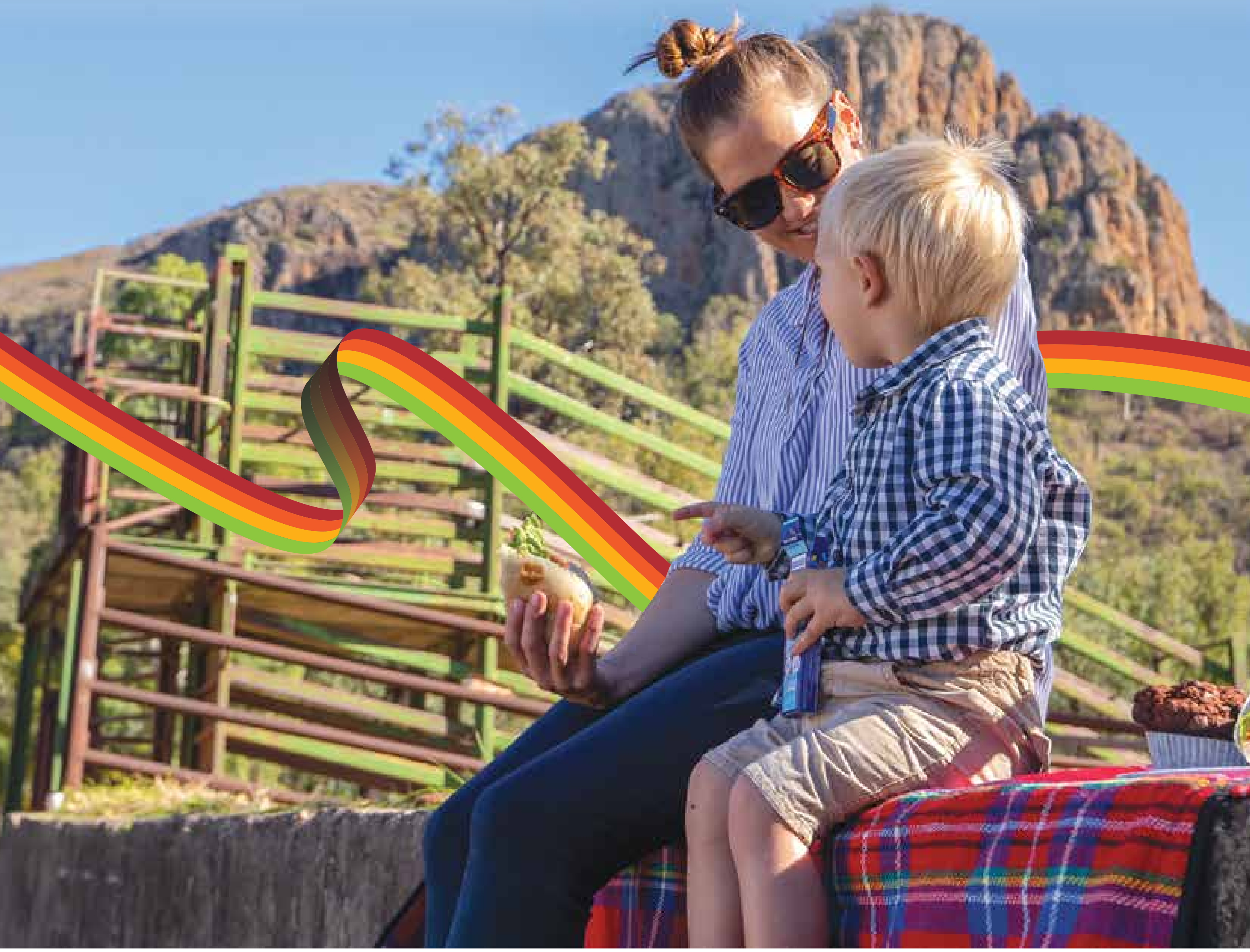
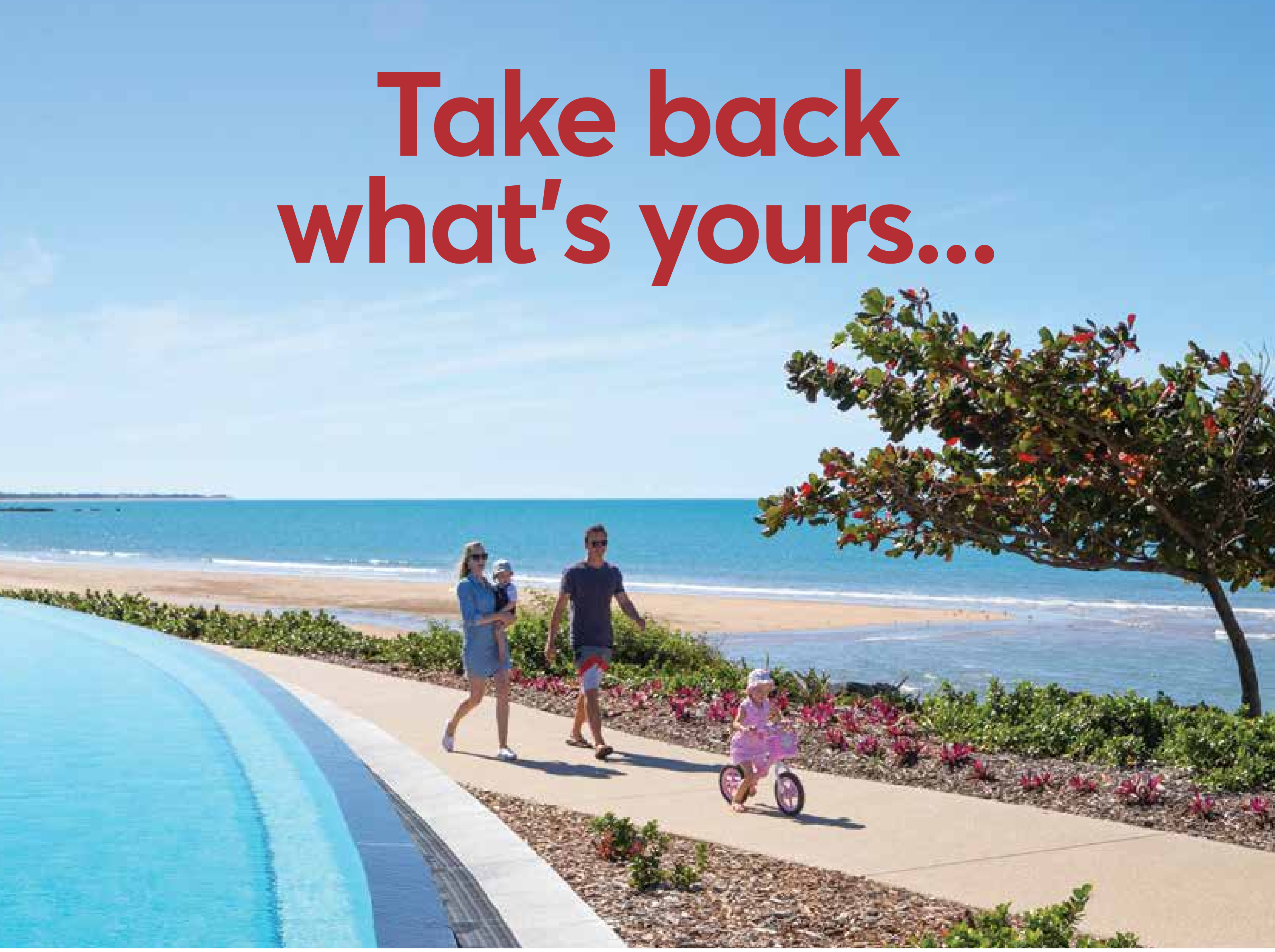
# 2019 Annual Financial Report

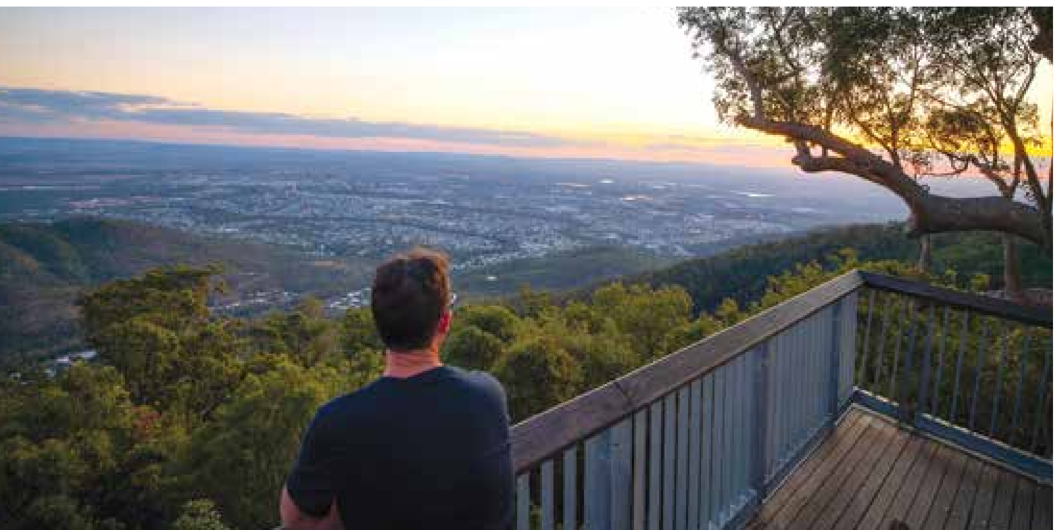


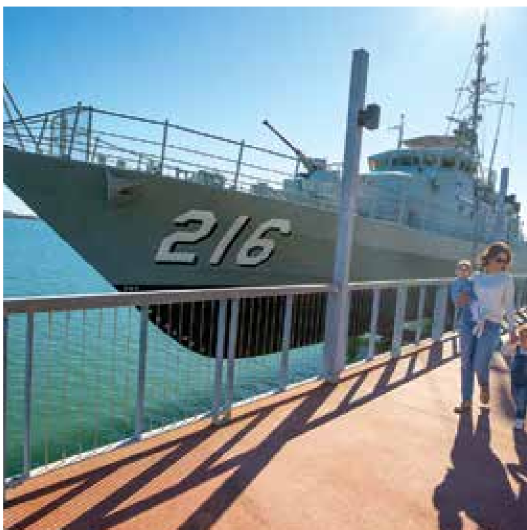
the capricornian
community owned banking

1959 2019 60
Serving CQ for 60 years

# Take back what's yours...







# The Capricornian Ltd

ABN 54 087 650 940

# Annual financial report for the year ended 30 June 2019

# Contents


| | Page |
|---|---|
| Corporate directory | 3 |
| Chairman’s report | 4 |
| Directors' report | 7 |
| Auditor’s independence declaration | 14 |
| Financial statements | 15 |
| Notes to the Financial Statements | 20 |
| Directors' declaration | 57 |
| Independent audit report to the members | 58 |

| | |
|---|---|
| **Directors** | George Anthony Edwards<br>*Chairman*<br><br>John Francis Siganto<br>*Deputy-Chairman*<br><br>Vicki Anne Bastin-Byrne<br><br>Christopher Bernard O'Brien<br><br>Peter Graham Olrich<br><br>Janette Linda Davis (Appointed 24th September 2018) |
| **Company Secretary** | Dale Frederick Grounds<br><br>Michelle Ann Alexander (Appointed 9th April 2019) |
| **Registered office** | 157 East Street, Rockhampton Qld 4700<br>A.F.S.L. 246 780<br>A.B.N. 54 087 650 940<br>Telephone (07) 4931 4900<br>Facsimile (07) 4931 4970<br>Email info@capricornian.com.au<br>Phonefast 1300 654 654<br>Online Banking www.capricornian.com.au |
| **Branches** | 157 East Street, Rockhampton<br>Stockland Rockhampton, Yaamba Road, North Rockhampton<br>2 James Street, Yeppoon<br>115 Egerton Street, Emerald<br>Blomfield Street, Miriam Vale<br>174 Goondoon Street, Gladstone<br>29 Eclipse Street, Springsure |
| **ATM's** | Automatic Teller Machines (ATM's) are located at all branches listed above with the exception of Gladstone and Springsure Branches |
| **External Auditor** | BDO Audit Pty Ltd |
| **Internal Auditor** | KPMG |
| **Solicitors** | Gadens Lawyers (Brisbane)<br>Daniels Bengtsson Pty Ltd (Sydney)<br>Results Legal Solutions (Brisbane) |
| **Affiliations** | Cuscal Ltd<br>Australian Settlements Limited<br>Customer Owned Banking Association |
| **Website address** | www.capricornian.com.au |
| **Regulatory Disclosures** | www.capricornian.com.au/About-Us/Prudential-Disclosures/ |

During the 2018/19 financial year, our 60th year, The Capricornian (your credit union) continued its focus on providing exceptional customer service, appropriate products and services, technological innovation and strong community support. The important and delicate balance between what can be competing areas of focus is best achieved by a co-operative financial institution, owned by and for its customers. We are proudly such an institution as a Credit Union, and stand in good company with over 89,000 other Credit Unions worldwide who serve 117 million customers.

These areas of focus reflect why The Capricornian continues to exist. Articulated in our Constitution as important objects, they are the founding principles of the organisation.

*The **Capricornian Limited (credit union)** has the following objects:*

*(a) to raise funds by subscription, **deposit** or otherwise, as authorised by the Corporations Act and Banking Act 1959 (Cth);*

*(b) to apply the funds in providing **financial accommodation** to **members**, subject to the Corporations Act and Banking Act 1959 (Cth);*

*(c) to encourage savings amongst **members**;*

*(d) to promote co-operative enterprise;*

*(e) to provide programs and services to **members** to assist them to meet their financial, economic and social needs;*

*(f) to promote, encourage and bring about human and social development among individual **members** and within the larger community within which **members** work and reside; and*

*(g) to further the interests of **members** and the communities within which they work and live through co-operation with:*

*i. other credit unions and co-operatives; and*

*ii. associations of credit unions and co-operatives.*

Remaining financially prudent, profitable and with a strong balance sheet allows us to meet these obligations with confidence. One important aspect of that financial strength is the profit we need to make each year to grow the capital base we need to provide loans and take deposits in Central Queensland. For 2018/19, our profit was $1,667,048 after tax. As a result of this profit, the total equity in the Credit Union has risen to almost $25.1M.

The Capricornian recorded modest lending growth throughout 2018/19. Total loans grew by 2.60%, in the face of record low building approvals and tough economic conditions in Central Queensland. While loan growth was modest, overall The Capricornian remains as one of the strongest performing credit unions in Australia for the size of our balance sheet, with our reasonable profitability and the prudent management of our expenses.

The CEO Mr. Grounds and his management team have done an excellent job in his third year with us. He continues to lead The Capricornian in a very determined, capable and inclusive manner.

During this financial year, some of our more important initiatives have included:-

- The celebration of our 60th Anniversary, as one of the original Credit Unions in Queensland.
- The successful opening of a new branch in Springsure.
- Staff Engagement remaining at very high levels for our industry.
- The expansion of the Capricornian Community Grants Program.
- New digital branding campaign to highlight both our region and the credit union as a true local alternative financial institution.
- Upgrades to Technological Systems designed to improve customer experience and operating efficiency.
- Focus on our Digital and Social Media presence.

Of these initiatives we are extremely proud of the new Springsure branch. This vibrant regional town had been without a financial institution after one of the 'Big 4' banks closed this location, amongst a raft of regional Central Queensland locations in 2016. After working collaboratively with the Central Highlands Regional Council we opened our new branch within the Council Service Centre in early March 2019. The success has been astounding. Many of the goals we had set for new members, accounts, deposits etc. at the 12 month anniversary in March 2020 had been achieved within four months of opening. It is because we are a financial co-operative, with mutuality at the core of our business model, that we could undertake such a radical move as opening a new branch when 'pure' economics might have suggested restraint. We see our mandate as making available financial services to as many people of Central Queensland as we can. The Board remains open to the possibility of assisting other 'unbanked' and disadvantaged regional communities in Central Queensland.

The aftermath of the Royal Commission into Banking continues to reverberate in the financials services industry and the broader community. The many examples of woeful customer service, inappropriate sales of products and services and delayed or incomplete disclosure of information to Regulators will be addressed by a range of recommendations that will be implemented into law and regulation. Mutual financial institutions were not adversely named in proceedings, but will nonetheless be stung by increased compliance costs associated with the new laws. Our plea to government remains that proportional regulation and measures targeted at the guilty are the best means to ensure credit unions and other member owned financial institutions can remain competitive. This competition will be critical in placing further pressure on banks to operate in an ethical and lawful manner. That being said, please be assured that your Board remains vigilant in its oversight of the credit union and together with management, continues to work collaboratively to ensure that The Capricornian will continue to meets its prudential and regulatory requirements, as well as ethical, community and legal obligations.

As you are well aware, we are the only community owned and Central Queensland based Financial Institution. As a result we continue to take very seriously our obligations to be a good community supporter. Accordingly, through staff volunteering and our community sponsorships we returned over $100k to many community organisations in 2018/19. These include, but are not limited to:

- Rockhampton Basketball Association
- Gladstone Port City Power Basketball Association
- Rockhampton Jockey Club
- Springsure Jockey Club
- Rockhampton Bowls Club
- Capricorn Helicopter Rescue
- Local Rugby League clubs
- The Capricornian Community Grants Program Recipients:-
  - Central Queensland Animal Society
  - Every Child Central Queensland
  - Bluebirds United Football Club.

During this last financial year, your Board has experienced another period of stability of membership. Board Members continue to refine their oversight of the Credit Union, through update and enhancement of skills and knowledge from appropriate training opportunities.

I would once again like to pay tribute to and express my thanks, on behalf of the Board, to each and every member of staff and management for making The Capricornian the strong member-focused Financial Institution that we are.

I would also like to thank my fellow Board members for all of their dedication, diligence, hard work, and support to me, throughout this, another successful year for The Capricornian.

Notwithstanding our excellent products and service, it remains without doubt that our main point of difference to our competitors is our high level of personal and professional service, delivered by our extremely dedicated, knowledgeable and efficient staff and management. Finally, I would like to thank you, our members, for your continued support, without which, The Capricornian would not exist.

We as a Board, are extremely confident that this next year will show a continuation and enhancement of The Capricornian's successes, and I look forward to being able to report same to you next year.

G. A. Edwards
Chairman

30th September 2019

Your directors present their report on the financial report of The Capricornian Ltd for the year ended 30 June 2019.

**Directors**
The following persons were non-executive directors of The Capricornian Ltd during the whole of the financial year and up to the date of this report, or as otherwise noted:

George Anthony EDWARDS, B.Bus, FCA.
(Chair)

***Experience and expertise***
Principal and Director of Evans Edwards and Associates Chartered Accountants for 39 years. Director for 18 years.
***Other current directorships***
Director of 6 proprietary companies: Capehead Pty Ltd (director since 1981), Evans Edwards & Associates Pty Ltd (director since 2001), Manlex Pty Ltd (director since 1983), Keppel Cruises Pty Ltd (director since 2005), Capehead Superannuation Pty Ltd (director since 2012), 452 Advice Pty Ltd (director since December 2017) and 452 Finance Pty Ltd (director since November 2018).
***Former directorships in last 3 years***
Director of Meled Pty Ltd from 2009-2016.
***Special responsibilities***
Ex Officio of all Committees.
Member of the Directors Nomination Committee.

John Francis SIGANTO, L.L.B, Grad Dip Fin Plan.
(Deputy-Chair)

***Experience and expertise***
Solicitor and Partner of Grant and Simpson Lawyers. Director for 11 years.
***Other current directorships***
Director of 3 proprietary companies: Grant and Simpson Service Co. Pty Ltd (director since 1997), Otnagis Pty Ltd (director since 2006), Basildon Pty Ltd (director since 2008).
***Former directorships in last 3 years***
None.
***Special responsibilities***
Chair of the Risk Committee
Member of the Audit Committee.

Vicki Anne BASTIN-BYRNE, GAICD

***Experience and expertise***
Business Proprietor. Local Government Councillor for 11 years. Director for 16 years.
***Other current directorships***
Director of 1 public company: Iwasaki Foundation Ltd (director since 2010).
***Former directorships in last 3 years***
None.
***Special responsibilities***
Chair of the Governance and Remuneration Committee.
Member of the Risk Committee.

Christopher Bernard O'BRIEN, B.Bus, FCPA

***Experience and expertise***
Business Manager. Director for 8 years.
***Other current directorships***
None.
***Former directorships in last 3 years***
None.
***Special responsibilities***
Chair of the Audit Committee.
Member of the Risk Committee.
Member of the Governance and Remuneration Committee.

Peter Graham OLRICH, Dip FS, Dip FS CUD, FAICD, FAMI

***Experience and expertise***
Management Consultant. Former CEO of Credit Union Australia. Director for 2 years.
***Other current directorships***
Director of 2 public companies: Summerland Financial Services Ltd (director since 2010) and Regional Australia Bank Ltd (director since 2011).
***Former directorships in last 3 years***
Director of Credit Union Foundation Australia Pty Ltd (March 2018 – October 2018), Australian Settlements Limited (2016-2017), E-Commerce Holdings Pty Ltd (2016 – May 2018) and its associated companies Financial Services Pty Ltd (2016 – February 2018), Netteller (2016 – May 2018), The System Works Pty Ltd (2016 – May 2018) and TSW Digital Pty Ltd (2016 – February 2018).
***Special responsibilities***
Member of the Audit Committee.
Member of the Risk Committee (joined November 2018).
Member of the Governance and Remuneration Committee.

Janette Linda DAVIS, B.Bus (Accounting), CIA.

***Experience and expertise***
Council Member CQUniversity Council for 7 years. Senior Internal Auditor of CQUniversity for 13 years. Director since 24th September 2018.
***Other current directorships***
None.
***Former directorships in last 3 years***
None.
***Special responsibilities***
Member of the Audit Committee (joined November 2018).
Member of the Governance and Remuneration Committee (joined November 2018).

**Company secretaries**

Dale Frederick GROUNDS, M.B.A., Grad Dip Fin Adm, Grad Dip Bus, B.A. (Econ), MAMI. Appointed 1st November 2017.

***Experience and expertise***
Chief Executive Officer. Former CEO of Family First Credit Union.

Michelle Ann ALEXANDER, B.Bus (Accounting), CPA. Appointed 9th April 2019.

***Experience and expertise***
Chief Financial Officer. Former Finance Manager of The Capricornian Ltd.

**Principal activities**
During the year the principal continuing activities of the credit union were:
(a) to raise funds by subscription, deposit or otherwise, as authorised by the Corporations Law and Banking Act 1959 (Cth);
(b) to apply the funds in providing financial accommodation to members, subject to the Corporations Law and Banking Act 1959 (Cth);
(c) to encourage savings amongst members;
(d) to promote co-operative enterprise;
(e) to provide programs and services to members to assist them to meet their financial, economic, and social needs;
(f) to promote, encourage and bring about human and social development among individual members and within the larger community within which members work and reside; and
(g) to further the interests of members and the communities within which they work and live through co-operation with:
(i) other credit unions and co-operatives; and
(ii) associations of credit unions and co-operatives, locally and internationally.

No significant changes in the nature of these activities occurred during the year.

**Results**
The profit from ordinary activities, after related income tax of $600,336, was $1,667,048, (2018 net profit of $1,414,767, after recording an income tax expense of $585,512).

**Dividends**
Dividends paid to members during the financial year were as follows:

| Capricornian Investment Shares | 2019 $ | 2018 $ |
|---|---|---|
| Final ordinary dividend for the year ended 30 June 2018 equivalent to the maximum dividend benchmark rate 4.54% p.a. per share fully franked. Paid on 6th November 2018. | 58,797 | 59,581 |
| Interim ordinary dividend for the year ended 30 June 2019 equivalent to the maximum dividend benchmark rate 4.76% p.a. per share fully franked. Paid on 31st January 2019. | 62,717 | 56,184 |

The directors have provided for the payment of a final ordinary dividend of $60,103 paid out of retained profits at 30 June 2019 on issued Investment Shares as at that date. The dividend per share provided for equates to the maximum dividend benchmark rate of 4.63% p.a. fully franked for the period ended 30 June 2019. Payment is subject to confirmation of members at the Annual General Meeting.

**Review of operations**
Information on the operations and financial position of the credit union and its business strategies and prospects is set out in the Chairman's Report on pages 4-6 of this annual report.

**Significant changes in the state of affairs**
During the year under review there was no significant change in the affairs of the credit union other than the matters mentioned elsewhere in this report or in the financial statements.

**Events after the end of the financial year**
No other 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 Capricornian Ltd in subsequent financial years.

**Likely developments and expected results of operations**
Additional comments on expected results of operations of the credit union are included in this annual report under the Chairman's Report.

**Performance in relation to environmental regulations**
The credit union has complied with all environmental regulations applicable to a credit union.

**Directors' benefits**
Since the end of the previous financial year, no director has received or become entitled to receive a benefit by reason of a contract that:-

- the director; or
- a firm of which the director is a member; or
- an entity in which the director has a substantial financial interest;

has made, during that or any other financial year, with the credit union or an entity related to the credit union at the time of making the contract.

**Meetings of directors**
The numbers of meetings of the credit union's board of directors and of each board committee held during the year ended 30 June 2019, and the numbers of meetings attended by each director were:

| | Full meetings of directors | | Meetings of committees | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Audit | | Risk Management | | Governance and Remuneration | |
| | A | B | A | B | A | B | A | B |
| G.A. Edwards | 10 | 10 | - | 4 | - | 3 | - | 2 |
| J.F. Siganto | 10 | 10 | 4 | 4 | 4 | 4 | 1 | 2 |
| V.A. Bastin-Byrne | 10 | 10 | - | 3 | 4 | 3 | 2 | 2 |
| C.B. O'Brien | 10 | 10 | 4 | 4 | 4 | 4 | 2 | 2 |
| P.G. Olrich | 10 | 8 | 4 | 3 | 2 | 2 | 2 | 1 |
| J.L. Davis* | 7 | 7 | 3 | 3 | - | 2 | 1 | 1 |

*J.L. Davis appointed 24th September 2018.

A = Number of meetings held during the time the director held office or was a member of the committee during the year
B = Number of meetings attended

The role of the audit committee is to:

- Monitor compliance with board policies as well as prudential and statutory requirements.
- Oversee financial reporting, external and internal audits, and appointment of the external auditor.

The role of the risk management committee is to:

- Provide objective, independent and non-executive reviews of The Capricornian's Prudential Risk Management Framework.

The role of the remuneration committee is to:

- Provide the board with independent and non-executive advice relating to The Capricornian's Remuneration Policy, including an assessment of the policy's effectiveness in relation to requirements of the Prudential Standards.
- Provide advice relating to the remuneration of the Chief Executive Officer, direct reports of the Chief Executive Officer, other persons whose actions may affect the financial soundness of the credit union and any other person specified by APRA.
- Provide advice relating to the remuneration of the categories of persons covered by the credit union's Remuneration Policy (except those persons included above).

**Retirement, election and continuation in office of directors**
Mr G.A. Edwards retires by rotation and is eligible for re-election.

Mr J.F. Siganto retires by rotation and is eligible for re-election.

**Remuneration report**
The remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration
B Details of remuneration

The information provided in this remuneration report has been audited as required by section 308 (3C) of the *Corporations Act 2001*.

**A Principles used to determine the nature and amount of remuneration**
The objective of the credit union's executive remuneration policy is to ensure reward for performance is competitive and appropriate for the results delivered. The policy aligns executive reward with achievement of strategic objectives and the creation of value for members, and conforms with industry practice for delivery of reward based on an independent survey of industry remuneration practices.

In keeping with the credit union's origin as a voluntary community service organisation, directors' fees do not fully reflect their responsibilities.

The Board recommends an aggregate remuneration amount to members at the Annual General Meeting. The amount recommended is consistent with credit union industry standards.

Directors allocate the approved amount between themselves. Generally all directors receive the same base fee, with the chair, deputy-chair and chairs of committees awarded an additional loading in recognition of added duties and responsibilities.

Where applicable, "superannuation guarantee" payments are made on behalf of directors to an eligible fund. Superannuation contributions are included in aggregate remuneration approved by members.

There are no retirement allowances made for directors.

There are no formal short-term or long-term incentive schemes for either directors or executives.

**B Details of remuneration**

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 *Related Party Disclosures)* of The Capricornian Ltd are set out in the following tables. All other conditions of employment are as set out in the Banking, Finance and Insurance Award 2010.

No directors or key management personnel of The Capricornian Ltd are remunerated by way of Investment Shares in The Capricornian Ltd. All Investment Shares purchased and held by directors and key management personnel, including their personally related parties, are set out in Note 22.

The key management personnel of the credit union are the directors (see pages 7 to 8 above), the Chief Executive Officer and those executives who report directly to the Chief Executive Officer. This includes the 3 executives who received the highest remuneration for the year ended 30 June 2019. The executives are:

- Dale Frederick Grounds – *Chief Executive Officer*, *Company Secretary*
- Graeme Walter Kemp – *General Manager Lending*
- Michelle Ann Alexander – *Chief Financial Officer* (Appointed 2nd January 2018), *Company Secretary* (Appointed 9th April 2019)

***Key management personnel of The Capricornian Ltd***

**2019**

| | Short-term employee benefits | | Post-employment benefits | Long-term benefits | |
|---|---|---|---|---|---|
| Name | Cash salary and fees $ | Non monetary benefits $ | Super-annuation $ | Long service leave $ | Total $ |
| *Directors* | | | | | |
| G.A. Edwards *Chairman* | 18,120 | - | 24,940 | - | 43,060 |
| J.F. Siganto *Deputy-Chairman* | 31,715 | - | 3,013 | - | 34,728 |
| V.A. Bastin-Byrne | 5,794 | - | 24,750 | - | 30,544 |
| C.B. O'Brien | 19,109 | - | 11,435 | - | 30,544 |
| P.G. Olrich | 24,629 | - | 2,340 | - | 26,969 |
| J.L. Davis* | 14,630 | - | 6,588 | - | 21,218 |
| **Sub-total directors** | **113,997** | **-** | **73,066** | **-** | **187,063** |
| *Other key management personnel* | | | | | |
| D.F. Grounds | 313,954 | 12,108 | 24,999 | 3,188 | 354,249 |
| G.W. Kemp | 140,808 | - | 24,908 | 3,519 | 169,235 |
| M.A. Alexander** | 152,094 | 1,154 | 15,489 | 3,030 | 171,767 |
| **Sub-total (other key management personnel)** | **606,856** | **13,262** | **65,396** | **9,737** | **695,251** |
| **Totals** | **720,853** | **13,262** | **138,462** | **9,737** | **882,314** |

**2018**

| | Short-term employee benefits | | Post-employment benefits | Long-term benefits | |
|---|---|---|---|---|---|
| Name | Cash salary and fees $ | Non monetary benefits $ | Super-annuation $ | Long service leave $ | Total $ |
| *Directors* | | | | | |
| G.A. Edwards *Chairman* | 16,533 | - | 24,991 | - | 41,524 |
| J.F. Siganto *Deputy-Chairman* | 30,179 | - | 2,867 | - | 33,046 |
| V.A. Bastin-Byrne | 1,324 | - | 27,434 | - | 28,758 |
| C.B. O'Brien | 19,463 | - | 9,295 | - | 28,758 |
| P.G. Olrich | 23,838 | - | 2,265 | - | 26,103 |
| **Sub-total directors** | **91,337** | **-** | **66,852** | **-** | **158,189** |
| *Other key management personnel* | | | | | |
| D.F. Grounds | 287,315 | 7,680 | 24,999 | 1,551 | 321,545 |
| G.W. Kemp | 136,735 | 371 | 24,847 | 3,204 | 165,157 |
| A.J. Robertson*** | 126,687 | 944 | 10,125 | - | 137,756 |
| M.A. Alexander** | 128,714 | - | 12,964 | 4,616 | 146,294 |
| **Sub-total (other key management personnel)** | **679,451** | **8,995** | **72,935** | **9,371** | **770,752** |
| **Totals** | **770,788** | **8,995** | **139,787** | **9,371** | **928,941** |

* J.L. Davis appointed 24th September 2018.
** M. A. Alexander appointed 2nd January 2018.
*** A.J. Robertson resigned 10th November 2017.

**Loans to key management personnel**

Information on loans to key management personnel, including amounts, interest rates and repayment terms are set out in Note 22 to the financial statements.

**Insurance of officers**
During the financial year, The Capricornian Ltd paid a premium to insure the directors and secretaries of the credit union and its executive officers and employees.

In accordance with normal commercial practice, disclosure of the total amount of premium payable under, and the nature of liabilities covered by, the insurance contract is prohibited by a confidentiality clause in the contract.

No insurance cover has been provided for the benefit of the auditors of the credit union.

**Proceedings on behalf of the company**
No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the credit union, or to intervene 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.

No proceedings have been brought or intervened in on behalf of the credit union with leave of the Court under section 237 of the *Corporations Act 2001.*

**Regulatory Disclosures**
The qualitative and quantitative disclosures on capital and remuneration as required by APS 330 Public Disclosures can be seen on the website of The Capricornian Ltd (https://www.capricornian.com.au/about-us/prudential-disclosures/).

**Non-audit services**
The credit union may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the credit union are important.

Details of the amounts paid to the auditor BDO Audit Pty Ltd for audit and non-audit services provided during the year are set out in Note 23.

The Directors have considered the position and are satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by directors to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

**Auditor's independence declaration**
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 14.

**Auditor**
BDO Audit Pty Ltd continues in office in accordance with section 327 of the *Corporations Act 2001.*

This report is made in accordance with a resolution of directors.

G. A. Edwards
Director

C.B. O'Brien
Director

Rockhampton
30th September 2019

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

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

**DECLARATION OF INDEPENDENCE BY M CUTRI TO THE DIRECTORS OF THE CAPRICORNIAN LTD**

As lead auditor of The Capricornian Ltd for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

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

M Cutri

Director

**BDO Audit Pty Ltd**

Brisbane, 30 September 2019

# Contents


| | Page |
|---|---|
| Financial statements | |
| Statement of Comprehensive Income | 15 |
| Statement of Financial Position | 16 |
| Statement of Changes in Equity | 17 |
| Statement of Cash Flows | 18 |
| Notes to the financial statements | 20 |
| Directors' declaration | 57 |
| Independent audit report to the members | 58 |


These financial statements cover The Capricornian Ltd ('the credit union') as an individual entity. The financial statements are presented in the Australian currency.

The credit union is a company limited by shares, incorporated and domiciled in Australia and operating under the "principles of mutuality" as set out in the preamble to the constitution. Its registered office and principal place of business is:

157 East Street
Rockhampton QLD 4700

A description of the nature of the credit union's operations and its principal activities is included in the directors' report on pages 7 to 13.

The financial statements were authorised for issue by the directors on 30th September 2019. The credit union has the power to amend and reissue the financial statements.

**The Capricornian Ltd**
**Statement of Comprehensive Income**
For the year ended 30 June 2019

| | Notes | **2019** **$** | 2018 $ |
|---|---|---|---|
| Interest revenue | 3 | 14,523,674 | 13,751,349 |
| Interest expense | 3 | (5,988,406) | (5,588,671) |
| Net interest revenue | | 8,535,268 | 8,162,678 |
| Fee and commission revenue | 4 | 1,369,994 | 1,479,704 |
| Other revenue | 4 | 609,966 | 199,254 |
| Total net interest income and other revenue | | 10,515,228 | 9,841,636 |
| Impairment expense on loan and advances | 11(b) | (67,295) | (329,030) |
| Other expenses | 5 | (8,180,549) | (7,512,327) |
| Total expenses | | (8,247,844) | (7,841,357) |
| Profit before income tax expense | | 2,267,384 | 2,000,279 |
| Income tax expense | 6 | (600,336) | (585,512) |
| Profit for the year attributable to members | | 1,667,048 | 1,414,767 |
| Other comprehensice income/(loss), net of income tax | | | |
| Revaluation of land and buildings | | (306,301) | - |
| Total comprehensive income for the year attributable to members | | 1,360,747 | 1,414,767 |

*The above statement of comprehensive income should be read in conjunction with the accompanying notes.*

| | Notes | 2019 $ | 2018 $ |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 7 | 36,634,813 | 33,958,882 |
| Receivables | 8 | 441,062 | 458,753 |
| Due from other financial institutions | 9 | 17,562,670 | 12,054,188 |
| Loans and advances | 10,11 | 289,947,951 | 282,339,992 |
| Non-current assets available for sale | | 80,000 | - |
| Property, plant and equipment | 12 | 2,538,088 | 2,954,129 |
| Intangible assets | 13 | 264,256 | 245,517 |
| Deferred tax assets | 14 | 371,018 | 592,824 |
| Other assets | 15 | 244,004 | 833,066 |
| **Total assets** | | 348,083,862 | 333,437,351 |
| **LIABILITIES** | | | |
| Deposits and borrowings | 17 | 319,675,690 | 306,554,694 |
| Other liabilities | 16 | 2,776,271 | 2,383,554 |
| Provision for income tax | | (42,597) | 116,179 |
| Provisions | 18 | 537,697 | 481,105 |
| **Total liabilities** | | 322,947,061 | 309,535,532 |
| **Net assets** | | 25,136,801 | 23,901,819 |
| **EQUITY** | | | |
| Contributed equity | 19 | 2,508,579 | 2,508,579 |
| Reserves | 20 | 992,544 | 1,252,195 |
| Retained earnings | | 21,635,678 | 20,141,045 |
| **Total equity** | | 25,136,801 | 23,901,819 |

*The above statement of financial position should be read in conjunction with the accompanying notes.*

**The Capricornian Ltd**
**Statement of Changes in Equity**
As at 30 June 2019

| | Notes | Contributed Equity $ | Asset Revaluation Reserve $ | Credit Loss Reserve $ | Retained Earnings $ | Total $ |
|---|---|---|---|---|---|---|
| **Balance 1 July 2017** | | 2,508,579 | 704,554 | 520,601 | 18,866,058 | 22,599,792 |
| Profit for the year | | - | - | - | 1,414,767 | 1,414,767 |
| Other comprehensive income, net of tax | | - | - | - | - | - |
| **Total comprehensive income for the year** | | - | - | - | 1,414,767 | 1,414,767 |
| Transfer to/from reserve for credit losses | | - | - | 27,040 | (27,040) | - |
| Transfer to/from other provisions | | - | - | - | (373) | (373) |
| **Total transfers to/from retained earnings** | | - | - | 27,040 | (27,413) | (373) |
| **Transactions with investment shareholders** | | | | | | |
| Contributions of equity, net of transaction costs | 19 | - | - | - | - | - |
| Dividend provided for or paid | | - | - | - | (112,367) | (112,367) |
| | | - | - | - | (112,367) | (112,367) |
| **Balance 30 June 2018** | | 2,508,579 | 704,554 | 547,641 | 20,141,045 | 23,901,819 |
| Profit for the year | | - | - | - | 1,667,048 | 1,667,048 |
| Other comprehensive income/(loss), net of tax | 20 | - | (306,301) | - | - | (306,301) |
| **Total comprehensive income for the year** | | - | (306,301) | - | 1,667,048 | 1,360,747 |
| Transfer to/from reserve for credit losses | | - | - | 46,650 | (46,650) | - |
| Transfer to/from other provisions | | | - | - | (333) | (333) |
| **Total transfers to/from retained earnings** | | - | - | 46,650 | (46,983) | (333) |
| **Transactions with investment shareholders** | | | | | | |
| Contributions of equity, net of transaction costs | 19 | - | - | - | - | - |
| Dividend provided for or paid | 18(a) | - | - | - | (125,432) | (125,432) |
| | | - | - | - | (125,432) | (125,432) |
| **Balance 30 June 2019** | | 2,508,579 | 398,253 | 594,291 | 21,635,678 | 25,136,801 |

*The above statement of changes in equity should be read in conjunction with the accompanying notes.*

| | Notes | **2019** **$** | 2018 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 14,547,300 | 13,720,24 |
| Interest paid | | (5,873,312) | (5,193,189) |
| Loans and advances funded | | (48,476,058) | (70,492,183) |
| Loans repaid excluding overdrafts | | 40,528,842 | 41,517,019 |
| Net inflow in member deposits | | 13,120,995 | 31,148,754 |
| Non interest revenue received | | 2,003,859 | 1,636,529 |
| Payments to suppliers and employees | | (7,029,637) | (8,315,247) |
| Income taxes paid | | (508,702) | (648,181) |
| **Net cash inflow/(outflow) from operating activities** | 28 | 8,313,287 | 3,373,742 |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment and intangible assets | | (452,893) | (303,918) |
| Payments for investments measured at amortised cost with a maturity of more than 3 months | | (5,508,482) | 26,867 |
| Proceeds from sale of property, plant and equipment | | 445,533 | 11,738 |
| **Net cash outflow from investing activities** | | (5,515,842) | (265,313) |
| **Cash flows from financing activities** | | | |
| Dividends paid | | (121,514) | (115,764) |
| **Net cash outflow from financing activities** | | (121,514) | (115,764) |
| **Net increase/(decrease) in cash and cash equivalents** | | 2,675,931 | 2,992,665 |
| Cash and cash equivalents at the beginning of the financial year | | 33,958,882 | 30,966,217 |
| **Cash and cash equivalents at the end of the financial year** | 29 | 36,634,813 | 33,958,882 |

*The above statement of cash flows should be read in conjunction with the accompanying notes.*

## Contents


| | | Page |
|---|---|---|
| 1 | Summary of significant accounting policies | 21 |
| 2 | Financial risk management | 32 |
| 3 | Interest revenue and interest expense | 40 |
| 4 | Fee, commission and other revenue | 40 |
| 5 | Other expenses | 41 |
| 6 | Income tax expense | 41 |
| 7 | Cash and cash equivalents | 42 |
| 8 | Receivables | 42 |
| 9 | Investments due from other financial institutions | 42 |
| 10 | Loans and advances | 42 |
| 11 | Impairment of loans and advances | 43 |
| 12 | Property, plant and equipment | 44 |
| 13 | Intangible assets | 47 |
| 14 | Deferred tax assets | 47 |
| 15 | Other assets | 48 |
| 16 | Other liabilities | 48 |
| 17 | Deposits and borrowings | 48 |
| 18 | Provisions | 49 |
| 19 | Contributed equity | 49 |
| 20 | Reserves and retained earnings | 50 |
| 21 | Dividends | 50 |
| 22 | Key management personnel disclosures | 51 |
| 23 | Remuneration of auditors | 53 |
| 24 | Contingent liabilities | 53 |
| 25 | Commitments | 54 |
| 26 | Fair values | 54 |
| 27 | Operational dependency | 55 |
| 28 | Reconciliation of profit after income tax to net cash inflow from operating activities | 55 |
| 29 | Reconciliation of cash | 56 |
| 30 | Related party transactions | 56 |
| 31 | Events subsequent to reporting date | 56 |

## 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes financial statements for The Capricornian Ltd.

### (a) Basis of preparation

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

For the purposes of preparing the financial statements The Capricornian Ltd is a for-profit entity.

*Compliance with IFRS*
The financial statements of The Capricornian Ltd also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

*Historical cost convention*
These financial statements have been prepared on an accruals basis and are based on historical cost convention except for financial assets and liabilities recorded at fair value through the statement of comprehensive income, certain classes of property, plant and equipment and investment property.

### (b) 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 2018. The credit union has initially adopted AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* from 1 July 2018.

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

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

- an increase in impairment losses recognised on financial assets at amortised cost (see Note 1(b));
- additional disclosures related to AASB 9 (see Note 1 (f)); and
- additional disclosures related to AASB 15 (see Note 1(j)).

Except for the changes discussed below, the credit union has consistently applied the accounting policies to all periods presented in these financial statements.

**AASB 9 *Financial Instruments***

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

As a result of the adoption of AASB 9, the credit union has adopted consequential amendments to AASB 7 Financial Instruments: Disclosures.

The credit union has chosen not to restate comparatives on adoption of AASB 9. Rather, these changes have been processed at the date of initial application (i.e. 1 July 2018) and recognised in the opening retained earnings and reserves (as applicable).

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

**Classification of financial assets and financial liabilities**

*Financial assets*

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

## 1 Summary of significant accounting policies (continued)

### (b) New and amended accounting standards and interpretations adopted during the year (continued)

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

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

The following summarises the key changes:

- The existing AASB 139 categories of held-to-maturity, loans and receivables and available-for-sale (AFS) were removed.

*Financial liabilities*

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

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

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

| | | | | As at 1 July 2018 | |
|---|---|---|---|---|---|
| | **Note** | **Original measurement category under AASB 139** | **New measurement category under AASB 9** | **Original carrying amount under AASB 139 $'000** | **New carrying amount under AASB 9 $'000** |
| **Cash and cash equivalents** | 7 | Amortised cost (Loans and receivables) | Amortised cost | 33,959 | 33,959 |
| **Due from other financial institutions** | 9 | Financial assets held to maturity | Amortised cost | 12,054 | 12,054 |
| **Receivables** | 8 | Amortised cost (Loans and receivables) | Amortised cost | 459 | 459 |
| **Loans and advances** | 10 | Amortised cost (Loans and receivables) | Amortised cost | 282,340 | 282,252 |
| **Total financial assets** | | | | **328,812** | **328,724** |
| **Deposits** | 17 | Amortised cost | Amortised cost | 306,555 | 306,555 |
| **Other liabilities** | 16 | Amortised cost | Amortised cost | 2,384 | 2,384 |
| **Total financial liabilities** | | | | **308,939** | **308,939** |

The credit union's accounting policies on the classification of financial instruments under AASB 9 are set out in Note 1 (b).

## 1 Summary of significant accounting policies (continued)

### (b) New and amended accounting standards and interpretations adopted during the year (continued)

The application of these policies resulted in the reclassifications set out in the table above and explained below.

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

*Changes to impairment of financial assets*

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

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

- Stage 1: 12-months ECL

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

- Stage 2: Lifetime ECL – not credit impaired

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

- Stage 3: Lifetime ECL – credit impaired

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

Refer to the following for:

Accounting policy on the Assessment of Significant increase in Credit risk and Measuring ECL for:

Loans and advances – Note 10

No ECL is recognised on equity investments due from other financial institutions.

Overall, impairment under AASB 9 results in an earlier recognition of credit losses than under AASB 139.

For more details of how the credit union applies the impairment requirements of AASB 9, see Note 11.

**AASB 15 *Revenue from Contracts with Customers***

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

The credit union initially applied AASB 15 on 1 July 2018 retrospectively in accordance with AASB 8 without any practical expedients. The timing or amount of the credit union's fee and commission income from contracts with customers was not impacted by the adoption of AASB 15.

The impact of AASB 15 was limited to the new disclosure requirements (see Note 1 (j)).

### (c) Fee and commission revenue

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan establishment fees are deferred and recognised as an adjustment to the effective interest rate on the loan. Commissions and fees are recognised over the period the service is provided. This principle is applied to loan brokerage, insurance, asset management and financial planning services that are continuously provided over an extended period of time.

## 1 Summary of significant accounting policies (continued)

### (d) Income tax

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and 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. 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.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

### (e) Operating leases

Leases in which a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (Note 25(a)). Payments made under operating leases (net of any incentives received by the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which the termination takes place.

### (f) Financial assets and financial liabilities

*Accounting policy from 1 July 2018*

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

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

*(ii) Classification and subsequent recognition and measurement*

**Financial assets**

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

## 1 Summary of significant accounting policies (continued)

### (f) Financial assets and financial liabilities (continued)

**Financial liabilities**

The credit union classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

*(iii) De-recognition*

**Financial assets**

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

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

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

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

The credit union periodically enters into asset transfer agreements with third parties including securitisation of residential mortgages into special purpose entities. All securitisation transactions are reviewed and assessed based on the above-noted derecognition criteria. In instances where the credit union's securitizations do not qualify for derecognition based on the above criteria, the credit union does not derecognise the transferred financial assets but records a secured borrowing with respect to any consideration received. For details of the credit union's policy on securitisation refer to Note 10.

**Financial liabilities**

The credit union derecognises a financial liability when its contractual obligations are discharged or cancelled or when they expire.

*(iv) Offsetting*

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

*(v) Fair Value Measurement*

Refer to Note 1 (g) for information regarding the credit union's fair value measurements.

*(vi) Impairment*

The credit union applies a three-stage approach to measuring expected credit losses (ECLs) for the following categories of financial assets that are not measured at fair value through profit or loss (FVTPL):

- financial assets that are debt instruments carried at amortised cost (loans and advances to members);
- loan commitments issued; and
- financial guarantee contracts issued.

Exposures are assessed on a collective basis 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.

## 1 Summary of significant accounting policies (continued)

### (f) Financial assets and financial liabilities (continued)

| Stage | Measurement basis |
|---|---|
| 12-months ECL<br>(Stage 1) | The portion of lifetime ECL associated with the probability of default events occurring within the next 12 months. |
| Lifetime ECL – not credit impaired<br>(Stage 2) | ECL associated with the probability of default events occurring throughout the life of an instrument. |
| Lifetime ECL – credit impaired<br>(Stage 3) | Lifetime ECL, but interest revenue is measured based on the carrying amount of the instrument net of the associated ECL. |

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. Refer to Note 2 (b).

The credit union measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- other financial assets measured as amortised cost that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

The credit union considers 'cash and cash equivalents' and 'due from other financial institutions' classified as financial assets at amortised cost to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

**Measurement of ECL**

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

- loans and advances 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); and
- loans and advances 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.

**Credit Quality of financial assets**

The credit union's internally developed credit rating system utilises historical default data drawn from a number of sources to assess the potential default risk of lending, or other financial services products, provided to counterparties or customers. The credit union has defined counterparty probabilities of default across retail and non-retail loans and advances. For non-retail, these can be broadly mapped to external credit rating agencies and comprise performing (pre-default) and non-performing (post-default) rating grades.

**Credit-impaired loans and advances**

At each reporting date, the credit union assesses whether loans and advances carried at amortised cost are credit-impaired. A loan is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the loans have occurred. Refer to Note 2 (b) for further details on the identification of credit risk.

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.

## 1 Summary of significant accounting policies (continued)

### (f) Financial assets and financial liabilities (continued)

**Presentation of allowance for ECL in the statement of financial position**
Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost; as a deduction from the gross carrying amount of the assets; and
- where a financial instrument includes both a drawn and an undrawn component, and the credit union cannot identify the ECL on the loan commitment component separately from those on the drawn component: the credit union presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

**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, loans 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.

*Accounting policy before 1 July 2018*

**Classification**
The credit union classifies its investments in the following categories: loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. The directors determine the classification of investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluate this designation at each reporting date.

*(i) Loans and advances*
Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the credit union provides money, goods or services directly to a debtor with no intention of selling the receivable. Loans and advances are included in the statement of financial position (Note 10).

*(ii) Due from other financial institutions*
Investments due from other financial institutions are non-derivative financial assets with fixed or determinable payments and fixed maturities that the credit union's management has the positive intention and ability to hold to maturity.

**Recognition and derecognition**
Regular purchases and sales of investments are recognised on the date on which the credit union commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the credit union has transferred substantially all the risks and rewards of ownership.

Loans and receivables and investments due from other financial institutions are carried at amortised cost using the effective interest method.

**Impairment**
The credit union assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is evidence of impairment for any of the credit union's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in the statement of comprehensive income.

### (g) Fair value measurement

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

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

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

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

## 1 Summary of significant accounting policies (continued)

### (g) Fair value measurement (continued)

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

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

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

### (h) Interest receivable

The interest receivable on cash equivalents and financial assets due from other financial institutions are recognised in the statement of financial position, with all investments expected to be held until maturity and interest received within 12 months.

### (i) 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 change in their value, and are used by The Capricornian Ltd in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the Statements of Financial Position.

### (j) Interest income and interest expense

*Accounting policy from 1 July 2018*

**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 and fees paid or received that are an integral part of the effective interest rate. Transacation costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

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

The calculation of the effective interest rate includes transaction costs and fees paid or received 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 amortisation using the effective interest method on any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 July 2018). The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.
In calculating interest income and 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.

## 1 Summary of significant accounting policies (continued)

### (j) Interest income and interest expense (continued)

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 asset are credit-impaired, see Note 2.

*Accounting policy before 1 July 2018*

Interest income for financial assets at amortised cost is recognised using the effective interest rate method. Origination fee and transaction costs that are direct and incremental to the establishment of the financial instrument are deferred and amortised as a component of the calculation of the effective interest rate. The effective interest rate method calculates the amortised cost of a financial instrument by discounting the financial instrument's estimated future cash receipts or payments to their present value and allocates the interest income, including any fees, costs, premiums or discounts integral to the financial instrument, over its expected life.

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### (k) Loans and advances

*Accounting policy from 1 July 2018*

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 credit impairment.

Refer to Note 1 (b) on the accounting policy regarding the impairment of loans and advances.

*Accounting policy before 1 July 2018*

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the credit union does not intend to sell immediately or in the near term. Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Loans and advances to members are recognised at the recoverable amount, after assessing required provisions for impairment. Impairment of a loan is recognised when there is objective evidence that not all the principal and interest can be collected in accordance with the terms of the loan agreement.

During the year ended 30 June 2019 the credit union's provision for impairment policy consisted of the following components:

- The provision for impairment is calculated monthly according to Prudential Standard AGN220.3. Additional provision on credit exposures is included as directed by the Board.
- The Prudential Standards require that a "credit loss reserve" be maintained as part of members' equity to cover risks inherent in the loan portfolio. Movements in the general reserve for credit losses are recognised as an appropriation of retained earnings.

Bad debts are written off when identified. If a provision for impairment has been recognised in relation to a loan, write offs for bad debts are made against the provision. If no provision for impairment has been previously recognised, write offs for bad debts are recognised as an expense in the statement of comprehensive income.

### (l) Property, plant and equipment

Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the credit union and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

## 1 Summary of significant accounting policies (continued)

### (l) Property, plant and equipment (continued)

Increases in the carrying amounts arising on revaluation of land and buildings are credited, net of tax, to asset revaluation reserve in equity. To the extent that the increase reverses a decrease previously recognised in the statement of comprehensive income, the increase is first recognised in the statement of comprehensive income. Decreases that reverse previous increases of the same asset are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the asset; all other decreases are charged to the statement of comprehensive income. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to the statement of comprehensive income and depreciation based on the asset's original cost, net of tax, is transferred from the property, plant and equipment revaluation reserve to retained earnings.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method. The rates used are as follows:

| | |
|---|---|
| - Buildings | 2.5% |
| - Computer Hardware | 25.0% |
| - Leasehold Improvements | 10.0% (or the unexpired term of the lease whichever is shorter) |
| - Motor Vehicles | 20.0% |
| - Office Furniture and Equipment | 15.0% |
| - "Low value pool" depreciable assets whose individual acquisition cost is less than $1,000 | 25.0% |

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income. When revalued assets are sold, it is credit union policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

### (m) Intangible Assets

Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the credit union are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use
- management intends to complete the software and use it
- there is an ability to use the software
- it can be demonstrated how the software will generate probable future economic benefits
- there is a definite useful life expected of the software
- adequate technical, financial and other resources to complete the development and to use the software are available, and
- the expenditure attributable to the software during its development can be reliable measured.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

Amortisation on intangible assets is calculated using the straight-line method. The rates used are as follows:

| | |
|---|---|
| - Core Banking System (licenses and installation costs) | 25.0% |
| - General Computer Software | 33.3% |

The amortisation expense is recorded as other expenses in the statement of comprehensive income.

### (n) Member deposits

Member's deposits are brought to account at the gross value of the outstanding balance and measured at amortised cost. Interest on deposits is brought to account on an accrual basis using the effective interest rate method. Interest accrued at reporting date is included in accrued expenses.

### (o) Employee benefits

*(i) Wages and salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in the provision for employee benefits in respect of employees' service up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

## 1 Summary of significant accounting policies (continued)

### (o) Employee benefits (continued)

*(ii) Long service leave*
The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and measured in accordance with the paragraph above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

*(iii) Retirement benefit obligations*
Contributions are made by the credit union to employee superannuation funds and are charged as expenses when incurred.

### (p) Contributed equity

“Investment Shares”, which are Irredeemable, Non-cumulative, Non-participating preference shares are classified as equity.

If the credit union reacquires its own equity instruments, eg as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the statement of comprehensive income and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

### (q) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the credit union, on or before the end of the financial year but not distributed at balance date.

### (r) Goods and Services Tax (GST)

As a financial institution providing input taxed supplies, the credit union is unable to claim back all GST paid and thus amounts shown in these financial statements are inclusive of any non-recoverable GST.

### (s) Significant accounting estimates and judgements

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise their judgement in the process of applying the credit union’s accounting policies. Accounting estimates are used in the calculation of the provision fo expected credit loss relating to loans to members. Refer to Note 1 (f), Note 1 (g) and Note 1 (k) for further information regarding such estimates.

### (t) 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 30 June 2019. The credit union’s assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 16: *Leases* (applicable to reporting periods after 1 January 2019). Except for short-term leases (less than 12 Months from commencement date, including extension options), and ‘low value’ items, all leases will be capitalised on the balance sheet by recognising a ‘right-of-use’ asset and a lease liability for the present value of the obligation. This means that we will no longer see straight-line ‘rental’ expense in profit or loss (except for short-term leases and low value items). All leases will incur a front-end loaded expense, comprising depreciation on the right-of-use asset, and interest on the lease liability. When initially measuring the right-of-use asset and lease liability, non-cancellable lease payments (including inflation-linked payments), as well as payments for option periods which the entity is reasonably certain to exercise, must be included in the present value calculation. There will be no change to the accounting treatment for short-term leases less than 12 months and leases of low value items, which will continue to be expensed on a straight-line basis. No changes to accounting for entities as a lessor, as it retains the accounting for operating and finance leases for lessors.

The credit union has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The actual impact of applying AASB 16 on the financial statements in the period of initial application will depend on future economic conditions, the development of the credit union’s lease portfolio, the credit union’s assessment of whether it will exercise any lease renewal options and the extent to which the credit union chooses to use practical expedients and recognition exemptions. The credit union will recognise new assets and liabilities for its operating leases of branch premises (see Note 25). The nature of expenses related to these leases will now change because AASB 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously the credit union recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

## 1 Summary of significant accounting policies (continued)

### (t) New and amended accounting standards and interpretations issued but not yet effective (continued)

As at 30 June 2019 the credit union's future minimum lease payments under non-cancellable operating leases amounted to $382,906, on an undiscounted basis, which the credit union estimates it will recognise as additional lease liabilities.

The credit union plans to apply AASB 16 initially on 1 July 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting AASB 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 July 2019, with no restatement of comparative information. The credit union plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply AASB 16 to all contracts entered into before 1 July 2019 and identified as leases in accordance with AASB 117 and IFRIC 4.

## 2 Financial risk management

The credit union's activities expose it to a variety of financial risks; credit risk, liquidity risk and market risk (including fair value interest rate risk and price risk). The credit union's overall risk management program focuses on the unpredictability of financial markets and seeks to manage potential adverse effects on the financial performance of the credit union.

Risk management is carried out by applying policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate and credit risks and investing excess liquidity.

### (a) Market Risk

(i) Price risk

Equity securities price risk arises from investments held by the credit union and classified on the statement of financial position as available-for-sale. The credit union is not exposed to significant price risk. The credit union is not exposed to commodity price risk.

(ii) Interest rate risk

The credit union is subject to risk arising from the effects of future changes in the prevailing level of interest rates. The extent of any exposure to interest rate risk is described by the period to contractual repricing as follows:

1) Financial assets and liabilities not exposed to interest rate risk:
    - Cash and cash equivalents (*Note 7*)
    - Other liabilities (*Note 16*)

2) Financial assets and liabilities where the period to contractual repricing is equivalent to the maturity analysis:
    - Due from other financial institutions *(Note 9)*
    - Deposits and borrowings – member call deposits and member term deposits (*Note 2 (c))*

3) Unsecured notes *(Refer Note 2 (c))* are issued for a five or seven year term with repayment of principal and outstanding interest subordinated to the rights of depositors, secured and unsecured creditors and any other payments required by the law to be made in priority.

Contractual terms provide for the repricing of unsecured notes every 3 months, as indicated in the following schedule:-

| | **2019** **$** | 2018 $ |
|---|---|---|
| No longer than 1 month | - | - |
| More than 1 month and less than 3 months | - | 1,023,123 |
| | - | 1,023,123 |

## 2 Financial risk management (continued)

### (a) Market Risk (continued)

4) Loans and advances will potentially reprice in accordance with the following schedule:-

| | **2019** **$** | 2018 $ |
|---|---|---|
| No longer than 1 month | 211,726,955 | 215,011,484 |
| More than 1 month and less than 3 months | 2,947,470 | 3,059,257 |
| More than 3 months and less than 12 months | 22,852,185 | 20,505,092 |
| More than 12 months and less than 5 years | 52,684,323 | 44,275,123 |
| | 290,210,933 | 282,850,956 |

5) The credit union's exposure to interest rate risk, which is the risk that a financial instrument's value or cash flows will fluctuate as a result of changes in market interest rates, and the effective weighted average interest rate on classes of financial assets and financial liabilities, is set out below.

| | **Floating interest rate $'000** | **Fixed interest rate maturing within 1 year $'000** | **Fixed interest rate maturing 1 - 5 years $'000** | **Non-interest sensitive $'000** | **Total $'000** | **Effective interest rate %** |
|---|---|---|---|---|---|---|
| **2019** | | | | | | |
| Cash and Cash Equivalents | 16,747 | - | - | 483 | 17,231 | 1.29 |
| Due from other financial institutions | 16,563 | 19,404 | - | - | 35,967 | 2.34 |
| Other receivables | - | - | - | 441 | 441 | - |
| Loans and advances | 209,017 | 28,510 | 52,684 | - | 290,211 | 4.68 |
| Subordinated debt | - | - | - | - | - | - |
| Other payables | - | - | - | (2,776) | (2,776) | - |
| Deposits | (110,710) | (183,268) | - | (25,697) | (319,676) | (1.81) |
| | 131,616 | (135,354) | 52,684 | (27,549) | 21,398 | 2.46 |
| **2018** | | | | | | |
| Cash and Cash Equivalents | 7,257 | - | - | 351 | 7,607 | 0.88 |
| Due from other financial institutions | 12,054 | 26,352 | - | - | 38,406 | 2.25 |
| Other receivables | - | - | - | 459 | 459 | - |
| Loans and advances | 214,780 | 23,796 | 44,275 | - | 282,851 | 4.67 |
| Subordinated debt | (1,023) | - | - | - | (1,023) | (5.51) |
| Other payables | | - | | (2,384) | (2,384) | - |
| Deposits | (117,205) | (164,850) | - | (23,477) | (305,532) | (1.89) |
| | 115,863 | (114,702) | 44,275 | (25,051) | 20,384 | 2.43 |

6) Sensitivity

Interest sensitivity of the book is a measure of the change in the present value of an asset or liability due to a change in interest rates.

Sensitivity has been measured to a 100 basis point parallel downward shift in interest rates out to the last repricing period of the book. This figure is found by summing the present values of the exposures across the different maturity periods. A positive figure means the portfolio will be adversely affected by a rate rise.

The use of 100 basis points sensitivity allows the credit union to compare movements in its risk position on a quarterly basis. This provides an estimate of changes to accrued income should rates move in a certain direction. In practice though, exact parallel shifts in rates are unlikely to occur in the market. The analysis is done on a quarterly basis to verify that the maximum loss potential to the statement of comprehensive income is within the limit set by the board.

The analysis and aggregation of the credit union's statement of financial position gives rise to the following interest rate sensitivities:

## 2 Financial risk management (continued)

### (a) Market Risk (continued)

| **Sensitivity** | **2019 $** | 2018 $ |
|---|---|---|
| Sensitivity to 1% rate fall on profit and equity | (79,600) | 161,100 |

The results of the interest sensitivity analysis reported provides that the credit union's exposure to loss as at 30 June 2019 is to a decrease in interest rates. This is demonstrated by the negative result to accrued income in a rate fall scenario as demonstrated above.

### (b) Credit risk

(i) Maximum credit risk exposure

The maximum credit risk exposure, without taking into account the value of any collateral or other security, in the event counterparties fail to perform their obligations under financial instruments is equivalent to the amounts reported in the statement of financial position or notes to and forming part of the accounts for the following financial assets:

- Cash and cash equivalents – current accounts with Authorised Deposit-Taking Institutions (*Note 7*)
- Receivables (*Note 8*)
- Loans and advances (*Note 10*)
- Due from other financial institutions *(Note 9)*

(ii) Concentration of credit risk

The credit union minimises concentrations of credit risk in relation to loans by undertaking transactions with a large number of members. Credit risk is currently managed in accordance with the Prudential Standards to reduce the credit union's exposure to potential failure of counterparties to meet their obligations under the contract or arrangement.

The credit union's operations are predominately in the Central Queensland region. Total loans due from members located in Central Queensland form 94% ($273,012,244) of the Credit Union's total loans and advances. There is no significant exposure to a particular industry or customer group.

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

| | **2019 $** | 2018 $ |
|---|---|---|
| • Authorised Deposit-Taking Institutions Aggregate Amount | 45,731,731 | 37,068,318 |
| Number of financial assets | 28 | 27 |

The credit policy is that investments are only made to institutions that are creditworthy. Directors have established policies that stipulate a maximum percentage that can be invested in any one financial institution at a time. The risk of losses from the liquid investments undertaken is reduced by the nature and quality of the independent rating of the investment body and the limits to concentration on one entity. Also, the relative size of the The Capricornian Ltd compared to the industry is relatively low such that the risk of loss is reduced.

Under the liquidity support scheme at least 3.2% of the total assets must be invested in Cuscal Limited (Cuscal) to allow the scheme to have adequate resources to meet its obligations.

(iii) External credit assessment for institutional investments

The Capricornian Ltd uses the ratings of reputable ratings agencies to assess the credit quality of all investment exposure, where applicable, using the credit quality assessment scale in APRA Prudential Standard 112.0 The credit quality assessment scale within this standard has been complied with.

## 2 Financial risk management (continued)

### (b) Credit Risk (continued)

The carrying values associated with each credit quality step for The Capricornian Ltd are as follows:

| | **2019** **$** | 2018 $ |
|---|---|---|
| Cuscal | 5,219,963 | 6,759,546 |
| ADIs – rated AA- and above | 16,562,670 | 11,054,188 |
| ADIs – rated below AA- | 19,833,876 | 24,836,616 |
| Unrated institutions - ADIs | 12,082,245 | 3,362,720 |
| | 53,698,754 | 46,013,070 |

(iv) Credit Risk Management System

The Credit Risk Management System ensures that:

- Rigorous ongoing monitoring of credit quality is undertaken.
- Impaired facilities are identified, measured and acted on in a timely manner.
- Inherent credit risk in the credit union's business is realistically estimated and factored into business planning, capital and credit systems.
- Recognition of collateral as a mitigant to credit risk is based on sound and prudent valuation of security.
- Credit facilities which are deemed to be uncollectible are routinely written down or written off.
- Credit assessment and provisioning procedures are periodically validated to ensure that policy settings remain appropriate.
- Provisions and reserves, including the specific provision for doubtful debts and the general reserve for credit losses, are adequate.
- Data is generated to fully and adequately assess the credit union's credit risk exposures and levels of impairment and to prepare various reports including internal reports, general purpose financial reports and reports to Australian Prudential Regulatory Authority (APRA).
- Credit exposures, including non-lending exposures, are sensibly diversified and limited such that changing market conditions do not unduly impact on the credit union's net worth or viability.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or, in the instance of loans to members, consideration of the structure of the loan and any collateral held.

| **Current accounts with ADI's** | **2019** **$** | 2018 $ |
|---|---|---|
| Investment Grade | 4,649,734 | 7,873,666 |
| Non-investment Grade | 12,082,245 | 3,362,720 |
| Total current accounts with ADI's | 16,731,979 | 11,236,386 |

| **Due from other financial institutions** | **2019** **$** | 2018 $ |
|---|---|---|
| Investment Grade | 36,966,774 | 34,425,914 |
| Non-investment Grade | - | - |
| Total due from other financial institutions | 36,966,774 | 34,425,914 |

| **Loans and advances** | **2019** **$** | 2018 $ |
|---|---|---|
| Mortgage over Residential Property | 263,830,143 | 257,364,766 |
| Mortgage over Other Property | 16,905,096 | 15,394,465 |
| Personal Loans and overdrafts | 9,475,694 | 10,091,725 |
| | 290,210,933 | 282,850,956 |

## 2 Financial risk management (continued)

### (b) Credit Risk (continued)

| **Impairment of loans and advances** | **2019** | | | | **2018** |
|---|---|---|---|---|---|
| | Stage 1 loans | Stage 2 loans | Stage 3 loans | Total | Total |
| | $ | $ | $ | $ | $ |
| Mortgage over Residential Property | 260,806,117 | 675,370 | 2,348,656 | 263,830,143 | 257,364,766 |
| Mortgage over Other Property | 16,905,096 | - | - | 16,905,096 | 15,394,465 |
| Personal Loans and Overdrafts | 9,063,109 | 78,846 | 333,739 | 9,475,694 | 10,091,725 |
| Gross loans and advances | 286,774,322 | 754,216 | 2,682,395 | 290,210,933 | 282,850,956 |
| | | | | | |
| Allowance for impairment | (30,982) | (13,438) | (186,588) | (231,008) | (457,333) |
| Carrying value | 286,743,340 | 740,778 | 2,495,807 | 289,979,925 | 282,393,623 |

| **Lifetime expected credit losses** | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| Credit impaired | 3,436,611 | 2,550,237 |
| Non-credit impaired | 286,774,322 | 280,300,719 |
| Unamortised setup costs | 104,985 | 158,375 |
| Unamortised establishment fees | (136,959) | (212,006) |
| Lifetime expected credit losses | | |
| -Stage 1 | (30,982) | (21,620) |
| -Stage 2 | (13,438) | (60,072) |
| -Stage 3 | (186,588) | (375,641) |
| Net loans and advances | 289,947,951 | 282,339,992 |

**Collateral held and other credit enhancements**

The credit union holds collateral against loans and advances to customers as detailed below:

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| Loans and advances with no collateral | 9,475,694 | 10,091,725 |
| Loans and advances with collateral | 280,735,239 | 272,759,231 |
| Gross loans and advances | 290,210,933 | 282,850,956 |

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

**Amounts arising from ECL**

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 1 (f).

**Credit risk grades**

The credit union allocates each exposure to a credit risk category based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Each exposure is allocated to a credit risk grade at initial recognition based on the type of loan on issue as well as the LVR. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves the use of the following data:

## 2 Financial risk management (continued)

### (b) Credit Risk (continued)

*Commercial exposures*

- Information obtained during an annual review of member files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, debt service coverage and compliance with covenants.
- Data from credit reference agencies and press articles.
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.

*Retail exposures*

- Internally collected data on customer behaviour – e.g. utilisation of transaction account facilities.
- Affordability metrics.

*All exposures*

- Payment record – this includes overdue status as well as a range of variables about payment ratios.
- Utilisation of the approved limit.
- Requests for and granting of forbearance.
- Existing and forecast changes in business, financial and economic conditions.

**Determining whether credit risk has increased significantly**

The criteria for determining whether credit risk has increased varies by portfolio and include quantitative changes in Probability of Default (PDs) and qualitative factors, including a backstop based on delinquency, of which this would be taken into consideration for the watch-list. Another factor which deems the portfolio's credit risk to have increased significantly since initial recognition is if, based on the credit union's model, the LVR of the loan has increased past the threshold for it to be deemed a risk as identified above.
As a backstop, the credit union considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due or, for overlimit overdrafts and overdrawn accounts with no approved facility, more than 14 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The credit union monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default which is seen when the LVR changes thresholds; and
- the criteria do not align with the point in time when an asset becomes 30 days past due.

**Definition of default**
The credit union considers a loan to be in default when:

- the borrower is unlikely to pay its credit obligations to the credit union in full, without recourse by the credit union to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the credit Union.

Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding;

- the credit union agrees to a distressed restructuring resulting in a material credit related diminished asset stemming from such actions as material forgiveness or postponement of payments of repayments of amount owing;
- the credit union has files for the borrower's bankruptcy in connection with the credit obligation; or
- the borrower has sought or been placed in bankruptcy resulting in the delay or avoidance of repayment of the amount owing.

In assessing whether a borrower is in default, the credit union considers indicators that are:

- qualitative – e.g. breaches of covenant
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Credit Union; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a loan is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the credit union for regulatory capital purposes (see Note 2 (d)).

## 2 Financial risk management (continued)

### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions. Due to the dynamic nature of the underlying business, the credit union aims at maintaining flexibility in funding by keeping committed credit lines available.

(i) Liquidity Management Strategy

The liquidity management strategy ensures, irrespective of any contemporary or contingent, internal or external risk, event or calamity, and across a wide range of operating circumstances, that:

- The credit union has, at all times, ready access to unencumbered, high quality liquid assets to meet any call on its liabilities.
- The credit union's provisioning for liquid assets is both appropriate and proportional to the risk of any likely call on its liabilities.
- The credit union does not create any exposure to any single or associated group of members that could create an undue liquidity risk.
- Such liquid assets are held in a form and with persons acceptable to APRA and the Board.
- Minimum liquidity ratios, as may be prescribed from time to time, are easily exceeded.

(ii) Maturity Profile of Financial Liabilities

The associated table shows the period in which different monetary liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained. For term loans the dissection is based upon contractual conditions of each loan being strictly complied with and is subject to change in the event that current repayment conditions are varied.

| 2019 | Within 1 month $ | 1–3 months $ | 3-12 months $ | 1-5 years $ | At Call $ | Total $ |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| Deposits and borrowings | 30,986,726 | 59,962,590 | 92,319,095 | - | 136,322,198 | 319,590,609 |
| Interest payable | 376,114 | 395,010 | 738,757 | - | - | 1,509,881 |
| **Total Financial Liabilities** | **31,362,840** | **60,357,600** | **93,057,852** | **-** | **136,322,198** | **321,100,490** |

| 2018 | Within 1 month $ | 1–3 months $ | 3-12 months $ | 1-5 years $ | At Call $ | Total $ |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| Deposits and borrowings | 37,325,887 | 49,067,662 | 79,479,348 | - | 140,681,797 | 306,554,694 |
| Interest payable | 356,504 | 395,071 | 643,213 | - | - | 1,394,788 |
| **Total Financial Liabilities** | **37,682,391** | **49,462,733** | **80,122,561** | **-** | **140,681,797** | **307,949,482** |

(iii) Liquid funds

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

| **Liquid funds to total adjusted liabilities** | **2019 %** | 2018 % |
|---|---|---|
| As at 30 June | 16.22 | 14.53 |
| Average for the year | 15.30 | 15.23 |
| Minimum during the year | 13.74 | 14.13 |

## 2 Financial risk management (continued)

### (c) Liquidity risk (continued)

| **Liquid funds to total deposits** | **2019** **%** | 2018 % |
|---|---|---|
| As at 30 June | 16.95 | 15.06 |

(iv) Fair Value Measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

### (d) Capital risk

The Australian Prudential Regulatory Authority (APRA) sets and monitors capital requirements for The Capricornian Ltd under Australian Prudential Standard 110 Capital Adequacy. Under the Standard The Capricornian Ltd 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 depositrs and other creditors in the event of winding up.

The Capricornian Ltd's Tier 1 capital includes investment shares, retained earnings and reserves (except for credit losses reserve), adjusted by regulatory adjustments. The investment shares issued are approved by APRA and qualify as Tier 1 capital.

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 Capricornian Ltd as a going concern. The Capricornian Ltd's Tier 2 capital includes credit losses reserve and qualifying subordinated loans, adjusted by regulatory adjustments.

Capital in The Capricornian Ltd is made up as follows:

| | **2019** **$** | 2018 $ |
|---|---|---|
| **Tier 1 capital** | | |
| Share capital | 783,900 | 1,045,200 |
| Revaluation reserve | 398,253 | 704,554 |
| Retained earnings | 21,635,678 | 20,141,045 |
| Prescribed deductions | (575,441) | (909,946) |
| Net Tier 1 Capital | 22,242,390 | 20,980,853 |

| **Tier 2 capital** | **2019** **$** | 2018 $ |
|---|---|---|
| Subordinated debt | - | 204,625 |
| Credit losses reserve | 594,291 | 547,641 |
| Net Tier 2 Capital | 594,291 | 752,266 |
| Total Capital | 22,836,681 | 21,733,119 |

## 2 Financial risk management (continued)

### (d) Capital risk (continued)

The Capricornian Ltd is required to maintain a minimum capital level of 8% as compared to the risk weighted assets at any given time in accordance with APRA Prudential Standards. The Capricornian Ltd 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 follows:

| | **2019** | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Capital ratio | 14.03% | 13.88% | 13.97% | 14.26% | 15.17% |

The Capricornian Ltd'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 Capricornian Ltd's capital, The Capricornian Ltd reviews the ratio monthly and monitors major movements in asset levels. Policies have been implemented which require reporting to the Board and to the regulator if the capital ratio falls below 13.80%. Further, a 5 year capital budget projection of the capital levels is maintained annually to address how strategic decisions or trends may impact on the capital level.

## 3 Interest revenue and interest expense

The following table shows the amount of interest revenue or expense for each of the major categories of interest bearing assets and liabilities.

| | **2019** **$** | 2018 $ |
|---|---|---|
| **Interest Revenue** | | |
| Cash and cash equivalents | 684,379 | 620,785 |
| Investment securities | 345,813 | 318,310 |
| Loans and advances | 13,493,482 | 12,812,254 |
| | 14,523,674 | 13,751,349 |
| **Interest Expense** | | |
| Member deposits | 5,946,530 | 5,503,585 |
| Investment Bonds | 39,147 | 83,760 |
| Unsecured notes | 2,729 | 1,326 |
| | 5,988,406 | 5,588,671 |

## 4 Fee, commission and other revenue

| | **2019** **$** | 2018 $ |
|---|---|---|
| Non-interest revenue | | |
| Fees and commissions | | |
| -loan fee income | 143,836 | 152,595 |
| -other fee income | 642,927 | 694,838 |
| -insurance commissions | 395,779 | 409,495 |
| -other commissions | 187,452 | 222,776 |
| Subtotal | 1,369,994 | 1,479,704 |
| Bad debts recovered | 2,600 | 12,561 |
| Other revenue | | |
| -insurance claim proceeds on loss of property | 427,962 | - |
| -other | 179,404 | 186,693 |
| Subtotal | 609,966 | 199,254 |
| Total non-interest revenue | 1,979,960 | 1,678,958 |

## 5 Other expenses

| | **2019** **$** | 2018 $ |
|---|---|---|
| Depreciation and amortisation | | |
| -plant and equipment | 143,373 | 145,948 |
| -buildings | 50,577 | 54,511 |
| -intangible assets | 151,389 | 220,474 |
| General and administration | | |
| -personnel costs | 3,260,795 | 3,027,426 |
| -superannuation costs | 286,656 | 260,893 |
| -other | 2,238,113 | 2,070,792 |
| Other expenses | | |
| -operating lease expenses | 253,103 | 255,358 |
| -information technology and communication expenses | 1,033,203 | 920,561 |
| -loss on disposal of property | 234,896 | - |
| -other | 528,444 | 556,364 |
| Total other expenses | 8,180,549 | 7,512,327 |

## 6 Income tax expense

(a) The prima facie tax on profit before income tax is reconciled to the income tax expense provided in the financial statements as follows:

| | **2019** **$** | 2018 $ |
|---|---|---|
| Profit from continuing operations before income tax | 2,267,384 | 2,000,279 |
| Prima facie tax payable on profit at 27.5% (2018: 27.5%) | 623,531 | 550,077 |
| Add Tax effect of: | | |
| Non-deductible entertainment | 291 | 496 |
| Non-deductible depreciation and amortisation | 11,434 | - |
| Other Non-deductible items | - | 151 |
| Change in company tax rate | - | 46,924 |
| | 635,256 | 597,648 |
| Less Tax effect of: | | |
| Tax Building depreciation/building allowance | (12,136) | (12,136) |
| Overprovision for income tax | (22,784) | - |
| Income tax expense attributable to profit before income tax. | 600,336 | 585,512 |
| The applicable weighted average effective tax rates are as follows: | 27.5% | 27.5% |
| (b) The components of tax expense comprise: | | |
| Current tax | 535,221 | 615,229 |
| Deferred Tax Asset | 87,899 | (29,717) |
| Overprovision for tax in prior year | (22,784) | - |
| | 600,336 | 585,512 |
| Deferred income tax (revenue) expense included in income tax expense comprises: | | |
| (Decrease) / increase in deferred tax assets | (221,806) | 29,717 |
| Total deferred tax assets (Note 14) | 371,018 | 592,824 |
| (d) Balance of franking account at year end adjusted for franking credits or debits arising from payment of the provision for income tax or receipt of dividends receivable at the reporting date based on a tax rate of 27.5% (2018: 27.5%) | 7,671,982 | 7,188,838 |

## 7 Cash and cash equivalents

| | **2019** **$** | 2018 $ |
|---|---|---|
| Cash equivalents | 483,259 | 350,770 |
| Current accounts due from other financial institutions | 20,727,451 | 11,236,386 |
| Investments due from other financial institutions with a maturity of less than 3 months | 15,424,103 | 22,371,726 |
| | 36,634,813 | 33,958,882 |

## 8 Receivables

| | **2019** **$** | 2018 $ |
|---|---|---|
| Accrued Interest – to be settled within 12 months | 127,810 | 151,436 |
| Prepayments | 313,252 | 307,317 |
| | 441,062 | 458,753 |

## 9 Investments due from other financial institutions

| | **2019** **$** | 2018 $ |
|---|---|---|
| Debt securities – at amortised cost: | | |
| Investments due from other financial institutions with a maturity of more than 3 months | 17,562,670 | 12,054,188 |
| | 17,562,670 | 12,054,188 |

## 10 Loans and advances

| | **2019** **$** | 2018 $ |
|---|---|---|
| Overdrafts | 4,923,563 | 5,182,055 |
| Term loans | 285,287,370 | 277,668,901 |
| Gross loans and advances | 290,210,933 | 282,797,325 |
| Unamortised setup costs | 104,985 | 158,375 |
| Unamortised establishment fees | (136,959) | (212,006) |
| Provision for impairment (Note 11) | (231,008) | (457,333) |
| Net loans and advances | 289,947,951 | 282,339,992 |
| Amount of loans and advances expected to be recovered more than 12 months after the reporting date | 277,887,340 | 271,517,355 |

**Maturity Analysis**

| | **2019** **$** | 2018 $ |
|---|---|---|
| Current accounts | | |
| Overdrafts | 4,923,563 | 5,182,055 |
| Not longer than 3 months | 3,205,687 | 2,374,437 |
| Longer than 3 months and not longer than 12 months | 9,090,203 | 8,905,533 |
| Non-current accounts | | |
| Longer than 1 year and not longer than 5 years | 44,164,007 | 42,767,033 |
| Longer than 5 years | 228,827,473 | 223,621,898 |
| | 290,178,959 | 282,797,325 |

## 10 Loans and advances (continued)

**Securitisation**
From time to time the credit union transferred loans into a securitisation vehicle for the purpose of liquidity and capital management. The credit union considers this securitisation vehicle to be an unconsolidated structured entity.

At 30 June 2019, the fair value of securitised loans under management is $9,345,280 (2018: $10,700,463). These loans have been derecognised from the credit union's statement of financial position. The credit union's interest in the securitisation vehicle is limited to a margin entitlement earned from servicing these securitised loans. During 2019, the credit union earned $115,108 (2018: $140,484) income from these activities.

The credit union's maximum exposure to loss associated with structured entities is the loss of the margin entitlement earned in servicing securitised loans.

There are no additional off balance sheet arrangements which would expose the credit union to potential loss. Once the securitised loans have been repaid, the credit union ceases to be exposed to any risk from the securitisation vehicle.

The credit union's last transfer of loans into a securitisation vehicle occurred in 2012 and the credit union has no plans at this time of securitising any further loans.

## 11 Impairment of financial assets

These provisions have been determined in accordance with the policies as set out in Note 1 (f).

| | **2019** **$** | 2018 $ |
|---|---|---|
| **(a) Provisions for impairment** | | |
| Opening balance | 457,333 | 288,578 |
| Impairment expense | 67,295 | 329,030 |
| Bad debts written off from provision | (293,620) | (160,275) |
| Closing balance | 231,008 | 457,333 |
| **(b) Impairment expense on loans and advances to members** | | |
| Increase / (decrease) in provision for impairment | (226,325) | (489,305) |
| Bad debts written off | 293,620 | 160,275 |
| | 67,295 | 329,030 |
| **(c) Impairment measurement for loans and advances at amortised cost** | | |
| Specific provision - Lifetime Expected Credit Losses (ECL) | 200,026 | 427,595 |
| Collective provision – Lifetime ECL | - | - |
| Collective provision – 12 Months ECL | 30,982 | 29,738 |
| Total collective provision for impairment | 30,982 | 29,738 |
| Total provision for impairment | 231,008 | 457,333 |

## 11 Impairment of financial assets (continued)

### (d) Loans and advances to members at amortised cost

| | 2019 | | | | 2018 | | |
|---|---|---|---|---|---|---|---|
| | Stage 1 12-Month ECL $ | Stage 2 Lifetime ECL not credit-impaired $ | Stage 3 Lifetime ECL credit-impaired $ | Total $ | Collective Provision $ | Specific Provision $ | Total $ |
| Balance as at 1 July per AASB 139 | - | - | - | - | 100,000 | 188,578 | 288,578 |
| Adjustment on initial application of AASB 9 | - | - | - | - | - | - | - |
| Balance at 1 July per AASB 9 | 21,620 | 60,072 | 375,641 | 457,333 | - | - | - |
| Transfer to 12-Month ECL | 1,991 | (1,991) | - | - | - | - | |
| Transfer to lifetime ECL - not credit-impaired | (13,438) | 13,438 | - | - | - | - | - |
| Transfer to lifetime ECL - credit-impaired | (88,178) | (10,330) | 98,508 | - | - | - | - |
| Net remeasurement of loss allowance | 110,162 | 17,611 | (60,478) | 67,295 | (100,000) | 429,030 | 329,030 |
| New financial assets originated or purchased | - | - | - | - | - | - | |
| Bad debts written off | (1,175) | (65,362) | (227,083) | (293,620) | - | (160,275) | (160,275) |
| Bad debts recovered | - | - | - | - | - | - | |
| Balance at 30 June | 30,982 | 13,438 | 186,588 | 231,008 | - | 457,333 | 457,333 |

## 12 Property, plant and equipment

| | Freehold land and Buildings $ | Plant and Equipment $ | Assets in Progress $ | Total $ |
|---|---|---|---|---|
| **At 1 July 2017** | | | | |
| Cost or fair value | 2,560,000 | 1,893,151 | - | 4,453,151 |
| Accumulated depreciation | (52,000) | (1,458,471) | - | (1,510,471) |
| Carrying amount | 2,508,000 | 434,680 | - | 2,942,680 |
| | | | | |
| **Year ended 30 June 2018** | | | | |
| Carrying amount at 1 July 2017 | 2,508,000 | 434,680 | - | 2,942,680 |
| Additions | 37,669 | 173,148 | 1,091 | 211,908 |
| Disposals | - | - | - | - |
| Transfers from Work in Progress accounts | - | - | - | - |
| Revaluation increments | - | - | - | - |
| Depreciation | (54,511) | (145,948) | - | (200,459) |
| Carrying amount at 30 June 2018 | 2,491,158 | 461,880 | - | 2,954,129 |
| | | | | |
| **At 30 June 2018** | | | | |
| Cost or fair value | 2,597,669 | 2,011,535 | 1,091 | 4,453,151 |
| Accumulated depreciation | (106,511) | (1,549,655) | - | (1,510,471) |
| Carrying amount | 2,491,158 | 461,880 | 1,091 | 2,954,129 |

## 12 Property, plant and equipment (continued)

| | Freehold land and Buildings $ | Plant and equipment $ | Assets in Progress $ | Total $ |
|---|---|---|---|---|
| **At 30 June 2018** | | | | |
| Cost or fair value | 2,597,669 | 2,011,535 | 1,091 | 4,453,151 |
| Accumulated depreciation | (106,511) | (1,549,655) | - | (1,510,471) |
| Carrying amount | 2,491,158 | 461,880 | 1,091 | 2,954,129 |
| **Year ended 30 June 2019** | | | | |
| Carrying amount at 1 July 2018 | 2,491,158 | 461,880 | 1,091 | 2,954,129 |
| Additions | - | 280,124 | 10,657 | 290,781 |
| Disposals | (234,895) | (17,566) | - | (252,461) |
| Transfers from Work in Progress accounts | - | 1,091 | (1,091) | - |
| Revaluation increments | (172,394) | - | - | (172,394) |
| Depreciation | (50,577) | (151,390) | - | (201,967) |
| Carrying amount at 30 June 2019 | 2,033,292 | 574,139 | 10,657 | 2,618,088 |
| **At 30 June 2019** | | | | |
| Cost or fair value | 2,040,000 | 1,794,978 | 10,657 | 3,845,635 |
| Accumulated depreciation | (6,708) | (1,220,839) | - | (1,227,547) |
| Carrying amount | 2,033,292 | 574,139 | 10,657 | 2,618,088 |

**Fair value hierarchy**

Refer to Note 26 for the Credit Union's Fair Value Hierarchy measurements.

The table below categorises assets and liabilities measured and recognised at fair value at the reporting date by the level of the fair value hierarchy into which the fair value measurement is categorised.

| | Level 1 $ | Level 2 $ | Level 3 $ | Total $ |
|---|---|---|---|---|
| **2019** | | | | |
| Recurring fair value measurements | | | | |
| Land and buildings | - | - | 2,033,292 | 2,033,292 |
| **2018** | | | | |
| Recurring fair value measurements | | | | |
| Land and buildings | - | - | 2,491,158 | 2,491,158 |

The fair value measurement for the owner occupied properties has been categorised as a level 3 fair value based on the inputs to the valuation technique used. Details of the significant unobservable inputs used and the relationship between unobservable inputs and fair value follow:

## 12 Property, plant and equipment (continued)

| Description | Valuation approach | Unobservable inputs | Range of inputs 2019 | Range of inputs 2018 | Relationship between unobservable inputs and fair value |
|---|---|---|---|---|---|
| Buildings (Property, plant and equipment) | Income approach based on estimated rental value of the property. Market rentals, outgoings and capitalisation rates are estimated by an external valuer based on comparable transactions and industry data. | Market Gross Rent ($/sqm)<br><br>Outgoings ($/sqm)<br><br>Capitalisation Rate | $253<br><br>$37<br><br>8.75% | $225 to $300 (weighted average $271)<br><br>$32<br><br>8.5% | The higher the outgoings and capitalisation rate, the lower the fair value.<br><br>The higher the gross rent, the higher the fair value. |

**Recognised fair value measurements**

At the end of each reporting period, the directors update their assessment of the fair value of each property, taking into account the most recent independent valuations. The directors determine a property's value within a range of reasonable fair value estimates.

The best evidence of fair value is current prices in an active market for similar properties. Where such information is not available the directors consider information from a variety of sources including current prices in an active market for properties of different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences.

All resulting fair value estimates for properties are included in level 3 of the fair value hierarchy levels prescribed under the accounting standards as one or more of the significant inputs required to fair value the credit union's properties is not based on observable market data.

The credit union engages external, independent and qualified valuers to determine the fair value of the credit union's properties at least every three years. A revaluation of freehold land and buildings at 157 East Street, Rockhampton was performed by directors as at 21st May 2019, based on an assessment of the current market value. In performing the revaluation, directors referred to an independent valuation by Herron Todd White (Central Queensland) Pty Ltd. Current market value of freehold properties as at 30th June 2019 was assessed at $2,033,292 and it is the opinion of the directors that this current carrying value is appropriate.

## 13 Intangible assets

| | Software $ | Asset in Progress $ | Total $ |
|---|---|---|---|
| **At 1 July 2017** | | | |
| Cost | 1,989,547 | 35,238 | 2,024,785 |
| Accumulated amortisation | (1,650,804) | - | (1,650,804) |
| Carrying amount | 338,743 | 35,238 | 373,981 |
| **Year ended 30 June 2018** | | | |
| Carrying amount at 1 July 2017 | 338,743 | 35,238 | 373,981 |
| Additions | 72,465 | 19,545 | 92,010 |
| Transfers from Work in Progress accounts | 21,968 | (21,968) | - |
| Amortisation | (220,474) | - | (220,474) |
| Carrying amount at 30 June 2018 | 212,702 | 32,815 | 245,517 |
| **At 30 June 2018** | | | |
| Cost | 2,083,980 | 32,815 | 2,116,795 |
| Accumulated amortisation | (1,871,278) | - | (1,871,278) |
| Carrying amount | 212,702 | 32,815 | 245,517 |
| **Year ended 30 June 2019** | | | |
| Carrying amount at 1 July 2018 | 212,702 | 32,815 | 245,517 |
| Additions | 20,746 | 141,366 | 162,112 |
| Transfers from Work in Progress accounts | 9,738 | (9,738) | - |
| Amortisation | (143,373) | - | (143,373) |
| Carrying amount at 30 June 2019 | 99,813 | 164,443 | 264,256 |
| **At 30 June 2019** | | | |
| Cost | 2,114,464 | 164,443 | 2,278,907 |
| Accumulated amortisation | (2,014,651) | - | (2,014,651) |
| Carrying amount | 99,813 | 164,443 | 264,256 |

## 14 Deferred tax assets

| | **2019 $** | 2018 $ |
|---|---|---|
| Deferred tax assets comprise temporary differences attributable to: | | |
| Doubtful debts | 63,527 | 125,767 |
| Employee benefits | 131,338 | 116,853 |
| Accruals | 3,517 | 3,517 |
| Depreciation | 117,943 | 165,973 |
| Excess FBT accounting over tax deduction | 853 | - |
| Prepayments (expense account) | 38,114 | 29,242 |
| Prepayments (asset account) | 15,726 | 17,565 |
| Deferred tax liabilities attributable to property, plant and equipment | - | 133,907 |
| | 371,018 | 592,824 |

## 14 Deferred tax assets (continued)

| | **2019** **$** | 2018 $ |
|---|---|---|
| Movements: | | |
| Opening balance 1 July | 592,824 | 563,107 |
| Change in company tax rate | - | (11,752) |
| Reversal of DTA no longer recognised | (133,907) | - |
| Credited/(charged) to profit or loss | (87,899) | 35,837 |
| Credited/(charged) from deferred tax liabilities | - | 5,632 |
| Closing balance 30 June | 371,018 | 592,824 |
| | | |
| Deferred tax assets to be recovered within 12 months | 371,018 | 592,824 |

## 15 Other assets

| | **2019** **$** | 2018 $ |
|---|---|---|
| Other assets | 244,004 | 833,066 |
| | 244,004 | 833,066 |

The balance of other assets consists of clearing accounts that are expected to settle within one month.

## 16 Other liabilities

| | **2019** **$** | 2018 $ |
|---|---|---|
| Non-current other liabilities | | |
| Other liabilities | 56,523 | 64,269 |
| | | |
| Current other liabilities | | |
| Accrued expenses | 1,610,933 | 1,527,646 |
| Other liabilities | 1,108,815 | 791,639 |
| | 2,776,271 | 2,383,554 |

## 17 Deposits and borrowings

| | **2019** **$** | 2018 $ |
|---|---|---|
| Unsecured deposits and borrowings | | |
| | | |
| Member call deposits (including withdrawable shares) | 136,407,279 | 140,681,797 |
| Member term deposits | 183,268,411 | 164,849,774 |
| Member unsecured notes | - | 1,023,123 |
| Total deposits and borrowings | 319,675,690 | 306,554,694 |
| | | |
| Current – within 12 months to maturity | 319,675,690 | 306,554,694 |
| Non-current – greater than 12 months to maturity | - | - |
| | 319,675,690 | 306,554,694 |

**Concentration of Deposits**

The credit union's operations are predominately in the Central Queensland region with 84% ($269,946,525) of deposits held originating from members located in Central Queensland. There is no significant exposure to a particular industry or customer group. There are no deposits lodged by individual depositors or related groups which exceed 10% of liabilities.

## 18 Provisions

| | **2019** **$** | 2018 $ |
|---|---|---|
| Non-current provisions | | |
| Provision for employee benefits – long service leave | 23,203 | 14,639 |
| | | |
| Current provisions | | |
| Provision for employee benefits – annual leave | 159,746 | 135,789 |
| Provision for employee benefits – long service leave | 294,645 | 274,493 |
| Provision for dividends | 60,103 | 56,184 |
| | 537,697 | 481,105 |

### (a) Movements in provisions

Movements in provision for dividend during the financial year is set out below:

| | **2019** **$** | 2018 $ |
|---|---|---|
| Carrying amount at start of year | 56,184 | 59,581 |
| Additional provisions recognised | 125,432 | 112,367 |
| Dividends paid | (121,513) | (115,764) |
| Closing Balance as at 30 June | 60,103 | 56,184 |

## 19 Contributed Equity

| | **2019** **No. of shares** | 2018 No. of shares | **2019** **$** | 2018 $ |
|---|---|---|---|---|
| **(a) Movement in Share Capital** | | | | |
| Balance at the beginning of the year | 2,613,190 | 2,613,190 | 2,508,579 | 2,508,579 |
| Increase due to issue of shares | - | - | - | - |
| Decrease due to redemption of shares | - | - | - | - |
| Balance at end of year | 2,613,190 | 2,613,190 | 2,508,579 | 2,508,579 |
| **30 June 2019 Total contributed equity** | 2,613,190 | 2,613,190 | 2,508,579 | 2,508,579 |

Investment Shares are irredeemable, non-cumulative, non-participating preference shares issued under Division 2 of Appendix 3 to the credit union's constitution.

## 20 Reserves and retained earnings

| | **2019** **$** | 2018 $ |
|---|---|---|
| **Reserves** | | |
| Asset revaluation reserve – opening balance | 704,554 | 704,554 |
| Movements: | | |
| Decrease on revaluation – gross (Note 12) | (172,394) | - |
| Decrease on revaluation – deferred tax (Note 14) | (133,907) | - |
| **Balance 30 June 2019** | 398,253 | 704,554 |
| Credit loss reserve – opening balance | 547,641 | 520,601 |
| Movements: | | |
| Increment on transfer from retained earnings | 46,650 | 27,040 |
| **Balance 30 June 2019** | 594,291 | 547,641 |
| **Total reserves 30 June 2019** | 992,544 | 1,252,195 |

**Nature and purpose of reserves**

*(i) Asset revaluation reserve*
The asset revaluation reserve is used to record increments and decrements on the revaluation of assets, as described in accounting policy Note 1 (l).

*(ii) Credit loss reserve*
The credit loss reserve replaces the former general provision for doubtful debts. It is an equity reserve established in accordance with the Prudential Standards that as a minimum, covers credit losses prudently estimated but not certain to arise over the full life of all the individual facilities making up the business of the credit union.

## 21 Dividends

### (a) Investment shares

| | **2019** **$** | 2018 $ |
|---|---|---|
| Final dividend for the year ended 30 June 2018 equivalent to the maximum dividend benchmark rate 4.54% p.a. per share (2017 – 4.6% p.a. per share fully franked). Paid on 5th November 2018 (2017 – 6th November 2017). | 58,797 | 59,581 |
| Interim dividend for the year ended 30 June 2018 equivalent to the maximum dividend benchmark rate 4.76% p.a. per share (2018 – 4.26% p.a. per share fully franked). Paid on 31st January 2019 (2018 – 31st January 2018). | 62,717 | 56,184 |

The directors have provided for the payment of a final ordinary dividend of $60,103 paid out of retained profits at 30 June 2019 on Investment Shares issued as at that date. The dividend per share provided for equates to the maximum dividend benchmark rate of 4.63% p.a. fully franked for the period ended 30 June 2019. Payment is subject to confirmation of members at the Annual General Meeting.

## 22 Key management personnel disclosures

### (a) Key management personnel compensation

| | **2019 $** | 2018 $ |
|---|---|---|
| Short-term employee benefits | 734,115 | 779,783 |
| Post-employment benefits | 138,462 | 139,787 |
| Long-term benefits | 9,737 | 9,371 |
| | 882,314 | 928,941 |

Detailed remuneration disclosures are provided in sections A-B of the remuneration report on pages 10-12.

### (b) Equity instrument disclosures relating to key management personnel

*(i) Share holdings*
The numbers of Investment Shares in the credit union held during the financial year by each director of The Capricornian Ltd and other key management personnel of the credit union, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

| **2019** Name | Balance at the start of the year | Balance at the end of the year |
|---|---|---|
| ***Directors of The Capricornian Ltd*** **Investment Shares.** | | |
| George Anthony Edwards | 50,500 | 50,500 |
| John Francis Siganto | 4,000 | 4,000 |
| Vicki Anne Bastin-Byrne | 2,000 | 2,000 |
| Christopher Bernard O'Brien | Nil | Nil |
| Peter Graham Olrich | Nil | Nil |
| Janette Linda Davis*** | Nil | Nil |
| ***Other key management personnel of The Capricornian Ltd*** **Investment Shares.** | | |
| Dale Frederick Grounds | Nil | Nil |
| Graeme Walter Kemp | 2,000 | 2,000 |
| Michelle Ann Alexander** | Nil | Nil |

| **2018** Name | Balance at the start of the year | Balance at the end of the year |
|---|---|---|
| ***Directors of The Capricornian Ltd*** **Investment Shares.** | | |
| George Anthony Edwards | 50,500 | 50,500 |
| John Francis Siganto | 4,000 | 4,000 |
| Vicki Anne Bastin-Byrne | 2,000 | 2,000 |
| Christopher Bernard O'Brien | Nil | Nil |
| Peter Graham Olrich | Nil | Nil |
| ***Other key management personnel of The Capricornian Ltd*** **Investment Shares.** | | |
| Dale Frederick Grounds | Nil | Nil |
| Graeme Walter Kemp | 2,000 | 2,000 |
| Andrew John Robertson* | 2,000 | 2,000 |
| Michelle Ann Alexander** | 2,000 | Nil |

## 22 Key management personnel disclosures (continued)

### (b) Equity instrument disclosures relating to key management personnel (continued)

All of the above persons also hold one $10 member share or held a $10 member share whilst key management personnel of the credit union.

* A.J. Robertson resigned 10th November 2017.
** M.A. Alexander appointed 2nd January 2018.
*** J.L. Davis appointed 24th September 2018.

### (c) Loans to key management personnel and close family members

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

| | **2019** **$** | 2018 $ |
|---|---|---|
| Secured loans | 1,279,371 | 752,396 |
| Overdrafts | 10,000 | 10,000 |
| | 1,289,371 | 762,396 |

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

| | **2019** **$** | 2018 $ |
|---|---|---|
| Secured loans | 787,864 | 215,000 |
| Overdrafts | - | - |
| | 787,864 | 215,000 |
| Interest and other revenue earned on loans amounted to: | 49,201 | 20,603 |

The Capricornian Ltd's policy for lending to KMP and close family members is that all loans are approved on the same terms and conditions which applied to members for each class of loan, however all employees (including KMP) are entitled to an employee disount from the standard term loan rate on personal loans only.

### (d) Deposits from key management personnel and close family members

| | **2019** **$** | 2018 $ |
|---|---|---|
| Total value of term and savings deposits | 2,221,099 | 3,880,905 |
| Interest paid on deposits | 40,546 | 23,294 |

The Capricornian Ltd'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.

## 22 Key management personnel disclosures (continued)

### (e) Other transactions with key management personnel

A director, Mr Siganto, is a director and shareholder of Grant and Simpson Lawyers which has provided legal services to the credit union.

All transactions described above occurred within the normal customer or supplier relationship on terms and conditions no more favourable than those in which it is reasonable to expect the credit union would have adopted if dealing with the director at arm's length in the same circumstances.

| | **2019** **$** | 2018 $ |
|---|---|---|
| **Amounts recognised as expense** | | |
| Legal services | - | 1,408 |

## 23 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the credit union:

| | **2019** **$** | 2018 $ |
|---|---|---|
| **(a) Assurance services** | | |
| Audit services | | |
| BDO Audit Pty Ltd | | |
| Auditing or reviewing the accounts, including half year report and regulatory reporting | 128,753 | 116,852 |
| **(b) Taxation services** | | |
| BDO (QLD) Pty Ltd | | |
| Tax compliance services, including company income tax returns | 33,077 | 20,503 |
| **(c) Advisory services** | | |
| KPMG | | |
| Internal audit work | 73,573 | 98,928 |

## 24 Contingent liabilities

**Guarantees**
The credit union has issued guarantees to support the obligations of certain members. The guarantees are for limited amounts and limited terms. Security is taken from the member whose obligation is guaranteed in accordance with the credit union's normal lending policies.

| | **2019** **$** | 2018 $ |
|---|---|---|
| Guarantees | 303,758 | 319,043 |

## 25 Commitments

### (a) Operating lease commitments

| | **2019** **$** | 2018 $ |
|---|---|---|
| Non cancellable operating leases contracted for but not capitalised in the accounts, payable: | | |
| Within one year | 220,054 | 234,229 |
| Later than one year but not later than five years | 51,576 | 273,676 |
| Later than five years | - | - |
| | 271,630 | 507,905 |

(i) Operating Leases

The credit union leases various office and retail premises under non-cancellable operating leases expiring within one to three years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

### (b) Outstanding loan commitments

| | **2019** **$** | 2018 $ |
|---|---|---|
| Loans and credit facilities approved but not yet funded or drawn at the end of the financial year: | | |
| Loans approved but not funded | 6,079,540 | 2,217,468 |
| Undrawn overdraft and lines of credit | 3,401,051 | 3,595,887 |
| | 9,480,591 | 5,813,355 |

## 26 Fair values

### (a) Fair value hierarchy

The Capricornian 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 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.

## 26 Fair Values (continued)

### (a) Fair value hierarchy (continued)

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.

**Loans and advances**

The carrying value of loans and advances is net of provisions for impairment. For variable and fixed rate loans, the carrying amount is a reasonable estimate of the net fair value.

**Financial assets measured at amortised cost**

The carrying values of financial assets measured at amortised cost approximate their net fair value due to short-term maturities of these securities.

**Deposits from members**

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 31 December.

## 27 Operational dependency

The credit union has an operational dependency on the following suppliers of services:-

### (a) Industry service companies

The credit union is a member of Australian Settlements Limited and a customer of Cuscal Ltd. These entities provide cheque clearing, card and electronic transaction clearing and banking facilities to the credit union.

### (b) Ultradata Australia Pty Ltd

This entity is the provider of support and maintenance for the retail banking application software utilised by the credit union.

### (c) The System Works Pty Ltd

This entity is the provider of facilities management, bureau support and managed desktop support utilised by the credit union.

## 28 Reconciliation of profit after income tax to net cash inflow from operating activities

| | **2019** **$** | 2018 $ |
|---|---|---|
| Profit for the year | 1,667,048 | 1,414,767 |
| Depreciation | 345,339 | 420,933 |
| Provision for doubtful debts | 67,295 | 329,030 |
| Bad debts written off from provision | (293,620) | (160,275) |
| Net (gain) loss on sale of non-current assets | (428,380) | (11,459) |
| Change in operating assets and liabilities | | |
| (Increase) decrease in loans | (7,359,976) | (28,814,889) |
| (Decrease) increase in member deposits | 13,120,995 | 31,148,754 |
| (Increase) decrease in deferred tax assets | 221,806 | (29,717) |
| (Increase) decrease in other assets | 119,409 | (61,707) |
| (Decrease) increase in creditors | 959,807 | (824,976) |
| Increase (decrease) in provision for income tax | (158,776) | (32,952) |
| (Decrease) increase in other provisions | 52,340 | (3,767) |
| Net cash inflow/(outflow) from operating activities | 8,313,287 | 3,373,742 |

## 29 Reconciliation of cash

For the purposes of the Statement of Cash Flows, cash is defined as currency, on call deposits with a financial institution net of overdrafts and short term deposits used in the credit union's cash management function on a day to day basis.

| | **2019** **$** | 2018 $ |
|---|---|---|
| Cash at the end of the financial year as shown in the Statement of Cash Flows consists of: | | |
| Cash on hand and at bank | 21,210,710 | 11,587,156 |
| Cash equivalents | 15,424,103 | 22,371,726 |
| Cash at the end of the financial year | 36,634,813 | 33,958,882 |

## 30 Related party transactions

**(a) Key management personnel**

Disclosures relating to key management personnel are set out in Note 22.

**(b) Transactions with other related parties**

Disclosures relating to transactions with related parties are set out in Note 22.

**(c) Outstanding balances arising from sales/purchases of goods and services**

There are no balances outstanding at the end of the reporting period in relation to transactions with related parties.

**(d) Loans to/from related parties**

There are no loans to/from related parties other than those disclosed in Note 22.

## 31 Events subsequent to reporting date

Since 30 June 2019 The Capricornian Ltd has had no other matter or circumstance arise that has significantly affected or may significantly affect the credit union's operations in future financial years, or the results of those operations in future financial years, or the credit union's state of affairs in future financial years.

In the directors' opinion:

(a) the financial statements and notes set out on pages 15-52 are in accordance with the *Corporations Act 2001,* including:
  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
  (ii) giving a true and fair view of the entity's financial position as at 30 June 2019 and of its performance for the financial year ended on that date, and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable, and

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001.*

This declaration is made in accordance with a resolution of the directors.

G.A. Edwards
Director

C.B. O'Brien
Director

Rockhampton
30th September 2019

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**INDEPENDENT AUDITOR'S REPORT**

To the members of The Capricornian Ltd

## Report on the Audit of the Financial Report

### Opinion

We have audited the financial report of The Capricornian Ltd (the Company), which comprises the statement of financial position as at 30 June 2019, the statement of 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 The Capricornian 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 2019 and of its financial performance for the year ended on that date; and .

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

### Basis for opinion

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

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

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

**Other information**

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

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

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

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

**Responsibilities of the directors for the Financial Report**

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

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

**Auditor's responsibilities for the audit of the Financial Report**

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

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

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

This description forms part of our auditor's report.

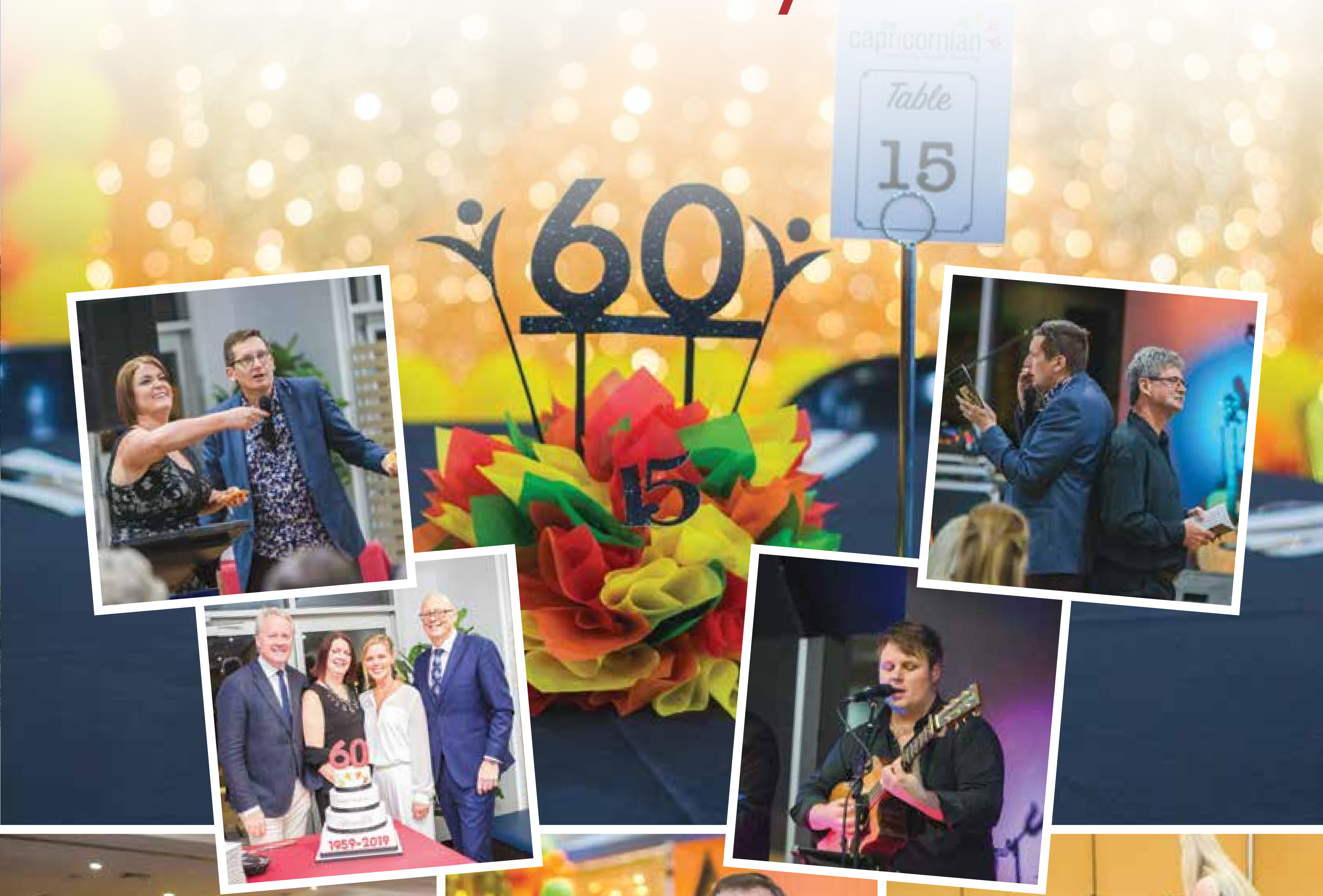
**BDO Audit Pty Ltd**

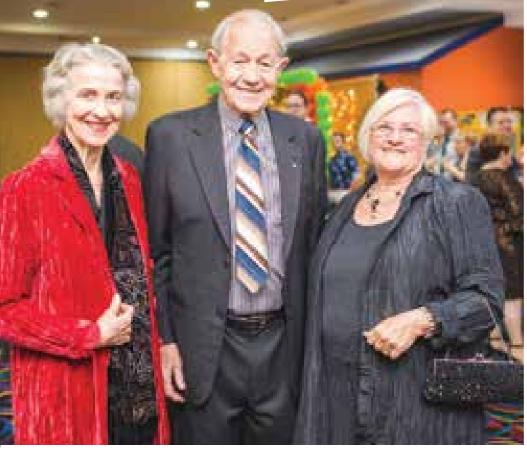
**M Cutri**

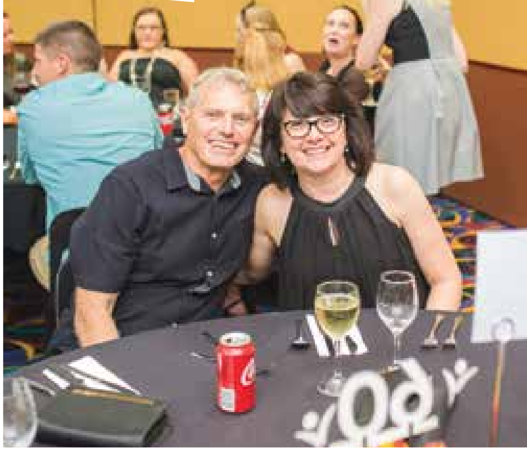
**Director**

Brisbane, 30 September 2019

# 60th Anniversary Dinner





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