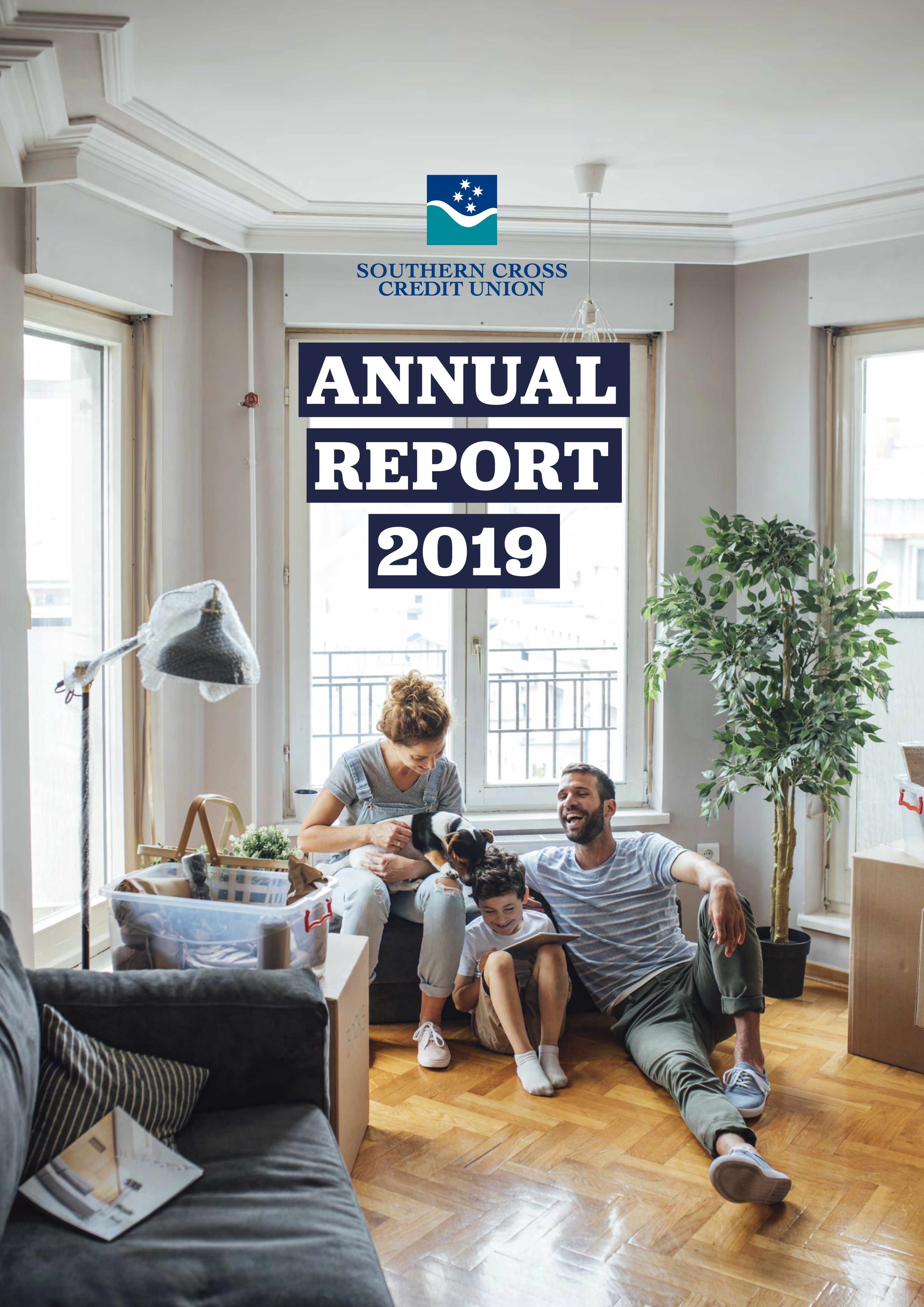
SOUTHERN CROSS
CREDIT UNION

ANNUAL REPORT 2019



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

Our vision is to become the first choice for easy to understand banking. Our values are a reflection of what is important to us, our customers and our community:

Community

We connect with our community and step up to make a difference.

Accountability

We are accountable and reliable. If we say something, we do it.

Empowerment

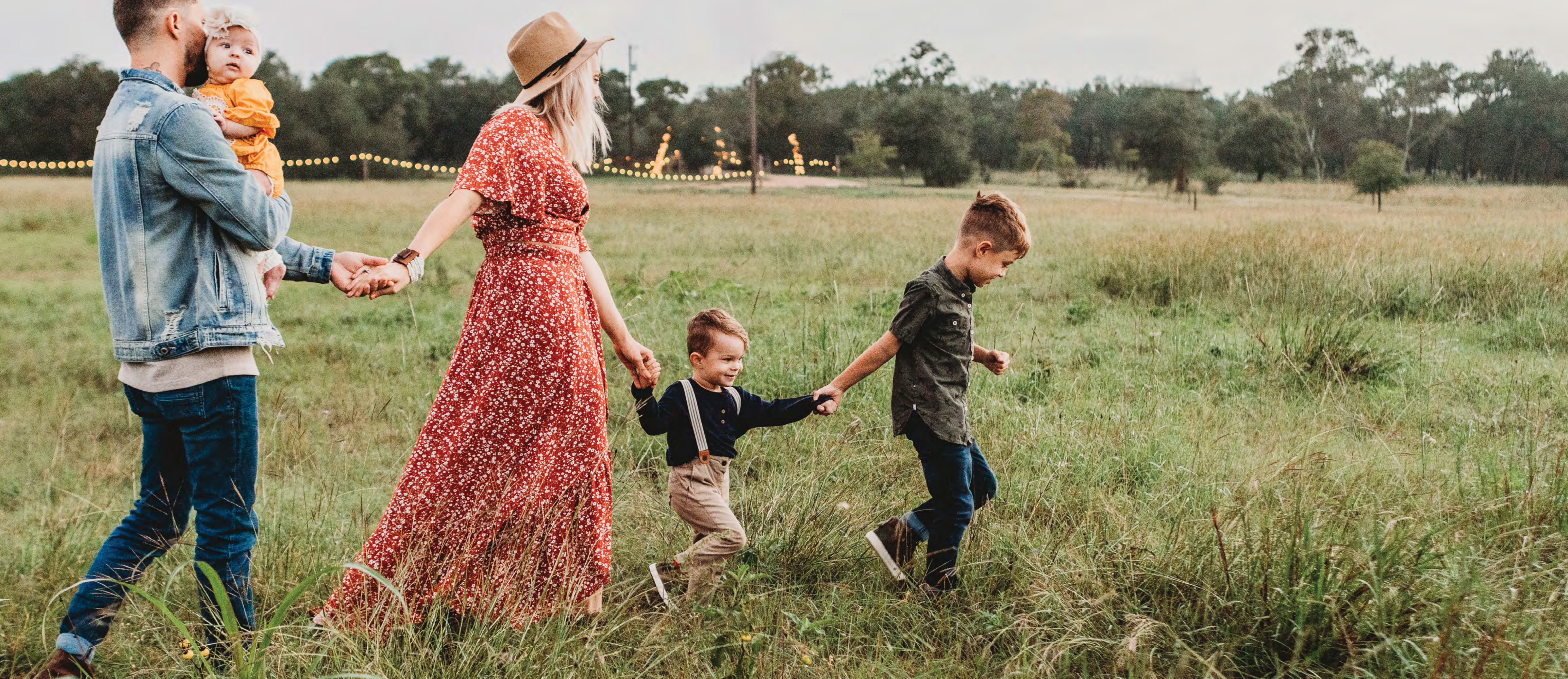
We aren't complacent, we empower each other to make it happen and don't sit idle.

Customer Focus

Our customers matter and we make it personal. We take our customers financial well-being seriously.

Care

We care for each other and are passionate about our organisation, customers and community.



CHAIRMAN & CEO'S REPORT

Opening Statement 1
Financial Performance 3
Risk, Regulation, Compliance & Governance 5
Banking That Works for You 7
Investing in Our People 11
Investing in Our Community 13
Corporate Social Responsibility 19
Looking to the Future 21

DIRECTOR'S REPORT TO MEMBERS

Your Directors 25
Financial Performance Disclosures 28
Corporate Governance Disclosures 29

DECLARATIONS

Director's Declaration 33
Auditor's Independence Declaration 34

FINANCIAL REPORT

Statement of Profit and Loss 35
Statement of Financial Position 36
Statement of Changes in Equity 37
Statement of Cash Flows 38
Notes to the Financial Statements 39
Auditor's Report 71

THE 2019 FINANCIAL YEAR HAS BEEN ANOTHER SUCCESSFUL YEAR FOR SOUTHERN CROSS CREDIT UNION. WITH THE ROYAL BANKING COMMISSION HIGHLIGHTING CONCERNS WITHIN THE AUSTRALIAN BANKING INDUSTRY, THE RELEVANCE OF CUSTOMER OWNED FINANCIAL INSTITUTIONS HAS RARELY BEEN GREATER.

Our continued success has come on the back of a year where we've seen the RBA Cash Rate fall to historic lows, significant changes in banking technology and payment platforms; and heavy investment in our capital growth. With a turbulent year for the industry as a whole, we've kept our focus on delivering positive outcomes for our customers, our people and our community; and we are pleased that our approach has again proven there is a place for community banking done well. There is however, plenty of work still to do to ensure we remain one of Australia's most secure and stable customer owned financial institutions, and we certainly won't be standing still.

In the year ahead we'll continue to tackle the issues presented with tightening financial regulations, trust, culture, cyber resilience and lending practices. The future will be more challenging for the entire banking industry, due to these issues, together with further anticipated interest rate reductions, putting margins and profitability under increased pressure. However, we are ready to face these challenges head on and look forward to providing our customers and community with a financial institution they can continue to rely on.

OUR FINANCIAL PERFORMANCE

This year we have been able to maintain our Net Profit whilst continuing to invest heavily in our business. With the tightening of loan regulation and compliance, increased competition, record low interest rates and our commitment to reducing fees for our customers, this is an encouraging outcome and one that reflects our continued strong performance within a challenging environment.

We have performed strongly in each of our key financial measures and reached an important milestone in the history of our credit union, with our loan book surpassing $500m. This is a truly outstanding result, which shows our continued strength and relevance in the banking sector.

Our loan book for the year grew by 13% and more than 4 times system growth. This is a significant achievement for our business considering through the early part of FY19, we had to tightly manage the flow of investment lending via limitations imposed on us (and the industry as a whole) through our regulator, APRA.

These restrictions were eventually removed in September 2018 - and whilst no longer applicable - we will continue to adhere to the strict prudential guidelines our regulator has in place, particularly when it comes to validating customers' living expenses rather than relying on benchmarks such as the Household Expenditure Measure. This, in addition to our other recent policy enhancements, will ensure we remain a responsible and prudent lender.

As we move into FY20, it's highly likely that the RBA Cash Rate will continue to fall, which will continue to put pressure on our financial results. We have been keeping up with these market changes by reducing our own home loan interest rates across both fixed and variable products throughout the latter part of this year and we are well positioned to remain competitive. One area where we will offset the impact of falling interest rates is by continuing to find efficiencies throughout our business, in part by leveraging technology to automate manual processes.

We remain in a strong financial position and our performance ensures we can continue to invest in improving the infrastructure of our business which will deliver us long-term success. The projects we have on our horizon should ensure we remain one of Australia's most secure and stable Customer Owned Financial Institutions. In addition, we'll continue to review our business operations to ensure we act prudently, position ourselves for growth, remain relevant and become more efficient so we can continue to invest in our business, our customers and our community.

Our deposit and loan portfolios have grown strongly in a challenging environment. We have delivered significant initiatives improving customer experience and enhanced our community support, while maintaining a strong performance in each of our key business metrics.

Profit Before Tax

4.32m

Loan Growth

+13.0%

loans (m/s)	
'19	503.2
'18	445.5
'17	414.5
'16	360.4

Deposit Growth

+11.2%

deposits (m/s)	
'19	515.7
'18	463.6
'17	427.0
'16	369.4

Key Stats

578m	0.55	17.5k	4.32m
dollars of total assets	**percentage** return on assets	**customer** shareholders	**dollars of** profit before tax
522.0m '18	.59% '18	18.2k '18	4.34m '18
482.1m '17	.62% '17	17.5k '17	4.22m '17
421.9m '16	.70% '16	18.0k '16	4.20m '16

RISK, REGULATION, COMPLIANCE & GOVERNANCE

Earlier this year, the findings of the Royal Commission into Banking, Finance and Insurance were released with the Commissioner's Report observing that misconduct was driven by personal and institutional profit. Remuneration frameworks responded to those drivers, governance frameworks did not prevent misconduct and an unsuitable sales culture resulted in poor customer outcomes.

The Government's initial response was a commitment to take action on all 76 recommendations and put in place legislative frameworks which provide regulators (ASIC and APRA) with the powers to hold those who abuse consumer trust to account; and take more severe enforcement action against misconduct.

Implementation of changes that will come from the recommendations will require considerable focus and resources - particularly for a small institution like ours - which will ultimately lead to a rise in the cost of doing business. There will also be an increased burden on managing regulatory compliance, particularly surrounding information security, risk management frameworks and culture. As part of the banking industry, we will continue to be subject to stringent supervisory oversight as the regulator aims to strike the right balance, to ensure the ongoing stability of the Australian financial system.

We have worked diligently to ensure we are aligned to any changes implemented to date with one of the key areas ensuring that each of our Directors and Key Management Personnel have specific Accountability Statements in place in accordance with the Banking Executive Accountability Regime (BEAR). For our customers this ensures we have clear lines of responsibility and accountability to facilitate the ongoing stability of our Credit Union.

As a result, the scope of responsibility for the risk function of business continues to grow, and our Board will have an even stronger voice in conduct and culture matters. We will continue to ensure we uphold a sound risk management culture and that our Risk Management Strategy instills this culture even more broadly across the whole business.

For our Board and senior management team, a positive culture is central to delivering consumer trust, confidence, market integrity and growth.

Risk management and technology security remain key in helping manage a myriad of risks that we are faced with in a technologically advancing society. We are focused on minimising risks such as cyber security vulnerabilities and attacks, prolonged IT and system outages, critical third-party outages, data security, fraud surveillance and financial crime. Across this year we undertook extensive work in strengthening our information security capability and integrity to align to the new legislated standards, and to prepare us for new initiatives we want to deliver for our customers over the coming year. Some of the initiatives we are working towards include;

New Payment Platform (NPP) - Australia's new payment 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.

Comprehensive Credit reporting (CCR) - Positive and negative reporting on customer credit history between Financial Institutions designed to provide a more holistic picture of an individual's credit worthiness through credit reporting bodies.

Open Banking - Giving customers greater access to - and control over - their banking data and who they would like to see that data. The new legislation will allow individuals and businesses the right to obtain certain types of customer data, as well as provide authorised third parties access to this data.

BANKING THAT WORKS FOR YOU

Staying true to our strategy, we've continued to invest in providing competitive products, service and technology for our customers. Some of the key investments this year included:

Continued Transformation of our Branch Network

During the year, we continued the transformation of our branch network into Financial Service Centres with Byron Bay and Murwillumbah branches being the latest to undergo significant change.

The key objective of the change to our branch network is to create environments where people feel more comfortable to discuss their finances. At a time when other financial institutions are heavily focused on digitising the in-branch customer experience, our focus has been the opposite, to put people, relationships and conversations first. We consider this a key competitive advantage in today's environment, and is the kind of personalised service consumers are demanding.

The same evolution of the in-branch experience will continue to roll out across the remainder of our branch network over the next two years. We would like to thank you for your patience during the renovation of our branches and look forward to welcoming you into our new Financial Service Centres.

Opening Kingscliff up to Everyday Banking

At SCCU, we focus on establishing meaningful relationships with our customers. To build on these relationships we need to provide our customers and community with more points of representation to make it easier to bank with us.

Three years ago we opened our Corporate Service Centre (CSC) at Kingscliff, which was a collaborative and modern workspace, fit to meet our strategies for growth and innovation. We were delighted to announce this year we have extended our local presence by opening up our Kingscliff Corporate Service Centre to facilitate our customers' everyday banking needs. The Corporate Service Centre will still continue to offer Australia's first mutual Premium Banking customer service model.

Introducing Community Conference Facilities

Our Kingscliff Corporate Service Centre also undertook an expansion that now includes new conference and meeting facilities. Underpinning this expansion, was the realisation that community groups and small businesses often have nowhere suitable to host important meetings and events. Those facilities that are available are usually expensive for these groups to access and are often not fit for purpose.

To address this, we decided to embark on the expansion, which included a 16 seat Boardroom, two smaller meeting rooms and a kitchenette. Each room comes equipped with the latest technology in a relaxing environment to facilitate these meetings and events which we will soon be offering to our community and business customers.

New Website & Digital Experience

We worked closely with our newly appointed digital agency Pivotal, to bring this project to life. The feedback has been overwhelmingly positive with customers commenting on how simple and easy to use the new site is, how much easier it is to find relevant product information and the new modern look.

The change has seen us move away from a static electronic billboard to enable us to incorporate a feature rich customer experience which has laid the foundations for future improvements in functionality including digital customer on-boarding, customer authentication and account opening; featuring intelligent loan decision making and integrated online forms.

Our website and Net Banking are still somewhat different in look and feel, however we intend to unify these with enhanced integration and automation in order to achieve our vision for a Virtual Branch and offer customers a comprehensive, modern digital banking experience.

Progressing our Broker Channel

The broker channel is a significant strategic focus for our business which means we intend to enhance the tools and processes we offer to our Broker partners. As part of this commitment, we recently implemented a comprehensive online Broker Portal which has made the broker application process easier and more efficient.

We have also entered into an agreement with ZipID to enable the secure and effective capture of customer identification by our Broker network. Through the use of a secure application, a broker can now securely upload identification documents and a photo of the loan applicant, which is then verified and downloaded by authorised SCCU employees.

This service will improve the capture and authentication process of identification documents necessary for the completion of AML/CTF requirements and Verification of Identity (VOI) for mortgages.

Introducing Square Merchant Facilities

To allow greater access to innovative payments technology we decided to partner with Square and provide innovative, market-leading payment & Point of Sale (POS) technology to our small business customers.

With no contracts, terminal rental fees and an easy online setup process, Square strips back the complexity and financial commitment that can often be associated with alternative products. With additional tools including their point of sale system and customer analytics, we are confident that Square will be of great benefit to our small and mobile business customers and fit perfectly with our vision to become the first choice in easy to understand banking. We see it as a big win for small business owners in regional areas when their local banking partner is willing to collaborate with other businesses to provide access to some of the world's leading technology solutions.

Savings and Transaction Accounts

We have simplified our Personal Banking products by consolidating the best features of our Savings and Transaction accounts into two simple offerings, the Star Saver and Easy Access accounts. We believe this will reduce the overall cost and complexity of transactional banking for the vast majority of our current and future customers. We also believe this consolidation will encourage more people to choose us as their primary financial institution. With a streamlined product range, we've also reduced the potential confusion for customers when identifying which product is most suited to their needs and reinforced our vision to become the first choice in easy to understand banking.

OUR NEW KINGSCLIFF FINANCIAL SERVICE CENTRE & CONFERENCE FACILITIES ARE NOW OPEN FOR BUSINESS

INVESTING IN OUR PEOPLE

Our people play a critical role in advocating our vision and purpose. We have continued to invest and support their development to ensure we are delivering improved solutions for our customers.

A major project we'll be embarking on in the coming year will be implementing a customer centric, conversation and coaching model that focuses on the behaviours required to add further value to our customers now and into the future. To support us in achieving this we will be using a specialist training company to assist in the delivery of the program. The tailored program will be unique to our market and will suit our approach to building our business and supporting our team in their on-going development.

Our Employee Engagement Survey is one of the ways that we listen to our people, to understand what drives and motivates them. This year our survey was completed by 91% of our team and our engagement score showed an improvement on last year, increasing to 82%.

We have also continued to build on our comprehensive employee benefits program that supports the health, safety and well-being of all our employees. This is an initiative that is extremely important to foster a collaborative and supportive working environment. We want to show our employees that we appreciate them and value their contribution. We have also expanded the services available through our Employee Assistance Program, in addition to counselling services our teams can access wellbeing coaching, introductory financial and legal advice.

Our continued improvement and desire to succeed for our customers and our community has again been recognised through local, regional and national awards. These awards are a result of our drive to deliver a truly customer centric experience where our customers choose to advocate for us; where we are socially responsible and involved in our community; where trust, values and culture really mean something; and where our entire team is engaged in the success of our business and the financial wellbeing of our customers.

For the third year in a row, we were awarded for Excellence in Professional Services at the Northern Rivers Business Excellence awards held by the NSW Business Chamber. This is a huge achievement that we're proud to accept alongside similar local awards received through the Lismore Business Excellence Awards and Ballina Coast & Hinterland Business Excellence Awards.

Aside from being recognised through local and regional awards, we were again recognised on the national stage as a finalist in the Best Mutual category at the latest Australian Lending Awards. With just three finalists selected from across Australia, and considering the size of the other institutions we appeared alongside, it shows the strength and relevance of our business. This national recognition from the wider banking and finance industry, along with the acknowledgement we received at the regional (Northern Rivers) and local (Ballina and Lismore) Business Awards, is an outstanding achievement.

Congratulations to our people for their continuing hard work, dedication and commitment to make our business successful and for making a difference in providing professional and exceptional service to our customers and the greater Northern Rivers business community. Also, thank you to our customers and community, whose support plays a huge part in achieving these awards and recognition.

NORTHERN RIVERS BUSINESS EXCELLENCE AWARDS	Winner Excellence in Professional Services
BALLINA COAST & HINTERLAND BUSINESS EXCELLENCE AWARDS	Winner Excellence in Professional Service
MOZO EXPERTS CHOICE AWARDS	Winner for Basic Home Loan, Investor Home Loan Category
LISMORE BUSINESS EXCELLENCE AWARDS	Winner Excellence in Work Health & Safety
AUSTRALIAN LENDING AWARDS	Finalist Best Mutual
NORTHERN RIVERS BUSINESS EXCELLENCE AWARDS	Finalist Excellence in Business
LISMORE BUSINESS EXCELLENCE AWARDS	Highly Commended Excellence in Professional Services

INVESTING IN OUR COMMUNITY

Throughout the year we have continued to deliver our successful community funding and engagement programs including:

COMMUNITY GRANTS	Support for local organisations, community groups and teams working on a project or event that benefits our local communities. Includes areas of health & wellbeing, creative arts & heritage, education, sport & recreation and environment
COMMUNITY PARTNERSHIPS	Providing financial support, publicity and engagement with over 20 local organisations each year
COMMUNITY REWARDS	Financial rewards program for community groups and organisations who refer business
NEW CUSTOMER DONATIONS	Providing donations for new customers to an organisation or community group making a difference in our communities

This year we created a new Community & Sponsorship Specialist role within our business, dedicated to running our community programs and engaging more deeply with our community partners. This is a vitally important role as we seek to increase the positive impact we have on our community and compliment the ongoing financial support we provide.

Another remarkable community achievement this year was the integral part our Cabarita Financial Service Centre Manager - Simone Millar - played in establishing the new Tweed Coast Beaches Business Chamber. As a result of her dedication and having the trust of her peers, she was elected as the chamber's inaugural president.

Community Grants

Our Community Grants initiative is a key part of our Community Engagement Program and as a customer owned financial institution, it is important for us to support awareness campaigns and to help make a difference in the communities we operate in.

This year we delivered approximately $60K back into local community projects and the program continues to grow, receiving great exposure in our community with 85 eligible applications this year and over 6,000 in-branch and online votes during the voting stage. Each applicant had their own unique missions to improve our society in one way or another, from educating and supporting our children to saving lives and fighting the good fight on sustainability issues.

Immeasurable, but arguably more important, is the exposure our business has received from applicants who have promoted us at 'Grass Roots' level. This not only helps cement us as a community brand but it also helps our local organisations in return. It has given a reason for these groups to increase their interaction and engagement with the general public, generating focus around what they do and promoting their causes.

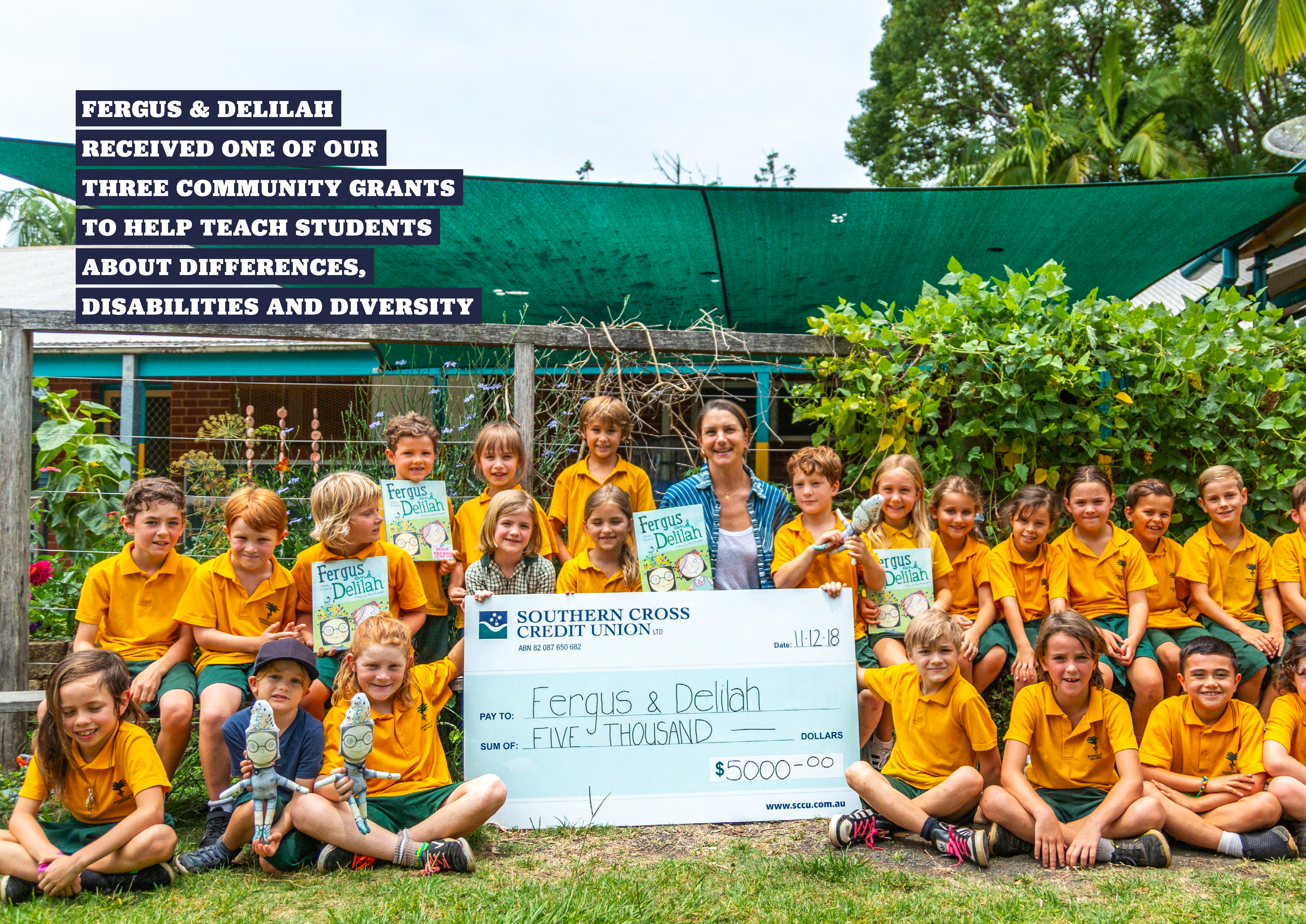
As always, it was an extremely difficult task to select only three recipients however, our three recipients were:

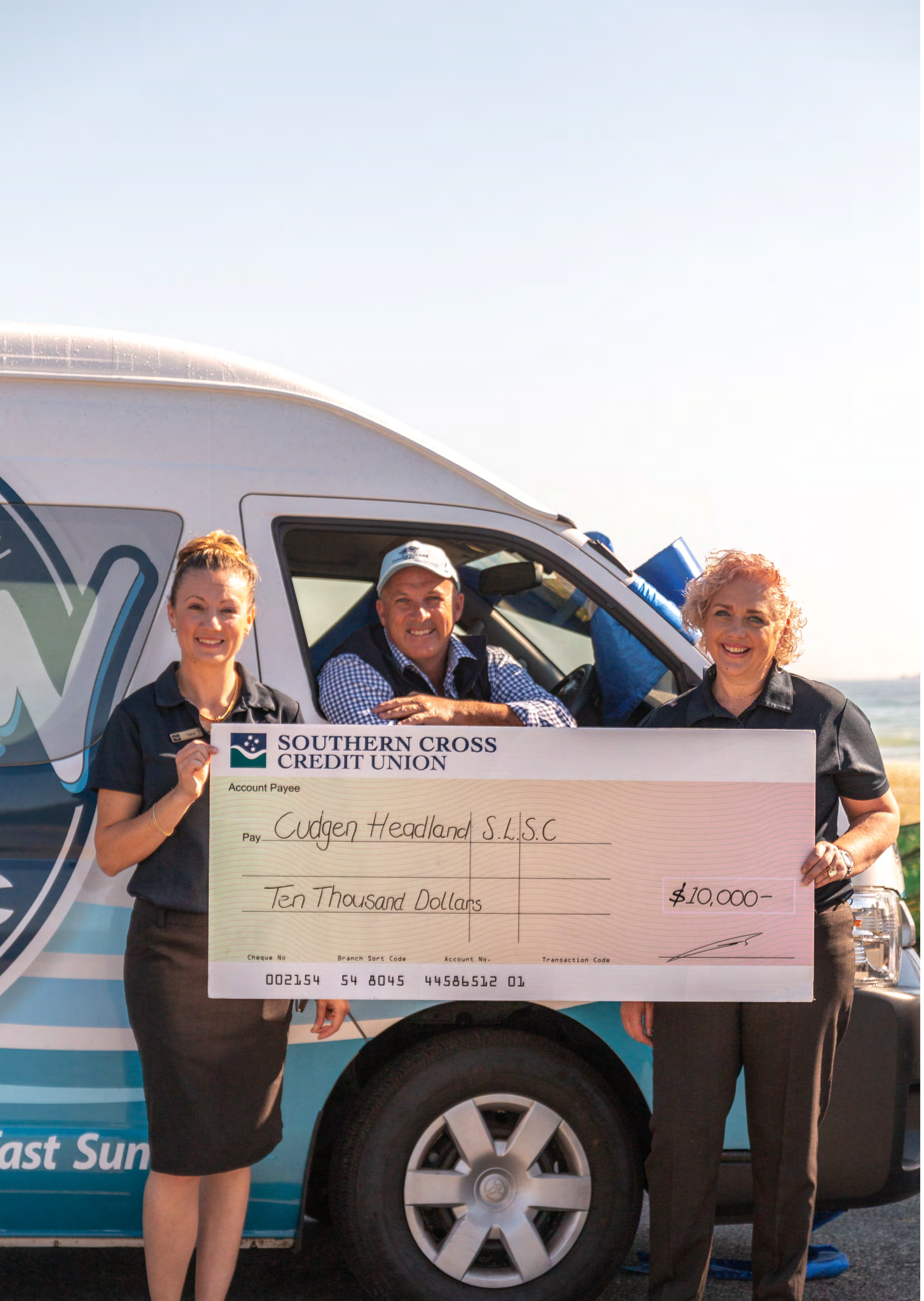
Fergus & Delilah - Author Erin Knutt and Illustrator Misa Alexander along with an Auslan Interpreter, are using the children's book 'Fergus & Delilah' to teach about differences, disabilities and diversity to students of local primary schools. Children are encouraged to think about the different people they know in their lives, what makes them different, what makes them special. The sessions they run, have students thinking (and dancing) differently, brainstorming about disability and working together to create stories and pictures of inclusion and belonging for all children. Participating schools receive a copy of the Fergus & Delilah book along with teaching resources, a Fergus Doll and Inclusion Diary to help promote inclusion.

Tweed District Rescue Squad - Tweed District Rescue Squad (TDRS) has seen a significant increase in rescues from Mt Wollumbin since the 2017 floods. The track has degraded in such a way that many climbers are suffering leg, and ankle related trauma. TDRS used their Community Grant to buy a Ferno Mule, which allows their crew to wheel patients off the mountain and areas of similarly difficult terrain. The Ferno Mule requires less operators compared to existing equipment, due to its commercial built light weight frame. This in-turn enables safer rescues for both the TDRS team and the people they help.

Ballina Public School - Did you know, there's more than 50 years of scientific evidence supporting the role of breakfast and better brain function in children, with recent studies linking breakfast with improved numeracy and literacy skills? Did you also know 1 in 7 students in Australia arrive at school without breakfast? Well, the Ballina Public School Breakfast Club is tackling this issue by providing breakfast for up to 100 of their students every weekday of term. Alongside other local donations, their Community Grant will enable the Breakfast Club to provide food for the next two years.

FERGUS & DELILAH RECEIVED ONE OF OUR THREE COMMUNITY GRANTS TO HELP TEACH STUDENTS ABOUT DIFFERENCES, DISABILITIES AND DIVERSITY





Community Partnerships

Some of the key partnerships we supported this year included:

Ballina Food & Wine Festival - We were proud to continue our sponsorship of the Ballina Food & Wine Festival for the 10th year. They are also in the process of applying for a grant with Destination NSW Flagship Event Fund for which we were happy to provide a letter of support.

Life Education - This year, we celebrated our 15-year partnership with Life Education, assisting them through annual funding and activities aimed at raising awareness about the important work that they do in our Northern Rivers community. Today's children are tomorrow's leaders so it's imperative they are given the best start in life to help lead and shape our future communities. Over the term of our relationship we have donated approximately $100,000 to support local volunteers and educators to grow their program within the Northern Rivers.

Banora Point School (iOnTheFuture5) - We were a major sponsor of this year's event, which saw over 500 teachers from over 100 schools around NSW descend upon Banora Point High School, ready to engage in a learning experience that will forever shape their student's futures. With the rapid changes technology brings to everything from the jobs market to how we consume and experience entertainment, teachers everywhere are tasked with preparing students for an unknown future. iOnTheFuture 5 aimed to help educators tackle these issues head-on.

Cabarita Charity Cup - For the second consecutive year, we were one of three major partners of the Cabarita Charity Cup. The event is a community based touch football competition with the purpose of raising funds to distribute to local families in need of a helping hand.

Over the last five years the Charity Cup has raised over $100,000 which has supported more than 30 local families in their time of need. Families have used funds raised through the event for disability aids as a result of accidents, supported palliative care for loved ones, counselling for trauma and other life changing reasons.

This event is remarkable, in that all money raised goes directly to supporting the people who need it. There is a strong bond between those who organise the event, those that support it and the deserving recipients of the money. The Cabarita Charity Cup serves as a reminder that many people in our communities are facing personal battles and need our help through opportunities like this.

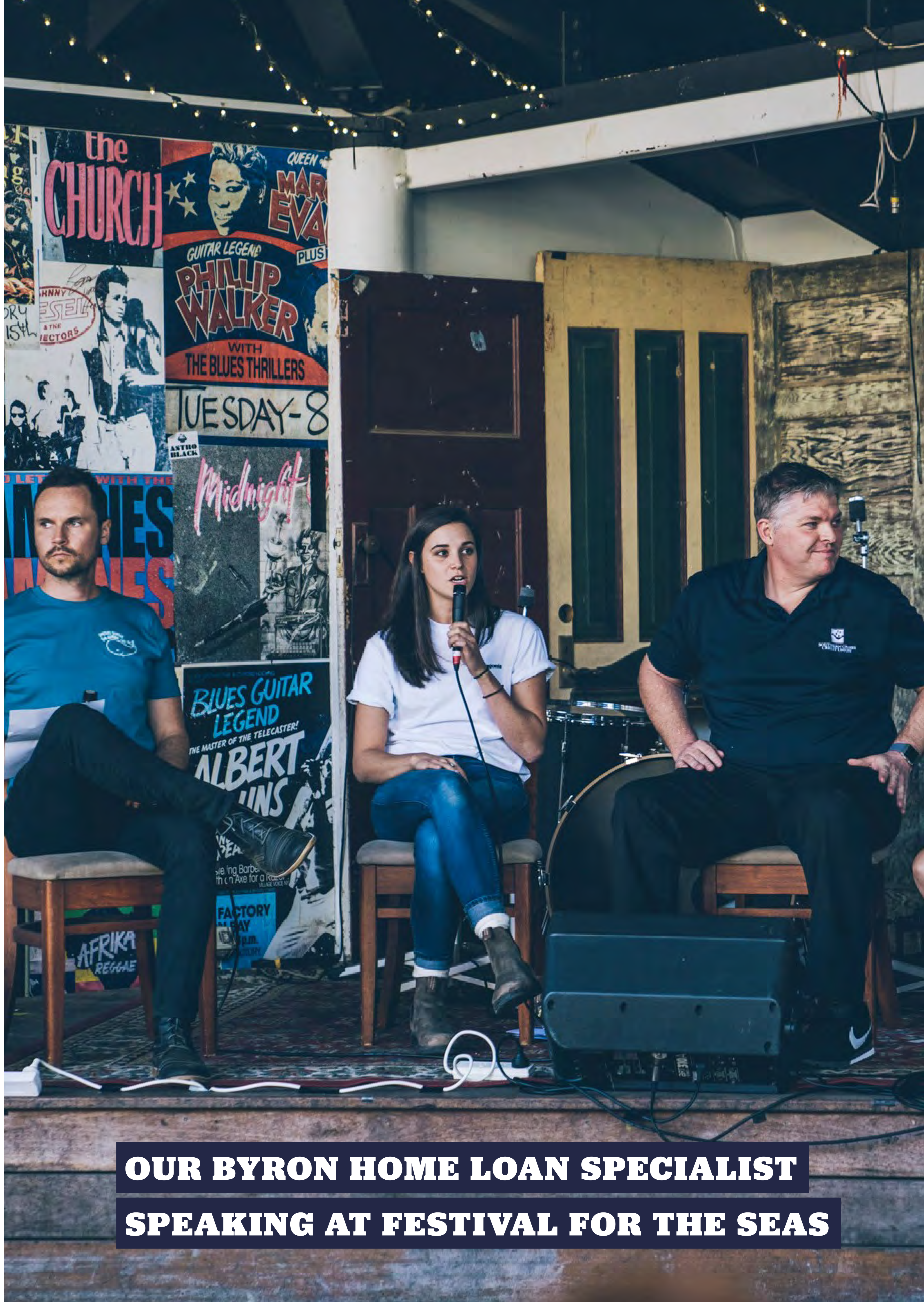
CORPORATE SOCIAL RESPONSIBILITY

As a customer owned institution, we have a responsibility for influencing positive change in our community through the actions we take and supporting our community through issues important to them. We recognise the importance of protecting the environment by doing what we can to minimise our environmental impact.

We lead with our values, we act on our purpose and we are socially responsible. We don't support investment in the fossil fuel industry and we have made this clear through the Market Forces project. We believe reducing our carbon footprint is vitally important and as such we actively support sustainability initiatives within our business and the greater community.

Within our business – aside from reducing energy and water consumption - we've introduced a Reduce-Recycle-Reuse initiative aimed at minimising the waste we create through our business activities and ensure as much of our created waste as possible is recycled. We also regularly review our processes to identify areas where we can become more sustainable in the things that we do. As part of this commitment, we recently reviewed our customer on-boarding process, removing much of the paperwork provided to customers, when they first join SCCU and replacing it with a digital alternative. We've now been able to completely remove printed customer on-boarding packs which we conservatively estimate will save 30,000 sheets of paper each year.

A commitment to caring for our environment is an important part of our Corporate Social Responsibility statement which we actively and financially support though community organisations. One such organisation is Positive Change for Marine Life (PCFML), who are dedicated to reducing waste in our local waterways. The funding provided through our Community Partnership program has enabled PCFML to launch their River Warriors project on the Brunswick River, which aims to collect baseline data on marine debris then implement stakeholder engagement and outreach programs based upon their findings.



OUR BYRON HOME LOAN SPECIALIST SPEAKING AT FESTIVAL FOR THE SEAS

LOOKING TO THE FUTURE

Our approach to doing business has focused on providing exceptional customer experience in order to build trust, loyalty and ultimately a strong network of engaged customers and community groups. We have continually sought improvement and innovation, which has helped us cement our place as one of Australia's top performing and secure customer owned financial institutions.

We will continue to invest in our organisation to ensure our customers have access to the products, services and tools they expect, while building meaningful relationships with our community and delivering on our vision to be the first choice for easy to understand banking. Our strategic plan will remain focused on organisational culture to support growth and innovation. This has helped us realise continued success and enable us to remain relevant in an industry with ever-increasing competition.

Our Focus

With the general lack of customer trust in financial institutions, particularly after the recent Banking Royal Commission, we will be focusing even more on providing unbiased, high quality advice, whilst taking ownership of branding, communication and advocacy to show we take our customers' financial well-being seriously.

Our growth to compensate for margin pressures will need to come by making further enhancements to our operational efficiencies, cost control, retention, deepening and strengthening customer and community relationships, deriving new revenue streams and gaining access to new markets. The challenge will be to maintain our profitability and growth in balance especially when access to funding will pose concerns in the low interest rate environment we find ourselves in.

Aside from pricing strategies, we need to differentiate the home loan experience - in particular - through better customer experience, continuing our investment in technology, remaining vigilant and responding pro-actively to the challenges of remaining simple and regulatory responsible.

Our future success will continue to lie in our ability to deliver customer centricity and provide an exceptional experience to deliver clear solutions to address the primary pain points and financial wellbeing of our customers. As such, we will remain committed to our goals, vision, purpose and values that have underpinned our success to date.

Technology

The rise of new technology has empowered customers to take control of their banking. This has seen an increase in online consumer research and has ultimately affected buying decisions. Whilst we focus on our physical presence and value the importance of face-to-face conversations, it's important we understand and are prepared to face the implications of a changing digital environment.

As a result, we'll continue to make significant investments in technology to better service our customers with an aggressive time frame over the next three years. We recently set the foundations to achieve this by implementing major upgrades to our core banking and lending systems. The upgrades went smoothly and we can now begin the next stage of our digital development.

Digital Transformation

Remains a core business strategy not only to improve customer experience but for better operational efficiency and removing complexity in our operations. Doing more with less is one of the critical opportunities to help improve our financial performance. Significant investments in marketing, technology, digital and data analytics will continue.

Virtual Branch Capability

Online account opening/digital on-boarding is a 'must have' based on customer expectations. We will enhance our capabilities in this space with new Customer On-boarding, Online ID, Secure Messaging and Online Lending systems soon to commence testing. We intend to offer a comprehensive banking experience via our website and Net Banking platforms, for greater customer convenience and to extend our reach beyond our local region.

The Trust Agenda in Digital

Offering a seamless customer experience via online and mobile platforms continues to be crucial, in particular for the next generation of customers who highly value convenience and access. We will ensure that digitisation and other transformations or processes do not disproportionately impact our existing customer base or unintentionally discriminate against particular groups. We are committed to offering award-winning service to all new and existing customers whether they are visiting a financial service centre or on their phone in their own living room.

Information Security Management

In response to APRA's new prudential standards regarding cyber security, we have adopted the NIST Cyber Security Framework to measure and shape our cyber security posture. We have partnered with Threat Defence to provide managed security services, including Security Incident and Event Monitoring and a managed Security Operations Centre. We have been working closely with Threat Defence to not only strengthen our cyber security defences but also enhance our incident response planning. We have also begun reviewing the security posture of our third party technology providers in order to limit the possibility of breaches originating from one of our provider's networks.

Our Cyber Security action plan also includes a training and awareness program for staff; and security reviews and penetration testing by an accredited third party.

This will be a long term focus for the business as the cyber security landscape continues to evolve and new threats emerge. It is critical that our customers can trust us with their investments and personal information.

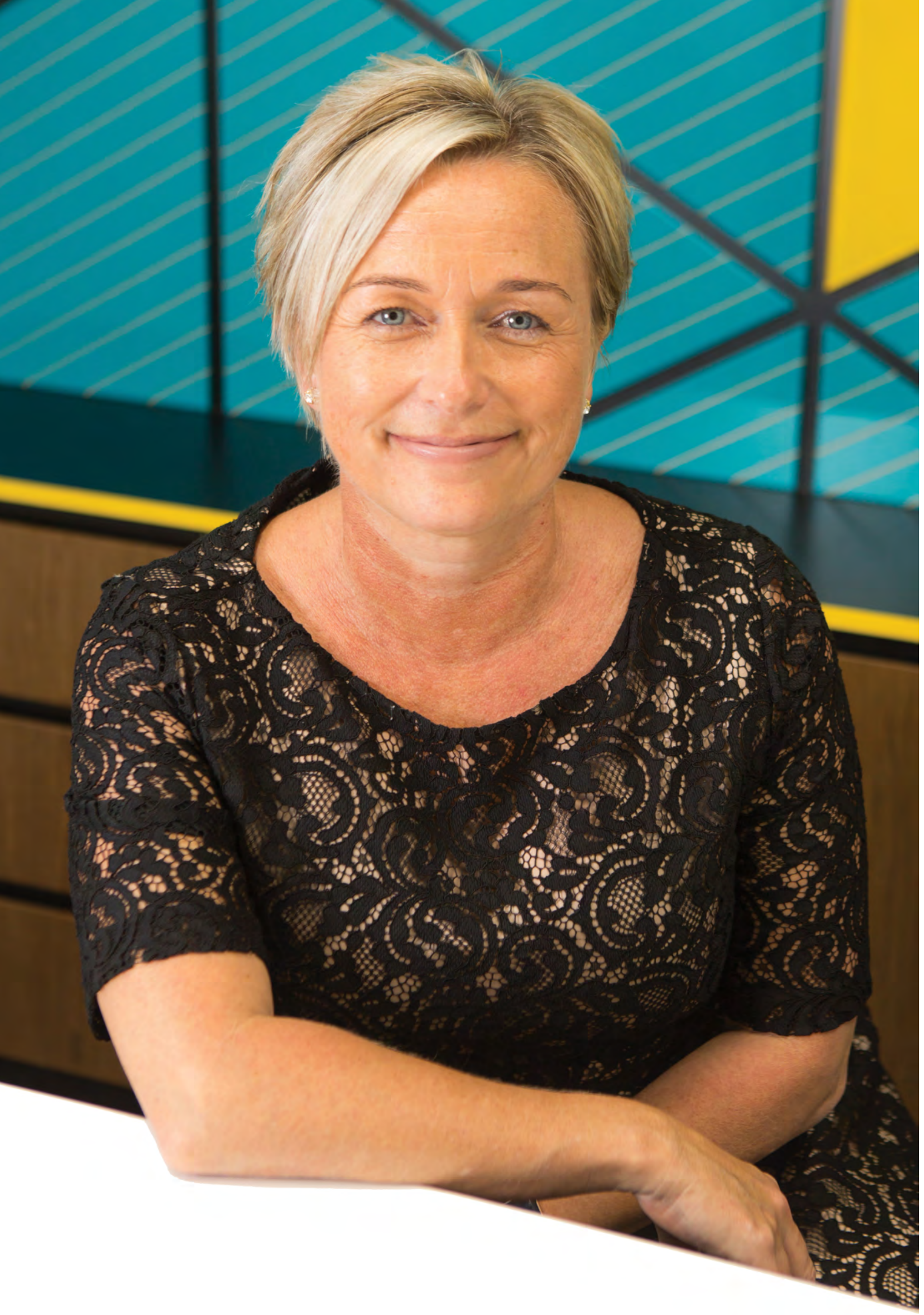
Payments

As technology continues to change in the financial services industry, so does consumer behaviour, particularly around purchasing habits. We need to carefully assess new payment systems as they become available – such as Apple Pay and PayID – to determine if and when it's suitable for us to adopt them within our business.

We will ensure we place our customers at the centre of these decisions and balance the need for convenience with security. We support the view that customers should have the choice to transact how they want to, balanced with ensuring a consistent experience and the ability to transact in a safe and secure manner.

In the future we plan to:

- Integrate with Apple Pay and Android Pay
- Join the New Payments Platform (NPP) network enabling instant transfers to customers via Osko
- Implement Net Banking and Mobile App upgrades providing a new responsive look and feel
- Implement self-service password resets for Net Banking customers



Welcome to our New Director

On 25th September 2018, we officially welcomed Suzie Slingsby to our Board.

Having been actively involved as a volunteer in community programs such as Friends with Dignity for many years, Suzie is a passionate advocate of community focussed businesses and organisations; and understands the importance of connecting with the communities in which we operate.

Suzie's background as a payments specialist has seen her accumulate over 25 years' experience in the financial services industry having held Regional Director, General Manager and Senior Executive roles with industry leaders such as Thomas Cook, Travelex and Mastercard. Suzie is a graduate of the Australian Institute of Company Directors and brings her wealth of industry experience to complement the existing skillset of our Board.

WITH SO MUCH EXCITING CHANGE ON THE HORIZON, WE'LL BE READY TO HIT THE GROUND RUNNING AND LOOK FORWARD TO DELIVERING POSITIVE RESULTS FOR OUR CUSTOMERS, OUR PEOPLE AND OUR COMMUNITY OVER THE YEAR TO COME. TO ALL OF OUR CUSTOMERS, WE TRULY VALUE YOUR SUPPORT AND THE IMPORTANT ROLE YOU PLAY IN HELPING US TO BE THE SUCCESS WE ARE TODAY. WE TRUST WE WILL CONTINUE TO REINFORCE YOUR DECISION TO CHOOSE SOUTHERN CROSS CREDIT UNION AND CUSTOMER OWNED BANKING.

GUY BEZROUCHKO - CHAIRPERSON

STUART EDWARDS - CEO

YOUR DIRECTORS

Your Directors submit their report for the financial year ended 30 June 2019. 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
GUY BEZROUCHKO	Bachelor of Business Certified Practising Accountant Diploma in Financial Services Justice of the Peace	Board Member since 20 June 2006	Chairperson Ex-officio Member - Audit Committee Ex-officio Member - Risk Committee
JOHN RUTLEDGE	Diploma in Financial Services Justice of the Peace	Board Member since 27 July 2004	Deputy Chairperson
BELINDA HENRY	Bachelor of Laws Practical Legal Training Course Legal Practice Management Course Graduate – Australian Institute of Company Directors	Board Member since 30 June 2011	Chair - Risk Committee Member - Audit Committee
STUART EDWARDS	Diploma in Financial Services Commissioner of Declarations	Board Member since 26 April 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
SUZIE SLINGSBY	Graduate – Australian Institute of Company Directors PS146 Qualified	Board Member since 25 September 2018	Member - Audit Committee Member - Risk Committee

Directors' Meetings

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

	DIRECTOR MEETINGS		AUDIT COMMITTEE MEETINGS		RISK COMMITTEE MEETINGS	
NO. OF MEETINGS	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
GUY BEZROUCHKO	12	12	4	4	4	4
JOHN RUTLEDGE	12	12	4	3	4	1
BELINDA HENRY	12	12	4	4	4	4
STUART EDWARDS	12	12	4	4	4	4
ALVARO LOZANO	12	12	4	4	4	4
SUZIE SLINGSBY	10	10	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	30 years of experience encompassing roles in a 'Big 4' accounting firm, Senior Executive Roles at financial institutions and management consulting firms.

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.

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.

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.

The net profit after income tax was $3,199,000 ($3,063,000 in 2018), representing an increase of $136,000
The results for the year were affected by:

- An increase in Net Interest Income of $676,000 due to the growth in the loan portfolio of $57,731,000 and increased investment sophistication to maximise yield, 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 $532,000, of which $368,000 due to a decrease in fees and commissions
- An increase in Employee and Associated Expenses of $272,000 as the Credit Union continues to expand its loan and deposits portfolio, and employ key specialist roles
- Marketing and Advertising expense increased by $60,000 with increased focus on community partnerships and digital presence
- Rental expenses on operating leases decreased by $36,000 with favourable renewal conditions and the full year impact of the ATM withdrawal
- An increase in Information Technology costs of $96,000 as the credit union invests in an upgrade to the core banking and loan origination system along with improved technology in branches
- Depreciation and amortisation expenses increased by $139,000 due to the continued refurbishment of branches, head office expansion and continued investment in digital services, telephone and core system upgrades

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
- Information Security Policy
- 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 31 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.

From 1 July 2019 the internal audit will be moving to KPMG.

Auditor's Independence Declaration

The auditor's independence declaration for the year ending 30 June 2019 forms part of this report and a copy of this declaration is attached.

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 www.sccu.com.au/about-us/reports-and-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 - CHAIRPERSON	**JOHN RUTLEDGE - DEPUTY CHAIRPERSON**

DECLARATIONS & FINANCIAL REPORT

Southern Cross Credit Union Ltd

ABN 82 087 650 682

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 2019 and of its performance for the year ended on that date; and

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

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

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

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

Dated this 24th day of September 2019

SOUTHERN CROSS CREDIT UNION LIMITED
ABN 82 087 650 682
AUDITOR'S INDEPENDENCE DECLARATION

BDO

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

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

DECLARATION OF INDEPENDENCE BY P A 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 2019, 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, 24 September 2019

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 2019

	Note	2019 $'000	2018 $'000
Interest income	3	21,990	20,513
Interest expense	3	(9,125)	(8,324)
Net interest income		12,865	12,189
Fee and commission income	3	2,569	2,937
Fee and commission expense	3	(1,568)	(1,540)
Net fee and commission income		1,001	1,397
Other income	3	111	275
Expenses			
Credit impairment losses	12	(282)	(219)
Employee benefits expense	4	(5,453)	(5,181)
Occupancy expense	4	(289)	(346)
Depreciation and amortisation expenses	4	(558)	(419)
Other expenses	4	(3,075)	(3,354)
Profit before income tax		**4,321**	**4,342**
Income tax expense	5	(1,122)	(1,279)
Profit for the year		**3,199**	**3,063**
Other Comprehensive Income, net of tax		**-**	**-**
Total Comprehensive Income for the Year		**3,199**	**3,063**

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

SOUTHERN CROSS CREDIT UNION LIMITED
ABN 82 087 650 682
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	Note	2019 $'000	2018 $'000
ASSETS			
Cash and cash equivalents	8	7,189	7,222
Due from other financial insititutions	9	62,510	65,458
Other receivables	10	665	650
Loans and advances	11&12	503,211	445,480
Investment securities	13	980	577
Other assets	17	312	289
Plant and equipment	14	2,289	1,438
Current tax assets	20	8	-
Deferred tax assets	15	352	459
Intangible assets	16	498	388
TOTAL ASSETS		**578,014**	**521,961**
LIABILITIES			
Deposits	18	515,770	463,631
Payables and other liabilities	19	5,612	4,971
Current tax liability	20	-	291
Deferred tax liability	20	-	-
Provisions	21	389	316
TOTAL LIABILITIES		**521,771**	**469,209**
NET ASSETS		**56,243**	**52,752**
MEMBERS EQUITY			
Redeemed preference share capital	22	419	406
Other reserves	23	3,452	2,969
Retained earnings		52,372	49,377
TOTAL MEMBERS EQUITY		**56,243**	**52,752**

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 2019

	Fair Value Reserve	Capital Profits Reserve	Redeemed Preference Share Capital	General Reserve for Credit Losses	Retained Earnings	Total Members' Equity
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Balance at 1 July 2017	**-**	**229**	**397**	**2,535**	**46,528**	**49,689**
Profit for the year	-	-	-	-	3,063	3,063
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	3,063	**3,063**
Transfers to Redeemed Preference Share Capital	-	-	9	-	(9)	-
Transfers from General Reserve for Credit Losses	-	-	-	205	(205)	-
Balance at 30 June 2018	**-**	**229**	**406**	**2,740**	**49,377**	**52,752**
Impact of adopting AASB 9 at 1 July 2018 - Note 1(a)	292	-	-	-	-	292
Restated balance at 1 July 2018 under AASB9	**292**	**229**	**406**	**2,740**	**49,377**	**53,044**
Profit for the year	-	-	-	-	3,199	3,199
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	3,199	**3,199**
Transfers to Redeemed Preference Share Capital	-	-	13	-	(13)	-
Transfers to General Reserve for Credit Losses	-	-	-	191	(191)	-
Balance at 30 June 2019	**292**	**229**	**419**	**2,931**	**52,372**	**56,243**

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 2019

	Note	**2019 $'000**	**2018 $'000**
Cash flows from operating activities			
Interest received		21,990	20,513
Dividends received		24	48
Other non-interest income received		2,673	3,198
Interest paid		(8,937)	(8,048)
Payments to suppliers and employees		(10,384)	(10,559)
		5,366	**5,152**
Net movement in loans and advances		(57,937)	(31,105)
Net movement in deposits		52,429	36,599
Net movement in due from other financial institutions		2,948	(6,076)
		(2,560)	(582)
Income taxes paid		(1,315)	(1,337)
Net cash provided by operating activities	34(c)	**1,491**	**3,233**
Cash flows from investing activities			
Payments for plant and equipment and intangible assets		(1,524)	(666)
Net cash used in investing activities		**(1,524)**	**(666)**
Net increase/(decrease) in cash and cash equivalent assets held		(33)	2,567
Cash and cash equivalents at the beginning of the financial year		7,222	4,655
Cash and cash equivalents at the end of the financial year	34(a)	**7,189**	**7,222**

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 the Credit Union as a single for-profit entity which is a public company limited by shares, incorporated and domiciled in Australia. The principal activities of the Credit Union during the year comprised the raising of funds by deposit and the provision of loans and associated services to the members, as prescribed by the Constitution. The financial report was authorised for issue on 24 September 2019 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 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.

The financial statements have been prepared on an accruals basis and are based on historical costs except for financial assets at FVOCI (applicable from 1 July 2018) that have been measured at fair value. 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.

This is the first set of annual financial statements in which *AASB 9 Financial Instruments* and *AASB 15 Revenue* from contracts with customers have been applied.

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) Adoption of new accounting standards

Southern Cross Credit Union has initially adopted AASB 9 Financial Instruments from 1 July 2018, A number of other new standards including AASB 15 Revenue from contracts with customers are also effective from 1 July 2018 but they do not have any material effect on the financial statements.

Due to the transition method chosen when applying AASB 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

The effect of initially applying these standards is mainly attributed to the following:

- no material effect to impairment losses on loans and advances
- additional disclosures relating to AASB 9
- additional disclosures relating to AASB 15
- adjustment to fair value of equity instruments previously measured at cost

AASB 9 Financial Instruments

Southern Cross Credit Union has adopted AASB 9 *Financial Instruments* issued in July 2014 with a date of initial application of 1 July 2018. The requirements of AASB 9 represent a significant change from AASB 139 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

Comparative information has not been restated for 2018 for financial instruments in the scope of AASB 9. Therefore, the comparative information for 2018 is reported under AASB 139 and is not comparable to the information presented for 2019. Differences arising from the adoption of AASB 9 have been recognised directly in opening reserves (as applicable) as at 1 July 2018 and are disclosed below.

To reflect the differences between AASB 9 and AASB 139, AASB 7 Financial Instruments: Disclosures was updated and the Credit Union has adopted it, together with AASB 9, for the year beginning 1 July 2018. Changes include:

- Transition disclosures, as shown in below.
- Detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used as set out in Note 12

The key changes to the Credit Union's accounting policies resulting from its adoption of AASB 9 are summarised below.

Classification of financial assets and financial liabilities

Financial assets

The Credit Union classifies its financial assets as subsequently measured at either amortised cost or fair value depending on the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

The following summarises the key changes:

- The existing AASB 139 categories of held-to-maturity, loans and receivables and available-for-sale (AFS) were removed.
- A new asset category for non-traded equity investments measured at fair value through other comprehensive income (FVOCI) was introduced. The Group's available-for-sale equity instruments were classified in this category.

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

Financial liabilities

Classification of financial liabilities remained largely unchanged for the Group. Financial liabilities continue to be measured at either amortised cost or FVTPL. However, although under AASB 139 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under AASB 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

Classification of financial assets and financial liabilities on the date of initial application of AASB 9

The following table shows the impact on the classification and measurement of the Group's financial assets and financial liabilities on 1 July 2018.

	Investment Securities	$'000	
Original measurement category under AASB 139	Avaliable for Sale	577	AASB 139 carrying amt
New measurement category under AASB 9	FVOCI	980	AASB 9 carrying amt

The accounting policies on the classification of financial instruments under AASB 9 and the application of these policies resulted in the reclassifications set out in the table above and explained below.

The Credit Union has elected to irrevocably designate the non-traded equity investment in Cuscal at FVOCI as permitted under AASB 9. These securities were previously classified as available for sale and were measured at cost because their fair value was not considered to be reliably measureable. AASB 9 has removed this cost exception. The changes in fair value of such securities will no longer be reclassified to profit or loss when they are disposed of. These equity instruments are now included in 'investment securities' in the statement of financial position as at 1 July 2018.

'Due from other financial institutions' that were previously classified as held to maturity (HTM), accounted for at amortised cost under AASB 139, have been assessed as having business model of holding to collect contractual cash flows which comprise of solely payments of principal and interest. Accordingly, these instruments will be classified as amortised cost under the effective interest method.

The following financial assets have been reclassified to new categories under AASB 9, as their previous categories under AASB 139 were 'retired', with no changes to their measurement basis:

(i) Those previously classified as available for sale and now reclassified as measured at FVOCI; and

(ii) Those previously classified as held to maturity and now classified as measured at amortised cost.

Changes to impairment of financial assets

AASB 9 replaces the 'incurred loss' model in AASB 139 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments measured at fair value through profit & loss. Under AASB 9, credit losses are recognised earlier than under AASB 139.

Applied is a three-stage approach to measuring expected credit losses (ECL) on financial assets carried at amortised cost and FVOCI. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12-months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. As this uses the same criteria as under AASB 139, the methodology for specific provisions remained unchanged. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

Assessment of significant increase in credit risk

At each reporting date, the Credit Union assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting assets since initial recognition.

In determining whether credit risk has increased significantly since initial recognition, the Credit Union uses its internal credit risk grading system, external risk ratings and forecast information to assess deterioration in credit quality of a financial asset. The Credit Union assess whether the credit risk on financial asset has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of shared credit risk characteristics, taking into accounts instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, geographical location of the borrower and other relevant factors.

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

AASB 9 Financial Instruments (continued)

Measuring ECL

The amount of ECL is measured as the probability-weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate. The cash shortfall is the contractual cash flows that are due to the Credit Union and all the cash flows that are expected to be received. The difference between all amount of the loss is recognised using a provision for impairment account.

The Credit Union considers its historical loss experience and adjusts this for current observable data. In addition, using reasonable and supportable forecasts of future economic conditions including experienced judgment to estimate the amount of an expected impairment loss. The Credit Union uses macroeconomic factors which include, but is not limited to, unemployment, interest rates and inflation and requires an evaluation of both current and forecast direction of the economic cycle. Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect ECL. The methodology and assumptions including forecasts of future economic conditions are reviewed regularly.

If, in the subsequent period, credit quality improves and reverses any previously assessed significant increase in credit risk since origination, then the provision for impairment reverts from lifetime ECL to 12-months ECL.

Transition

Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of AASB 9 are recognised in retained earnings and reserves as at 1 July 2018. Accordingly, the information presented for 2018 does not reflect the requirements of AASB 9 and therefore is not comparable to the information presented for 2018 under AASB 139.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model within which a financial asset is held.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

Reconciliation of statement of financial position balances from AASB 139 to AASB 9

The following table analyses the impact, net of tax, of transition to AASB 9 on financial assets, reserves and retained earnings.

	AASB 139 opening balance as at 30 June 2018 $'000	Reclassifications $'000	Remeasurements $'000	AASB 9 opening balance as at 1 July 2018 $'000
Investment available for sale				
Opening balance	577			577
Reclassification to FVOCI		(577)		(577)
Total investments - available for sale	**577**	**(577)**	**-**	**-**

	AASB 139 opening balance as at 30 June 2018 $'000	Reclassifications $'000	Remeasurements $'000	AASB 9 opening balance as at 1 July 2018 $'000
Investments Equity investment at fair value through other comprehensive income (FVOCI)				
Opening balance				-
Fair value adjustment			403	403
Reclassification to FVOCI		577		577
Total equity investment at FVOCI	**-**	**577**	**403**	**980**

	AASB 139 opening balance as at 30 June 2018 $'000	Reclassifications $'000	Remeasurements $'000	AASB 9 opening balance as at 1 July 2018 $'000
Defered Tax				
Opening balance				-
Fair value adjustment			111	111
Reclassification to FVOCI				
Total Defered Tax Assets	**-**	**-**	**111**	**111**

Total changes to financial assets balances, reclassification and remeasurement at 1 July 2018	**-**	**-**	**292**	**292**

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

AASB 9 *Financial Instruments* (continued)

	AASB 139 opening balance as at 30 June 2018 $'000	Reclassifications $'000	Remeasurements $'000	AASB 9 opening balance as at 1 July 2018 $'000
Other Reserve				
Opening balance	2,969			2,969
Increase (decrease) from remeasurements			292	292
Total Other Reserve	**2,969**	**-**	**292**	**3,261**

Total changes to reserve balances, reclassification and remeasurement at 1 July 2018	**2,969**	**-**	**292**	**292**

AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced AASB 118 Revenue, AASB 111 Construction Contracts and related interpretations.

The Credit Union initially applied AASB 15 on 1 July 2018 retrospectively in accordance with AASB 108 without any practical expedients. The timing or amount of fee and commission income from contracts with customers was not impacted by the adoption of AASB 15.

(b) 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.

(c) Revenue

Interest income and interest expense

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

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

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

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

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

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 July 2018). The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

In calculating interest income and interest expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Fees and commissions

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate. Loan fees that are recognised using the effective interest method are included with loan balances in the statement of financial position.

Other fee and commission income – including account servicing fees, loan discharge and administration fees are recognised as the related services are performed. Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received

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).

(d) Cash and cash equivalents

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

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

(e) Receivables

Held to Maturity (HTM) financial assets - accounting policy before 1 July 2018

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. Refer to Note 1 (r) for further discussion.

Other Receivables

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

(f) Plant and equipment

Plant and Equipment

Plant and equipment are measured on the cost basis less depreciation any 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 profit or loss in the reporting period in which the recoverable amount write-down occurs.

Depreciation

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

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

Plant & Equipment 10-33%
Leasehold improvements 10-33%
Assets under $300 are not capitalised.

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

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

(g) 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.

(h) Leases

Leases of property where substantially all the risks and benefits incidental to ownership of the asset, but not the legal ownership, are transferred to the Credit Union are classified as finance leases. Finance leases are
capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Credit Union will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Credit Union as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(i) 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 part of deposits.

(j) Employee Benefits

Provision is made for employee benefits arising from services rendered by employees to reporting date. Employee benefits expected to wholly settle 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.

(k) Comparative Figures

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

(l) 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.

(m) 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

Recoverability 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 and other financial assets

The measurement of impairment losses both under AASB 9 and AASB 139 across all categories of financial assets requires judgement. Based on the current ecomonic conditions the Credit Union is not estimating any significant changes.

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

(n) Fair Values

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

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

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

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

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

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

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

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

(p) 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.

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.

(q) 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 2019 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 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 statement of financial position 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 impact of this Standard.

The Credit Union will adopt AASB 16 for the annual reporting period beginning 1 July 19. As at reporting date the Credit Union has non-cancellable operating lease commitments of $3,097,000 Note 24 (a).

SOUTHERN CROSS CREDIT UNION LIMITED
ABN 82 087 650 682
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

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

(r) Accounting Policies applicable before 1 July 2018

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.

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.

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

(s) Financial assets and financial liabilities – Policy applicable from 1 July 2018

The Credit Union applied the classification and measurement requirements for financial instruments under AASB 9 *Financial Instruments* for the year ended 30 June 2019. The 2018 comparative period was not restated and the requirements under AASB 139 *Financial Instruments: Recognition and Measurement* were applied. The key changes are in the classification and impairment requirements as detailed in Note 1(a).

Refer to Note 1 (r) for the details of accounting policies applicable before 1 July 2018.

(i) Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Credit Union becomes a party to the contractual provisions of the financial instruments. A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the profit or loss.

(ii) Classification and subsequent recognition and measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, The Credit Union may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Credit Union may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Credit Union makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to The Credit Union's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how The Credit Union's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Credit Union considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Credit Union considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Credit Union's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after The Credit Union changes its business model for managing financial assets. There were no changes to any of The Credit Union business models during the current year (2018: Nil).

SOUTHERN CROSS CREDIT UNION LIMITED
ABN 82 087 650 682
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

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

Financial liabilities

The Credit Union classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

(iii) De-recognition

Financial assets

The Credit Union derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which The Credit Union neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

(i) On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and

(ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

From 1 July 2018, any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by The Credit Union is recognised as a separate asset or liability.

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

In certain transactions, The Credit Union retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

The Credit Union de-recognises a financial liability when its contractual obligations are discharged or cancelled or when they expire.

(iv) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, The Credit Union evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized (see (iii)) and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, The Credit Union recalculates the gross carrying amount of the financial asset and recognizes the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower (see part (vii)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

(v) Offsetting

Financial assets and financial liabilities are set off and the net amount presented in the Statement of Financial Position when, and only when, The Credit Union has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions

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

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 28.

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 2019, the VaR is $209,802 or 0.39% of capital (30 June 2018 $224,415 or 0.44% 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 credit risk associated with loans and advances to members has been minimised through the implementation of credit assessment policies and procedures before these loans and advances are approved. The Credit Union's Board of Directors has delegated responsibility for the management of credit risk to the Risk Committee. The Board has developed policies and procedures designed to ensure strong lending practices which comply with credit legislation. Policies and procedures reduce the risk of credit loss by providing clarity and guidance relating to:

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

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

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

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.

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)	2019 $'000 Balance	2018 $'000 Balance
AA and above	50,952	49,402
Below AA	6,035	8,048
Others / Unrated	5,523	8,008
TOTAL	**62,510**	**65,458**

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 25.

The Credit Union is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within two business days under APRA Prudential standards. The Credit Union Policy is to apply 12% of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. This ratio is checked daily. Should the liquidity ratio fall below this level, management and the Board are to address the matter and ensure that the liquid funds are obtained from new deposits or borrowing facilities available.
Maturity profile of the financial assets and financial liabilities based on the contractual repayment terms is set out in Note 26.

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

	2019	2018
Liquid funds to total adjusted liabilities:		
- As at 30 June	12.98%	15.05%
- Average for the year	14.77%	15.55%
- Minimum during the year	12.79%	13.11%
Liquid funds to total member deposits:		
- As at 30 June	13.51%	15.68%

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:

2019	2018	2017	2016	2015
19.0%	19.3%	19.6%	20.4%	22.2%

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:

	2019 $'000	2018 $'000
Tier 1 capital		
Share capital	419	406
Capital reserve	229	229
Retained Profit	50,539	47,953
Net Tier 1 capital	**51,187**	**48,588**
Tier 2 capital		
Credit losses reserve	2,931	2,740
Net Tier 2 capital	**2,931**	**2,740**
Total capital	**54,117**	**51,328**

	2019 $'000	2018 $'000
NOTE 3 - REVENUE		
Interest Income		
Cash and cash equivalents	27	26
Due from other financial institutions	1,652	1,458
Loans and advances	20,311	19,029
Total Interest Income	21,990	20,513
Interest Expense		
Payable to other financial institutions	(4)	()
Member deposits	(9,123)	(8,324)
Total Interest Expense	(9,125)	(8,324)
Net Interest Income	12,865	12,189
Fee and Commission		
Fee and commission income	2,569	2,937
Fee and commission expense	(1,568)	(1,540)
Net Fee and Commission	1,001	1,397
Other Income		
Dividends	24	48
Bad debts recovered	5	23
Profit on sale of property, plant & equipment	-	9
Other	83	194
Total other income	111	274
Total Revenue	13,977	13,861
NOTE 4 - EXPENSES		
Other Expenses		
Employee benefit expense		
Wages, salaries and other employee benefits	4,986	4,715
Superannuation	467	465
Total employee benefit expense	5,453	5,181
Occupancy expenses (excluding rental expenses on operating leases)	289	346
Depreciation and amortisation expense		
Depreciation of plant & equipment	425	312
Amortisation of intangible assets	133	107
Total depreciation and amortisation expense	558	419
Other Expenses		
General administration	687	1,058
Employee related on-costs expense	388	403
Rental expense on operating leases	681	717
Information technology expenses	747	651
Marketing and promotion expenses	325	265
Telephone and communication expenses	193	210
Derivatives - net loss on hedged item	-	12
Other expenses	54	39
Total other expenses	3,075	3,354
Total Expenses	9,375	9,301

NOTE 5 - INCOME TAX EXPENSE

(a) The income tax expense comprises:

	2019 $'000	2018 $'000
Provision for income tax - current year	1,103	1,275
Under / (over) provision for income tax in prior years	(88)	(11)
Increase / (decrease) in the deferred tax liability account	111	-
(Increase) / decrease in the deferred tax asset account	(4)	15
	1,122	1,279

(b) The prima facie tax on operating profit is reconciled to the income tax expense as follows:

	2019 $'000	2018 $'000
Prima facie tax expense on profit before income tax at 27.5% (2018 - 30%)	1,188	1,303
Add tax effect of:		
Non-deductible items	4	8
Non-assessable income (fully franked dividends)	(10)	(21)
Other sundry items	28	-
Under / (over) provision for income tax in prior years	(88)	(11)
Total income tax expense	1,122	1,279
Applicable weighted average effective tax rate	25.97%	29.46%

(c) Components of income tax expense in profit or loss

	2019 $'000	2018 $'000
Current tax		
Current tax expense	1,103	1,275
Adjustments for previous years	(88)	(11)
Total current tax expense	1,015	1,264
Deferred tax		
Origination and reversal of temporary differences	107	15
Total deferred tax expense	107	15
Total income tax expense in profit or loss	1,122	1,279

(d) Balance of the franking account at year end adjusted for franking credits arising from payment of the provision for income tax, payment of dividends payable or receipts of dividends receivable at reporting date

	2019 $'000	2018 $'000
Balance of the franking account at year end (adjusted)	21,324	19,878

NOTE 6 - AUDITOR'S REMUNERATION

Amounts received or due and receivable by the auditor for:

	2019 $	2018 $
Auditing the financial report	61,000	59,000
Other services	26,770	28,450
	87,770	87,450

These figures exclude the non-refundable component of the GST.

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 2019 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:

	2019 $	2018 $
Short-term employee benefits	1,129,625	1,079,621
Post-employment benefits	100,751	94,037
Other long-term benefits	15,125	15,711
Total compensation	1,245,501	1,189,369

In the table directly above for remuneration shown as short-term benefits means (where applicable) salary and wages, director fees, superannuation, paid annual leave and paid sick leave, profit sharing and bonuses, value of fringe benefits received, but excludes out of pocket expense reimbursements. All remuneration to non-executive Directors was approved by the members at the previous Annual General Meeting of the Credit Union. Post employment benefits include vesting payments upon termination as disclosed in note 21.

(b) Loans to KMP and close family members

		2019 $	2018 $
(i)	The aggregate value of loans as at balance date amounted to:		
	- secured loans	6,307,684	4,697,666
(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	2,056,000	2,438,000
	- unsecure loans / overdrafts	-	26,300
	Interest and other revenue earned on loans and revolving credit facilities amounted to:	182,068	153,415

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.

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

(c) Deposits from KMP and close family members	2019 $	2018 $
Total value of term and savings deposits	875,378	282,484
Interest paid on deposits	8,110	10,522

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.

NOTE 8 - CASH AND CASH EQUIVALENTS	2019 $'000	2018 $'000
Cash on hand	783	652
Deposits with ADIs	6,406	6,570
	7,189	7,222

NOTE 9 - DUE FROM OTHER FINANCIAL INSTITUTIONS

Deposits with ADIs	62,510	65,458

NOTE 10 - OTHER RECEIVABLES

Accrued income	49	65
Sundry receivables	616	585
	665	650

NOTE 11 - LOANS AND ADVANCES TO MEMBERS	2019 $'000	2018 $'000
Overdrafts	7,778	9,329
Term loans	496,031	436,737
Gross loans and advances	503,809	446,066
Broker upfront commission	156	-
Allowance for ECL impairment losses	(754)	(586)
Net loans and advances	503,211	445,480
Credit Quality - Security held against loans		
Secured by mortgage over real estate	493,058	433,353
Secured by bill of sale over motor vehicle	7,530	8,558
Secured by other assets	681	515
Secured by funds lodged with the credit union	129	391
Unsecured	2,410	3,249
	503,809	446,066

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

Accounting policy

Refer to Note 1 (a) for details on the impact of AASB 9 adoption.

A three-stage approach is applied to measuring expected credit losses (ECLs) for loans and advances to members.

No impairment loss is recognised on equity investments.

Stage 1 - The portion of lifetime ECL associated with the probability of default event occuring within the next 12 months. Exposures are assessed on a collective basis. Loans 30 days or under past due date.

Stage 2 - Associated with the probablity of default event occuring throughout the life of an impairment. Exposures are assessed on a collective basis. Loans with a past due days arrears of 31-89 days.

Stage 3 - Lifetime ECL - credit impaired. Exposures are assessed on a individual basis. Loans 90 days or more past due date.

At each reporting date, the Credit Union assesses the credit risk of exposures in comparison to the risk at initial recognition, to determine the stage that applies to the associated ECL measurement. If the credit risk of an exposure has increased significantly since initial recognition, the loan will migrate to Stage 2. If no significant increase in credit risk is observed, the loan will remain in Stage 1. Should a loan be 90 days or more past due date it will transferred to Stage 3.

The Group considers reasonable and supportable information that is relevant and available without undue cost or effort, for this purpose. This includes quantitative and qualitative information and also forward looking analysis.

Credit Quality of financial assets

Internally developed credit rating system utilises historical default data drawn from a number of sources to assess the potential default risk of lending, or other financial services products, provided customers.

In assessing the impairment of financial assets under the expected credit loss model, the Credit Union defines default in accordance with its Credit Policy and Procedures, which includes defaulted assets and impaired assets. Retail facilities use the number of days past due (DPD) or the relative change in probability of default at account level, to determine significant increase in credit risk. The Credit Union considers that significant increase in credit risk occurs when an asset is move that 30 days past due (DPD).

Write off

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

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 1 (a). A number of significant judgement are also required in applying the accounting requirements for measuring ECL, such as:

Determining criteria for significant increase in credit risk.
Choosing appropriate models and assumptions for the measurement of ECL.
Establishing the number and relative weightings of forward-looking scenarios for each type of product and the associated ECL.
Establishing groups of similar financial assets for the purposes of measuring ECL.

NOTE 12 - IMPAIRMENT OF LOANS AND ADVANCES (Con't)

Refer below for details of impairment measurement for loans and advances at amortised cost:

	2019 $'000	2018 $'000
Stage 1 - 12 month ECL collectively assessed	115	120
Stage 2 - Lifetime ECL collectively assessed	91	42
Total collective provision for impairment	206	163
Stage 3 - Lifetime ECL individually assessed	548	424
Total provision of impairment	754	586

The opening balance for the collectively impaired provision for impairment measured under AASB 139 is now presented as 12-months and lifetime expected credit losses following the adoption of AASB 9, as at 1 July 2018. Refer to Note 1 (a) for information on the adoption of AASB 9.

Allowance for impairment

The following tables show reconciliations from the opening to the closing balance of the allowance for impairment by class of financial instrument. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 1 (a). Comparative amounts for 2018 represent allowance account for credit losses and reflect measurement basis under AASB 139.

	Stage 1 - 12 month ECL collectively assessed	Stage 2 - Lifetime ECL collectively assessed	Stage 3 - Lifetime ECL individually assessed	Total
ECL allowance as at 1 July 2018 under AASB 9*	120	42	424	586
Transfers to Stage 1 - 12 month ECL collectively assessed	-	-	-	-
Transfers to Stage 2 - Lifetime ECL collectively assessed	-	48	-	48
Transfers to Stage 3 - Lifetime ECL individually assessed	-	-	238	238
Impact on year end ECL of exposures transferred between stages during the year	(5)	-	-	(5)
Amounts written off	-	-	(114)	(114)
	115	91	548	754

* The opening balance for the collectively impaired provision for impairment measured under AASB 139 is now presented as 12-months and lifetime expected credit losses following the adoption of AASB 9. Refer to Note 1 (a) for information on the adoption of AASB 9.

	2018 $'000
Provision for impairment calculation per AASB 139	
Prescribed provision required by prudential standards	529
Additional specific provision for impairment	57
Closing balance	586

Impact of movements in gross carrying amount on provision for impairment

Significant changes in the gross carrying amount of financial assets that contributed to changes in the loss allowance were as follows:

The high volume of new loans originated during the period, aligned with organic growth objective, increased the gross carrying amount of the loan book by $57.7m, 13%, with a corresponding $5k decrease in the loss allowance measured on a 12-month basis due to a favour mix change to lower risk loan assets.

The number of loans in stage 3 increase from 14 to 19 resulting in an increase in the carrying amount by $2.4m which has driven the increase in loss allowance in stage 3.

The write-off of personal loans with a total gross loan carrying amount of $91,000 resulted in the reduction of the Stage 3 loss allowance by the same amount

NOTE 12 - IMPAIRMENT OF LOANS AND ADVANCES (Con't)

The table below shows the credit quailty and the maximum exposure to credit risk based on the Credit Union's informal credit rating system and the year end stage classifictaion. The amounts are presented gross of impairment allowances.

	2019 $'000	2018 $'000
Stage 1 - 12 month portion of lifetime ECL collective		
Residential - Owner Occupied	311,786	265,491
Residential - Investor	121,822	110,381
Commercial	46,169	44,938
Personal Secure	9,370	10,950
Personal Unsecure	158	409
Other/Overdrafts	7,713	9,312
	497,017	441,481
Stage 2 - Lifetime ECL collective		
Residential - Owner Occupied	1,604	2,064
Residential - Investor	589	248
Commercial	-	63
Personal Secure	168	127
Personal Unsecure	4	9
Other/Overdrafts	7	3
	2,372	2,515
Stage 3 - Lifetime individual specific credit impairment		
Residential - Owner Occupied	2,924	464
Residential - Investor	365	350
Commercial	1,019	983
Personal Secure	96	242
Personal Unsecure	10	28
Other/Overdrafts	8	3
	4,421	2,070
Total		
Residential - Owner Occupied	316,313	268,019
Residential - Investor	122,776	110,980
Commercial	47,187	45,984
Personal Secure	9,634	11,319
Personal Unsecure	172	446
Other/Overdrafts	7,728	9,318
	503,809	446,066

NOTE 13 - INVESTMENT SECURITIES

	2019 $'000	2018 $'000
Investment Securities		
Shares in unlisted entities - Cuscal Limited (Cuscal)	980	577

The Credit Union has elected to irrevocably designate the non-traded equity investments in Cuscal at fair value through other comprehensive income (FVOCI) as permitted under AASB 9. These securities were previously classified as available-for-sale and were measured at cost because of their fair value was not considered to be reliably measureable. AASB 9 has remove this cost exception. The changes in the fair value of these investment securities will no longer be reclassified to profit or loss when they are disposed of. These equity investments are now included in 'investment securities' in the statement of financial position at 1 July 2018.

The shareholding in Cuscal is measured at net tangible assets per share fair value which approximates its fair value as at 30 June 2019, the value has been updated in 2019 in accordance with AASB9. For 2018 the shareholding is measured at cost. 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.

During the financial year the holding was available for sale, however with the recommencement of dividend payments the board has made the decision to retain the holding.

NOTE 14 - PLANT & EQUIPMENT

	2019 $'000	2018 $'000
Plant and equipment		
Plant and equipment at cost	1,852	1,330
Less accumulated depreciation	(1,138)	(686)
	714	644
Leasehold improvements		
Leasehold improvements at cost	1,856	1,485
Less accumulated depreciation	(396)	(706)
	1,460	779
Work in Progress - Capital Additions	115	15
Total Plant and Equipment	2,289	1,438

Movement in carrying amounts:

2019	Plant & Equipment $'000	Leasehold Improvements $'000	WIP $'000	Total $'000
Balance at beginning of the financial year	644	779	15	1,438
Additions	329	853	1,366	2,548
Transfers to P&E and Lease improvements	-	-	(1,266)	(1,266)
Disposals	(5)	-	-	(5)
Depreciation	(254)	(172)	-	(426)
Carrying amount at the end of the financial year	714	1,460	115	2,289

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	385	15	579
Transfers to P&E and Lease improvements	-	-	(37)	(37)
Disposals	(2)	-	-	(2)
Depreciation	(213)	(100)	-	(313)
Carrying amount at the end of the financial year	644	779	15	1,438

SOUTHERN CROSS CREDIT UNION LIMITED
ABN 82 087 650 682
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 15 - DEFERRED TAX ASSETS

	2019 $'000	2018 $'000
Deferred tax assets	352	459
Deferred tax assets reconciliation:		
Opening Balance	459	474
Transfer from deferred tax liabilities	(111)	-
Current year charge	4	(15)
Closing balance	352	459
Closing balance comprised of the following:		
Leave provisions	221	216
Other provisions	267	208
Financial assets	(111)	-
Written down value of assets	(735)	(543)
Tax base of assets	711	578
	352	459

NOTE 16 - INTANGIBLE ASSETS

	2019 $'000	2018 $'000
(a) Computer Software	916	673
Less provision for amortisation	(418)	(284)
	498	388
(b) Movements in carrying amounts		
Balance at beginning of the financial year	388	370
Additions	243	125
Amortisation Expense	(133)	(107)
Carrying amount at the end of the year	498	388

NOTE 17 - OTHER ASSETS

	2019 $'000	2018 $'000
Deferred Premium Expense on Floating Rate Notes	151	142
Prepayments	161	148
	312	289

NOTE 18 - DEPOSITS

	2019 $'000	2018 $'000
Customer at call deposits (including withdrawable shares)	209,148	202,207
Customer term deposits	306,622	261,424
	515,770	463,631

NOTE 19 - PAYABLES AND OTHER LIABILITIES

	2019 $'000	2018 $'000
Accrued interest payable	2,449	2,261
Accrued expenses	685	637
Annual leave	415	405
Deferred Income	235	160
Member clearing	1,829	1,508
	5,613	4,971

	2019 $'000	2018 $'000

NOTE 20 - TAX LIABILITIES/ASSETS

	2019 $'000	2018 $'000
Current income tax liability/(asset)	(8)	291
	(8)	291

NOTE 21 - PROVISIONS

Long-term Employee benefits

	2019 $'000	2018 $'000
Long service leave	389	316

NOTE 22 - REDEEMED PREFERENCE SHARE CAPITAL

	2019 $'000	2018 $'000
Opening balance	406	397
Transfers from retained profits for redeemable preference shares	13	9
Closing Balance	419	406

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 23 - OTHER RESERVES

Capital profits reserve

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

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.

	2019 $'000	2018 $'000
Capital reserve	229	229
Fair value reserve	292	-

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

	2019 $'000	2018 $'000
General reserve for credit losses		
Opening balance	2,740	2,535
Add increase / (decrease) transferred from retained earnings	191	205
	2,931	2,740
Total Other Reserves	3,452	2,969

NOTE 24 - FINANCIAL COMMITMENTS

a) Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the financial report, payable:

	2019 $'000	2018 $'000
- Not later than 1 year	677	673
- Later than 1 year but not later than 2 years	693	620
- Later than 2 years but not later than 5 years	1,267	1,435
- Later than 5 years	460	158
Total Expenditure Commitments	3,097	2,885

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

Loans and credit facilities approved but not funded or drawn down at the end of the financial year:

	2019 $'000	2018 $'000
- Loans approved but not funded	13,357	13,421
- Undrawn overdraft, line of credit and VISA	4,483	5,527
	17,840	18,948

c) Capital and other expenditure commitments

There is no commitment of other expenditure at reporting date.

NOTE 25 - 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 (2018 - nil).

NOTE 26 - 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 2019	Less than 12 months	Over 12 months	Total
	$'000	$'000	$'000
ASSETS			
Cash and cash equivalents	7,189	-	7,189
Due from other financial institutions	29,533	32,977	62,510
Other receivables	665	-	665
Loans and advances	70,278	432,933	503,211
Investment securities	980	-	980
Other assets	312	-	312
Property, plant and equipment	-	2,289	2,289
Current tax assets	8	-	8
Deferred tax assets	352	-	352
Intangible assets	-	498	498
Total Assets	109,318	468,696	578,014
LIABILITIES			
Deposits	512,159	3,611	515,770
Payables & other liabilities	5,474	138	5,612
Current tax liabilities			
Provisions	101	288	389
Total Liabilities	517,734	4,037	521,771

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
Due from other financial institutions	37,988	27,470	65,458
Other receivables	650	-	650
Loans and advances	68,278	377,202	445,480
Investment securities	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

SOUTHERN CROSS CREDIT UNION LIMITED
ABN 82 087 650 682
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 27 - 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 2019						
	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	7,189	-	-	-	-	-	7,189
Receivables	-	-	-	-	-	665	665
Due from other financial institutions	41,453	21,057	-	-	-	-	62,510
Loans and advances	11,041	6,330	27,559	132,376	558,592	-	735,898
Investment securities	-	-	980	-	-	-	980
On Balance Sheet	59,683	27,387	28,539	132,376	558,592	665	807,242
Undrawn commitments (Note 24b)	17,840	-	-	-	-	-	17,840
Total Financial Assets	77,523	27,387	28,539	132,376	558,592	665	825,082
Financial Liabilities							
Deposits	249,679	87,773	176,961	3,750	-	-	518,163
Payables & other liabilities	5,614	-	-	-	-	-	5,614
On Balance Sheet	255,293	87,773	176,961	3,750	-	-	523,777
Operating leases (Note 24a)	56	113	507	1,958	460	-	3,094
Total Financial Liabilities	255,349	87,886	177,468	5,708	460	-	526,871

NOTE 27 - MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES (Con't)

30 June 2018

	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	7,222	-	-	-	-	-	7,222
Receivables	-	-	-	-	-	651	651
Due from other financial institutions	31,392	34,066	-	-	-	-	65,458
Loans and advances	12,344	5,816	25,108	121,368	499,649	-	664,286
Investment securities	-	-	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

LIABILITIES

	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 Liabilities							
Deposits	258,047	80,341	124,341	3,346	-	-	466,074
Payables & other liabilities	4,972	-	-	-	-	-	4,972
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
Total Financial Liabilities	263,075	80,453	124,845	5,399	158	-	473,931

NOTE 28 - 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 2019

	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	6,406	-	-	-	783	7,189	0.12%
Receivables	-	-	-	-	665	665	
Due from other financial institutions	39,003	23,507	-	-	-	62,510	2.31%
Loans and advances	314,158	70,708	118,345	-	-	503,211	4.35%
Investment securities	-	-	-	-	980	980	
Total Financial Assets	359,567	94,214	118,345	-	2,428	574,554	
Financial Liabilities							
Deposits	94,117	386,669	34,984	-	-	515,771	1.95%
Payables and other liabilities	-	-	-	-	5,612	5,612	
Total Financial Liabilities	94,117	386,669	34,984	-	5,612	521,383	

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
	$'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	6,570	-	-	-	652	7,222	0.03%
Receivables	-	-	-	-	650	650	
Due from other financial institutions	31,480	33,978	-	-	-	65,458	2.61%
Loans and advances	282,976	40,434	122,070	-	-	445,480	4.54%
Investment securities	-	-	-	-	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	
Derivatives	-	-	-	-		-	
Total Financial Liabilities	90,993	339,095	33,543	-	4,971	468,602	

	2019 $'000	2018 $'000

NOTE 29 - 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 loans and advances in excess of 10% of capital.

	2019 $'000	2018 $'000
Geographic Locations		
New South Wales	365,425	343,603
Queensland	131,891	96,468
Customer or Industry		
Southern Cross Credit Union Ltd Employees	13,021	11,724
Public Health	12,179	9,747

NOTE 30 - 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.

SOUTHERN CROSS CREDIT UNION LIMITED
ABN 82 087 650 682
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019

NOTE 31 - 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 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.

Investment securities

The Credit Union's unquoted equity instruments represent the investment in Cuscal Ltd shares which is stated at fair value and is classified as Level 3 in the fair value hierarchy. The valuation of Cuscal shares occurs once a year in June and is based on Cuscal's adjusted net tangible assets. The net fair value gain on revaluation of the Cuscal shares is reflected in other comprehensive income.

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 approximates 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.

	2019		2018	
	Carrying Value $'000	Net Fair Value $'000	Carrying Value $'000	Net Fair Value $'000
Assets				
Cash and cash equivalents	7,189	7,189	7,222	7,222
Receivables due from other financial institutions	62,510	62,510	65,458	65,458
Other receivables	665	665	650	650
Loans and advances	503,965	504,235	446,066	446,333
Investment securities	980	980	577	577
Total	575,309	575,579	519,974	520,240
Liabilities				
Deposits	515,770	516,039	463,631	463,691
Payables and other liabilities	5,613	5,613	4,971	4,971
Total	521,383	521,652	468,602	468,662

NOTE 31 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Con't)

Fair Value Hierarchy

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

Level 1: Quoted market price (unadjusted) in an active market of an identical asset or liability.
Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes assets or liabilities valued using:

- Quoted market prices in active markets for similar assets or liabilities;
- Quoted prices for identical or similar assets or liabilities in markets that are considered less than active: or
- Other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all assets and liabilities where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the asset's or liability's valuation. This category includes assets and liabilities that are valued based on quoted prices for similar assets or liabilities where significant unobservable adjustments or assumptions are required to reflect differences between them. Cuscal shareholding fair value measured on net tangible assets per share.

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 and due from other financial institutions are short-term liquid assets which approximate fair value.

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

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

NOTE 32 - 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 33 - 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.

NOTE 34 - 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:

	2019 $'000	2018 $'000
Cash and cash equivalents	7,189	7,222

(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

	2019 $'000	2018 $'000
Profit after income tax	3,199	3,063
Non-cash flows in profit from continuing operations:		
Provision for loan impairment	282	219
Amortisation	133	107
Depreciation	425	312
Changes in assets and liabilities:		
Increase / (decrease) in interest payable	188	275
Increase / (decrease) in income tax liabilities	(299)	(73)
Decrease / (increase) in deferred tax assets	107	15
Decrease / (increase) in fees and commissions receivables	16	34
Increase / (decrease) in accrued expenses	15	(99)
Decrease / (increase) in other assets	(23)	(1)
Increase / (decrease) in employee benefits	10	(39)
	4,051	3,815
Changes in operating assets and liabilities:		
Increase / (decrease) in deposits	52,429	36,599
Decrease / (increase) in member loans	(58,012)	(31,155)
Decrease / (increase) in receivables due from other financial institutions	2,948	(6,076)
Increase / (decrease) in Deferred Income	76	50
Net cash provided by operating assets and liabilities	(2,559)	(582)
	1,491	3,233

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

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

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 2019, 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 2019 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

BDO

P A Gallagher
Director

Brisbane, 24 September 2019

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 - Chief Risk Officer

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
Cabarita	Shop 3/36 Tweed Coast Rd
Kingscliff	Level 2, 38-42 Pearl St

Directors

Guy Bezrouchko	Chairperson
John Rutledge	Deputy Chairperson
Stuart Edwards	Executive Director
Suzie Slingsby	
Belinda Henry	
Alvaro Lozano	

Affiliations

World Council of Credit Unions

Instil - Institute for Strategy, Leadership & Innovation

COBA - Customer Owned Banking Association

Australian Institute of Company Directors

CUFSS Limited