SOUTHERN CROSS CREDIT UNION

Annual Report 2022

Supporting our customers through their financial life stages

Contents

> "Our strong financial performance shows the true resilience and character of our business in these extraordinary times and enables us to continue the investment in our business, paving our way to a brighter future."

Chairman and Chief Executive Officer's Report

We are not defined by the challenges we face but by how we come out of them.

The last 12 months has been challenging to say the least as we have had to continually adjust to the ever-changing environment we have found ourselves in, both personally and professionally. It made us re-evaluate what is most important: our community, customers, friends, and business.

It also made us stronger. Our loan growth for the year of 25% representing record levels in the history of our business and well above industry growth of 7.3%. The support from our third party and broker partners has been integral to this result, and we thank them for their extremely open, transparent, and valued partnership.

Our ultimate success has been possible due to our unwavering resolve to deliver our customers with a more relevant and improved banking experience. Some of our biggest milestones this year came from us focusing on solutions that will equip our business with the tools to compete in a growing digital-first economy, with confidence while at the same time not losing sight of the components of our business that have made us the success we are today.

These results were only possible because of the backing and support of our customers. Thank you for your support and understanding during these extraordinary times. We would again like to express our deepest sympathies to those who have suffered loss and been impacted by the ongoing disruptions of the pandemic or the devastating floods we experienced in Northern NSW.

The future of banking as we have known it is changing; whether it be from the trends we continue to see in consumer behaviour, the myriad of regulatory changes or our central banks approach to the economy to name a few.

Our strategic program remains aligned to ensuring we keep pace with the market and consumer demand, seeing us continually improve our operational efficiency, structure, processes, and systems. We are seeing the positive impacts of these changes and remain confident that the current and future enhancements we have planned will not only improve our business, but also the experience you have with us.

Our strong financial performance shows the true resilience and character of our business in these extraordinary times and enables us to continue the investment in our business, paving our way for an even brighter future.

Our Results Highlights

Asset Growth

15.84%

Loan Growth

25%

$3,497

Net Profit After Tax

83%

Customer Satisfaction

88%

Employee Engagement

Banking services that evolve with you

The past 12 months have seen us continue our transformation introducing many products as well as new systems and operational efficiencies to support the success of our business. Some of those include:

Mobile App Upgrade

Provides better functionality with a more modern, intuitive user experience, enhanced communication tools, improved functionality product/service information and upgraded security.

Security Improvements in One-Time Password

The introduction of One-Time Password, also known as Multi-Factor Authentication, for both the Mobile App and web-based NetBanking.

This is one of the most effective controls to prevent unauthorised access on our customers' accounts. The advantages of two factor identification overwhelmingly offers better protection than a password alone and a security measure to help protect your account and personal details.

Reverse Mortgages

Supporting the government's retirement income review we reintroduced our Reverse Mortgage product to help play our part in supporting our customers in achieving a better quality of life in retirement.

Digital Wallets

To complement our Digital Banking Strategy, which has recently included Apple and Google Pay, we have now partnered with Frollo, one of Australia's leading money management apps. The customer-centric app allows you to have all your banking and finance accounts all in one place, so you can see them in totality without going into several apps separately. It also allows you to easily set and track your budget, shows ways you can save and tips on achieving your financial goals.

We have a vast number of projects underway in the coming year to ensure we don't waiver from our resolve to improve your banking experience.

Real Time Payments 'Osko BY BPAY'

As the payments revolution continues to reshape the way we conduct transactions and the governments approach to supporting major shifts in the payments industry towards digital payments, it's critical to stay up to date to meet customer demand.

We will introduce the New Payments Platform (NPP) framework to make it easier for merchants and consumers to initiate real-time transactions from their bank accounts. At the same time, beginning the work required to launch PayTo, a platform that will replace direct debits.

Digital Onboarding

To remain competitive whilst supporting our customers, especially the ones from outside the Northern Rivers region, we are partnering with Green ID to assist us in the automation of the identity verification process.

This will allow us to support those customers who prefer to open an account online and be identified without any face-to-face interaction from us.

New Lending System

Seeing us move to a leading-edge product in the financial services industry. This system upgrade will enable us to better support our customer acquisition across all channels from third-party (brokers), physical branch, call centre and digital. This system will remove a lot of our manual processes and incorporate everything from lead capture, credit assessment and decisioning, right through to mortgage document preparation and settlement. Additionally, the ability to be able to directly connect to our third-party technologies and an array of other services essential in the completion of the end-to-end loan application.

Our commitment to customer service has never been greater

We greatly appreciate our customers who provided us with their feedback in various forms throughout the year in addition to our yearly satisfaction survey.

This year we nearly doubled the participation, which provides us with far greater insights on what we are doing well and most importantly on what we need to undertake to improve our business and service offering.

It was pleasing to see that our Overall Customer Satisfaction scored an impressive 83% and that we still have most of our customers marking us 10/10 for service. Customer Service is still our top-rated attribute receiving the majority of our feedback.

Suggestions for improvement included the introduction of additional products such as real time payments (Osko by BPAY) and enhancements to our online banking experience in the form of net banking, mobile app, account and loan opening.

All areas we are currently working and aim to deliver in the coming year ensure we maintain our relevance and continue to provide the service our customers are expecting.

Following recent changes to the Australian payment network, we made the decision to remove eftpos and align with VISA who are now our preferred single network partner, due to its worldwide transaction capability and the added security and protection of an International Payment System.

While this has inconvenienced some of our customers, we continue to work through with them on options and changes that are required to accommodate this change. We aren't alone in undertaking this change with other financial institutions doing the same.

83%

Customer Satisfaction

People and conversations remain at the heart of the SCCU experience

Delivering on our promise "Providing responsive and relevant banking to support our customers through their financial life stages" remains essential to the success of our business.

We do that by joining the conversation, providing flexible options, and aligning our services to what matters most to today's consumers.

This promise is now reflective in our enhanced Organisational Identity and more attune to the operating environment we now find ourselves in today.

Our dedicated and resilient team rose to the occasion and challenges that have been thrown our way over the past 12 months as they all worked together to be there for our customers and each other in the face of the ongoing effects of the pandemic and devastating floods we experienced. We can't thank them enough.

The messages of support that we have received from our customers has been inspirational. We greatly appreciate your patience and understanding during these unprecedented times.

Now more than ever supporting our team and their wellbeing remains critical. We have strengthened our mental health and wellbeing programs to assist in dealing with the complexities of changing environments both personally and professionally.

We continue to support flexible working arrangements and change the way we engage and communicate with our teams especially as our remote/hybrid workforce evolves and becomes the new standard.

Our culture remains strong evidenced by our ethical and governance standards, sustainable growth, supportive customers and highly engaged team.

Our Employee Engagement survey result evidencing our team are fully supportive of our future direction, demonstrating their commitment and belief to act responsibly towards our customers and our community.

We continue the investment in our people and in particular the development of our leaders, to equip them to be confident, capable and responsible with a common leadership foundation and philosophy. Empowering them to provide clear guidance to their teams on the specific behaviours needed to drive our vision, purpose and values, to support team engagement, and to improve performance.

88%

Employee Engagement

Our operating environment

Our operating environment continues to evolve at an incredible fast pace that does not look like slowing down any time soon. At a time when the financial sector is rapidly evolving and becoming far more digitised, we are prepared for this technological challenge and have further strengthened our risk profile. New and emerging financial risks, practices and business models are at the forefront in our decision making.

We have continued our investment to strengthen our governance in many areas together with a range of new financial services laws coming into effect. Four new regimes that have been introduced over the past year include:

1. Design and distribution obligations

2. Deferred sales model for add-on insurance products

3. Internal dispute resolution

4. Anti-hawking reforms

These standards and others adopted over the past year are all aimed to:

- Deliver product design and distribution obligations to help consumers "obtain more appropriate financial products" by requiring issuers of financial products to determine an appropriate target market for these products, followed by issuers and distributors being required to sell their products accordingly;
- Mandate a deferred sales model for add-on insurance products, including consumer credit insurance, to promote "informed purchasing decisions" and prevent inappropriate sales of those products;
- Strengthen breach reporting for credit licensees under the National Consumer Credit Protection Act;
- Require Australian financial services and credit licensees to provide reference checks, in a bid to ensure "consistent practices throughout the industry for sharing relevant employment information about financial advisers and mortgage brokers";
- Remove the unsolicited selling of insurance and superannuation products, to prevent "pressure selling" to consumers.

Security and protecting what is important

Protecting our information and assets from any potential vulnerability has remained a core focus over the past year, as we see increased activity around frauds, scams and cyber-crimes.

To assist, we have completed a full refresh of our servers, migrated to the latest windows operating environment, and added further layers of defence to make an attack less likely.

Underpinning this is the need to comply with the Information Security Standard (CPS234) which ensures all financial institutions are managing the threat environment adequately. We have engaged some expert partners to audit our compliance with the requirements of this standard, and to conduct our cyber security testing.

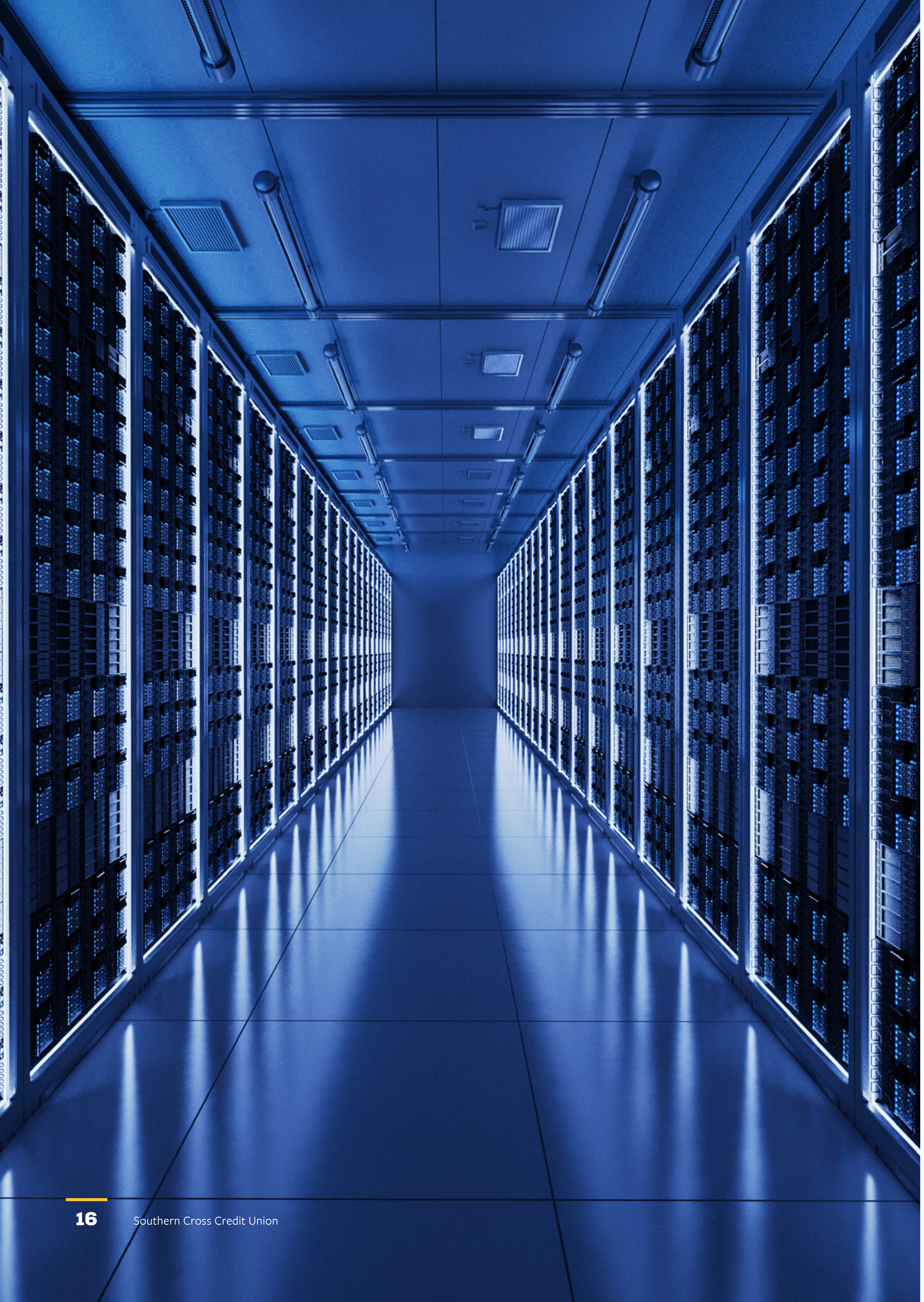
This engagement includes high-level internal and external network penetration testing programs to ensure our environment is secure against evolving threats. This includes testing our internal applications and systems, as well as external application penetration testing to provide a more in-depth, focused test against a specific system incorporating Open Banking, Mobile App and NetBanking.

We are also undertaking further work to help build a robust information security management system to categorise and control all information assets. In the coming year we will also be undertaking an independent tripartite assessment of our compliance with the required standard.

Open Banking

Across the past year we have continued our participation in the Consumer Data Right Open Banking ecosystem and expanded the services we can provide as a data holder. We have made available the ability to share individual account level data, where duly authorised by our customer, and will be broadening this to include joint accounts and non-personal accounts in the year ahead.

External parties are being engaged to assist us meet the current and future testing requirements over the proposed 3-year journey of this project.



Governance

Maintaining a strong risk culture and operating within our risk appetite is a key focus of the credit union.

Our work continues to ensure we remain vigilant against fraud, continue to participate in industry projects, and advance our technologies to meet evolving customer demand. This investment continues to drive greater use of data analytics as a basis for risk-based structures.

The biggest advances and greatest scope for new insights have been the increasing use of data and techniques to assess non-financial risks: that is, new analytical approaches that provide insights into operational risk, cyber security, and risk culture.

Whilst keeping up comes at a cost in terms of resources and technology, we will continue the strong investment for the longer-term success of the Credit Union, and our customers.

After a period of significant housing growth and loan activity, we are mindful of the pace at which we are growing. Our regulator, APRA, has continued to focus on regulatory and supervisory priorities, particularly on housing, climate, and digitisation. These are all areas we have invested in and continue to explore as part of our strategic plan.

Our resilience was again tested as a result of the severe flooding we experienced in the Northern Rivers. The work we did in developing detailed business continuity plans throughout the pandemic meant we were prepared and well equipped to deal with the challenges we faced.

One of the positives that we need to take from any activation of our Business Continuity Plan, is to realise any key learnings. One area we identified for improvement was the lack of redundancy for the current data network and susceptibility of the 4G network to fail during times of high congestion, which happened due to the impact of the flooding throughout our region. We are therefore investigating appropriate back up links that take a "divergent" path and will begin to explore satellite services, microwave and 4G backup solutions.

Community

Tweed Shire Sustainability Awards

We were delighted to be the winner of the Business category at the Tweed Shire Sustainability Awards. An acknowledgement we are extremely proud of and one which supports the large amount of work we have undertaken in delivering our sustainability strategy.

SCCU isn't just about banking. We are genuinely committed to making a positive impact for a more sustainable future that benefits generations to come and absolutely making sure we play our part. Through our actions, we remain confident that we can continue to influence those around us along the way to do the same, knowing that every little step we take has a massive impact.

Thank you everyone for supporting us on our sustainability journey and a special thank you in particular to all of our SCCU Eco Warriors.

We have undertaken a lot of work to outline our Corporate Social Responsibility and Commitment statements around sustainability, further cementing these with a dedicated website page including the progress we've achieved thus far and showcasing our Sustainability Plan for the future for our customers to see and feel a part of.

Our mission remains for us to be sustainably minded, supporting our people, customers and community to make conscious choices.

Some of our other accolades:

Mozo Experts Choice Award for Personal Loans in New Vehicle and unsecured Categories.

Finalists in the Business NSW Awards for Excellence in Business and Sustainability.

Finalists in the Get Ready NSW Awards for our Community Grants program acknowledged with a Highly Commended achievement in a year that saw a record number of applicants and engagement.

Cassie Nicole, SCCU's Community and Sponsorship Specialist believes

The Highly Commended Award was an incredible acknowledgement of the work put into redesigning the program to help the people of the Northern Rivers recover and rebuild from the impact of the pandemic in the best way we could. As a customer-owned organisation, helping our community through the challenging times is important to us, and this year's Community Grants program was exactly that. We saw huge community support with the public vote, and an enormous amount of engagement from all of our finalists.

Community Grants

Our largest annual community program was dedicated to support seven different local community groups across a range of categories including: education, sport & recreation, health & wellbeing, and sustainability.

Acknowledging the challenges of today's world, this year's grants program encouraged applicants to apply with their plan to build a better tomorrow, and overwhelming saw the public focus and support shift towards mental health and sustainability.

This year's grants were awarded to the following recipients who are truly making a difference to the people of the Northern Rivers in so many ways. They are:

Tweed Shire Community-led Resilience Team

To assist with the purchase supplies they need such as defibrillators, first aid kits, generators and other important equipment.

PCYC Lismore

To provide outreach program support for youth in surrounding areas who are unable to attend Lismore PCYC due to transport issues and living out of the Lismore LGA.

The Healthy Minds Club

To provide free mental health first aid courses and text books for 200 people, to kick start their mental health program.

Cabarita Beach SLSC

To assist with the necessary upgrade of equipment that will help the patrol continue to report on daily beach activity to Surf Life Saving Australia, including people on beach, in water, and hazards.

Zonta Club of Northern Rivers

To establish a mentorship program with community housing tenants, compiling 100 writing kits, and credit vouchers for phone and data before Christmas for women in need.

Australian Seabird Rescue Inc

To purchase a Brinsea Humidicrib to provide sick or injured seabirds with individual temperature and humidity control, bringing facilities up to code standard.

Collecting My Thoughts

To subsidise mental health training of 50 individuals.

Jackson Connellann from The Healthy Minds Club shares

By providing our organisation with the SCCU grant we will be able to deliver our free community MHFA courses throughout 2022. This will provide mental health first aid education to 200 participants from the Northern Rivers community, which is an invaluable tool in managing crisis situations. Thank you to SCCU and all involved in this grant!

Byron Bay Wildlife Hospital

We have welcomed a new partnership with one of our 2020 Community Grants winners, Byron Bay Wildlife Hospital (BBWH). BBWH brings together the best wildlife veterinarians in the country to provide urgent care to threatened and injured Australian animals and is Australia's largest mobile wildlife hospital receiving extensive public support both locally and nationally. This year, BBWH made the permanent move to the old Macadamia Castle in the Northern Rivers and began the rebrand of the site to the new Byron Bay Wildlife Sanctuary.

This financial year certainly delivered a strong start to this partnership between two like-minded, sustainably focused organisations and one we will continue to support.

CEO Stuart Edwards shared

As we adapt to this new normal, and while things continue to shift, we want to keep supporting our community more than ever before and strengthen our resolve and ethos as a true community based financial institution. Our commitment truly reflects who we are as a business, where we're going and why we're different for all the right reasons.

Sustainable

We saw the reserve bank increase the cash rate for the first time in more than a decade from its historical low 0.1 per cent and the first movement we have evidenced since November 2020.

Further increases have ensued and look like they will continue to do so as economic conditions remain somewhat volatile with inflationary pressures and ongoing geopolitical tensions.

We continue to manage the balance of these movements for our loan and deposit customers while at the same time ensuring the financially sustainability of our business.

We remain acutely aware of the ongoing effects this will have on household budgets and with the removal of covid assistance measures, we will continue to work with our customers through what will be challenging times ahead.

The Reserve Bank expects inflation to continue to increase throughout the remainder of 2022, and then decline back towards the two to three per cent range in 2023/24. One of the contributing factors of future uncertainty impacting this prediction being the increasing pressure on household spending/budgets together with expected house price declines in some markets due to the impact of higher interest rates.

While additional cash rate movements will enhance our interest income, they will be largely offset by higher funding impacts and a softening property market which has already slowed in anticipation of higher borrowing costs and increased competition. However, your credit union is well capitalised and positioned to weather these increased funding costs expected to occur for the next two years.

Our growth to compensate for these margin pressures will need to come by making further enhancements to our operational efficiencies, cost control and becoming the main banking partner for our customers, by responding to market conditions, customer expectations and remaining relevant to compete with an increasing array of digitalisation and innovation initiatives.

Further Macroprudential tightening and closer monitoring of lending standards is expected following on from measures put in place earlier in the year to counter rising risks in home lending. Some of those already put in place being an increase to the minimum interest rate buffer to 3% that we are required to use when assessing the serviceability of home loan applicants and debt-to-income levels. The resultant effect seeing borrowing power reduced impacting first home buyers and investors.

Whilst we expect the economic environment to remain somewhat volatile given the challenges facing the industry, we remain well-positioned to navigate this period to maintain our sustainability and financial results.

Our profitability and capital position remain sound giving us the financial capacity to continue the investment in our strategic initiatives and operational improvements.

We remain committed to the efficient management of capital and as at 30 June 2022, our capital position was comfortably above regulatory minimums.

The new capital framework that comes into effect from 2023 will have minimal impact and an early analysis shows the draft standards would slightly increase the Credit Union's capital adequacy ratio.

Our Challenge

We continue to see a fundamental and quickening shift to digital payments and adoption of digital banking with the speed of change exponential.

To remain relevant and competitive to meet changing consumer demands, behaviours, and expectations, we need to keep acting on our strategies to become more responsive to the digital opportunities in the marketplace without alienating our business model that has made us successful in the past.

We have progressed a long way and continue to move forward as we know the landscape in banking won't ever be the same. One thing is for certain, banking will keep evolving and transforming as the pace of change to compete in a digital world continues to escalate.

Welcome to our new Director

We are excited to welcome Jeremy Rutledge to our Board. Jeremy is a property & business valuation specialist and has been advising Authorised Deposit-taking Institutions for over 25 years holding a Bachelor of Business (Property) and a Graduate Diploma in Applied Finance & Investment.

He is the Director of a successful valuation practice, servicing local and national organisations, bringing a broad range of financial & property industry skills to the board. Jeremy is also an Affiliate Member of the Australian Institute of Quantity Surveyors having led a team of quantity surveyors over the past 15 years.

Jeremy has been a resident of the Far North Coast for over 15 years, having a deep understanding of the connection that people have with property and is committed to improving their customer owned banking experience.

Farewell to Guy Bezrouchko

After over 16 years of dedicated service to our Board, we will say farewell to Guy in November. Guy has been a highly respected and integral member of the board during his tenure holding previous roles as our Chair in addition to the Chair of both our Risk and Audit Committees. We thank Guy for his tremendous contribution to the business and for his guidance and leadership which has been instrumental in the success of our credit union. We would not be in the position we are today without his unwavering dedication for our people and customer owned banking. We wish Guy and his family every success and happiness for what lies ahead.

Closing statement

We are extremely proud and appreciative of our team who worked tirelessly throughout such a disruptive and turbulent year both personally and professionally. Our performance is testament to their hard work and unwavering resolve to support our customers and community in such a time of need and uncertainty.

We remain confident and optimistic about our future and look forward to providing you with a responsive and relevant banking experience.

Thank you for choosing SCCU as your financial institution. We greatly appreciate your business and support.

Your Directors

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

Alvaro Lozano Rodriguez

Qualifications

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

Experience

Board Member since 28 February 2017

Special Responsibilities

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

Guy Bezrouchko

Qualifications

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

Experience

Board Member since 20 June 2006

Special Responsibilities

- Member - Audit Committee
- Member - Risk Committee

Belinda Henry

Qualifications

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

Experience

Board Member since 30 June 2011

Special Responsibilities

- Member - Audit Committee
- Member - Risk Committee

Stuart Edwards

Qualifications

- Diploma in Financial Services
- Commissioner of Declarations

Experience

Board Member since 26 April 2016

Special Responsibilities

- Executive Director
- Chief Executive Officer

Suzie Slingsby

Qualifications

- Graduate – Australian Institute of Company Directors
- PS146 Qualified

Experience

Board Member since 25 September 2018

Special Responsibilities

- Chair - Risk Committee
- Member - Audit Committee

Patrick McIntosh, AM, CSC

Qualifications

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

Experience

Board Member since 29 June 2021

Special Responsibilities

- Chair – Audit Committee
- Member – Risk Committee

Jeremy Rutledge

Qualifications

- Graduate Diploma of Finance & Investment
- Bachelor of Business (Property)
- Certified Practising Valuer
- Certified Practising Valuer (Business)
- Associate of the Australian Property Institute
- Member of Australian Institute of Quantity Surveyors
- Associate of Australian Business Brokers
- Class 1 Real Estate Sales & Leasing
- Class 1 Real Estate Business Broking
- Registered Tax Agent Tax
- Practitioners Board (Quantity Surveying)

Experience

- Board Member since 30 November 2021

Special Responsibilities

- Member - Audit Committee
- Member - Risk Committee

All Directors have held their office from 1 July 2021 to the date of this report unless otherwise stated. Each Director holds one ordinary member share in the Credit Union.

Directors' Meetings

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

	Director Meetings	
No. of meetings	**Held**	**Attended**
Alvaro Lozano Rodriguez	12	12
Guy Bezrouchko	12	12
Belinda Henry	12	12
Suzie Slingsby	12	12
Stuart Edwards	12	12
Patrick McIntosh	12	12
Jeremy Rutledge	8	8

	Audit Committee Meetings		Risk Committee Meetings	
No. of meetings	**Held**	**Attended**	**Held**	**Attended**
Alvaro Lozano Rodriguez	3	3	4	4
Guy Bezrouchko	3	3	4	4
Belinda Henry	3	3	4	4
Suzie Slingsby	3	3	4	4
Stuart Edwards	3	3	4	4
Patrick McIntosh	3	3	4	3
Jeremy Rutledge	2	2	2	2

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	32 years' experience encompassing roles in a Big 4 accounting firm, Senior Executive Roles at Financial Institutions and Management Consulting Firms.

Directors' Benefits

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

Indemnification of Directors and Officers

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

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

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

Financial Performance Disclosures

Principal Activities

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

Operating Results

A pleasing net profit after income tax result of $3,499,000 (2021 $2,703,000) and above budget expectations.

Review of Operations

The result affected by:

- an increase in Net-Interest Income of $2,149,000, driven by a decrease in interest expense of $2,122,000 with interest rates remaining low during the majority of the financial year until the RBA started moving the cash rate in the 4th quarter. During the year the loan portfolio showed strong growth at 25.5%;
- an increase in Other Income of $295,000 due to special dividend received;
- an increase in Employee benefit expenses of $286,000 as the Credit Union continues to expand its operations and employ key specialist roles;
- a decrease in credit impairment loss expenses of $430,000, previous financial year included the reversal of COVID related provisions
- an increase in Information Technology expenses of $213,000 as the Credit Union invests in upgrades to the core banking system to facilitate further enhancements to digital channels.

Dividends

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

Significant Changes in State of Affairs

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

Events Subsequent to the End of the Reporting Period

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

Environmental regulations

The Credit Union's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory. The Board believes that the Credit Union is not aware of any breach of environmental requirements as they apply to the Credit Union. The Credit Union has a Corporate Social Responsibility and Commitment to our team, customers, sustainability and governance.

Likely Developments and Results

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

Corporate Governance Disclosures

Board

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

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

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

Board Remuneration

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

Board Committees

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

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

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

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

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

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

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

Policies

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

Key risk management policies include:

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

Chief Risk Officer

The Credit Union has a Chief Risk Officer (CRO) who is the Executive accountable for enabling the efficient and effective governance of significant risks, and related opportunities, to a business and its various segments. The CRO reports to the CEO / Executive Director and has unfettered access to the Board Risk and Audit Committees 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).

Internal Audit

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

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

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

Regulation

The Credit Union is regulated by:

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

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

Workplace Health & Safety

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

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

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

Regulatory Disclosures

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

Proceedings

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

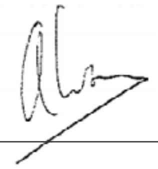
Rounding of amounts

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

Auditor's Independence Declaration

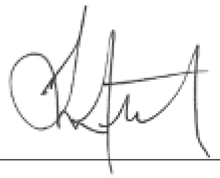
The Auditor's independence declaration for the year ending 30 June 2022 forms part of this report and a copy of this declaration is attached.

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



Alvaro Lozano Rodriguez
Chairperson

Dated this 28th day of September 2022



Patrick McIntosh
Audit Committee Chair

Dated this 28th day of September 2022

Declarations & Financial Report

30 JUNE 2022

Southern Cross Credit Union Ltd
ABN 82 087 650 682

DIRECTORS' DECLARATION

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

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

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

ii) giving a true and fair view of the financial position of Southern Cross Credit Union Limited as at 30 June 2022 and of its performance for the year ended on that date; and

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

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

Alvaro Lozano Rodriguez
Chairperson

Patrick McIntosh
Audit Committee Chair

Dated this 28th day of September 2022

Southern Cross Credit Union Ltd
ABN 82 087 650 682

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

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

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

As lead auditor of Southern Cross Credit Union Ltd for the year ended 30 June 2022, I declare that, to the best of my knowledge and belief, there have been:

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

T J Kendall
Director

BDO Audit Pty Ltd

Brisbane, 28 September 2022

Statement of profit or loss and other comprehensive income for the year ended 30 June 2022

	Note	2022 $'000	2021 $'000
Interest income	2.1	17,952	17,925
Interest expense	2.2	(1,825)	(3,947)
Net interest income		**16,127**	**13,978**
Fee and commission income		2,563	2,740
Fee and commission expense		(2,490)	(2,108)
Net fee and commission income		**73**	**632**
Other income	2.3	454	159
Net operating income		**16,654**	**14,769**
Expenses			
Employee benefits expense	2.4(a)	(7,253)	(6,967)
Occupancy expense	2.4(d)	(298)	(323)
Depreciation and amortisation expense	2.4(c)	(1,460)	(1,360)
Credit impairment losses	2.4 (b)	(34)	396
Other expenses	2.4(e)	(3,050)	(2,852)
Total expenses		**(12,095)**	**(11,106)**
Profit/(loss) before income tax		**4,559**	**3,663**
Income tax (expense)/benefit	2.5(a)	(1,060)	(960)
Profit/(loss) for the year		**3,499**	**2,703**
Other comprehensive income for the year, net of income tax - *items that will not be reclassified to profit or loss* Net gain in investments in equity instruments		**137**	**6**
Total comprehensive income for the year		**3,636**	**2,709**

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

Statement of financial position as at 30 June 2022

	Note	2022 $'000	2021 $'000
Assets			
Cash and cash equivalents	4.1	20,755	21,727
Due from other financial institutions	4.3	105,095	110,177
Other receivables	7.4	245	2,031
Loans and advances	3.1	684,654	545,375
Investment securities	4.2	1,111	980
Other assets		1,956	3,089
Current tax receivable		-	565
Plant and equipment	7.1	1,757	2,351
Right-of-use assets	7.2	1,417	1,589
Intangible assets	7.3	768	485
Total assets		**817,759**	**688,369**
Liabilities			
Deposits	4.4	720,968	594,943
Payables and other liabilities	7.5	3,953	4,386
Lease liabilities	7.2	1,516	1,685
Borrowings	4.5	24,849	24,849
Current tax liability		406	-
Deferred tax liability	2.5	258	362
Provisions	7.6	492	461
Total liabilities		**752,442**	**626,686**
Net assets		**65,317**	**61,683**
Equity			
Redeemed preference shares	5.1	449	436
Reserves	5.2	665	3,609
Retained earnings		64,204	57,638
Total equity		**65,317**	**61,683**

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

Statement of changes in equity for the year ended 30 June 2022

	Fair Value Reserve $'000	Capital Profits Reserve $'000	Redeemed Preference Shares $'000	General Reserve for Credit Losses $'000	Retained earnings $'000	Total Members' Equity $'000
Balance at 1 July 2020	**292**	**229**	**428**	**2,826**	**55,199**	**58,974**
Profit for the year	-	-	-	-	2,703	2,703
Other comprehensive income	6	-	-	-	-	6
Total comprehensive income for the year	**6**	**-**	**-**	**-**	**2,703**	**2,709**
Transfers	-	-	-	-	-	-
Redemption of member shares	-	-	8	-	(8)	-
Appropriation of retained earnings to credit losses reserve	-	-	-	256	(256)	-
Balance at 30 June 2021	**298**	**229**	**436**	**3,082**	**57,638**	**61,683**
Balance at 1 July 2021	298	229	436	3,082	57,638	61,683
Profit for the year	-	-	-	-	3,499	3,499
Other comprehensive income	137	-	-	-	-	137
Total comprehensive income for the year	**137**	**-**	**-**	**-**	**3,499**	**3,636**
Transfers	-	-	-	-	-	-
Redemption of member shares	-	-	13	-	(13)	-
Appropriation of retained earnings to credit losses reserve (*)	-	-	-	(3,082)	3,082	-
Balance at 30 June 2022	**435**	**229**	**449**	**-**	**64,206**	**65,317**

Following instructions from APRA the General Reserve for Credit Losses has been removed during the 21/22 financial year, refer to note 5.2

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

Statement of cash flows as at 30 June 2022

	Note	2022 $'000	2021 $'000
Cash flows from operating activities			
Interest received		17,952	17,925
Dividends received		249	14
Fees and commissions received		2,789	2,877
Interest paid		(1,716)	(4,699)
Payments to suppliers and employees		(11,870)	(14,682)
Net movement in loans and advances		(139,356)	(48,481)
Net movement in due from other financial institutions		5,083	9,753
Net movement in deposits		127,413	20,805
Income taxes paid/(refunded)		(194)	(661)
Net cash provided by operating activities	**4.1(c)**	**348**	**(17,149)**
Cash flows from investing activities			
Payments for plant and equipment		(578)	(1,098)
Net cash used in investing activities		**(578)**	**(1,098)**
Cash flows from financing activities			
Borrowings		-	24,849
Principal portion of lease liabilities paid		(742)	(707)
Net cash used in financing activities	**4.1(d)**	**(742)**	**24,142**
Net increase in cash and cash equivalents held		**(971)**	**5,895**
Cash and cash equivalents at the beginning of the financial year		**21,727**	**15,832**
Cash and cash equivalents at the end of the financial year	**4.1(b)**	**20,755**	**21,727**

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

Note 1: Basis of preparation

1.1 Corporate information

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

The financial report was authorised for issue on 28th September 2022 in accordance with a resolution of the Directors of the Credit Union.

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

1.2 Basis of preparation

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards and Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act.

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

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

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

(a) Statement of compliance

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

(b) Presentation of financial statements

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

1.3 Summary of significant accounting policies

(a) Impairment of assets (excluding financial assets)

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

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

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

(b) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

1.4 Significant accounting judgments, estimates and assumptions

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

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

Judgements

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

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

Estimates and assumptions

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 30 June 2022 is included in the following notes.

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

Note 2: Financial performance

2.1 Interest income

	2022 $'000	2021 $'000
Financial Assets at amortised cost		
Cash and cash equivalents	1	-
Due from other financial institutions	556	740
Loans and advances	17,394	17,185
Total interest income - assets at amortised cost	**17,952**	**17,925**

2.2 Interest expense

	2022 $'000	2021 $'000
Financial liabilities at amortised cost		
Borrowings	(47)	(29)
Deposits	(1,778)	(3,918)
Total interest expense - liabilities at amortised cost	**(1,825)**	**(3,947)**
Net interest income	**16,127**	**13,978**

Recognition and measurement

Interest income and interest expense

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

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

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

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

Amortised cost and gross carrying amount

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

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

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

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

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

Presentation

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

2.3 Other income

	2022 $'000	2021 $'000
Fees and commissions revenue	2,563	2,740
Fee and commission expense	(2,490)	(2,108)
Net fee and commission income	**73**	**632**
Dividends - Investment securities measured at FVOCI	249	14
Bad debts recovered	10	20
Other	195	125
Total other income	**454**	**159**

Recognition and measurement

Interest income and interest expense

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

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

Fees and commissions income and expense

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

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

Dividend income

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

2.4 Expenses

	2022 $'000	2021 $'000
(a) Employee benefits expense		
Salaries, wages and other personnel costs	6,100	5,955
Employee related on-costs expense	537	434
Superannuation expense (defined contribution)	616	578
	7,253	**6,967**
(b) Credit impairment losses		
Impairment of loans and advances	(27)	(520)
Bad debts written off	61	124
	34	**(396)**
(c) Depreciation and amortisation expense		
Plant and equipment	638	550
Intangible assets	166	168
Right-of-use assets - properties	623	642
Loss on disposal	33	-
	1,460	**1,360**
(d) Occupancy expense		
Other	298	323
	298	**323**
(e) Other expenses		
General administration	1,206	1,119
Rental expense on operating leases	-	19
Finance cost on lease liabilities	89	100
Information technology expenses	1,247	1,034
Marketing and promotion expenses	256	341
Telephone and communication expenses	180	182
Other expenses	72	55
	3,050	**2,852**
Total expenses	**12,095**	**11,106**

2.5 Taxation

	2022 $'000	2021 $'000
(a) Components of income tax expense in profit or loss		
Current tax		
Current tax expense	953	260
Total current tax expense	**953**	**260**
Deferred tax		
Origination and reversal of temporary differences	107	700
Total deferred tax expense	**107**	**700**
Total income tax expense in profit or loss	**1,060**	**960**
(b) Reconciliation of income tax expense to the profit before tax multiplied by applicable tax rate		
Profit before income tax	**4,559**	**3,663**
Prima facie tax at the Australian tax rate of 26.0% (2020: 27.5%)	1,139	952
Add tax effect of:		
Changes in tax rate	1	24
Less tax effect of:		
Tax offset for franked dividends	(107)	(6)
Other non-assessable items	27	(10)
Income tax expense	**1,060**	**960**
(c) Franking account		
Balance of the franking account at year end adjusted for franking credits arising from payment of the provision for income tax, payment of dividends payable or receipts of dividends receivable at reporting date based on a tax rate of 25.0% (2021: 26.0%)	**23,439**	**23,140**

	2022 $'000	2021 $'000
(d) Deferred taxes		
Deferred tax assets comprise temporary differences attributable to:		
Employee benefits leave provision	225	227
Other provisions	60	(157)
WDV of assets	(598)	(670)
Tax base of assets	188	334
Total deferred tax assets	**(125)**	**(266)**
(e) Deferred tax liabilities		
Deferred tax liabilities comprise temporary differences attributable to:		
Financial assets	(133)	(96)
Total deferred tax liabilities	**(133)**	**(96)**
(f) Offset		
Total deferred tax assets	(125)	(266)
Total deferred tax liabilities	(133)	(96)
Net deferred tax assets	**(258)**	**(362)**
(g) Deferred tax balances gross movements		
Opening balance	(362)	338
Under / (over) provision for income tax in prior year	241	-
(Charged) / credited to equity	(30)	-
(Charged) / credited to profit or loss	(107)	(700)
Closing balance	**(258)**	**(362)**

Recognition and measurement

Income tax expense

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

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

Current tax

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

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

Deferred tax

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

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

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

Note 3: Loans and advances

3.1 Loans and advances

	2022 $'000	2021 $'000
Term loans	677,724	540,148
Overdrafts	5,129	4,607
Gross loans and advances at amortised cost	**682,853**	**544,755**
Less: Unamortised loan fees	1,985	831
Less: Provision for expected credit loss	(184)	(211)
Net loans and advances at amortised cost	**684,654**	**545,375**

Recognition and measurement

Loans and advances to members

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

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

Loans and advances by credit quality

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

3.2 Impairment of loans and advances

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

2022	Stage 1 12-month ECL $'000	Stage 2 Lifetime ECL $'000	Stage 3 Credit-impaired $'000	Total provision $'000
Balance at 1 July 2021	**175**	**1**	**35**	**211**
Changes due to loans and advances recognised in the opening balance that have:				
- Transferred to 12-month ECL	-	-	-	-
- Transferred to lifetime ECL not credit-impaired	(12)	12	-	-
- Transferred to lifetime ECL credit-impaired	-	(47)	47	-
Net re-measurement of loss allowance	(13)	47	(61)	(27)
Balance at 30 June 2022	**150**	**13**	**21**	**184**

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

As shown in the above table, the overall provision for credit impairment for loans and advances decreased from $211k at 30 June 2021 to $184k at 30 June 2022 due to:

- the high volume of new mortgages loans originated during the period, aligned with the Credit Union's organic growth objective, increased the gross carrying amount of the mortgage book by 25.5%. Based on the growth there should be an increase in provision however, this is a decline due to the Credit Union removing additional provisioning above AASB9 requirements.
- Personal loans of $47k transferred to Stage 3 Credit Impairment from Stage 2 Lifetime ECL during the financial year.
- The write-off of personal loans with a total gross carrying amount of $49k resulted in the reduction of the Stage 3 loss allowance by the same amount.

Write-offs still under enforcement activity

The contractual amount outstanding on loans and advances that have been written off by the Credit Union as at 30 June 2022 and that were still subject to enforcement activity was nil (2021: nil).

Recognition and measurement

Expected credit losses

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

Exposures are assessed on a collective basis (defined below) in each stage unless there is sufficient evidence that one or more events associated with an exposure could have a detrimental impact on estimated future cash flows. Where such evidence exists, the exposure is assessed on an individual basis.

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

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

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

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

Inputs, assumptions and techniques used for estimating impairment

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

Impaired exposures under the expected credit loss model consist of:

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

Forward-looking information

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

Assessment of significant increase in credit risk

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

Calculation of expected credit losses

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

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

Restructured financial assets

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

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

Credit-impaired financial assets

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

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

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

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

Write off

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

Significant accounting judgements and estimates

In determining ECL, management judgement is applied, using objective, reasonable and supportable information about current and forecast economic conditions. Macro-economic variables used in these scenarios, include (but are not limited to) the cash rate, unemployment rates, GDP growth rates and residential and commercial property price indices. Year on year movement of variables is used to model scenarios and determine the impact on credit impaired financial assets.

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

Note 4: Liquidity

4.1 Cash and cash equivalents

(a) Cash and cash equivalents

	2022 $'000	2021 $'000
Cash on hand	647	801
Deposits with ADIs	20,108	20,926
Total cash and cash equivalents	**20,755**	**21,727**

Recognition and measurement

Cash and cash equivalents

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

(b) Notes to the statements of cash flows

Reconciliation of cash

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

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

	2022 $'000	2021 $'000
Cash and cash equivalents	20,755	21,727
	20,755	**21,727**

Cash held that is not available for use as at 30 June 2022 is nil (2021: nil)

Cash flows presented on a net basis

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

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

	2022 $'000	2021 $'000
Reconciliation of cash flow from operations with profit after income tax		
Profit/(loss) after income tax	3,499	2,703
Credit impairment losses	34	(396)
Amortisation of intangible assets	166	168
Depreciation of plant and equipment and ROU assets	1,294	1,192
(Gain)/loss on sale of property, plant and equipment	85	8
Changes in operating assets and liabilities		
(Increase)/decrease in other receivables	22	(8)
(Increase)/decrease in other assets	1,134	(2,828)
(Increase)/decrease in due from other financial institutions	5,083	9,753
(Increase)/decrease in loans and advances	(139,313)	(48,412)
(Increase)/decrease in deferred tax assets	-	338
Increase/(decrease) in income tax payable	866	(39)
Increase/(decrease) in deposits	127,413	20,805
Increase/(decrease) in payables and other liabilities	39	(373)
Increase/(decrease) in provisions	29	(61)
Net cash provided by/(used in) operating activities	**348**	**(17,149)**

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

		Non-cash changes		
2022	**1 July 2021 $'000**	**Cash flows $'000**	**Other $'000**	**30 June 2022 $'000**
Lease liabilities	1,685	(742)	574	1,516
Borrowings	24,849	-	-	24,849
Total liabilities from financing activities	**26,534**	**(742)**	**574**	**26,365**

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

4.2 Investment securities

	2022 $'000	**2021 $'000**
Financial assets measured at FVOCI		
Shares in unlisted entities - Cuscal Limited (CUSCAL)	1,111	980
Total financial assets measured at FVOCI	**1,111**	**980**
Amount of investment securities expected to be recovered more than 12 months after the reporting date	**1,111**	**980**

Recognition and measurement

Equity investments

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

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

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

4.3 Due from other financial institutions

	2022 $'000	**2021 $'000**
Financial assets at amortised cost		
Deposits with ADIs	105,095	110,177
Total due from other financial institutions	**105,095**	**110,177**
Amount of due from other financial institutions expected to be recovered more than 12 months after the reporting date	**31,565**	**35,044**

Recognition and measurement

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

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

Impairment

The Credit Union recognises a loss allowance for expected credit losses (ECL allowance) on financial assets measured at amortised cost. The measurement of the loss allowance depends upon the Credit Union's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain. Due from other financial institutions that are determined to have low credit risk at the reporting date or which credit risk has not increased significantly since their initial recognition are measured as 12 month ECL.

4.4 Deposits

	2022 $'000	2021 $'000
Call deposits (including withdrawable shares)	411,966	366,101
Term deposits	309,002	228,842
Total deposits	**720,968**	**594,943**
Amount of deposits expected to be settled more than 12 months after the reporting date	**5,969**	**2,747**

Recognition and measurement

Deposits

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

4.5 Borrowings

	2022 $'000	2021 $'000
RBA Term Funding Facility due September 2023	14,924	14,924
RBA Term Funding Facility due May 2024	9,925	9,925
Total borrowings	**24,849**	**24,849**
Amount of deposits expected to be settled more than 12 months after the reporting date	**24,849**	**24,849**

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

Recognition and measurement

Borrowings

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

4.6 Securitisation

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

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

The Credit Union collects the cash receipts relating to the mortgage secured loans and passes these receipts on to the MTG Trust. The Credit Union cannot use the transferred assets for further collateral as they have been transferred to the MTG Trust and pledged as security for securities issued by MTG SCCU Trust Repo series 1.

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

	2022 $'000	2021 $'000
Carrying amount of transferred assets	**66,684**	**66,499**
Carrying amount of associated liabilities	**66,684**	**66,499**
For those liabilities that have recourse only to the transferred assets:		
Carrying amount of transferred assets	66,684	66,499
Carrying amount of associated liabilities	66,684	66,499
Net position	-	-

Recognition and measurement

Securitisation

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

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

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

Note 5: Risk and capital management

5.1 Redeemed preference shares

	2022 $'000	2021 $'000
Movements in redeemed preference shares		
Balance at the beginning of year	436	428
Transfers from retained profits for the redemption of shares	13	8
Balance at end of year	**449**	**436**

Recognition and measurement

Member shares

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

5.2 Reserves

Capital profits reserve

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

Fair value reserve

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

General reserve for credit losses

The credit loss reserve was previously maintained to comply with the Prudential Standards as set by APRA. Effective 1 January 2022, APRA revised its credit risk management removing the requirement for a general reserve for credit losses in favour of the additional provisioning required by AASB 9 Financial Instruments for expected credit losses. Accordingly, the credit union's general reserve for credit losses has now been transferred back to the general reserve.

5.3 Risk management policy and objectives

Overview of Risk Management Framework

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

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

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

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

The main elements of risk governance are as follows:

(i) Board

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

(ii) Audit Committee

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

(iii) Internal Audit

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

(iv) Risk Committee

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

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

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

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

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

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

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

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

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

All loans are managed weekly through the monitoring of the scheduled repayments and the status of these loans is reported to the Credit Risk Committee weekly and the Risk Committee monthly.

Arrears are strictly controlled. The size of the loan book is such that it is possible to monitor each individual exposure to evaluate whether specific provisions are necessary and adequate. A dedicated credit control team, which reports to the committee, implements the Credit Union's credit risk policy.

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

(a) Market Risk – Interest rate risk

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

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

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

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

Value at Risk (VaR)

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

Based on the Value at Risk (VaR) calculations as at 30 June 2022, the VaR is $2,039,074 or 3.32% of capital (30 June 2021: $311,467 or 0.53% of capital).

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

(a) Market Risk – Interest rate risk

2022	Floating interest rate $'000	Fixed interest rate maturing: Within 1 year $'000	1-5 years $'000	Over 5 years $'000	Non-interest sensitive $'000	Total Carrying Amount $'000	Effective interest rate %
Financial assets							
Cash and cash equivalents	20,108	-	-	-	647	20,755	0.00%
Other receivables	-	-	-	-	245	245	n/a
Due from other financial institutions	31,565	73,530	-	-	-	105,095	1.45%
Loans and advances	308,225	54,552	321,877	-	-	684,654	2.96%
Investment securities	-	-	-	-	1,111	1,111	n/a
	359,898	**128,082**	**321,877**	**-**	**2,003**	**811,860**	
Financial liabilities							
Borrowing	-	-	24,849	-	-	24,849	0.19%
Deposits	411,966	303,033	5,969	-	-	720,968	0.70%
Lease liabilities	-	581	935	-	-	1,516	5.40%
Payables and other liabilities	-	-	-	-	3,953	3,953	-
	411,966	**303,614**	**31,753**	**-**	**3,953**	**751,286**	

2021	Floating interest rate $'000	Fixed interest rate maturing: Within 1 year $'000	1-5 years $'000	Over 5 years $'000	Non-interest sensitive $'000	Total Carrying Amount $'000	Effective interest rate %
Financial assets							
Cash and cash equivalents	20,926	-	-	-	801	21,728	0.00%
Other receivables	-	-	-	-	2,031	2,031	n/a
Due from other financial institutions	44,047	66,130	-	-	-	110,177	0.46%
Loans and advances	331,430	38,385	175,560	-	-	545,375	3.22%
Investment securities	-	-	-	-	980	980	n/a
	396,403	**104,515**	**175,560**	**-**	**3,812**	**680,290**	
Financial liabilities							
Borrowing	-	-	24,849	-	-	24,849	0.19%
Deposits	366,101	226,095	2,747	-	-	594,943	0.41%
Lease liabilities	-	579	1,047	59	-	1,685	5.40%
Payables and other liabilities	-	-	-	-	4,386	4,386	-
	366,101	**226,674**	**28,643**	**59**	**4,386**	**625,863**	

(b) Credit Risk

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

Maximum credit exposure

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

(i) Credit Risk – Loans and advances

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

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

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

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

Loans and advances – Collateral held

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

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

	2022 $'000	2021 $'000
Secured by mortgage over real estate	665,799	533,011
Secured by bill of sale over motor vehicle	14,630	9,138
Secured by other assets	214	189
Secured by funds lodged with the credit union	516	632
Unsecured	1,694	1,785
Total gross loans and advances at amortised cost	**682,853**	**544,755**

Collateral held - Loans and advances

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

As at 30 June 2022, the fair value of collateral held against those loans and advances that have been individually assessed as Stage 3 credit impaired is $1,090,000 (2021: $890,000). It has not been practicable to determine the fair value of the collateral held as security against Stage 1 and Stage 2 loans.

Credit Quality – Loans and advances

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

2022	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000
Residential - Owner Occupied	481,866	1,860	701	484,427
Residential - Investor	133,964	248	-	134,212
Commercial	42,775	256	-	43,031
Personal Secured	15,895	114	50	16,059
Personal Unsecured	-	-	-	-
Other/Overdrafts	5,115	1	8	5,124
Total gross loans and advances at amortised cost	**679,615**	**2,479**	**759**	**682,853**

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

Concentration Risk

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

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

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

	2022		2021	
2021	$'000	%	$'000	%
Geographic Locations				
New South Wales	386,961	56.5%	350,309	64.2%
Queensland	246,955	36.1%	175,278	32.1%
Customer or Industry				
Southern Cross Credit Union Ltd Employees	15,015	2.2%	11,788	2.2%

Credit Risk – investment with counterparties

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

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

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

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

External credit assessment for institutional investments

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

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

	2022 $'000	2021 $'000
Actual Rating (S&P Rating)		
ADIs - A and above	89,934	93,029
ADIs - Below A	9,017	11,011
ADIs - Unrated	6,143	6,136
	105,095	**110,176**

(c) Liquidity Risk

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

The Credit Union manages liquidity risk by:

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

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

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

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

2022	Carrying amount $'000	Total cash flows $'000	Less than 12 months $'000	Over 12 months $'000
Deposits	720,968	720,785	714,827	5,958
Payables and other liabilities	3,953	3,953	3,953	-
Lease liabilities	1,516	1,648	636	1,012
Borrowings	24,849	24,849	-	24,849
Unrecognised loan commitments	-	52,719	52,719	-
	751,286	**803,954**	**772,135**	**31,819**

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

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

	2022	2021
Liquid funds to total adjusted liabilities:		
- As at 30 June	15.74%	18.64%
- Average for the year	17.13%	23.61%
- Minimum during the year	14.21%	17.35%
Liquid funds to total member deposits:		
- As at 30 June	17.46%	22.17%

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

5.4 Capital management

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

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

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

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

Capital is made up as follows:

	2022 $'000	2021 $'000
Tier 1 capital		
Share capital	450	437
Capital reserve	229	229
Retained profits	62,323	56,173
Net Tier 1 capital	**63,002**	**56,839**
Tier 2 capital		
Credit losses reserve	-	3,081
Net Tier 2 capital	**-**	**3,081**
Total capital	**63,002**	**59,920**

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

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

2022	2021	2020	2019	2018
16.1%	17.5%	18.3%	18.8%	19.3%

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

Note 6: Unrecognised items

6.1 Outstanding loan commitments

	2022 $'000	2021 $'000
Loans and credit facilities approved but not funded or drawn at the end of the financial year:		
Loans approved but not funded	44,976	35,418
Undrawn overdraft and line of credit	7,743	6,671
	52,719	**42,089**

6.2 Contingent liabilities

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

As a participant in CUFSS, the Credit Union:

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

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

The value of any calls made and permanent loans advanced at 30 June 2022 was nil (2021: nil).

6.3 Events Subsequent to the End of the Reporting Period

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

Note 7: Other information

7.1 Property, plant and equipment

(a) Carrying amounts

	2022 $'000	2021 $'000
Plant and equipment - at cost	2,183	1,931
Accumulated depreciation	(1,319)	(1,067)
Total plant and equipment	**864**	**864**
Leasehold improvements - at cost	1,727	2,072
Accumulated amortisation	(968)	(846)
Total leasehold improvements	**759**	**1,226**
Work in progress	**134**	**261**
Total property, plant and equipment	**1,757**	**2,351**

(b) Movements in carrying amounts

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

	Plant and Equipment $'000	Leasehold Improvements $'000	Work in progress $'000	Total $'000
Balance at 1 July 2020	**577**	**1,217**	**102**	**1,896**
Additions	8	284	732	1,024
Disposals	(18)	-	-	(18)
Depreciation expense	(276)	(275)	-	(550)
Transfer to P&E and leasehold improvements	572	-	(572)	-
Balance at 30 June 2021	**864**	**1,226**	**261**	**2,351**
Additions	67	-	260	327
Disposals	(107)	(178)	-	(285)
Depreciation expense	(349)	(289)	-	(638)
Transfer to P&E and leasehold improvements	388	-	(388)	-
Balance at 30 June 2022	**864**	**759**	**134**	**1,757**

There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the year (2021: Nil).

Recognition and measurement

Plant and equipment

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

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

Depreciation

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

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

A summary of the rates used is:

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

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

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

7.2 Leases

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

(a) Right-of-use assets

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

	2022 $'000	2021 $'000
Opening balance at 1 July	1,589	2,111
Additions	485	119
Loss on disposal	(33)	-
Amortisation expense	(623)	(642)
Closing balance at 30 June	**1,417**	**1,589**

(b) Lease liabilities

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

	2022 $'000	2021 $'000
Opening balance at 1 July	1,685	2,173
Additions	485	119
Accretion of interest	89	100
Lease payments	(742)	(707)
Closing balance at 30 June	**1,516**	**1,685**

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

(c) Amounts recognised in profit or loss

	2022 $'000	2021 $'000
Depreciation charge of right-of-use assets	623	642
Loss on disposal	33	-
Interest expense (included in finance cost)	89	100
	745	**742**

The Credit Union had total cash outflows for leases of $742,000 in 2022 (2021: $707,000). The Credit Union also had non-cash additions to right-of-use assets and lease liabilities of $485,000 in 2022 (2021: $120,000).

Recognition and measurement

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

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

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

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

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

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

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

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

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

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

7.3 Intangible assets

(a) Computer software

	2022 $'000	2021 $'000
Cost	1,625	1,175
Accumulated amortisation	(857)	(690)
	768	**485**

(b) Movements in carrying amounts

	2022 $'000	2021 $'000
Balance at beginning of the financial year	484	569
Additions	450	83
Amortisation Expense	(166)	(168)
Carrying amount at the end of the year	**768**	**485**

Recognition and measurement

Intangible assets

Computer software

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

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

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

7.4 Other receivables

	2022 $'000	2021 $'000
Accrued income	9	31
Sundry debtors	236	2,000
Total other receivables	**245**	**2,031**

7.5 Payables and other liabilities

	2022 $'000	2021 $'000
Accrued interest payable	688	579
Accrued expenses	775	897
Annual leave	470	472
Deferred Income	79	122
Member clearing	1,941	2,316
	3,953	**4,386**
Amount of other payables expected to be settled more than 12 months after the reporting date	**-**	**28**

7.6 Provisions

	2022 $'000	2021 $'000
Long service leave	432	400
Make good	60	61
	492	**461**
Amount of provisions receivables expected to be settled more than 12 months after the reporting date	**361**	**319**

Recognition and measurement

Employee benefits

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

Short-term employee benefits

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

Long-term employee benefits

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

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

7.7 Related Parties

(a) Key management personnel (KMP)

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

KMP has been taken to comprise the Directors and members of the Executive Management team responsible for the day to day financial and operational management of the Credit Union. The Executive Management Team for 2022 comprises the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and Chief People Officer.

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

	2022 $	2021 $
Short-term employee benefits	1,440,234	1,210,738
Post-employment benefits	136,271	107,359
Other long-term benefits	26,219	15,997
Total compensation	**1,602,724**	**1,334,094**

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

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

(b) Loans to KMP and close family members

	2022 $	2021 $
(i) The aggregate value of loans as at reporting date amounted to:	9,983,426	6,328,664
(ii) The total value of revolving credit facilities available, as at reporting date	5,000	5,000
Less amounts drawn down and included in (i)	-	-
Net balance available	**5,000**	**5,000**
(iii) During the year the aggregate value of loans disbursed amounted to:		
- secured loans	2,950,000	3,368,354
- unsecure loans / overdrafts	-	-
(iv) Interest and other revenue earned on loans and revolving credit facilities amounted to:	216,148	192,582

The above table includes amounts for the Credit Union's Directors and other KMP in office or employed by the Credit Union at reporting date and their related parties. Directors and other KMP who resigned during the 2022 financial year are excluded from the 2022 analysis but are included in the 2021 comparative analysis.

The Credit Union's policy for lending to related parties is that all loans are approved on the same terms and conditions which applied to members for each class of loan. This policy has been adhered to for the full financial year. All loans were at lending terms and conditions applicable to members. KMP may receive concessional rates of interest on their loans and facilities that are available to all the Credit Union's employees. No amounts were written down or recorded as impaired during the year (2021: nil).

There are no benefits or concessional terms and conditions applicable to the family members of the Credit Union's Directors and other KMP (2021: nil). No loan balances with family or relatives of the Credit Union's Directors and other KMP were written down or recorded as impaired during the year (2021: nil).

(c) Deposits from KMP and close family members

	2022 $	2021 $
Total value of term and savings deposits	1,130,843	1,124,959
Interest paid on deposits	429	270

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

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

Other transactions with related parties

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

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

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

7.8 Remuneration of auditors

Amounts received or due and receivable by BDO for:

	2022 $	2021 $
Audit services		
- Audit of financial statements	75,000	68,000
- Audit and review of APRA compliance and regulatory returns	22,000	17,150
Total audit services	**97,000**	**85,150**
Non-audit services		
- Taxation services	9,922	8,570
- Other services	-	5,000
Total non-audit services	**9,922**	**13,570**
Total auditor's remuneration	**106,922**	**98,720**

7.9 Fair value measurement of financial instruments

(a) Fair value hierarchy

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

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

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

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

(b) Fair value estimates

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

Cash and cash equivalents and other receivables

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

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

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

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

The Credit Union's unquoted equity instruments represent the investment in Cuscal Ltd shares which is stated at fair value and is classified as Level 3 in the fair value hierarchy. These shares represent an investment that the Credit Union intends to hold long term for strategic purposes and are not actively traded. These shares were measured at fair value on initial recognition and subsequently where their value cannot be measured reliably, the assets are measured at the carrying amount determined at the last date on which the fair value could be determined reliably. The shareholding in Cuscal is measured at net tangible assets per share fair value which approximates its fair value as at 30 June 2022.

Loans and advances

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

Borrowings and other payables

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

Deposits

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

	2022		2021	
	Total fair values $'000	Carrying amount $'000	Total fair values $'000	Carrying amount $'000
Financial assets measured at fair value:				
Investment securities	1,111	1,111	980	980
Financial assets for which fair values are disclosed:				
Cash and cash equivalents	20,756	20,756	21,727	21,727
Due from other financial institutions	105,095	105,095	110,177	110,177
Other receivables	245	245	2,031	2,031
Loans and advances	684,839	672,764	545,587	547,534
Financial liabilities for which fair values are disclosed:				
Deposits	720,968	720,785	594,943	595,040
Payables and other liabilities	3,953	3,953	4,386	4,386
Lease liabilities	1,516	1,516	1,685	1,685
Borrowing	24,849	24,849	24,849	24,849

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

(d) Level 3 reconciliation

Level 3 fair value measurement – investment securities

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

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

	2022 $	2021 $
Balance at beginning of financial year	980	980
Additions	-	-
Disposals	(58)	-
Gains recognised in other comprehensive income	189	-
Balance at end of financial year	**1,111**	**980**

The Credit Union's exposure to fair value measurements based in full or in part on unobservable inputs is restricted to investment in CUSCAL measured at FVOCI. As such, a change in the assumption used to value the investment as at 30 June 2022 attributable to reasonably possible alternatives would not have a material effect.

7.10 Economic dependency

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

(a) Indue Ltd.

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

(b) Ultradata Australia Pty. Ltd.

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

(c) Fiserv Limited

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

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

The Credit Union applied, for the first time, certain new and amended accounting standards and interpretations which are effective for annual periods beginning on or after 1 July 2021. There are no new and amended accounting standards and interpretations became effective as of 1 July 2021 that has material impact to the Credit Union.

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

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2022 reporting period and have not been early adopted by the Credit Union. None of these are expected to have a material effect on the financial statements of the Credit Union.

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INDEPENDENT AUDITOR'S REPORT

To the members of Southern Cross Credit Union Ltd

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Southern Cross Credit Union Ltd (the Company), which comprises the statement of financial position as at 30 June 2022, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies, and the directors' declaration.

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

(i) Giving a true and fair view of the Company's financial position as at 30 June 2022 and of its financial performance for the year ended on that date; and

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

Basis for opinion

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

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

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

Other information

The directors are responsible for the other information. The other information obtained at the date of this auditor's report is information included in the Director's 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

TJ Kendall

T J Kendall
Director

Brisbane, 28 September 2022

Southern Cross Credit Union Ltd

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