



SOUTHERN CROSS  
CREDIT UNION

# Annual Report

## 2023

# Supporting our customers through their financial life stages

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“Building each year on the direction that has delivered our continued success has only been possible with the outstanding work of our dedicated team and the unwavering support of our customers.”



## Thank you for trusting us as your banking partner

On the behalf of our entire team, we would like to first and foremost thank you for the unwavering support of our credit union. Our purpose to support our customers and valued team is what has guided us throughout the year in the unpredictable environment we have been confronted with.

Against the headwinds of inflationary pressure, rising interest rates, heightened competition, tightening regulatory demands and global market uncertainty, we have performed considerably well. On the back of a record loan growth in 2021/22, we have been able to continue this momentum growing our loan book again well above industry levels.

This solid performance has enabled us to continue the investment in our credit union. We have continued to provide our customers with a more competitive offering and a responsive service to better support them through the financial challenges they are facing with the rising interest rate environment and the generally increased cost of living.

Through prudent financial management, we have sustained our profitability by focusing on controlled growth of our loan and investment portfolios whilst maintaining our cost to income, margin, and other key financial ratios. It has also been a priority to optimise our operations, improving our security practices, and in upskilling our staff to strengthen our core foundations.

However, having a strong business means nothing if we can't protect our data and assets. Data security remains at the forefront of our business priorities. With the alarming rise of data breaches and scams across the country, regular monitoring, constant education, and proactive security enhancements leave us more confident in the resilience of our operations.

Simultaneously, we follow on our digital enablement path, improving our systems and introducing new technologies to remain relevant and become more responsive to our customers, providing them with multiple ways to engage with us while remaining easy to bank with.

Building each year on the direction that has delivered our continued success has only been possible with the outstanding work of our dedicated team and the unwavering support of our customers, who not only remain loyal to us but advocate our business to their networks. For that we are truly grateful.

We greatly appreciate our customers taking the time to share their thoughts in our Customer Satisfaction Survey. The response was overwhelming with participation levels well above industry benchmarks, telling us that our customers are highly engaged and invested in helping us improve through their feedback. Something we take seriously when designing our business strategy to continue to provide responsible and relevant banking.

The banking industry remains in a constant state of transformation. The challenges might be different from previous years, but our resolve to provide quality service and deliver on our objectives remains paramount. Our sustained financial performance is a statement of that.

Our strategic plan is aligned to ensure we keep pace with it all and safely navigate these ongoing changes, transforming challenges into opportunities, responding to the needs of today's customers and community while continuing the investment in our business.

The positive impact of our strategic shift is already reflecting on our business and, therefore, we remain confident on the current and future enhancements we have planned.





## Our Results Highlights



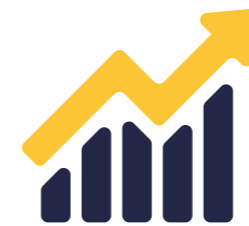
Asset Growth  
**12.5%**



Loan Growth  
**13.5%**



Deposit Growth  
**13.4%**



Net Profit After Tax  
**\$3.129m**



Customer Satisfaction  
**80%**



Employee Engagement  
**86%**





# Our strategic approach

The backdrop couldn't have shifted more this year, moving from a preoccupation with COVID-19 and devastating regional floods to rising living costs and global uncertainty. On the back of this scenario, traditional concerns such as performance management and operational capabilities have re-emerged as priority areas along with new challenges within cyber security, digital enablement, and staff retention.

Our strategic plan is grounded by our vision to provide relevant and responsive banking to support our customers' financial journey.

In this report, we share how the current environment has impacted our business, making us reconsider our plans to encompass new actions for the following 3-year period, shifting our performance approach to a more conservative growth expectation while directing our resources to intensify our data security practices and consolidate our digital enablement.

Our digital enablement is a core part of our business strategy. By continually expanding our digital approach, we aim to provide customers with a more sophisticated banking experience, improve operational efficiency, increase productivity, and consequently attract and retain new customers for ongoing business growth.

On the following pages, we provide insights on the actions we have undertaken across the past year to support our customers and community, while managing our performance, addressing regulatory changes, refining our systems, and improving our processes and procedures to remain relevant to the market. The results we have achieved in the past years is what has enabled us to continue our investments in becoming a better credit union for you.

Despite the challenging environment and constant changes in the industry, we continue to be led by our customer-centred strategy with people and conversations at the core of everything we do. Our roadmap is based on our commitment to our brand promise to support customers through their financial life stages and on empowerment of our people to ultimately make banking with us easy.

We are confident on our strategic approach and our customer philosophy is embedded in our business values of care for each other, trust that we listen and take initiative, and responsibility that we will do what we say we will do. A statement on that is the industry recognition we receive being nominated finalist in multiple business awards every year.

## Awards and recognition

### 2022 Northern Rivers Regional Business Awards

- Finalist in Excellence in Sustainability
- Finalist in Large Business Excellence

### 2023 Tweed Regional Business Awards

- **Winner in Excellence in Professional Services**
- Finalist in Excellence in Customer Service
- Finalist in Excellence in Sustainability
- Finalist in Large Business Excellence

### 2023 Ballina Business Excellence Awards

- Finalist in Excellence in Sustainability
- Finalist in Large Business Excellence

### 2023 Tweed Sustainability Awards

- Finalist in Excellence in Sustainability

### Regional Director Northern Rivers Business NSW



*This is a wonderful achievement and a credit to the work you have all put into your business over the past 12 months. It really is a testament to your dedication, tenacity and approach to business best practice – and in a period that we all know has been a challenging time for business.*





# Banking services that evolve with you

We are constantly implementing solutions to cater for our customer ever-changing needs, to improve data protection, and to provide a faster turnaround that has a direct impact in our service excellence. We are delighted to have delivered many enhancements over the past year, making our always-evolving customer banking experience even better.

## New Customer Relationship Management (CRM) System



We have successfully implemented a new CRM system. This platform gives us a centralised view of our customers' entire banking relationship to encourage more meaningful conversations, removing legacy infrastructure, and greatly improving our operational efficiency.

We are mindful of the increasing pressures on the consumer, and that is why we have been diligent on how we use data to understand our customers' preferences. This way we can create value and personalisation to ensure the right methods of engagement are available and ultimately improve the experience we provide.

We will continue to incorporate new CRM features and automations to further streamline our internal processes, business intelligence and customer experience in time.

## Upgraded phone system for better calls



We have upgraded our phone system to an integrated platform with higher audio quality and user-friendly interface for minimum disruption during conversations.

Our new phone system is now connected to our Customer Relationship Management (CRM) platform, meaning we can also register our over-the-phone interactions for a holistic single view of our customers' engagement history and to better meet our compliance requirements. By having all customer information in one place for easy access and consultation, we can be more operationally effective saving our team and customers' valuable time.

As a result of this transition, we have already seen an improvement in the average waiting times and in the overall experience our customers receive when engaging with us over the phone. The most recent engagement rating by our customers confirming our approach with satisfaction rate of 97%.

## Our savings accounts for kids



To better meet our customers' demands, we have introduced a new children's savings account, the Little Star Saver. The account offers an attractive interest rate to encourage savings and it comes with an educational material inspired on the 3-Jar-Method to support parents with money talks. The 3 jars are used to replace the old "piggy bank" when teaching children and teenagers the importance of budget management.

## What we are working on

### Apply online for new products anytime, anywhere



We continue our extensive digital enablement program to give customers freedom to engage with us and apply for our products anytime, anywhere. This goes beyond simply enabling a consumer to transact using a digital device. It requires a careful assessment and rethinking of all processes and operations to enable a safe, sustainable, and efficient digital experience.

Customers can now apply for new accounts through online forms available in our website. We have also successfully delivered on the first phase of our full digital onboarding project, allowing customers to submit end-to-end Personal Loan applications, including identity verification, without any intervention from us. This functionality aligns us with many of our competitors in serving new customers outside of the Northern Rivers and is the first step in providing our customers with a complete online experience. We envisage other loan products such as business and home loans will be available by the end of the calendar year.

### Real time payments one click away



We recognise the importance of being able to make real time payments and we continue to work behind the scenes to make this feature available to all our customers. We expect to complete the implementation of the New Payments Platform (NPP), which incorporates the real-time-payment service, by the end of the financial year.

Parallel to that, we are also working to launch a new platform PayTo to replace direct debits, and to simultaneously implement a real-time fraud monitoring tool to help our customers better protect their accounts.

### Web chat for personalised support



We are working our way through the implementation of our Web Chat functionality that will give our customers a new way to engage with us and get personalised support via a chat pop-up window when navigating our website. This will allow our customers to ask questions and quickly access further information while browsing our products without having to pause their activities to call us or visit a Financial Service Centre.

This offering is something that our customers have been asking for and we expect to have this capability available in the coming financial year.





## People and conversations at the core of everything we do

Our customer-led strategy keeps people and conversations at the core of everything we do. Our focus remains on deepening the relationship with our customers, especially in a time of such financial uncertainty, inflationary and interest rate pressures.

To honour our customer-centric strategy, we must offer a safe place for our customers to be heard, so we can understand what is important to create memorable experiences, while finding the right balance between human touch and technology to facilitate their journey.

By doing regular surveys, we give voice to our customers and their feedback is fuel to our constant evolution. We thank our customers for taking the time to share their thoughts with us on our most recent annual Customer Survey that covered their experience on our products and services in-branch, online and as loan customers.

Our customers' detailed evaluation led us to an incredible 80% rate for Overall Customer Satisfaction. Customer service and being easy to bank with were rated key factors driving the motivation to recommend us to others.

Measuring the right components of this satisfaction and acting upon areas of enhancement are crucial to ensure our continuing financial success. Our customer experience differentiation also comes down to our dedicated team who play the most critical role in bringing our customer-centric strategy to life.

We believe that the excellence of our customer service is directly related to how happy and aligned our people are, and that is why we also take the time to listen to our staff. By having regular alignment sessions and doing our annual Employee Engagement Survey, we provide our team with a space to share their concerns and expectations, so we can collaborate to find greater solutions.

Our most recent Employee Engagement Survey results confirm that our team is supportive of our overarching strategy with an impressive 99% saying they have confidence in our business direction and 95% in our customer-centric approach. We remain among the top 10% for Employee Engagement within the Financial Services Sector in Australia with an Overall Employee Satisfaction of 86%.

We continue to invest in staff professional and personal development to equip them with the right skills to excel in their fields, which has a direct impact on the customer experience we provide and our overall business performance.

On top of flexible work arrangements, we have implemented new staff benefit packages and wellbeing programs to assist our team in dealing with the complexities of the ongoing changes we are all facing both personally and professionally.

With unemployment rates at its lowest level in more than 50 years, finding and keeping good quality staff can be a challenge, so we are proud of the highly knowledgeable and committed team we have.

Our annual Awards Night recognised some of our best talents not only for their technical skills, but also for their contribution in creating an outstanding working environment.

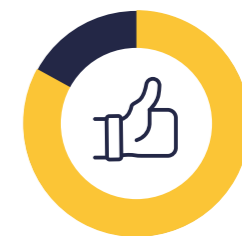
**Employee Engagement**

**86%**



**Customer Satisfaction**

**80%**







# Making a difference through sustainability and community

As a customer-owned business, we remain true to our ethos to support our customers and communities. We have many internal and external initiatives as part of our sustainability and community programs to deliver social, environmental, and economic change.

Our approach to sustainability is holistic and embedded across multiple areas of our business. Some of the things we do include, but are not limited to, providing reusable cups to staff and eco-friendly gift boxes to customers, using recycled toner cartridges, and sourcing all our cleaning products from local environment-friendly businesses.

In the past year, we continued to develop our sustainability programs as a business, with the most recent projects on the horizon being the reduction of paper statements, the replacement of all our product application paper forms for online forms, alongside the recent introduction of recyclable debit cards for customer use.

We are genuinely committed to making a positive impact for a more sustainable future benefitting generations to come and that also includes the work we do with our community. In the past 12 months, we have supported multiple local organisations and our staff have dedicated over 500 volunteering hours.

On top of working closely with our community partners such as Positive Change for Marine Life and Byron Bay Wildlife Hospital, we have also supported local projects such as WardellCORE and Australian Seabird and Turtle Rescue as part of our Community Grants program to expand our reach and broaden our impact in the region.

One of the highlights was the Clean Up Australia Day we hosted in Kingscliff. Our community partners all came together in a single event which engaged over 200 volunteers, including our staff, local families, and businesses. The outcome seeing 23.7 kilos of rubbish being removed from the Kingscliff foreshore, which was a substantial amount considering most of the items were very small.

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 powerful impact.

## Our Community Partners

- Positive Change for Marine Life
- Byron Bay Wildlife Hospital
- Byron Bay Wildlife Sanctuary
- Hockey Tweed
- Hockey Casuarina
- Charity Cup
- Cudgen Headland SLSC

**Anna Dicker - President, Australian Seabird and Turtle Rescue.**



*To have a business like SCCU who are prepared to give back to the community, is invaluable for a charity such as ours.*







## Governance clarity to drive business growth

Our governance is guided by instilling an appropriate level of risk culture across the business to drive steady growth in a well-controlled environment.

Having a healthy risk appetite to instigate sustainable economic growth combined with easy-to-use tools, data security, and exceptional customer care are key factors to guarantee we remain well positioned for the future.

Aligning with our regulators at a time of global economic uncertainty, we are focused on embedding regulatory reforms, as well as bolstering our operational resilience and ensuring we have sufficient financial strength to act as a buffer against any emerging financial stresses. Especially when technology, digitalisation and innovation have evolved considerably, and our investment continues to drive greater use of data analytics as a basis for risk-based structures.

To support this strategy, we engage external partners to review and audit our initiatives driving us to a higher standard. These experts provide us with accuracy and guidance for effective regulation implementation and management.

On the back of last year's Information Security Standard (CPS234) implementation, we engaged a specialist firm to assist with the update of systems, policies, and procedures to provide a measurable lift in compliance with CPS234. Deliverables include updated policies and supporting documentation, asset registers and asset classification tools, and expansion to meet ISO27001 standards.

By taking this proactive action, we were able to establish a baseline of cyber control procedures to achieve the operating effectiveness required by the Australian Prudential Regulation Authority (APRA) as part of the Tripartite Independent Cyber Security Audits for Information Security Standard CPS 234.

We have also undertaken several specialised independent reviews over the past year covering (CPS220 and APS 220) to deepen our standard of Governance.

CPS220 is the Risk Management standard that ensures we have systems for identifying, measuring, evaluating, monitoring, reporting, and controlling or mitigating material risks that may affect our ability to meet our obligations. While APS220 is the Credit Risk Management standard which requires us to implement a credit risk management framework that is appropriate for our size, business mix and complexity.

We also undertook an internal Board evaluation to ensure continuous improvement, provide greater clarity on roles and responsibilities, enrich decision making and create efficiencies to strengthen the governance of our Board.

Moving forward, we will persist in further developing our internal processes and procedures, while we strive to comply with existing and new regulations enhancing our overall business governance as the industry continues to evolve.

## Our Governance Pillars

### Compliance

Embedding regulatory reforms in our business through effective implementation and management of regulation to align with policy, compliance, audit, and operations.

### Operational Resilience

Improving operational resilience to ensure we have sufficient financial strength to act as a buffer against emerging financial stresses and loss exposure.

### Cyber Resilience

Evolve and enhance our cyber preparedness and utilise the cyber security governance regulation to build resilience in our data governance and reporting processes.

### Risk Culture

Improve, enhance, and efficiently manage, track and report on the operational and risk culture of our business.





## An operating environment to help us thrive

Our operating environment is being refined to enable full digital onboarding, faster turnarounds, and data intelligence solutions that will further support our more proactive customer-led strategy.

As the financial sector becomes more digitally equipped, it is imperative that we continue to expand and invest significantly on our digital enablement to support the ever-changing needs of our customer base.

Our goal is to remain relevant and aligned to the market, providing our customers with the service level they expect in today's environment. Above all, we aim to provide an enriched and fully digital banking experience while not losing site of the traditional methods that have made us the success we are today.

We treat our digital approach holistically and integrate our initiatives to not only allow better customer conversations but also more strategic business decisions. Since we became more digitally enabled, our biggest advance has been our increasing use of data-driven insights and new analytical approaches to support decision-making when it comes to operational risk, portfolio management, cyber security, and risk culture. All aimed to address today's risks as well as new challenges beyond the horizon while keeping our customers' needs at the forefront of our business decisions.

We continue the transformation of our business and improvement across employee and community engagement, advocacy, governance, culture, technology, and innovation to remain relevant in today's market.

The key areas we are focusing to help us achieve this are:

**Infrastructure:** Review and assess our current system infrastructures to improve operational efficiencies. By investing in modern and streamlined systems, we increase our organisational agility and flexibility, while reducing error margins.

**Data Security:** Data security was identified as a top priority for our business. We have been investing in both staff and customer education while liaising with third-party partners to help prevent financial identity fraud and mitigate cyber security risks.

**Compliance:** Review and evolve regulatory processes, reporting changes, impacts and responses to improve on regulatory compliance and reduce the associated overheads that come with it.

**Customer Journey:** Improve end-to-end customer journeys across all channels, ensuring every customer make the most out of each interaction opportunity. By integrating new technologies, we provide customers with an omnichannel experience and the freedom to choose how to engage with us.

We remain focused on delivering back to the needs of our customers and community, heavily invested on their financial security, and our ability to act swiftly and respond quickly is what sets us apart. Our flexibility to listen, adapt and evolve with the market is what keeps us moving forward.





## Security enhancements to protect what is important

Data security remains a priority in our business and we continue our commitment in strengthening our frameworks to become more sophisticated to protect what is important, especially when considering the exponential rise of scams and fraud attempts in our country.

In addition to the previous full refresh of our servers and software migration, we have enhanced our internal and external processes and implemented a series of new data security measures to protect our business and help customers keep their accounts and data safe.

On the back of the Information Security Standard (CPS234) compliance requirement, we have upgraded our third-party agreements to ensure the same level of data protection. External experts were engaged to audit our processes and confirm our compliance requirements meet applicable standards.

Extra precautions have also been taken with the implementation of a cyber-resilience project that includes, but is not limited to, full website and system review, control testing, end-to-end data security procedures review and improvements, real-time fraud monitoring, upgraded detection, and prompt response strategies. Multiple external partners and auditors have been engaged to guide us through detailed system enhancements and new cyber-security software implementation to keep our data safe.

We have also tightened our Information Security Management Framework with extensive monitoring, mapping, and regular phishing tests, penetration tests, geotargeted blocking, and in-person mystery hackers to not only put our systems to test but also to measure how alert our people are to these risks.

Paired with the measures mentioned above, we have deepened our skills into learning how to quickly identify potential frauds and prevent scams from happening. Apart from the technologies we have in place, our customer-facing teams are being extra cautious and going above and beyond in their due diligence to guide customers through complex situations in order to keep their data and funds safe.

Despite having a range of technologies available to keep customer information secure, we believe it is equally important for our customers to learn how to protect themselves and their data. Education is key to minimise identity theft and reduce the number of successful scams attempts.

We are confident that the current and future enhancements we have planned will only strengthen our data security, giving our customers peace of mind knowing their data and funds are safe with us.





## Supporting customers while remaining financial sustainable

Given the unpredictability and volatility of the market with so many different variables at play, we have performed better than expectations set in our yearly and half yearly budget reviews.

We have at all-times attempted to achieve a balance between managing the financial sustainability of our business and maintaining our profitability, while at the same time being acutely aware of the need to support our customers through the financial pressure they may have been facing.

Despite this economic uncertainty hovering over many customers, our loan portfolios remain healthy with a low level of mortgage arrears and financial hardships. However, with interest rates closer to their forecast peak and many loan holders coming out of low fixed-rate agreements, we expect to see some shift in the market and further budget tightening across households and small businesses in the year ahead.

Persistent cash rate rises and the ferocious competition for new deposits has directly impacted our profitability and margin. The underlying factor being due to a repricing of risk with the level of fixed-rate home loans written when interest rates were at the bottom of the market, followed by the rapid and prolonged interest rate increase in both loans and deposits since that time.

Due to changes in the Credit Union's liquidity risk profile and risk appetite, we have reassessed our funding strategies, recently shifting our focus from wholesale to retail deposits to deliver better savings and investment rates to our customer base to offset some of the cost-of-living pressures being felt. Our competitive rates and easy-to-bank-with approach helped us deliver the results we needed to keep our business sustainable throughout the year. An approach we will continue to take over the coming period.

Taking into consideration the current environment, we forecast a more stable year ahead with loan growth moderating when compared to the high levels of loan growth we have seen in the past. With the repricing of risk in the fixed rate lending book, high interest rates on deposits and the possibility of increased loan arrears, we expect that profitability, measured as our Return on Assets, will decline in 2024, then stabilise and improve in the years following. However, at all times, Capital, Liquidity and other key financial measures are expected to exceed prudential minimums, and your credit union will continue to be financially successful.

Our key priority is to maintain the level of our loan book which will dictate our ability to extend our customer base through digitalisation and innovation initiatives to achieve future growth, while ensuring that capital is managed appropriately.





## In closing

The year ahead will no doubt present challenges like the ones we have faced. However, the recent years have proven that more than surviving, we can thrive in challenging times.

The results we have been able to achieve and the many projects we have been able to implement over the past 12 months are extremely encouraging and drive us forward to be there for our team and customers.

We will not lapse into complacency, and keep focusing on solutions that will equip our business with the infrastructure, products, and agility to maintain our market relevance and to continue to provide our customers with the high quality of service that we are renowned for.

Our ongoing success to this day is the consequence of a team effort and we take this opportunity to also acknowledge it.

To our dedicated and committed staff, we greatly appreciate all that you do to make our business the success it is today. Your constant resolve to improve the services and experience we provide to our customers is to be commended.

Thank you to our Board who remained invested in driving our business success with us throughout the year despite the obstacles, providing guidance, confidence and contributing in a greater scale to our strategic clarity.

To our loyal customers and those who are new to our business, we thank you for your trust and unwavering support. We will continue to honour our commitment to you and our people as we evolve and strengthen our relationships, and we look forward to supporting you through all your financial life stages for many years to come.



# 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

Resigned 29 November 2022

### 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
- Diploma of Financial Planning
- Certified Financial Planner

### 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



## Directors' Meetings

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

No. of meetings	Director Meetings	
	Held	Attended
Alvaro Lozano Rodriguez	12	12
Guy Bezrouchko	4	4
Belinda Henry	12	12
Suzie Slingsby	12	12
Stuart Edwards	12	12
Patrick McIntosh	12	11
Jeremy Rutledge	12	12

No. of meetings	Audit Committee Meetings		Risk Committee Meetings	
	Held	Attended	Held	Attended
Alvaro Lozano Rodriguez	3	3	4	4
Guy Bezrouchko	1	1	2	2
Belinda Henry	3	3	4	4
Suzie Slingsby	3	3	4	4
Stuart Edwards	3	3	4	4
Patrick McIntosh	3	3	4	4
Jeremy Rutledge	3	3	4	4

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 and Member of the Australian Institute of Company Directors.	33 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 Union and of related bodies corporate as defined in the insurance policy.

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

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

# 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 \$3,129,000 (2022 \$3,499,000) and above budget expectations.

## Review of Operations

The result affected by:

- an increase in Net-Interest Income of \$1,789,000. RBA cash rate increases have risen significantly during the financial year resulting in loan interest income increasing \$14,130,000 with deposit interest expenses increasing \$12,341,000. During the year the loan portfolio showed strong growth at 13.5%;
- an increase in Employee benefit expenses of \$662,000 as the Credit Union continues to expand its operations and employ key specialist roles;
- an increase in Information Technology expenses of \$281,000 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.



# 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.

## 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.

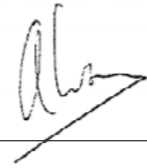
## Rounding of amounts

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 2023 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 19th day of September 2023



**Patrick McIntosh**  
Audit Committee Chair

Dated this 19th day of September 2023

# Declarations & Financial Report

**30 JUNE 2023**



### 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 2023 and of its performance for the year ended on that date; and
- (b) There are reasonable grounds to believe that the Credit Union will be able to pay its debts as and when they become due and payable.

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 19th day of September 2023



Tel: +61 7 3237 5999  
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 M CUTRI TO THE DIRECTORS OF SOUTHERN CROSS CREDIT UNION LTD

As lead auditor of Southern Cross Credit Union Ltd for the year ended 30 June 2023, 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.



M Cutri  
Director

BDO Audit Pty Ltd

Brisbane, 19 September 2023

BDO Audit Pty Ltd ABN 33 134 022 870 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation.



## Statement of profit or loss and other comprehensive income for the year ended 30 June 2023

	Note	2023 \$'000	2022 \$'000
Interest income	2.1	32,082	17,952
Interest expense	2.2	(14,166)	(1,825)
<b>Net interest income</b>		<b>17,916</b>	<b>16,127</b>
Fee and commission income		2,378	2,563
Fee and commission expense		(3,632)	(2,490)
<b>Net fee and commission income</b>	<b>2.3</b>	<b>(1,254)</b>	<b>73</b>
Other income	2.3	433	454
<b>Net operating income</b>		<b>17,095</b>	<b>16,654</b>
<b>Expenses</b>			
Employee benefits expense	2.4(a)	(7,915)	(7,253)
Occupancy expense	2.4(d)	(332)	(298)
Depreciation and amortisation expense	2.4(c)	(1,321)	(1,460)
Credit impairment losses	2.4 (b)	(106)	(34)
Other expenses	2.4(e)	(3,287)	(3,050)
<b>Total expenses</b>		<b>(12,961)</b>	<b>(12,095)</b>
<b>Profit/(loss) before income tax</b>		<b>4,134</b>	<b>4,559</b>
Income tax (expense)/benefit	2.5(a)	(1,005)	(1,060)
<b>Profit/(loss) for the year</b>		<b>3,129</b>	<b>3,499</b>
<b>Other comprehensive income for the year, net of income tax</b>			
- items that will not be reclassified to profit or loss			
Net fair value gain/(loss) in investments in equity instruments		(190)	137
<b>Total comprehensive income for the year</b>		<b>2,939</b>	<b>3,636</b>

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 2023

	Note	2023 \$'000	2022 \$'000
<b>Assets</b>			
Cash and cash equivalents	4.1	15,125	20,755
Due from other financial institutions	4.3	115,458	105,095
Other receivables	7.4	214	245
Loans and advances	3.1	776,892	684,654
Investment securities	4.2	858	1,111
Other assets	4.7	8,462	1,956
Current tax receivable		115	-
Plant and equipment	7.1	1,247	1,757
Right-of-use assets	7.2	1,137	1,417
Intangible assets	7.3	753	768
<b>Total assets</b>		<b>920,260</b>	<b>817,759</b>
<b>Liabilities</b>			
Deposits	4.4	817,469	720,968
Payables and other liabilities	7.5	7,721	3,953
Lease liabilities	7.2	1,227	1,516
Borrowings	4.5	24,849	24,849
Current tax liability		-	406
Deferred tax liability	2.5	127	258
Provisions	7.6	612	492
<b>Total liabilities</b>		<b>852,004</b>	<b>752,442</b>
<b>Net assets</b>		<b>68,256</b>	<b>65,317</b>
<b>Equity</b>			
Redeemable preference shares	5.1	461	449
Reserves	5.2	475	665
Retained earnings		67,321	64,204
<b>Total equity</b>		<b>68,256</b>	<b>65,317</b>

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 2023

	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
<b>Balance at 1 July 2021</b>	<b>298</b>	<b>229</b>	<b>436</b>	<b>3,082</b>	<b>57,638</b>	<b>61,683</b>
Profit for the year	-	-	-	-	3,499	3,499
Other comprehensive income	137	-	-	-	-	137
<b>Total comprehensive income for the year</b>	<b>137</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,499</b>	<b>3,636</b>
<i>Transfers</i>	-	-	-	-	-	-
Redemption of member shares	-	-	13	-	(13)	-
Transfer to/from reserve for credit losses (*)	-	-	-	(3,082)	3,082	-
<b>Balance at 30 June 2022</b>	<b>435</b>	<b>229</b>	<b>449</b>	<b>-</b>	<b>64,206</b>	<b>65,317</b>
Balance at 1 July 2022	435	229	449	-	64,206	65,317
Profit for the year	-	-	-	-	3,129	3,129
Other comprehensive income	(190)	-	-	-	-	(190)
<b>Total comprehensive income for the year</b>	<b>(190)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,129</b>	<b>2,939</b>
<i>Transfers</i>	-	-	-	-	-	-
Redemption of member shares	-	-	12	-	(12)	-
<b>Balance at 30 June 2023</b>	<b>245</b>	<b>229</b>	<b>461</b>	<b>-</b>	<b>67,321</b>	<b>68,256</b>

(\*) 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 2023

	Note	2023 \$'000	2022 \$'000
<b>Cash flows from operating activities</b>			
Interest received		31,414	17,816
Dividends received		59	249
Fees and commissions received		2,725	2,789
Interest paid		(9,974)	(1,716)
Payments to suppliers and employees		(21,341)	(11,870)
Net movement in loans and advances		(92,093)	(139,356)
Net movement in due from other financial institutions		(9,696)	5,217
Net movement in deposits		95,843	127,413
Income taxes paid/(refunded)		(1,656)	(194)
<b>Net cash provided by operating activities</b>	<b>4.1(c)</b>	<b>(4,719)</b>	<b>348</b>
<b>Cash flows from investing activities</b>			
Payments for plant and equipment		(259)	(578)
<b>Net cash used in investing activities</b>		<b>(259)</b>	<b>(578)</b>
<b>Cash flows from financing activities</b>			
Principal portion of lease liabilities paid		(653)	(742)
<b>Net cash used in financing activities</b>	<b>4.1(d)</b>	<b>(653)</b>	<b>(742)</b>
<b>Net increase in cash and cash equivalents held</b>		<b>(5,631)</b>	<b>(971)</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>		<b>20,756</b>	<b>21,727</b>
<b>Cash and cash equivalents at the end of the financial year</b>	<b>4.1(b)</b>	<b>15,125</b>	<b>20,755</b>

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 19th September 2023 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 2023 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

	2023 \$'000	2022 \$'000
<b>Financial Assets at amortised cost</b>		
Cash and cash equivalents	178	1
Due from other financial institutions	3,998	556
Loans and advances	27,905	17,394
<b>Total interest income - assets at amortised cost</b>	<b>32,082</b>	<b>17,952</b>

### 2.2 Interest expense

	2023 \$'000	2022 \$'000
<b>Financial liabilities at amortised cost</b>		
Borrowings	(47)	(47)
Deposits	(14,119)	(1,778)
<b>Total interest expense - liabilities at amortised cost</b>	<b>(14,166)</b>	<b>(1,825)</b>
<b>Net interest income</b>	<b>17,916</b>	<b>16,127</b>

## 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

	2023 \$'000	2022 \$'000
Fees and commissions revenue	2,378	2,563
Fee and commission expense	(3,632)	(2,490)
<b>Net fee and commission income</b>	<b>(1,254)</b>	<b>73</b>
Dividends - Investment securities measured at FVOCI	59	249
Bad debts recovered	13	10
Other	362	195
<b>Total other income</b>	<b>433</b>	<b>454</b>



## Recognition and measurement

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

	2023 \$'000	2022 \$'000
<b>(a) Employee benefits expense</b>		
■ Salaries, wages and other personnel costs	6,556	6,100
■ Employee related on-costs expense	674	537
■ Superannuation expense (defined contribution)	685	616
	<b>7,915</b>	<b>7,253</b>
<b>(b) Credit impairment losses</b>		
■ Impairment of loans and advances	65	(27)
■ Bad debts written off	41	61
	<b>106</b>	<b>34</b>
<b>(c) Depreciation and amortisation expense</b>		
■ Plant and equipment	543	638
■ Intangible assets	204	166
■ Right-of-use assets – properties	574	623
■ Loss on disposal	-	33
	<b>1,321</b>	<b>1,460</b>
<b>(d) Occupancy expense</b>		
■ Other	332	298
	<b>332</b>	<b>298</b>
<b>(e) Other expenses</b>		
■ General administration	1,229	1,206
■ Rental expense on operating leases	12	-
■ Finance cost on lease liabilities	69	89
■ Information technology expenses	1,528	1,247
■ Marketing and promotion expenses	202	256
■ Telephone and communication expenses	172	180
■ Other expenses	75	72
	<b>3,287</b>	<b>3,050</b>
<b>Total expenses</b>	<b>12,961</b>	<b>12,095</b>

## 2.5 Taxation

	2023 \$'000	2022 \$'000
<b>(a) Components of income tax expense in profit or loss</b>		
<i>Current tax</i>		
Current tax expense	1,072	953
<b>Total current tax expense</b>	<b>1,072</b>	<b>953</b>
<i>Deferred tax</i>		
Origination and reversal of temporary differences	(67)	107
<b>Total deferred tax expense</b>	<b>(67)</b>	<b>107</b>
<b>Total income tax expense in profit or loss</b>	<b>1,005</b>	<b>1,060</b>
<b>(b) Reconciliation of income tax expense to the profit before tax multiplied by applicable tax rate</b>		
<b>Profit before income tax</b>	<b>4,134</b>	<b>4,559</b>
Prima facie tax at the Australian tax rate of 25.0%	1,034	1,139
<i>Add tax effect of:</i>		
Changes in tax rate	-	1
<i>Less tax effect of:</i>		
Tax offset for franked dividends	(25)	(107)
Other non-assessable items	(4)	27
<b>Income tax expense</b>	<b>1,005</b>	<b>1,060</b>
<b>(c) Franking account</b>		
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%	<b>24,960</b>	<b>23,439</b>

	2023 \$'000	2022 \$'000
<b>(d) Deferred taxes</b>		
<b>Deferred tax assets comprise temporary differences attributable to:</b>		
Employee benefits leave provision	278	225
Other provisions	65	60
Transfer to deferred tax liabilities	(464)	(598)
Tax base of assets	67	188
<b>Total deferred tax assets</b>	<b>(54)</b>	<b>(125)</b>
<b>(e) Deferred tax liabilities</b>		
<b>Deferred tax liabilities comprise temporary differences attributable to:</b>		
Financial assets	(73)	(133)
<b>Total deferred tax liabilities</b>	<b>(73)</b>	<b>(133)</b>
<b>(f) Offset</b>		
Total deferred tax assets	(54)	(125)
Total deferred tax liabilities	(73)	(133)
<b>Total net deferred tax liability</b>	<b>(127)</b>	<b>(258)</b>
<b>(g) Deferred tax balances gross movements</b>		
Opening balance	(258)	(362)
Under / (over) provision for income tax in prior year	-	241
(Charged) / credited to equity	64	(30)
(Charged) / credited to profit or loss	67	(107)
<b>Closing balance</b>	<b>(127)</b>	<b>(258)</b>



## 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

	2023 \$'000	2022 \$'000
Term loans	769,753	677,724
Overdrafts	4,660	5,129
<b>Gross loans and advances at amortised cost</b>	<b>774,413</b>	<b>682,853</b>
Less: Unamortised loan fees	2,728	1,985
Less: Provision for expected credit loss	(249)	(184)
<b>Net loans and advances at amortised cost</b>	<b>776,892</b>	<b>684,654</b>

## 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 in the following tables. The following tables show the movements in the impairment provisions by ECL stage.

2023	Stage 1 12-month ECL \$'000	Stage 2 Lifetime ECL \$'000	Stage 3 Credit-impaired \$'000	Total provision \$'000
<b>Balance at 1 July 2022</b>	<b>150</b>	<b>13</b>	<b>21</b>	<b>184</b>
<i>Changes due to loans and advances recognised in the opening balance that have:</i>				
- Transferred to 12-month ECL	-	-	-	-
- Transferred to lifetime ECL not credit-impaired	(47)	47	-	-
- Transferred to lifetime ECL credit-impaired	-	(51)	51	-
Net re-measurement of loss allowance	54	52	(41)	65
<b>Balance at 30 June 2023</b>	<b>157</b>	<b>61</b>	<b>31</b>	<b>249</b>

2022	Stage 1 12-month ECL \$'000	Stage 2 Lifetime ECL \$'000	Stage 3 Credit-impaired \$'000	Total provision \$'000
<b>Balance at 1 July 2021</b>	<b>175</b>	<b>1</b>	<b>35</b>	<b>211</b>
<i>Changes due to loans and advances recognised in the opening balance that have:</i>				
- 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)
<b>Balance at 30 June 2022</b>	<b>150</b>	<b>13</b>	<b>21</b>	<b>184</b>

As shown in the above table, the overall provision for credit impairment for loans and advances increased from \$184k at 30 June 2022 to \$249k at 30 June 2023 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 13.41% along with a more challenging macroeconomic environment when calculating ECL's have resulted in an increase in the provision.
- Personal loans of \$51k 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 \$30k 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 2023 and that were still subject to enforcement activity was nil (2022: 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
<b>Stage 1: 12-months ECL</b>	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 lifetime 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.
<b>Stage 2: Lifetime ECL – not credit impaired</b>	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.
<b>Stage 3: Lifetime ECL – credit impaired</b>	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 revenue is calculated on a net basis (gross carrying amount less associated ECL provision)

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

	2023 \$'000	2022 \$'000
Cash on hand	639	647
Deposits with ADIs	14,486	20,108
<b>Total cash and cash equivalents</b>	<b>15,125</b>	<b>20,755</b>

### 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:

	2023 \$'000	2022 \$'000
Cash and cash equivalents	15,125	20,755
	<b>15,125</b>	<b>20,755</b>

Cash held that is not available for use as at 30 June 2023 is nil (2022: 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.

	2023 \$'000	2022 \$'000
<b>Reconciliation of cash flow from operations with profit after income tax</b>		
Profit/(loss) after income tax	3,129	3,499
Credit impairment losses	106	34
Amortisation of intangible assets	204	166
Depreciation of plant and equipment and ROU assets	1,117	1,294
(Gain)/loss on sale of property, plant and equipment	37	85
<b>Changes in operating assets and liabilities</b>		
(Increase)/decrease in other receivables	(28)	22
(Increase)/decrease in other assets	(6,506)	1,134
(Increase)/decrease in interest receivable	(668)	136
(Increase)/decrease in due from other financial institutions	(9,697)	4,943
(Increase)/decrease in loans and advances	(92,343)	(139,313)
(Increase)/decrease in interest payable	4,191	109
(Increase)/decrease in deferred tax assets	(130)	(105)
Increase/(decrease) in income tax payable	(521)	971
Increase/(decrease) in deposits	95,843	127,413
Increase/(decrease) in payables and other liabilities	350	(69)
Increase/(decrease) in provisions	197	29
<b>Net cash provided by/(used in) operating activities</b>	<b>(4,719)</b>	<b>348</b>



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

2023	1 July 2022 \$'000	Non-cash changes		30 June 2023 \$'000
		Cash flows \$'000	Other \$'000	
Lease liabilities	1,516	(653)	364	1,227
Borrowings	24,849	-	-	24,849
<b>Total liabilities from financing activities</b>	<b>26,365</b>	<b>(653)</b>	<b>364</b>	<b>26,076</b>

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

### 4.2 Investment securities

	2023 \$'000	2022 \$'000
<b>Financial assets measured at FVOCI</b>		
Shares in unlisted entities - Cuscal Limited (CUSCAL)	858	1,111
<b>Total financial assets measured at FVOCI</b>	<b>858</b>	<b>1,111</b>
Amount of investment securities (expected to be recovered more than 12 months after the reporting date)	858	1,111

### 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

	2023 \$'000	2022 \$'000
<i>Financial assets at amortised cost</i>		
Deposits with ADIs	115,458	105,095
<b>Total due from other financial institutions</b>	<b>115,458</b>	<b>105,095</b>
Amount of due from other financial institutions expected to be recovered more than 12 months after the reporting date	37,491	31,565

### 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

	2023 \$'000	2022 \$'000
Call deposits (including withdrawable shares)	373,997	411,966
Term deposits	443,472	309,002
<b>Total deposits</b>	<b>817,469</b>	<b>720,968</b>
Amount of deposits expected to be settled more than 12 months after the reporting date	1,547	5,969

## 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

	2023 \$'000	2022 \$'000
RBA Term Funding Facility due September 2023	14,924	14,924
RBA Term Funding Facility due May 2024	9,925	9,925
<b>Total borrowings</b>	<b>24,849</b>	<b>24,849</b>
Amount of borrowings expected to be settled more than 12 months after the reporting date	-	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:

	2023 \$'000	2022 \$'000
<b>Carrying amount of transferred assets</b>	<b>60,682</b>	<b>66,684</b>
<b>Carrying amount of associated liabilities</b>	<b>60,682</b>	<b>66,684</b>
<b>For those liabilities that have recourse only to the transferred assets:</b>		
Carrying amount of transferred assets	60,682	66,684
Carrying amount of associated liabilities	60,682	66,684
<b>Net position</b>	<b>-</b>	<b>-</b>

## 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.

## 4.7 Other assets

	2023 \$'000	2022 \$'000
Trust reserve accounts	8,063	1,516
Prepayments	399	440
	<b>8,462</b>	<b>1,956</b>

## Recognition and measurement

Refer to note 4.6 for details on the Securitisation Reserve and Trust Liquidity Reserve.

## Note 5: Risk and capital management

### 5.1 Redeemed preference shares

	2023 \$'000	2022 \$'000
<i>Movements in redeemed preference shares</i>		
Balance at the beginning of year	450	436
Transfers from retained profits for the redemption of shares	11	13
<b>Balance at end of year</b>	<b>461</b>	<b>449</b>

## 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 retained earnings.

## 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 2023, the VaR is \$1,539,791 or 2.42% of capital (30 June 2022: \$2,039,074 or 3.32% 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

2023	Floating interest rate \$'000	Fixed interest rate maturing			Non-interest sensitive \$'000	Total Carrying Amount \$'000	Effective interest rate %
		Within 1 year \$'000	1-5 years \$'000	Over 5 years \$'000			
<i>Financial assets</i>							
Cash and cash equivalents	14,486	-	-	-	639	15,125	0.99%
Other receivables	-	-	-	-	214	214	n/a
Due from other financial institutions	37,492	77,966	-	-	-	115,458	4.40%
Loans and advances	375,660	158,896	242,336	-	-	776,892	4.67%
Investment securities	-	-	-	-	858	858	n/a
	<b>427,638</b>	<b>236,862</b>	<b>242,336</b>	<b>-</b>	<b>1,711</b>	<b>908,547</b>	
<i>Financial liabilities</i>							
Borrowing	-	24,849	-	-	-	24,849	0.19%
Deposits	373,997	441,925	1,547	-	-	817,469	3.07%
Lease liabilities	-	526	701	-	-	1,227	5.40%
Payables and other liabilities	-	-	-	-	7,721	7,721	-
	<b>373,997</b>	<b>467,300</b>	<b>2,248</b>	<b>-</b>	<b>7,721</b>	<b>851,266</b>	

2022	Floating interest rate \$'000	Fixed interest rate maturing			Non-interest sensitive \$'000	Total Carrying Amount \$'000	Effective interest rate %
		Within 1 year \$'000	1-5 years \$'000	Over 5 years \$'000			
<i>Financial assets</i>							
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
	<b>359,898</b>	<b>128,082</b>	<b>321,877</b>	<b>-</b>	<b>2,003</b>	<b>811,860</b>	
<i>Financial liabilities</i>							
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	-
	<b>411,966</b>	<b>303,614</b>	<b>31,753</b>	<b>-</b>	<b>3,953</b>	<b>751,286</b>	

### (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:

	2023 \$'000	2022 \$'000
Secured by mortgage over real estate	751,088	665,799
Secured by bill of sale over motor vehicle	18,315	14,630
Secured by other assets	3,154	214
Secured by funds lodged with the credit union	42	516
Unsecured	1,814	1,694
<b>Total gross loans and advances at amortised cost</b>	<b>774,413</b>	<b>682,853</b>

### 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 2023, the fair value of collateral held against those loans and advances that have been individually assessed as Stage 3 credit impaired is \$2,991,000 (2022: \$1,090,000). 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.

2023	Stage 1 \$'000	Stage 2 \$'000	Stage 3 \$'000	Total \$'000
Residential - Owner Occupied	550,409	2,598	1,776	554,783
Residential - Investor	151,590	-	-	151,590
Commercial	44,037	224	-	44,261
Personal Secured	18,947	147	26	19,120
Personal Unsecured	-	-	-	-
Other/Overdrafts	4,651	3	5	4,659
<b>Total gross loans and advances at amortised cost</b>	<b>769,634</b>	<b>2,972</b>	<b>1,807</b>	<b>774,413</b>

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
<b>Total gross loans and advances at amortised cost</b>	<b>679,615</b>	<b>2,479</b>	<b>759</b>	<b>682,853</b>

### Concentration Risk

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

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

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

	2023		2022	
	\$'000	%	\$'000	%
<b>Geographic Locations</b>				
New South Wales	402,227	51.8%	386,961	56.5%
Queensland	300,098	38.6%	246,955	36.1%
<b>Customer or Industry</b>				
Southern Cross Credit Union Ltd Employees	15,391	2.0%	15,015	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:

	2023 \$'000	2022 \$'000
<b>Actual Rating (S&amp;P Rating)</b>		
ADIs - A and above	100,212	89,934
ADIs - Below A	9,049	9,017
ADIs - Unrated	6,196	6,143
	<b>115,458</b>	<b>105,095</b>

## (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 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.

2023	Carrying amount \$'000	Total cash flows \$'000	Less than 12 months \$'000	Over 12 months \$'000
Deposits	817,469	824,012	822,406	1,606
Payables and other liabilities	7,721	7,721	7,721	-
Lease liabilities	1,227	1,322	580	742
Borrowings	24,849	24,990	24,990	-
Unrecognised loan commitments	-	35,083	35,083	-
	<b>851,266</b>	<b>893,128</b>	<b>890,780</b>	<b>2,348</b>

2022	Carrying amount \$'000	Total cash flows \$'000	Less than 12 months \$'000	Over 12 months \$'000
Deposits	720,968	721,954	715,921	6,033
Payables and other liabilities	3,953	3,953	3,953	-
Lease liabilities	1,516	1,648	636	1,012
Borrowings	24,849	24,990	-	24,990
Unrecognised loan commitments	-	52,719	52,719	-
	<b>751,286</b>	<b>805,264</b>	<b>773,229</b>	<b>32,035</b>

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

	2023	2022
<b>Liquid funds to total adjusted liabilities:</b>		
- As at 30 June	13.68%	15.74%
- Average for the year	14.75%	17.13%
- Minimum during the year	13.28%	14.21%
<b>Liquid funds to total member deposits:</b>		
- As at 30 June	15.97%	17.46%

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 redeemable preference share capital, retained earnings, and capital 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.

Capital is made up as follows:

	2023 \$'000	2022 \$'000
<b>Tier 1 capital</b>		
Redeemable preference shares	461	450
Capital reserve	229	229
Retained earnings	65,710	62,323
<b>Net Tier 1 capital</b>	<b>66,398</b>	<b>63,002</b>
<b>Tier 2 capital</b>		
Credit losses reserve	-	-
<b>Net Tier 2 capital</b>	<b>-</b>	<b>-</b>
<b>Total capital</b>	<b>66,398</b>	<b>63,002</b>

The Credit Union is required to maintain a minimum capital level of 10.5% 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:

2023	2022	2021	2020	2019
16.2%	16.1%	17.5%	18.3%	18.8%

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 14%. Further, a 3-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

	2023 \$'000	2022 \$'000
Loans and credit facilities approved but not funded or drawn at the end of the financial year:		
Loans approved but not funded	27,363	44,976
Undrawn overdraft and line of credit	3,270	7,743
	<b>30,633</b>	<b>52,719</b>

### 6.2 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

	2023 \$'000	2022 \$'000
Plant and equipment- at cost	2,139	2,183
Accumulated depreciation	(1,560)	(1,319)
<b>Total plant and equipment</b>	<b>579</b>	<b>864</b>
Leasehold improvements- at cost	1,674	1,727
Accumulated amortisation	(1,149)	(968)
<b>Total leasehold improvements</b>	<b>525</b>	<b>759</b>
<b>Work in progress</b>	<b>143</b>	<b>134</b>
<b>Total property, plant and equipment</b>	<b>1,247</b>	<b>1,757</b>

#### (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
<b>Balance at 1 July 2021</b>	<b>865</b>	<b>1,226</b>	<b>262</b>	<b>2,353</b>
Additions	67	-	260	327
Disposals	(107)	(178)	-	(285)
Depreciation expense	(349)	(289)	-	(638)
Transfer to P&E and leasehold improvements	388	-	(388)	-
<b>Balance at 30 June 2022</b>	<b>864</b>	<b>759</b>	<b>134</b>	<b>1,757</b>
Additions	24	-	9	33
Disposals	-	-	-	-
Depreciation expense	(309)	(234)	-	(543)
Transfer to P&E and leasehold improvements	-	-	-	-
<b>Balance at 30 June 2023</b>	<b>579</b>	<b>525</b>	<b>143</b>	<b>1,247</b>

There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the year (2022: 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:

	2023 \$'000	2022 \$'000
Opening balance at 1 July	1,417	1,588
Additions	294	485
Loss on disposal	-	(33)
Amortisation expense	(574)	(623)
<b>Closing balance at 30 June</b>	<b>1,137</b>	<b>1,417</b>

## (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:

	2023 \$'000	2022 \$'000
Opening balance at 1 July	1,516	1,685
Additions	294	485
Accretion of interest	69	89
Lease payments	(653)	(742)
<b>Closing balance at 30 June</b>	<b>1,227</b>	<b>1,516</b>

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

## (c) Amounts recognised in profit or loss

	2023 \$'000	2022 \$'000
Depreciation charge of right-of-use assets	574	623
Loss on disposal	-	33
Interest expense (included in finance cost)	69	89
	<b>643</b>	<b>745</b>

The Credit Union had total cash outflows for leases of \$653,000 in 2023 (2022: \$742,000). The Credit Union also had non-cash additions to right-of-use assets and lease liabilities of \$294,000 in 2023 (2022: \$485,000).

## 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

	2023 \$'000	2022 \$'000
Cost	1,691	1,625
Accumulated amortisation	(938)	(857)
	<b>753</b>	<b>768</b>



## (b) Movements in carrying amounts

	2023 \$'000	2022 \$'000
Balance at beginning of the financial year	768	484
Additions	189	450
Amortisation Expense	(204)	(166)
<b>Carrying amount at the end of the year</b>	<b>753</b>	<b>768</b>

## 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

	2023 \$'000	2022 \$'000
Accrued income	37	9
Sundry debtors	177	236
<b>Total other receivables</b>	<b>214</b>	<b>245</b>

## 7.5 Payables and other liabilities

	2023 \$'000	2022 \$'000
Accrued interest payable	4,880	688
Accrued expenses	742	775
Annual leave	547	470
Deferred Income	329	79
Member clearing	1,223	1,941
	<b>7,721</b>	<b>3,953</b>
Amount of other payables expected to be settled more than 12 months after the reporting date	-	-

## 7.6 Provisions

	2023 \$'000	2022 \$'000
Long service leave	565	432
Make good	47	60
	<b>612</b>	<b>492</b>
Amount of provisions expected to be settled more than 12 months after the reporting date	<b>465</b>	<b>361</b>

## 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 2023 comprises the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer Chief Operating Officer and Chief People Officer. The Chief Operating Officer was a new position added during the financial year.

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

	2023 \$	2022 \$
Short-term employee benefits	1,741,129	1,440,234
Post-employment benefits	170,905	136,271
Other long-term benefits	57,779	26,219
<b>Total compensation</b>	<b>1,969,813</b>	<b>1,602,724</b>

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

	2023 \$	2022 \$
(i) The aggregate value of loans as at reporting date amounted to:	9,828,877	9,983,426
(ii) The total value of revolving credit facilities available, as at reporting date	-	5,000
Less amounts drawn down and included in (i)	-	-
<b>Net balance available</b>	<b>-</b>	<b>5,000</b>
(iii) During the year the aggregate value of loans disbursed amounted to:		
- secured loans	-	2,950,000
- unsecured loans / overdrafts	-	-
(iv) Interest and other revenue earned on loans and revolving credit facilities amounted to:	321,323	216,148

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 2023 financial year are excluded from the 2023 analysis but are included in the 2022 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 (2022: nil).

There are no benefits or concessional terms and conditions applicable to the family members of the Credit Union's Directors and other KMP (2022: 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 (2022: nil).

#### (c) Deposits from KMP and close family members

	2023 \$	2022 \$
Total value of term and savings deposits	1,648,880	1,130,843
Interest paid on deposits	9,653	429

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.

#### (d) 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 other than the following transactions entered into in the ordinary course of business:

Pracsec Pty Ltd – an entity associated with Mr Alvaro Lozano, provided management consulting services throughout the year to assist the Credit Union meet its compliance obligations for the CPS 234 Information Security Prudential Standard. These services amounted to \$71,280 throughout the year.

Asset Advisory Pty Ltd – an entity associated with Mr Jeremy Rutledge, provided leasing advise and valuation services throughout the year to assist the Credit Union negotiate renewed leasing terms for its branch premises and to ensure adequate mortgage security was taken for loans provided to customers. These services amounted to \$8,140 throughout the year.

## 7.8 Remuneration of auditors

Amounts received or due and receivable by BDO Audit Pty Ltd

	2023 \$	2022 \$
<b>Audit services</b>		
- Audit of financial statements	90,000	75,000
- Audit and review of APRA compliance and regulatory returns	37,200	22,000
<b>Total audit services</b>	<b>127,200</b>	<b>97,000</b>
<b>Non-audit services</b>		
- Taxation services	5,500	9,922
- Other services	-	-
<b>Total non-audit services</b>	<b>5,500</b>	<b>9,922</b>
<b>Total auditor's remuneration</b>	<b>132,700</b>	<b>106,922</b>

## 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 2023.

#### 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

The carrying value of other payables approximates their fair value as they are short term in nature.

The Term Funding Facility is a fixed rate borrowing and the fair value was calculated by utilising discounted cash flow models based on the maturity of the borrowing. The discount rates applied were based on the current benchmark rate offered for the average remaining term of the borrowing as at 30 June 2023.

#### 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.



	2023		2022	
	Total fair values \$'000	Carrying amount \$'000	Total fair values \$'000	Carrying amount \$'000
<b>Financial assets measured at fair value:</b>				
Investment securities	858	858	1,111	1,111
<b>Financial assets for which fair values are disclosed:</b>				
Cash and cash equivalents	15,125	15,125	20,755	20,755
Due from other financial institutions	115,458	115,458	105,095	105,095
Other receivables	214	214	245	245
Loans and advances	777,141	763,507	684,839	672,764
<b>Financial liabilities for which fair values are disclosed:</b>				
Deposits	817,469	817,587	720,968	720,785
Payables and other liabilities	7,721	7,721	3,953	3,953
Lease liabilities	1,227	1,227	1,516	1,516
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:

	2023 \$'000	2022 \$'000
Balance at beginning of financial year	1,111	980
Additions	-	-
Disposals	-	(58)
Gains recognised in other comprehensive income	(253)	189
<b>Balance at end of financial year</b>	<b>858</b>	<b>1,111</b>

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 2023 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 2022. There are no new and amended accounting standards and interpretations became effective as of 1 July 2022 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 2023 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.



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

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

## INDEPENDENT AUDITOR'S REPORT

To the members of Southern Cross Credit Union 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 2023, 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 2023 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.

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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](http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf)

This description forms part of our auditor's report.

BDO Audit Pty Ltd

M Cutri  
Director

Brisbane, 19 September 2023

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**Southern Cross Credit Union Ltd**

ABN: 82 087 650 682  
AFSL: 241000

Level 2, 38-42 Pearl Street, Kingscliff  
Tel 1300 360 744

