB 9 and is not yet able to reasonably estimate the impact on its financial statement. Additionally, under AASB 9 unlisted shares are required to be reported at fair value rather than cost.
15	***Revenue from contracts with customers (mandatory for financial years commencing on or after 1 January 2018)*** 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. The Credit Union is in the process of assessing the impact of AASB15 but does not expect a significant impact as most of the Credit Unions revenue will be outside the scope of AASB15.
16	***Leases (mandatory for financial years commencing on or after 1 January 2019)*** 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. 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. 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. The Credit Union is yet to assess the full impact of this Standard.

NOTE 2 - 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 30.

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 2018, the VaR is $224,415 or 0.44% of capital (30 June 2017 $424,292 and 0.88% 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.

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 ongoing hindsight compliance reviews of this policy are conducted.

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

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

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

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

NOTE 2 - RISK MANAGEMENT OBJECTIVES AND POLICIES (Con't)

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)	2018 $'000 Balance	2017 $'000 Balance
AA and above	49,402	49,347
Below AA	8,048	4,028
Others / Unrated	8,008	6,008
TOTAL	**65,458**	**59,382**

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 13.

Liquidity Risk

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

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

The credit union has a long standing arrangement with the industry liquidity support scheme, Credit Union Financial Support Services (CUFSS) which can access industry funds to provide support to the credit union should this be necessary at short notice. Additional disclosure is provided at Note 27.

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 26 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:	**2018**	**2017**
- As at 30 June	15.05%	14.23%
- Average for the year	15.55%	15.31%
- Minimum during the year	13.11%	14.05%
Liquid funds to total member deposits:		
- As at 30 June	15.68%	15.00%

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.

NOTE 2 - RISK MANAGEMENT OBJECTIVES AND POLICIES (Con't)

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:

2018	2017	2016	2015	2014
19.3%	19.6%	20.4%	22.2%	22.9%

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

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:

	2018 $'000	2017 $'000
Tier 1 capital		
Share capital	406	397
Capital reserve	229	229
Retained Profit	47,953	44,988
Net Tier 1 capital	**48,588**	**45,614**
Tier 2 capital		
Credit losses reserve	2,740	2,535
Net Tier 2 capital	**2,740**	**2,535**
Total capital	**51,328**	**48,149**

	2018 $'000	2017 $'000
NOTE 3 - REVENUE		
Interest Income		
Cash and cash equivalent assets	26	31
Deposits with other financial institutions	1,459	1,327
Loans and advances	19,028	17,933
Total Interest Income	20,513	19,290
Other Income		
Dividends	48	82
Fees and commissions	2,937	3,133
Bad debts recovered	23	5
Profit on sale of property, plant & equipment	9	286
Other	194	384
Total other income	3,212	3,889
Total Revenue	23,725	23,179
NOTE 4 - EXPENSES		
Interest Expense		
Member deposits	8,324	7,873
Total Interest Expense	8,324	7,873
Other Expenses		
Employee benefit expense		
Wages, salaries and other employee benefits	4,715	4,590
Superannuation	465	426
Total employee benefit expense	5,181	5,016
Employee related on-costs expense	403	397
Depreciation and amortisation expense		
Depreciation of buildings	-	4
Depreciation of plant & equipment	312	230
Amortisation of intangible assets	107	71
Total depreciation and amortisation expense	419	305
Other Expenses		
Fees and commissions	1,540	1,506
General administration	1,058	1,090
Occupancy expenses (excluding rental expenses on operating leases)	346	344
Rental expense on operating leases	717	657
Information technology expenses	651	583
Marketing and promotion expenses	265	376
Telephone and communication expenses	210	223
Derivatives - net loss on hedged item	12	170
Other expenses	39	35
Total other expenses	10,841	10,703
Total Expenses	19,165	18,576

NOTE 5 - INCOME TAX EXPENSE

	2018 $'000	2017 $'000
(a) The income tax expense comprises amounts set aside as follows:		
Provision for income tax - current year	1,275	1,224
Under / (over) provision for income tax in prior years	(11)	(3)
(Increase) / decrease in the deferred tax asset account	15	18
	1,279	1,239
(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% (2017 - 30%)	1,303	1,265
Add tax effect of:		
Non-deductible items	8	11
Non-assessable income (fully franked dividends)	(21)	(35)
Under / (over) provision for income tax in prior years	(11)	(2)
Total income tax expense	1,279	1,239
Applicable weighted average effective tax rate	29.46%	29.36%
(c) Components of income tax expense in profit ot loss		
Current tax		
Current tax expense	1,275	1,224
Adjustments for previous years	(11)	(3)
Total current tax expense	1,264	1,221
Deferred tax		
Origination and reversal of temporary differences	15	18
Total deferred tax expense	15	18
Total income tax expense in profit or loss	1,279	1,239
(d) Income tax relating to items of other comprehensive income		
Cash flow hedges	-	55
(e) 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	19,878	18,520

Under the terms of the Credit Union's constitution the franking account credits shown above are not able to be paid.

NOTE 6 - AUDITOR'S REMUNERATION

	2018 $	2017 $
Amounts received or due and receivable by the auditor for:		
Auditing the financial report	59,000	56,500
Other services	28,450	26,500
	87,450	83,000

These figures exclude the non-refundable component of the

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NOTE 7 - 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 2018 comprises the Chief Executive Officer, Chief Financial Officer, Executive Manager Sales & Distribution and Executive Manager Risk & Compliance.

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

	2018 $	2017 $
Short-term employee benefits	1,079,621	1,120,917
Post-employment benefits - superannuation contributions	94,037	96,799
Other long-term benefits - net increases in LSL provision	15,711	14,353
Total compensation	1,189,369	1,232,069

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 22.

(b) Loans to KMP and close family members

	2018	2017
(i) The aggregate value of loans as at balance date amounted to:		
- secured loans	4,697,666	2,485,281
- overdrafts	-	-
(ii) The total value of revolving credit facilities available, as at balance date amounted to:	5,000	5,000
Less amounts drawn down and included in (i)	-	-
Net balance available	5,000	5,000
(iii) During the year the aggregate value of loans disbursed amounted to:		
- secured loans	2,438,000	-
- overdrafts	26,300	-
Interest and other revenue earned on loans and revolving credit facilities amounted to:	153,415	101,248

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.

	2018 $	2017 $

NOTE 7 - RELATED PARTY AND KEY MANAGEMENT PERSONNEL (Cont'd)

(c) Deposits from KMP and close family members

	2018 $	2017 $
Total value of term and savings deposits	282,484	733,846
Interest paid on deposits	10,522	17,345

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 2017 financial 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 8 - CASH AND CASH EQUIVALENTS

	2018 $	2017 $
Cash on hand	652	775
Deposits with ADI's	6,570	3,880
	7,222	4,655

NOTE 9 - HELD TO MATURITY FINANCIAL ASSETS

	2018 $	2017 $
Held to Maturity		
Deposits with ADI's	65,458	59,382

Included in Deposits with ADI's for financial year 2017 is $450,000 Cash Security Deposit securing the Credit Union's payments under the Interest Rate Swap Agreements. The Security Deposit was redeemed on termination of the swap contracts during the financial year.

NOTE 10 - OTHER RECEIVABLES

	2018 $	2017 $
Accrued income	65	99
Sundry receivables	585	489
	650	588

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NOTE 11 - LOANS AND ADVANCES TO MEMBERS

	2018 $'000	2017 $'000
Overdrafts	9,329	9,226
Term loans	436,737	405,752
Gross loans and advances	446,066	414,979
Specific provision for impairment	(586)	(435)
Net loans and advances	445,480	414,544
Credit Quality - Security held against loans		
Secured by mortgage over real estate	433,353	401,597
Secured by bill of sale over motor vehicle	8,558	9,453
Secured by other assets	515	514
Secured by funds lodged with the credit union	391	771
Unsecured	3,249	2,643
	446,066	414,978

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 12 - IMPAIRMENT OF LOANS AND ADVANCES

(a) Provision for impairment

Specific provision for impairment	2018 $'000	2017 $'000
Opening balance	435	82
Impairment expense	219	388
Bad debts written off	(67)	(35)
Closing balance	586	435

(b) Provision for impairment calculation

	2018 $'000	2017 $'000
Prescribed provision required by prudential standards	529	377
Additional specific provision for impairment	57	58
Clsoing balance	586	435

Key assumptions in determining the provision for impairment:

In the course of the preparation of the financial statements, the Group 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 impairment such as bankruptcy, industrial restructuring, job losses or economic circumstances.

In identifying the impairment arising from these events the Group is required to estimate the impairment, using the length of time the loans and overdrafts are in arrears or in period of irregularity, and the historical losses arising in past years. Given the relatively small number of impaired loans and overdrafts, the circumstances may vary for each loan and overdraft over time resulting in higher or lower impairment losses.

Provision for impairment calculation is based on the prescribed provisioning of APRA Prudential Standards APS 220 where provisioning is based on the period of arrears or irregularity 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

The aforementioned percentages are applied against the relevant balance outstanding to calculate the provision for impairment.

NOTE 12 - 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.

		2018	2017
		$'000	**$'000**
(c)	**Loans and advances by credit quality**		
	Gross impaired loans	1,114	1,930
	Past due but not impaired	814	332
	Neither past due nor impaired	444,138	412,716
	Prescribed provision required by prudential standards	(529)	(377)
	Additional specific provision for impairment	(57)	(58)
	Net loans and advances	445,480	414,544
(d)	**Past due but not impaired loans at reporting date**		
	These loans are not considered to be impaired as they are well secured by residential property.		
	Aging Analysis - Past Due		
	30 to 90 days	-	-
	91 to 180 days	399	-
	181 to 270 days	64	-
	271 to 365 days	-	-
	365 days or more	350	332
	Carrying Amount	814	332

NOTE 12 - PROVISION ON IMPAIRED LOANS AND ADVANCES (Con't)		**2018**	**2017**
(e)	**Loans and advances by impairment and security**	**$'000**	**$'000**
(i)	Against individually impaired		
	Secured by mortgage over real estate	983	1,807
	Unsecured	131	123
(ii)	Against past due but not impaired	-	-
	Secured by mortgage over real estate	814	332
	Secured by goods mortgage	-	-
	Unsecured	-	-
(iii)	Against neither past due nor impaired	-	-
	Secured by mortgage over real estate	431,556	399,458
	Secured by goods mortgage	9,073	9,967
	Secured by funds lodged with the Credit Union	391	771
	Unsecured	3,118	2,520
	Gross Loans and Advances	446,066	414,978

Where collateral is held, it is in the form of mortgage interests over property, other registered securities over assets, mortgage insurance and guarantees. The fair value of the collateral is measured at the time of providing the loan or advance and is required to be no less than 100% of the loan or advance. The fair value of the collateral is generally not updated except when a loan or advance is individually assessed as impaired. Collateral is usually not held over loans and advances to, or deposits with, other financial institutions. Collateral is usually not held against investment securities.

(f)	**Impaired loans and advances at reporting data**		
	Individually impaired loans and advances	1,114	1,930
	Provision for impairment	509	357
(g)	**Restructured Loans**		
	The credit union does not carry any restructured loans at reporting date.		
(h)	**Interest and other revenue recognised and foregone**		
	Interest foregone on non-accrual loans	17	11
	Interest recognised on non-accrual loans	8	5

(i) 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 13 - FINANCIAL ASSETS HELD FOR SALE

	2018	2017
Financial Assets		
Shares in unlisted entities - Cuscal Limited (Cuscal)	577	577

The shareholding in Cuscal is measured at cost which approximates its fair as at 30 June 2018. 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 directors have made the decision to sell the available for sale financial assets and as a result of this decision, these shares have been classifed as Assets classified for sale in accordance with AASB 5 Non-current Assets Held for Sale and Discontinued Operations.

The Credit Union is intending to dispose of these shares in the next 12 months after the reporting date and has them listed for sale in the Cuscal private market. The Credit Union has not received any offers for these shares.

NOTE 14 - PLANT & EQUIPMENT

	2018 $'000	2017 $'000
Plant and equipment		
Plant and equipment at cost	1,330	1,656
Less accumulated depreciation	(686)	(975)
	644	681
Leasehold improvements		
Leasehold improvements at cost	1,485	1,100
Less accumulated depreciation	(706)	(607)
	779	493
Work in Progress - Capital Additions	15	37
Total Plant and Equipment	1,438	1,211

Movement in carrying amounts:

2018	Plant & Equipment $'000	Leasehold Improvements $'000	WIP $'000	Total $'000
Balance at beginning of the financial year	681	493	37	1,211
Additions	177	386	15	579
Transfers	-	-	(37)	(37)
Disposals	(2)	-	-	(2)
Depreciation	(213)	(100)	-	(313)
Carrying amount at the end of the financial year	644	779	15	1,438

2017	Plant & Equipment $'000	Leasehold Improvements $'000	WIP $'000	Total $'000
Balance at beginning of the financial year	508	53	-	561
Additions	370	486	37	893
Transfers	-	-	-	-
Disposals	(12)	-	-	(12)
Depreciation	(185)	(46)	-	(231)
Carrying amount at the end of the financial year	681	493	37	1,211

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NOTE 15 - DEFERRED TAX ASSETS

	2018 $'000	2017 $'000
Deferred tax assets	459	474
Deferred tax assets reconciliation:		
Opening Balance	474	491
Current year charge	(15)	(17)
Closing balance	459	474
Closing balance comprised of the following:		
Leave provisions	216	228
Other provisions	208	156
Written down value of assets	(543)	(463)
Tax base of assets	578	553
	459	474

NOTE 16 - INTANGIBLE ASSETS

	2018 $'000	2017 $'000
(a) Computer Software	673	547
Less provision for amortisation	(284)	(177)
	388	370
(b) Movements in carrying amounts		
Balance at beginning of the financial year	370	254
Additions	125	188
Amortisation Expense	(107)	(71)
Carrying amount at the end of the year	388	370

NOTE 17 - OTHER ASSETS

	2018 $'000	2017 $'000
Deferred Premium Expense on Floating Rate Notes	142	146
Prepayments	148	143
	289	289

NOTE 18 - DEPOSITS

	2018 $'000	2017 $'000
Customer at call deposits (including withdrawable shares)	202,207	176,765
Customer term deposits	261,424	250,241
	463,631	427,006

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	2018 $'000	2017 $'000
NOTE 19 - PAYABLES AND OTHER LIABILITIES		
Accrued interest payable	2,261	1,986
Accrued expenses	637	739
Annual leave	405	396
Deferred Income	160	110
Member clearing	1,508	1,438
	4,971	4,669
NOTE 20 - DERIVATIVES		
Interest rate swap contracts - cash flow hedges - fair value	-	-

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.

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

Settlement

	2018	2017
Notional Principal		
Less than 1 year	-	10,000
	-	10,000
Effective Average Interest Rate Payable		
Less than 1 year	-	2.91%

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

Gains or losses from remeasuring the interest rate swap contracts at fair value, are recognised in other comprehensive income and accumulated in the hedging reserve to the extent that the hedge is effective, and reclassified to profit or loss when the hedged interest expense is recognised. The ineffective portion is recognised in profit or loss immediately. During the year ended 30 June 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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	2018 $'000	2017 $'000
NOTE 21 - TAX LIABILITIES/ASSETS		
Current income tax liability/(asset)	291	363
	291	363
NOTE 22 - PROVISIONS		
Long-term Employee benefits		
Long service leave	316	363
NOTE 23 - REDEEMED PREFERENCE SHARE CAPITAL		
Opening balance	397	376
Transfers from retained profits for redeemable preference shares	9	21
Closing Balance	406	397

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.

NOTE 24 - 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 profit or loss.

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.

	2018	2017
Capital reserve	229	229
Asset revaluation surplus	-	-
Opening balance	-	514
Decrease recognised on sale of assets	-	(514)
Deferred tax benefit	-	-
Closing Balance	-	-
The asset revaluation reserve records revaluations of non-current assets.		
Hedging Reserve	-	-
Opening balance	-	(129)
Movement in fair value of cash flow hedge	-	185
Deferred tax benefit	-	(55)
Closing Balance	-	-
General reserve for credit losses		
Opening balance	2,535	2,302
Add increase / (decrease) transferred from retained earnings	205	233
	2,740	2,535
Total Other Reserves	2,969	2,764

NOTE 25 - FINANCIAL COMMITMENTS

a) Operating Lease Commitments

	2018 $'000	2017 $'000
Non-cancellable operating leases contracted for but not capitalised in the financial report, payable:		
- Not later than 1 year	673	619
- Later than 1 year but not later than 2 years	620	498
- Later than 2 years but not later than 5 years	1,435	1,142
- Later than 5 years	158	369
Total Expenditure Commitments	2,885	2,627

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 7 years.

b) Outstanding loan commitments

	2018 $'000	2017 $'000
Loans and credit facilities approved but not funded or drawn down at the end of the financial year:		
- Loans approved but not funded	13,421	11,949
- Undrawn overdraft, line of credit and VISA	5,527	6,807
	18,948	18,757

c) Capital and other expenditure commitments

There is no commitment of other expenditure at reporting date.

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NOTE 26 - STAND-BY CREDIT FACILITIES

The Credit Union terminated the overdraft standby facility with Cuscal Limited (Cuscal) during the financial year.

	Approved Facility $'000	Amount Used $'000	Net Available $'000
2018			
Overdraft facility - Cuscal	-	-	-
2017			
Overdraft facility - Cuscal	2,000	-	2,000

NOTE 27 - 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 (2017 - nil).

NOTE 28 - MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The tables below set out the assets that are expected to be recovered more than 12 months after the reporting date and liabilities expected to be settled more than 12 months after the reporting date.

AS AT 30 JUNE 2018	Less than 12 months	Over 12 months	Total
	$'000	$'000	$'000
ASSETS			
Cash and cash equivalents	7,222	-	7,222
Held to maturity financial assets	37,988	27,470	65,458
Other receivables	650	-	650
Loans and advances	68,278	377,202	445,480
Available for sale financial assets	577	-	577
Other assets	289	-	289
Property, plant and equipment	-	1,438	1,438
Deferred tax assets	459	-	459
Intangible assets	-	388	388
Total Assets	115,463	406,498	521,961
LIABILITIES			
Deposits	460,419	3,212	463,631
Payables & other liabilities	4,831	140	4,971
Current tax liabilities	291	-	291
Provisions	82	234	316
Total Liabilities	465,623	3,586	469,209

AS AT 30 JUNE 2017	Less than 12 months	Over 12 months	Total
	$'000	$'000	$'000
ASSETS			
Cash and cash equivalents	4,655	-	4,655
Held to maturity financial assets	31,479	27,903	59,382
Other receivables	588	-	588
Loans and advances	58,163	356,381	414,544
Available for sale financial assets	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	96,225	385,865	482,090
LIABILITIES			
Deposits	424,048	2,957	427,006
Payables & other liabilities	4,556	112	4,668
Current tax liabilities	363	-	363
Provisions	74	289	363
Total Liabilities	429,043	3,358	432,401

NOTE 29 - 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 2018				
	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	7,222	-	-	-	-	-	7,222
Receivables	-	-	-	-	-	651	651
Held to maturity financial assets	31,392	34,066	-	-	-	-	65,458
Loans and advances	12,344	5,816	25,108	121,368	499,649	-	664,286
Financial assets held for sale	-	-	577	-	-	-	577
On Balance Sheet	50,958	39,882	25,685	121,368	499,649	651	738,193
Undrawn commitments (Note 24b)	18,948	-	-	-	-	-	18,948
Total Financial Assets	69,907	39,882	25,685	121,368	499,649	651	757,142
Financial Liabilities							
Deposits	258,047	80,341	124,341	3,346	-	-	466,074
Payables & other liabilities	4,972	-	-	-	-	-	4,972
Derivatives	-	-	-	-	-	-	-
On Balance Sheet	263,019	80,341	124,341	3,346	-	-	471,046
Operating leases (Note 24a)	56	112	504	2,053	158	-	2,884
Interest rate swaps	-	-	-	-	-	-	-
Total Financial Liabilities	263,075	80,453	124,845	5,399	158	-	473,931

NOTE 29 - MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES (Con't)

30 June 2017

	Within 1 month $'000	1-3 months $'000	3-12 months $'000	1-5 years $'000	Over 5 years $'000	No maturity $'000	Total Contractual Amounts $'000
Financial Assets							
Cash and cash equivalents	4,655	-	-	-	-	-	4,655
Receivables	-	-	-	-	-	588	588
Held to maturity financial assets	25,406	33,526	-	450	-	-	59,382
Loans and advances	12,142	5,876	23,791	114,145	463,151	-	619,105
Financial assets held for sale	-	-	577	-	-	-	577
On Balance Sheet	42,203	39,401	24,368	114,595	463,151	588	684,306
Undrawn commitments (Note 24b)	18,757	-	-	-	-	-	18,757
Interest rate swaps		10,000	-	-			10,000
Total Financial Assets	60,960	49,401	24,368	114,595	463,151	588	713,063
LIABILITIES							
Financial Liabilities							
Borrowings							-
Deposits	237,719	66,280	128,613	3,069	-	-	435,682
Payables & other liabilities	4,669	-	-	-	-	-	4,669
Derivatives	-	-	-	-	-	-	-
On Balance Sheet	242,387	66,280	128,613	3,069	-	-	440,351
Operating leases (Note 24a)	52	103	464	1,640	369	-	2,628
Interest rate swaps	-	10,000	-	-	-	-	10,000
Total Financial Liabilities	242,439	76,383	129,077	4,709	369	-	452,979

NOTE 30 - 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 2018

	Floating Interest Rate	Fixed Interest Rate Maturing In:-			Non Interest Sensitive	Total Carrying Amount per the Financial Statements	Weighted Average Interest Rate
		1 year or less $'000	Over 1 to 5 years $'000	More than 5 years $'000	$'000	$'000	%
Financial Assets							
Cash and cash equivalents	6,570	-	-	-	652	7,222	0.03%
Receivables	-	-	-	-	650	650	
Held to maturity financial assets	31,480	33,978	-	-	-	65,458	2.61%
Loans and advances	282,976	40,434	122,070	-	-	445,480	4.54%
Financial assets held for sale	-	-	-	-	577	577	
Total Financial Assets	321,027	74,412	122,070	-	1,878	519,386	
Financial Liabilities							
Deposits	90,993	339,095	33,543	-	-	463,631	1.96%
Payables and other liabilities	-	-	-	-	4,971	4,971	
Total Financial Liabilities	90,993	339,095	33,543	-	4,971	468,602	

30 June 2017

	Floating Interest Rate	Fixed Interest Rate Maturing In:-			Non Interest Sensitive	Total Carrying Amount per the Financial Statements	Weighted Average Interest Rate
	$'000	1 year or less $'000	Over 1 to 5 years $'000	More than 5 years $'000	$'000	$'000	%
Financial Assets							
Cash and cash equivalents	3,880	-	-	-	775	4,655	0.32%
Receivables	-	-	-	-	588	588	
Held to maturity financial assets	27,903	31,479	-	-	-	59,382	2.40%
Loans and advances	272,235	29,889	112,420	-	-	414,544	4.67%
Financial assets held for sale	-	-	-	-	577	577	
Total Financial Assets	304,018	61,368	112,420	-	1,940	479,746	
Financial Liabilities							
Deposits	79,544	317,990	29,472	-	-	427,006	1.98%
Payables and other liabilities	-	-	-	-	4,669	4,669	
Derivatives	-	-	-	-		-	
Total Financial Liabilities	79,544	317,990	29,472	-	4,669	431,675	

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	2018	2017
	$'000	$'000

NOTE 31 - CREDIT RISK

(a) Credit risk exposure

The Credit Union's maximum exposure to credit risk at reporting date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated on the Statement of Financial Position plus undrawn facilities as disclosed at Note 26.

(b) Concentrations of credit risk

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

	2018 $'000	2017 $'000
Geographic Locations		
New South Wales	343,603	337,781
Queensland	96,468	72,403
Customer or Industry		
Southern Cross Credit Union Ltd Employees	11,724	9,688
Public Health	9,747	10,002

NOTE 32 - EVENTS SUBSEQUENT TO END OF REPORTING DATE

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

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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.

	2018		2017	
	Carrying Value	Net Fair Value	Carrying Value	Net Fair Value
Assets	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	7,222	7,222	4,655	4,655
Receivables due from other financial institutions	65,458	65,458	59,382	59,382
Other receivables	650	650	588	588
Loans and advances	446,066	446,333	414,978	415,230
Available for sale investments	577	577	577	577
Total	519,974	520,240	480,180	480,432
Liabilities				
Deposits	463,631	463,691	427,006	427,018
Payables and other liabilities	4,971	4,971	4,669	4,669
Total	468,602	468,662	431,675	431,687

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

- 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.

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 held to maturity financial assets 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.

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, 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 to the Credit Union's computer systems.

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, Level 2, 38-42 Pearl Street, Kingscliff, NSW 2487.

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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:

	2018 $'000	2017 $'000
Cash and cash equivalents	7,222	4,655

(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

	2018 $'000	2017 $'000
Profit after income tax	3,063	2,979
Non-cash flows in profit from continuing operations:		
Provision for loan impairment	219	392
Amortisation	107	71
Depreciation	312	234
Net loss/(profit) on sale of property, plant & equipment	-	(285)
Changes in assets and liabilities:		
Increase / (decrease) in interest payable	275	8
Increase / (decrease) in income tax liabilities	(73)	60
Decrease / (increase) in deferred tax assets	15	17
Decrease / (increase) in fees and commissions receivables	34	(28)
Increase / (decrease) in accrued expenses	(99)	66
Decrease / (increase) in other assets	(1)	(163)
Increase / (decrease) in employee benefits	(39)	(16)
Increase / (decrease) in swaps	-	(55)
	3,815	3,279
Changes in operating assets and liabilities:		
Increase / (decrease) in deposits	36,599	56,976
Decrease / (increase) in member loans	(31,155)	(54,545)
Decrease / (increase) in receivables due from other financial institutions	(6,076)	(7,523)
Increase / (decrease) in Deferred Income	50	110
Net cash provided by operating assets and liabilities	(582)	(4,981)
	3,233	(1,703)

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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 2018, 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 2018 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, 25 September 2018

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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
Risk and Compliance

Craig Barker -
Executive Manager
Distribution

Auditors

External - BDO Audit Pty Ltd

Internal - Grant Thornton

Bankers

Indue 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	Shop 515, Tweed City Shopping Centre
Cabarita	Shop 3/36 Tweed Coast Rd

Directors

John Rutledge	Chairperson
Guy Bezrouchko	Deputy Chairperson
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