the capricornian

savings | loans | insurance

The Capricornian Ltd
ABN 54 087 650 940

Annual Financial Report for the year ended 30 June 2021

Contents

Directors	George Anthony Edwards *Chairman* John Francis Siganto *Deputy-Chairman* Vicki Anne Bastin-Byrne (resigned 30th September 2021) Christopher Bernard O'Brien (resigned 30th September 2020) Peter Graham Olrich Janette Linda Davis Ian John Mill (appointed 24th August 2020)
Company Secretary	Dale Frederick Grounds Michelle Ann Alexander
Registered office	157 East Street, Rockhampton Qld 4700 A.F.S.L. 246 780 A.B.N. 54 087 650 940 Telephone (07) 4931 4900 Facsimile (07) 4931 4970 Email info@capricornian.com.au Phonefast 1300 654 654 Online Banking www.capricornian.com.au
Branches	157 East Street, Rockhampton Stockland Rockhampton, Yaamba Road, North Rockhampton 2 James Street, Yeppoon 115 Egerton Street, Emerald Blomfield Street, Miriam Vale 174 Goondoon Street, Gladstone 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) Daniels Bengtsson Pty Ltd (Sydney) Results Legal Solutions (Brisbane)
Affiliations	Cuscal Ltd Australian Settlements Limited Customer Owned Banking Association
Website address	www.capricornian.com.au
Regulatory Disclosures	www.capricornian.com.au/About-Us/Prudential-Disclosures/

The 2019/20 financial year ended with the unchartered waters and damaging impact of the COVID-19 Pandemic, and the 2020/21 financial year has continued to be overshadowed by COVID-19. While Central Queensland has been fortunate to be spared the devastating impacts of serious illness and death, the stop-start nature of interstate and South East Queensland lockdowns has dented confidence and continuity in economic performance.

I feel that this uncertainty has highlighted the benefit that accrues to our members from the difference between The Capricornian and the "banking" sector. The benefits are demonstrated in particular through our caring for our members by the actions we took at the commencement of the COVID-19 pandemic and that continued through this financial year. We also continued the ongoing personal phone contact by our staff who live and work within Central Queensland, our support through loan repayment holidays for members impacted by COVID-19 economic fallout and our physical commitment of seven local branches with staff on hand to deal personally in a face to face environment. The Capricornian supports you, our members, with access to exceptional personal service.

Notwithstanding the impacts of the COVID-19 pandemic, The Capricornian (your Credit Union) has continued to perform well this year. Our after-tax profit was $1,493,259, a decrease on last year's figure of $1,662,659 as a result of additional costs incurred due to the COVID-19 challenges we faced and rising government regulation.

Notable achievements this year include:

- Membership grew by an outstanding 7.35%
- Gross Assets grew by 12.03%
- All branches have experienced growth in deposits and membership.

The Capricornian recorded modest lending growth throughout 2020/21. While accepting new loans applications totalling just under a record of $110M, total loans on our balance sheet grew by 3.31%. This result came about from a record amount of loan repayments generated by an increase in the sale of properties in Central Queensland and extra loan repayments made by members. 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.

From a strategic perspective the Board remains committed to five keys areas of focus so as to work towards our corporate vision. That is;

> "Provide trusted, financially sustainable and quality financial services to our members and our communities now and for future generations"

These five areas of strategic intent are to:

1. Focus on our members. This means providing the products, services and access required by our members in a financially and socially sustainable way via both physical and digital access.
2. Focus on our staff. This means ensuring our staff have the support, training, resources and leadership necessary to meet our member's needs, satisfy stakeholder requirements and properly manage the Credit Union.
3. Build capability. This means enhancing efficient and effective processes, systems and technology. Not an end in themselves, but so as to create and maintain innovative products, services and channels that cost effectively add (financial) value to our member's lives.
4. Work with our stakeholders. This means The Capricornian is a well-regarded organisation that operates in a way that is appropriate to our size, scale and complexity. That TCL will be noted as always giving due regard to effective Risk Management; Prudential Standards; legal obligations; Governance and Cultural best practice; and remaining focused on the best interest of the Customer Owned Banking sector and our members.
5. Enrich our communities. This will be achieved by operating within community expectations, providing financial support and equitable access and acting in a way that acknowledges our social licence for banking services.

Through our ongoing community engagement initiatives and strategies we have contributed over $100,000 spread over many community groups and non-for-profit organisations in 2020-2021. These include, but are not limited to :

- *Rockhampton Basketball Association*
- *Rockhampton Symphony Orchestra*
- *Rockhampton Art Gallery*
- *Capricorn Coast Community Events*
- *Rockhampton Agricultural Show*
- *Central Highlands Development Corporation*
- *Emerald Gymnastics and Trampoline Club*
- *Springsure Agricultural Show Society*
- *Local Bowls Clubs*
- *Local Rugby League*
- *Local Golf Clubs*
- *The Capricornian Community Grants Program Recipients:*
    - *Springsure Community Kindergarten*
    - *Fitzroy Frogs Triathlon Club*
    - *Narnia Kindergarten*
    - *Capricorn Coast Netball Association*
    - *Rockhampton Hockey Association*

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

I would also like to thank my fellow Board Members for 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 success, and I look forward to being able to report same to you next year.

G. A. Edwards
Chairman

27th September 2021

Your directors present their report on the financial report of The Capricornian Ltd for the year ended 30 June 2021.

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 41 years. Director for 20 years.
Other current directorships
Director of 7 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
None.
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 13 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 (member until 17th December 2020).
Member of the Governance and Remuneration Committee (appointed to Committee 17th December 2020).

Vicki Anne BASTIN-BYRNE, GAICD

Experience and expertise
Business Proprietor. Local Government Councillor for 11 years. Director for 18 years. Resigned 30th September 2021.
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 (position held until 17th December 2020).
Member of the Audit Committee (appointed to Committee 17th December 2020).
Member of the Risk Committee.

Christopher Bernard O'BRIEN, B.Bus, FCPA

Experience and expertise
Business Manager. Director for 9 years. Resigned 30th September 2020.
Other current directorships
None.
Former directorships in last 3 years
None.
Special responsibilities
Chair of the Audit Committee (resigned 30th September 2020).
Member of the Risk Committee (resigned 30th September 2020).
Member of the Governance and Remuneration Committee (resigned 30th September 2020).

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

Experience and expertise
Management Consultant. Former CEO of Credit Union Australia. Director for 4 years.
Other current directorships
Director of 1 public company: 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) and Summerland Financial Services Ltd (February 2010 – November 2020).
Special responsibilities
Chair of the Audit Committee (appointed 30th September 2020).
Member of the Risk Committee.
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 for 2 years.
Other current directorships
None.
Former directorships in last 3 years
None.
Special responsibilities
Chair of the Governance and Remuneration Committee (appointed 17th December 2020).
Member of the Audit Committee.
Member of the Risk Committee (appointed to Committee 17th December 2020).

Ian John MILL, Dip H.A.

Experience and expertise
Chief Executive Officer, Rockhampton Jockey Club, commencing August 2021. Chief Executive Officer, Beef Australia, 2019 to 2021. Chief Executive Officer, Mercy Health and Aged Care CQ Ltd 1997 to 2017. Director of The Capricornian Ltd 2005 to 2016. Reappointed as a Director 24th August 2020.
Other current directorships
None.
Former directorships in last 3 years
None.
Special responsibilities
Member of the Audit Committee.
Member of the Risk Committee.
Member of the Governance and Remuneration Committee.

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 $536,589, was $1,493,259, (2020 net profit of $1,662,659, after recording an income tax expense of $615,676).

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

Capricornian Investment Shares	2021 $	2020 $
Final ordinary dividend for the year ended 30 June 2020 equivalent to the maximum dividend benchmark rate 3.59% p.a. per share fully franked (2019 - 4.63% p.a. per share fully franked). Paid on 14th December 2020 (2019 - 4th November 2019).	46,646	60,103
Interim ordinary dividend for the year ended 30 June 2021 equivalent to the maximum dividend benchmark rate 2.70% p.a. per share fully franked (2020 – 3.78% p.a. per share fully franked). Paid on 5th February 2021 (2020 - 31st January 2020).	35,539	49,651

The directors have provided for the payment of a final ordinary dividend of $33,449 paid out of retained earnings at 30 June 2021 on issued Investment Shares as at that date. The dividend per share provided for equates to the maximum dividend benchmark rate of 2.58% p.a. fully franked for the period ended 30 June 2021. 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 4-5 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 2021, and the numbers of meetings attended by each director were:

			Meetings of committees					
	Full meetings of directors		Audit		Risk Management		Governance and Remuneration	
	A	B	A	B	A	B	A	B
G.A. Edwards	11	11	-	5	-	4	-	2
J.F. Siganto	11	10	3	5	4	4	1	2
V.A. Bastin-Byrne	11	10	2	5	4	3	1	2
C.B. O'Brien	3	3	1	1	1	1	1	1
P.G. Olrich	11	11	5	5	4	4	2	2
J.L. Davis	11	10	5	5	2	3	2	2
I.J. Mill	10	10	5	4	4	4	2	2

A = Number of meetings held during the time the director held office or was a member of the committee during the year. Committee meetings may be attended by all Directors irrespective of committee membership. Attendance by Directors at committee meetings of which they are not a member is reported despite non-eligibility.
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
Mrs J. L. Davis retires by rotation and is eligible for re-election.

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 22.

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 11.

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	J. F. Siganto Director

Rockhampton
27th September 2021

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 2021, 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, 27 September 2021

Contents

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 6 to 10.

The financial statements were authorised for issue by the directors on 27th September 2021. The credit union has the power to amend and reissue the financial statements.

	Notes	**2021 $**	2020 $
Interest revenue	3	11,421,432	13,342,117
Interest expense	3	(2,147,418)	(4,530,071)
Net interest revenue		9,274,014	8,812,046
Fee and commission revenue	4	1,277,794	1,304,431
Other income	4	238,285	189,940
Total net interest revenue, fee and commission revenue and other income		10,790,093	10,306,417
Impairment expense on loan and advances	11(b)	(183,732)	(252,024)
Other expenses	5	(8,576,513)	(7,776,058)
Total expenses		(8,760,245)	(8,028,082)
Profit before income tax expense		2,029,848	2,278,335
Income tax expense	6	(536,589)	(615,676)
Profit for the year attributable to members		1,493,259	1,662,659
Other comprehensive income/(loss), that will not be reclassified to profit or loss Revaluation of land and buildings		277,209	-
Total comprehensive income for the year attributable to members		1,770,468	1,662,659

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

	Notes	**2021 $**	2020 $
ASSETS			
Cash and cash equivalents	7	53,899,527	39,642,308
Receivables	8	472,153	459,458
Due from other financial institutions	9	48,101,590	29,454,886
Loans and advances	10	301,635,430	292,125,057
Property, plant and equipment	12	3,774,840	2,924,468
Intangible assets	13	1,265,987	572,839
Deferred tax assets	14	69,003	386,763
Provision for income tax		136,481	-
Other assets		338,496	106,126
Total assets		409,693,507	365,671,905
LIABILITIES			
Deposits	16	366,896,859	326,609,617
Borrowings		10,325,482	8,502,682
Other liabilities	15	3,396,602	3,067,865
Provision for income tax		-	182,169
Provisions	17	671,820	607,390
Total liabilities		381,290,763	338,969,723
Net assets		28,402,744	26,702,182
EQUITY			
Contributed equity	18	2,508,579	2,508,579
Reserves	19	1,254,771	971,547
Retained earnings		24,639,394	23,222,056
Total equity		28,402,744	26,702,182

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

	Notes	Contributed Equity $	Asset Revaluation Reserve $	Credit Loss Reserve $	Retained Earnings $	Total $
Balance 1 July 2019		2,508,579	398,253	594,291	21,635,678	25,136,801
Profit for the year		-	-	-	1,662,659	1,662,659
Other comprehensive income, net of tax		-	-	-	-	-
Total comprehensive income for the year		-	-	-	1,662,659	1,662,659
Transfer to/from reserve for credit losses		-	-	(20,997)	20,997	-
Transfer to/from other provisions		-	-	-	(982)	(982)
Total transfers to/from retained earnings		-	-	(20,997)	20,015	(982)
Transactions with investment shareholders						
Contributions of equity, net of transaction costs	18	-	-	-	-	-
Dividend provided for or paid		-	-	-	(96,296)	(96,296)
		-	-	-	(96,296)	(96,296)
Balance 30 June 2020		2,508,579	398,253	573,594	23,222,056	26,702,182
Profit for the year		-	-	-	1,493,259	1,493,259
Other comprehensive income/(loss), net of tax		-	277,209	-	-	277,209
Total comprehensive income for the year		-	277,209	-	1,493,259	1,770,468
Transfer to/from reserve for credit losses		-	-	6,015	(6,015)	-
Transfer to/from other provisions			-	-	(918)	(918)
Total transfers to/from retained earnings		-	-	6,015	(6,933)	(918)
Transactions with investment shareholders						
Contributions of equity, net of transaction costs	18	-	-	-	-	-
Dividend provided for or paid	20	-	-	-	(68,988)	(68,988)
		-	-	-	(68,988)	(68,988)
Balance 30 June 2021		2,508,579	675,462	579,309	24,639,394	28,402,744

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

	Notes	**2021 $**	2020 $
Cash flows from operating activities			
Interest received		11,320,353	13,368,537
Interest paid		(2,424,007)	(5,299,918)
Loans and advances funded		(80,851,292)	(49,648,543)
Loans repaid excluding overdrafts		71,110,178	47,060,637
Net inflow in member deposits		40,287,242	6,933,928
Non interest revenue received		1,259,329	1,306,299
Payments to suppliers and employees		(7,017,944)	(5,573,914)
Income taxes paid		(537,480)	(646,016)
Net cash inflow/(outflow) from operating activities	27	33,146,379	7,501,010
Cash flows from investing activities			
Payments for property, plant and equipment and intangible assets		(1,723,114)	(743,649)
Payments for investments measured at amortised cost with a maturity of more than 3 months		(18,646,715)	(11,892,201)
Proceeds from sale of property, plant and equipment		-	20,000
Net cash outflow from investing activities		(20,369,829)	(12,615,850)
Cash flows from financing activities			
Principal payments of lease liabilities		(259,947)	(270,593)
Net inflow from borrowings		1,822,800	8,502,682
Dividends paid		(82,184)	(109,754)
Net cash outflow from financing activities		1,480,669	8,122,335
Net increase/(decrease) in cash and cash equivalents		14,257,219	3,007,495
Cash and cash equivalents at the beginning of the financial year		39,642,308	36,634,813
Cash and cash equivalents at the end of the financial year	28	53,899,527	39,642,308

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

Contents

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 (the "credit union").

(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 certain classes of property, plant and equipment and investment property.

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

There are no new or amended accounting standards and interpretations that became effective as of 1 July 2020 that has a material impact to the credit union.

(c) Fee and commission revenue

Fees and commissions are generally recognised over the period the service is provided except for loan establishment fees which are deferred and recognised as an adjustment to the effective interest rate on the loan. Fees and commissions generally relate to loan brokerage, insurance, asset management and financial planning services that are continuously provided over an extended period of time.

(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) Leases

Lease liabilities

At the commencement date of the lease, the lease liability is measured at the present value of the lease payments to be made over the term of the lease. These payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the credit union's incremental borrowing rate, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

1 Summary of significant accounting policies (continued)

(e) Leases (continued)

To determine the incremental borrowing rate, the credit union uses recent third-party financing received by the credit union as a starting point, adjusted to reflect changes in financing conditions since third party financing was received, making adjustments specific to the lease (e.g. term, security).

Lease payments comprise of the following:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be paid by the credit union under residual value guarantees;
- the exercise price of a purchase option when the exercise of the option is reasonably certain to occur; and
- payments of penalties for terminating lease, if the lease term reflects the lessee exercising an option to terminate the lease termination penalties.

The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The lease liability is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

On the statement of financial position, lease liabilities have been included in other liabilities.

Short-term leases

The credit union has elected to account for short-term leases using the practical expedient. The payments in are recognised as an expense in profit or loss on a straight-line basis over the lease term instead of recognising a right-of-use asset and lease liability.

Right-of-use assets

Right-of-use assets are measured at cost comprising the following:
- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the credit union expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any re-measurement of lease liabilities.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment.

(f) Financial assets and financial liabilities

(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.

1 Summary of significant accounting policies (continued)

(f) Financial assets and financial liabilities (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.

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.

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.

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 securitisations 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 de-recognises 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 statement of financial position when, and only when, the credit union has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a credit union of similar transactions.

1 Summary of significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

(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.

Stage	Measurement Basis
12-months ECL (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 (Stage 2)	ECL associated with the probability of default events occurring throughout the life of an instrument.
Lifetime ECL – credit impaired (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.

1 Summary of significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

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.

Amounts arising from ECL – Inputs, assumptions and techniques used for estimating impairment

(i) Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the credit union considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantative and qualitative information and analysis, based on the credit union's historical experience and expert credit assessment and includes forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

<u>Credit Risk Portfolios</u> – the credit union allocates each exposure to a credit risk portfolio based on the types of facility and security held, for example mortgage secured lending, personal term lending, and unsecured revolving credit. These portfolios are defined based on qualitative and quantative factors that are indicative of risk of default. All exposures start as performing facilities. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different expected credit loss stage. The monitoring typically involves use of the following data:

- Internally collected data on customer behaviour
- Payment records which includes overdue status
- Requests for and granting of hardship
- Existing and forecast changes in business, financial and economic conditions

<u>Generating the term structure of PD</u> – Credit risk portfolios are a primary input into the determination of the term structure of PD for exposures. The credit union collects performance default information about its credit risk exposures analysed by type of product.

The credit union employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time. Where possible, this analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic indicators including unemployment rates and in the case of mortgage secured facilities, real estate prices.

The credit union formulates a 'base case' view of the future direction of relevant economic variables and uses this to adjust its estimate to determine the 12-month loss PD.

<u>Determining whether credit risk has increased significantly</u> – The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

Using its expert credit judgement and, where possible, relevant historical experience, the credit union may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

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. 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.

1 Summary of significant accounting policies (continued)

(f) Financial assets and financial liabilities (continued)

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;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowances from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

(ii) Definition of default

The credit union considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligation 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 (excluding hardship relief granted pursuant to the credit union's approved policies);
- the borrower has breached an advised limit for more than 90 days for overdrafts;
- 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.

(iii) Incorporation of forward-looking information

The credit union incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on consideration of a variety of internal and external actual and forecast information, the credit union formulates a 'base case' view of the future direction of the relevant economic variables which is incorporated into the determination of the 12-month PD (stage 1).

The base case represents a most-likely outcome and is aligned with information used by the credit union for other purposes such as strategic planning and budgeting. Periodically the credit union carries out stress testing of more extreme shocks to calibrate its determination of other scenarios.

The credit union assessed available market data to estimate relationships between macro-economic variables and credit risk and credit losses. The key drivers for credit risk for retail portfolios include unemployment rates and where applicable, real estate prices.

As at 30 June 2021, the current Central Queensland unemployment rate of 6.20% (2020: 6.50%) was utilised to calculate the 12-month ECL (Stage 1). The lifetime ECL for Stage 2 and 3 impaired assets included a 25% reduction in secured property values where a mortgage over real estate security was held (2020: 25%).

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.

(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.

1 Summary of significant accounting policies (continued)

(g) Fair value measurement (continued)

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

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

In measuring fair value, the credit union uses valuation techniques that maximise the use of observable inputs and minimise the use of unobservable inputs.
Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level input that is significant to the fair value measurement.

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

(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 statement of financial position.

(j) Interest income and interest expense

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. 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. The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.
In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

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

1 Summary of significant accounting policies (continued)

(j) Interest income and interest expense (continued)

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 (b).

(k) Loans and advances

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 (g) on the accounting policy regarding the impairment of loans and advances.

(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.

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 asset revaluation reserves to the extent of the remaining asset revaluation 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 asset 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 asset revaluation 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:

1 Summary of significant accounting policies (continued)

(m) Intangible assets (continued)

- 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 of 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.

(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 reporting 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.

1 Summary of significant accounting policies (continued)

(s) Significant accounting estimates and judgements

The preparation of financial statements in conformity with IFRS 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 of 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 the 30 June 2021 reporting period and have not been early adopted by the credit union. None of these are expected to have a material effect on the financial statements of the credit union.

(i) Amendments to AASB 101 – *Classification of Liabilities as Current or Non-current* (applicable to reporting periods after January 2022).

There are four main changes to the classification requirements:

- The requirement for an 'unconditional' right has been deleted from paragraph 69(d) because covenants in banking agreements would rarely result in unconditional rights;
- The right to defer settlement must exist at the end of the reporting period. If the right to defer settlement is dependent upon the entity complying with specified conditions (covenants), the right to defer only exists at reporting date if the entity complies with those conditions at reporting date;
- Classification is based on the right to defer settlement, and not intention (paragraph 73); and
- If a liability could be settled by an entity transferring its own equity instruments prior to maturity (e.g. a convertible bond), classification is determined without considering the possibility of earlier settlement by conversion to equity, but only if the conversion feature is classified as equity under AASB 132.

As these amendments only apply for the first time to the 30 June 2024 balance sheet (and 30 June 2023 comparative balance sheet), the credit union is not yet able to make an assessment of the impacts regarding the right to defer settlement, compliance with bank covenants, and intention to settle.

(ii) AASB 2021 – 2 (Issued March 2021) - Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definitions of Accounting Estimates (applicable to reporting periods after 1 January 2023).

These amendments introduces a definition of 'accounting estimate', i.e. monetary amounts in financial statements that are subject to estimation uncertainty, such as estimating expected credit losses for receivables, or estimating the fair value of an item recognised in the financial statements at fair value.

Accounting estimates are developed using measurement techniques and inputs. Measurement techniques comprise *estimation techniques* (such as used to determine expected credit losses or value in use) and *valuation techniques* (such as the income approach to determine fair value).

The amendments clarify that a change in an estimate occurs when there is either a change in measurement technique or a change in input.

There will be no impact on the financial statements when these amendments are first adopted because they apply prospectively to changes in accounting estimates that occur on or after the beginning of the first annual reporting period to which these amendments apply, i.e. annual periods beginning on or after 1 July 2023.

(iii) Amendments to AASB 9 – *Financial Instruments* (applicable to reporting periods beginning on or after 1 January 2022).

Clarifies which fees an entity includes when it applies the '10 percent' test to assess whether there has been a modification or substantial modification to a financial liability. An entity should only include fees paid or received between the entity (the borrower) and the lender and fees paid or received on the other's behalf.

There will be no impact on the financial statements when these amendments are first adopted because they apply prospectively to financial liabilities that are modified or exchanged on or after the beginning of the first annual reporting period to which this amendment applies, i.e. annual periods beginning on or after 1 July 2022.

1 Summary of significant accounting policies (continued)

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

(iv) AASB 2021 – 5 (Issued June 2021) – Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction (applicable to reporting periods beginning on or after 1 January 2023).

The amendments clarify that the 'initial recognition exemption' does not apply to transactions where an entity recognises an asset and a liability which give rise to equal taxable and deductible temporary differences. This could occur, for example, where lessees recognise a right-of-use asset and lease liability for lease transactions, or where an entity recognises decommissioning, restoration and other similar obligations, which form part of a related asset.

When these amendments are first adopted for the year ended 30 June 2024, they apply prospectively to all Transactions that occur on or after the beginning of the earliest comparative period, i.e. from 1 July 2022.

In addition, at the beginning of the earliest comparative period, i.e. 1 July 2022, deferred tax assets (to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised) and deferred tax liabilities will be recognised for all deductible and temporary differences associated with:

- Right-of-use assets and lease liabilities, and
- Decommissioning, restoration and other similar liabilities and the corresponding amounts recognised as part of the cost of the related asset.

The cumulative effect of initially applying these amendments will be recognised in opening balances of retained earnings on 1 July 2022.

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) 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 15*)

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

	2021 **$**	2020 $
No longer than 1 month	157,354,185	180,052,019
More than 1 month and less than 3 months	9,833,870	5,110,855
More than 3 months and less than 12 months	41,077,778	32,723,292
More than 12 months and less than 5 years	93,953,036	74,710,125
	302,218,869	292,596,291

2 Financial risk management (continued)

(a) Market Risk (continued)

4) 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	Fixed interest rate maturing in more than 5 years $'000	Non-interest sensitive $'000	Total $'000	Effective interest rate %
2021							
Cash and Cash Equivalents	-	-	-	-	18,927	18,927	0.00
Due from other Financial institutions	22,509	33,972	6,415	20,178	-	83,074	1.39
Other receivables	-	-	-	-	472	472	-
Loans and advances	157,354	50,912	93,953	-	-	302,219	3.43
Subordinated debt	-	-	-	-	-	-	-
Other payables	-	-	-	-	(3,397)	(3,397)	-
Deposits	(162,187)	(156,183)	(1,854)	-	(46,672)	(366,896)	(0.34)
Borrowings	-	-	(10,326)	-	-	(10,326)	(0.17)
	17,676	**(71,299)**	**88,188**	**20,178**	**(30,670)**	**24,073**	**2.51**
2020							
Cash and Cash Equivalents	21,077	-	-	-	2,102	23,179	0.18
Due from other Financial institutions	22,994	16,463	759	5,702	-	45,918	1.19
Other receivables	-	-	-	-	459	459	-
Loans and advances	178,834	39,052	74,710	-	-	292,596	4.05
Subordinated debt	-	-	-	-	-	-	-
Other payables	-	-	-	-	(3,068)	(3,068)	-
Deposits	(124,404)	(171,752)	-	-	(30,454)	(326,610)	(0.98)
Borrowings	-	-	(8,503)	-	-	(8,503)	(0.25)
	98,501	**(116,237)**	**66,966**	**5,702**	**(30,961)**	**23,971**	**2.48**

5) 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:

Sensitivity	**2021 $**	2020 $
Sensitivity to 1% rate fall on profit and equity	1,062,500	208,800

The results of the interest sensitivity analysis reported provides that the credit union's exposure to loss as at 30 June 2021 is to a decrease in interest rates.

2 Financial risk management (continued)

(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*)
- Investments 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% ($284,203,056) 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:

	2021	2020
	$	$
• Authorised Deposit-Taking Institutions Aggregate Amount	86,484,080	58,399,747
Number of financial assets	47	32

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.

(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.

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

	2021	2020
	$	$
ADIs – rated AA- and above	54,282,282	40,370,144
ADIs – rated below AA-	24,735,427	17,450,687
Unrated institutions - ADIs	22,457,616	10,884,464
	101,475,325	68,705,295

2 Financial risk management (continued)

(b) Credit Risk (continued)

(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	**2021 $**	2020 $
Investment Grade	4,943,553	12,901,650
Non-investment Grade	13,458,091	9,885,818
Total current accounts with ADI's	18,401,644	22,787,468

Due from other financial institutions	**2021 $**	2020 $
Investment Grade	74,074,149	44,919,179
Non-investment Grade	8,999,532	998,646
Total due from other financial institutions	83,073,681	45,917,825

Loans and advances	**2021 $**	2020 $
Mortgage over Residential Property	278,368,147	268,482,278
Mortgage over Other Property	14,953,913	16,329,370
Personal Loans and overdrafts	8,896,808	7,784,643
	302,218,869	292,596,291

Lifetime expected credit losses	**2021 $**	2020 $
Credit impaired	5,896,679	3,925,925
Non-credit impaired	296,322,190	288,670,366
Unamortised setup costs	246,320	132,422
Unamortised establishment fees	(323,538)	(221,898)
Lifetime expected credit losses		
-Stage 1	(177,176)	(69,737)
-Stage 2	(36,376)	(81,160)
-Stage 3	(292,669)	(230,861)
Net loans and advances	301,635,430	292,125,057

2 Financial risk management (continued)

(b) Credit Risk (continued)

Collateral held and other credit enhancements

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

	2021 $	2020 $
Loans and advances with no collateral	8,896,808	7,784,643
Loans and advances with collateral	293,322,061	284,811,648
Gross loans and advances	302,218,869	292,596,291

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:

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.

2 Financial risk management (continued)

(b) Credit Risk (continued)

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)).

(v) Consideration of COVID-19 on Credit Risk

As at 30 June 2021, COVID-19 has not had a significant impact on the credit union and all Borrowing Members that requested to have their loans treated concessionally for up to six months under the COVID-19 Hardship arrangement authorised by APRA have now successfully exited from their concessional loan treatment, and resumed their normal repayment plans.

(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.

2 Financial risk management (continued)

(c) Liquidity Risk (continued)

(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.

2021	Within 1 month $	1–3 months $	3-12 months $	1-5 years $	At Call $	Total $
Liabilities						
Deposits and borrowings	32,439,049	45,240,883	78,503,483	12,179,778	208,859,148	377,222,341
Interest payable	113,390	125,197	224,857	14,357	-	477,801
Total Financial Liabilities	**32,552,439**	**45,366,080**	**78,728,340**	**12,194,135**	**208,859,148**	**377,700,142**

2020	Within 1 month $	1–3 months $	3-12 months $	1-5 years $	At Call $	Total $
Liabilities						
Deposits and borrowings	45,749,342	49,314,163	76,687,965	8,502,682	154,858,147	335,112,299
Interest payable	297,508	190,116	252,410	3,203	-	743,237
Total Financial Liabilities	**46,046,850**	**49,504,279**	**76,940,375**	**8,505,885**	**154,858,147**	**335,855,536**

(iii) Liquid funds

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

Liquid funds to total adjusted liabilities	**2021 %**	2020 %
As at 30 June	20.83	17.23
Average for the year	22.19	16.37
Minimum during the year	17.38	14.60

Liquid funds to total deposits	**2021 %**	2020 %
As at 30 June	22.56	18.28

(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).

2 Financial risk management (continued)

(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 depositors 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:

	2021	2020
	$	$
Tier 1 capital		
Share capital	261,300	522,600
Revaluation reserve	675,462	398,253
Retained earnings	24,639,394	23,222,056
Prescribed deductions	(754,827)	(615,747)
Net Tier 1 Capital	24,821,329	23,527,162

Tier 2 capital	**2021**	2020
	$	$
Subordinated debt	-	-
Credit losses reserve	579,309	573,294
Net Tier 2 Capital	579,309	573,294
Total Capital	25,400,638	24,100,456

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:

	2021	2020	2019	2018	2017
Capital ratio	14.50%	14.69%	14.03%	13.88%	13.97%

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.

	2021 $	2020 $
Interest Revenue		
Cash and cash equivalents	210,340	328,714
Investment securities	217,240	329,424
Loans and advances	10,993,852	12,683,979
	11,421,432	13,342,117
Interest Expense		
Member deposits	2,106,704	4,503,366
Borrowings	21,301	13,670
Right of Use Asset – finance costs	19,413	13,035
	2,147,418	4,530,071

4 Fee, commission and other revenue

	2021 $	2020 $
Non-interest revenue		
Fees and commissions		
-loan fee income	192,443	161,740
-other fee income	543,404	583,805
-insurance commissions	379,477	365,295
-other commissions	162,470	193,591
Subtotal	1,277,794	1,304,431
Bad debts recovered	10,066	2,925
Other revenue	228,219	187,015
Subtotal	238,285	189,940
Total non-interest revenue	1,516,079	1,494,371

5 Other expenses

	2021 $	2020 $
Depreciation and amortisation		
-plant and equipment	203,761	190,764
-buildings	40,251	40,250
-intangible assets	94,098	66,330
-Right of use asset – amortisation expense	201,094	241,014
General and administration		
-personnel costs	3,475,031	3,081,750
-superannuation costs	331,911	291,120
-other	2,495,656	2,221,464
Other expenses		
-operating lease expenses	27,953	11,174
-information technology and communication expenses	1,177,051	1,073,551
-loss on disposal of property	-	8,529
-other	529,707	550,112
Total other expenses	8,576,513	7,776,058

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:

	2021 **$**	2020 $
Profit from continuing operations before income tax	2,029,848	2,278,335
Prima facie tax payable on profit at 26% (2020: 27.5%)	527,760	626,542
Add Tax effect of:		
Non-deductible entertainment	1,741	3,951
Non-deductible depreciation and amortisation	-	-
Other Non-deductible items	10,465	11,069
Change in company tax rate	21,096	-
	561,062	641,562
Tax Building depreciation/building allowance	(11,473)	(12,136)
Overprovision for income tax	-	-
Cash Flow Boost	(13,000)	(13,750)
Income tax expense attributable to profit before income tax.	536,589	615,676
The applicable weighted average effective tax rates are as follows:	26%	27.5%
(b) The components of tax expense comprise:		
Current tax	218,830	631,421
Deferred Tax Asset	296,663	(15,745)
Change in company tax rate	21,096	-
	536,589	615,676
Deferred income tax (revenue) expense included in income tax expense comprises:		
(Decrease) / increase in deferred tax assets	(467,586)	(228,913)
Total deferred tax assets (Note 14)	69,003	386,763
(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 26% (2020: 27.5%)	8,446,320	8,256,366

7 Cash and cash equivalents

	2021 **$**	2020 $
Cash equivalents	520,915	379,933
Current accounts due from other financial institutions	22,386,521	26,779,438
Investments due from other financial institutions with a maturity of less than 3 months	30,992,091	12,482,937
	53,899,527	39,642,308

8 Receivables

	2021 **$**	2020 $
Accrued Interest – to be settled within 12 months	202,469	101,390
Prepayments	269,684	358,068
	472,153	459,458

9 Investments due from other financial institutions

	2021 **$**	2020 $
Debt securities – at amortised cost:		
Investments due from other financial institutions with a maturity of more than 3 months	48,101,590	29,454,886
	48,101,590	29,454,886

10 Loans and advances

	2021 **$**	2020 $
Overdrafts	1,764,953	4,638,852
Term loans	300,453,916	287,957,439
Gross loans and advances	302,218,869	292,596,291
Unamortised setup costs	246,320	132,422
Unamortised establishment fees	(323,538)	(221,898)
Provision for impairment (Note 11)	(506,221)	(381,758)
Net loans and advances	301,635,430	292,125,057
Amount of loans and advances expected to be recovered more than 12 months after the reporting date	289,360,243	280,027,683

Maturity Analysis

	2021 **$**	2020 $
Current accounts		
Overdrafts	1,764,954	4,638,852
Not longer than 3 months	3,327,329	3,270,931
Longer than 3 months and not longer than 12 months	9,454,079	9,222,015
Non-current accounts		
Longer than 1 year and not longer than 5 years	47,433,506	45,442,164
Longer than 5 years	240,239,001	230,022,329
	302,218,869	292,596,291

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 2021, the fair value of securitised loans under management is $3,618,600 (2020: $5,505,324). 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 2021, the credit union earned $104,622 (2020: $133,782) 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).

	2021 **$**	2020 $
(a) Provisions for impairment		
Opening balance	381,758	231,008
Impairment expense	183,732	252,024
Bad debts written off from provision	(59,269)	(101,274)
Closing balance	506,221	381,758
(b) Impairment expense on loans and advances to members		
Increase / (decrease) in provision for impairment	243,001	353,298
Bad debts written off	(59,269)	(101,274)
	183,732	252,024
(c) Impairment measurement for loans and advances at amortised cost		
Specific provision - Lifetime Expected Credit Losses (ECL)	378,297	312,021
Collective provision – Lifetime ECL	-	-
Collective provision – 12 Months ECL	127,924	69,737
Total collective provision for impairment	127,924	69,737
Total provision for impairment	506,221	381,758

12 Property, plant and equipment

	Freehold land and Buildings $	Plant and Equipment $	Right-Of-Use Assets $	Assets in Progress $	Total $
At 1 July 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
Year ended 30 June 2020					
Carrying amount at 1 July 2019	2,033,292	574,139	-	10,657	2,618,088
Additions	-	79,880	520,201	288,856	888,937
Disposals	(80,000)	(30,529)	-	-	(110,529)
Transfers from Work in Progress accounts	-	280,219	-	(280,219)	-
Revaluation increments	-	-	-	-	-
Depreciation	(40,250)	(190,764)	(241,014)	-	(472,028)
Carrying amount at 30 June 2020	1,913,042	712,945	279,187	19,294	2,924,468
At 30 June 2020					
Cost or fair value	1,960,000	2,342,885	520,201	19,294	4,842,380
Accumulated depreciation	(46,958)	(1,629,940)	(241,014)	-	(1,917,192)
Carrying amount	1,913,042	712,945	279,187	19,294	2,924,468
Year ended 30 June 2021					
Carrying amount at 1 July 2020	1,913,042	712,945	279,187	19,294	2,924,468
Additions	-	39,513	891,289	87,467	1,018,269
Disposals	-	-	-	-	-
Transfers from Work in Progress accounts	-	90,611	-	(90,611)	-
Revaluation increments	277,209	-	-	-	277,209
Depreciation	(40,251)	(203,761)	(201,094)	-	(445,106)
Carrying amount at 30 June 2021	2,150,000	639,308	969,382	16,150	3,774,840
At 30 June 2021					
Cost or fair value	2,150,000	2,473,011	1,170,476	16,150	5,809,637
Accumulated depreciation	-	(1,833,703)	(201,094)	-	(2,034,797)
Carrying amount	2,150,000	639,308	969,382	16,150	3,774,840

Fair value hierarchy

Refer to Note 25 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 $
2021				
Recurring fair value measurements				
Land and buildings	-	-	2,150,000	2,150,000
2020				
Recurring fair value measurements				
Land and buildings	-	-	1,913,042	1,913,042

12 Property, plant and equipment (continued)

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:

Description	Valuation approach	Unobservable inputs	Range of inputs 2021	Range of inputs (per previous valuation performed in 2019)	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 ($/sqm) Outgoings ($/sqm) Capitalisation Rate	$220 to $295 (weighted average $266) $41 8.50%	$253 $37 8.75%	The higher the outgoings and capitalisation rate, the lower the fair value. 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 19th July 2021, based on an assessment of the current market value. In performing the revaluation, directors referred to an independent valuation by IPN Valuers – Rockhampton/Gladstone. Current market value of freehold properties as at 30th June 2021 was assessed at $2,150,000 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 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
Year ended 30 June 2020			
Carrying amount at 1 July 2019	99,813	164,443	264,256
Additions	30,445	344,468	374,913
Transfers from Work in Progress accounts	60,445	(60,445)	-
Amortisation	(66,330)	-	(66,330)
Carrying amount at 30 June 2020	124,373	448,466	572,839
At 30 June 2020			
Cost	2,165,422	448,466	2,613,888
Accumulated amortisation	(2,041,049)	-	(2,041,049)
Carrying amount	124,373	448,466	572,839
Year ended 30 June 2021			
Carrying amount at 1 July 2020	124,373	448,466	572,839
Additions	-	787,246	787,246
Transfers from Work in Progress accounts	1,088,782	(1,088,782)	-
Amortisation	(94,098)	-	(94,098)
Carrying amount at 30 June 2021	1,119,057	146,930	1,265,987
At 30 June 2021			
Cost	3,254,204	146,930	3,401,134
Accumulated amortisation	(2,135,147)	-	(2,135,147)
Carrying amount	1,119,057	146,930	1,265,987

14 Deferred tax assets

	2021 $	2020 $
Deferred tax assets comprise temporary differences attributable to:		
Provision for expected credit losses	131,617	104,983
Employee benefits	165,977	154,205
Accruals	7,089	6,810
Depreciation	(243,320)	57,501
Prepayments (expense account)	38,444	47,411
Prepayments (asset account)	(30,804)	15,853
	69,003	386,763
Movements:		
Opening balance 1 July	386,763	371,018
Change in company tax rate	-	-
Reversal of DTA no longer recognised	-	-
Credited/(charged) to profit or loss	(317,760)	15,745
Credited/(charged) from deferred tax liabilities	-	-
Closing balance 30 June	69,003	386,763
Deferred tax assets to be recovered within 12 months	69,003	386,763

15 Other liabilities

	2021 $	2020 $
Current other liabilities		
Accrued expenses	927,225	1,136,475
Lease Liabilities	952,526	273,817
Other liabilities	1,457,502	1,599,730
Non-current other liabilities		
Other liabilities	59,349	57,842
	3,396,602	3,067,865

Lease liabilities

	$
As at July 2019	463,566
Additions	93,879
Interest expense	(13,035)
Lease payments	(270,593)
Balance at 30 June 2020	273,817
As at July 2020	273,817
Additions	958,069
Interest expense	(19,413)
Lease payments	(259,947)
Balance at 30 June 2021	952,526

(i) Nature of leasing activities (in the capacity as lessee)

The credit union leases a number of properties relating to the branches which it operates. It is customary for lease contracts to provide for payments to increase each year by inflation or and in others to be reset periodically to market rental rates. In some property leases the periodic rent is fixed over the lease term. The credit union also leases certain items of plant and equipment. Leases of plant and equipment comprise only fixed payments over the lease terms.

The credit union had total cash outflows for leases of $270,593 in 2020 (2019: $253,103). The credit union also had non-cash additions to right-of-use assets and lease liabilities of $614,080 in 2020 (2019: $463,566 resulting from initial application of AASB 16).

16 Deposits and borrowings

	2021 $	2020 $
Unsecured deposits		
Member call deposits (including withdrawable shares)	208,859,149	154,858,147
Member term deposits	158,037,710	171,751,470
Total deposits	366,896,859	326,609,617
Unsecured borrowings		
RBA Term Funding Facility	10,325,482	8,502,682
Total borrowings	10,352,482	8,502,682
Current – within 12 months to maturity	366,896,859	326,609,617
Non-current – greater than 12 months to maturity	10,325,482	8,502,682
	377,222,341	335,112,299

Concentration of Deposits

The credit union's operations are predominately in the Central Queensland region with 94% ($343,765,143) 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.

17 Provisions

	2021 $	2020 $
Non-current provisions		
Provision for employee benefits – long service leave	33,593	32,047
Current provisions		
Provision for employee benefits – annual leave	262,288	205,508
Provision for employee benefits – long service leave	342,490	323,190
Provision for dividends	33,449	46,645
	671,820	607,390

(a) Movements in provisions

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

	2021 $	2020 $
Carrying amount at start of year	46,645	60,103
Additional provisions recognised	68,988	96,296
Dividends paid	(82,184)	(109,754)
Closing Balance as at 30 June	33,449	46,645

18 Contributed Equity

	2021 No. of shares	2020 No. of shares	2021 $	2020 $
(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 2021 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.

19 Reserves and retained earnings

	2021 $	2020 $
Reserves		
Asset revaluation reserve – opening balance	398,253	398,253
Movements:		
Increase on revaluation – gross (Note 12)	277,209	-
Balance 30 June 2021	675,462	398,253
Credit loss reserve – opening balance	573,294	594,291
Movements:		
Increment on transfer from retained earnings	6,015	(20,997)
Balance 30 June 2021	579,309	573,294
Total reserves 30 June 2021	1,254,771	971,547

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.

20 Dividends

(a) Investment shares

	2021 $	2020 $
Final dividend for the year ended 30 June 2020 equivalent to the maximum dividend benchmark rate 3.59% p.a. per share (2019 – 4.63% p.a. per share fully franked). Paid on 14th December 2020 (2019 – 4th November 2019).	46,646	60,103
Interim dividend for the year ended 30 June 2021 equivalent to the maximum dividend benchmark rate 2.70% p.a. per share (2020 – 3.78% p.a. per share fully franked). Paid on 5th February 2021 (2020 – 31st January 2020).	35,539	49,651

The directors have provided for the payment of a final ordinary dividend of $33,449 paid out of retained profits at 30 June 2021 on Investment Shares issued as at that date. The dividend per share provided for equates to the maximum dividend benchmark rate of 2.58% p.a. fully franked for the period ended 30 June 2021. Payment is subject to confirmation of members at the Annual General Meeting.

21 Key management personnel disclosures

(a) Key management personnel compensation

	2021 **$**	2020 $
Short-term employee benefits	915,300	789,019
Post-employment benefits	123,862	133,653
Long-term benefits	16,745	11,966
	1,055,907	934,638

(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.

2021 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
Tristan Scott Kipling	Nil	Nil

2020 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

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.

21 Key management personnel disclosures (continued)

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

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

	2021 $	2020 $
Secured loans	1,769,708	934,876
Overdrafts	18,000	10,000
	1,787,708	944,876

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

	2021 $	2020 $
Secured loans	680,000	340,000
Overdrafts	-	-
	680,000	340,000
Interest and other revenue earned on loans amounted to:	39,167	50,589

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 discount from the standard term loan rate on personal loans only.

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

	2021 $	2020 $
Total value of term and savings deposits	3,641,543	2,731,143
Interest paid on deposits	17,939	48,714

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.

21 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 in previous years.

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.

	2021 $	2020 $
Amounts recognised as expense		
Legal services	-	1,285

22 Remuneration of auditors

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

	2021 $	2020 $
(a) Assurance services		
Audit services		
BDO Audit Pty Ltd		
Auditing or reviewing the accounts, including half year report and regulatory reporting	130,917	131,998
(b) Taxation services		
BDO (QLD) Pty Ltd		
Tax compliance services, including company income tax returns	26,891	23,828
(c) Advisory services		
KPMG		
Internal audit work	107,504	85,388
Sundry consultancy	94,346	27,049
BDO		
Sundry consultancy	26,930	24,133
	228,780	136,570

23 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.

	2021 $	2020 $
Guarantees	123,645	209,372

24 Commitments

(a) Outstanding loan commitments

	2021 $	2020 $
Loans and credit facilities approved but not yet funded or drawn at the end of the financial year:		
Loans approved but not funded	10,152,897	2,229,546
Undrawn overdraft and lines of credit	4,265,630	3,546,473
	14,418,527	5,776,019

25 Fair values

(a) Fair value hierarchy

The Capricornian Ltd 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.

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 30 June.

26 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) TransAction Solutions Ltd

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

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

	2021 **$**	2020 $
Profit for the year	1,493,259	1,662,659
Depreciation	539,203	538,358
Provision for doubtful debts	183,732	252,024
Bad debts written off from provision	(59,269)	(101,274)
Net (gain) loss on sale of non-current assets	-	(11,471)
Change in operating assets and liabilities		
(Increase) decrease in loans	(9,622,576)	(2,385,358)
(Decrease) increase in member deposits	40,287,242	6,933,928
(Increase) decrease in deferred tax assets	317,760	(15,745)
(Increase) decrease in other assets	(40,258)	165,020
(Decrease) increase in creditors	288,310	(154,952)
Increase (decrease) in provision for income tax	(318,650)	224,766
(Decrease) increase in other provisions	77,626	83,151
Net cash inflow/(outflow) from operating activities	33,146,379	7,501,010

28 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.

	2021 **$**	2020 $
Cash at the end of the financial year as shown in the Statement of Cash Flows consists of:		
Cash on hand and at bank	22,907,436	27,159,369
Cash equivalents	30,992,091	15,424,103
Cash at the end of the financial year	53,899,527	39,642,308

29 Related party transactions

(a) Key management personnel

Disclosures relating to key management personnel are set out in Note 21.

(b) Transactions with other related parties

Disclosures relating to transactions with related parties are set out in Note 21.

(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 21.

30 Events subsequent to reporting date

Since 30 June 2021 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 13-51 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 2021 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	J.F. Siganto Director

Rockhampton
27th September 2021

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

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

INDEPENDENT AUDITOR'S REPORT

To the members of 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 2021, 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 2021 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, 27 September 2021


RIGHT WAY

Mission Statement

To share co-operative banking with the community, be our members' financial institution of choice and assist members responsibly to achieve their financial goals and objectives.

Vision Statement

Provide trusted, financially sustainable and quality financial services to our members and our communities, now and for future generations.

1300 314 900

www.capricornian.com.au

The Capricornian Ltd ABN 54 087 650 940

the capricornian

savings | loans | insurance