



The Capricornian Ltd

ABN 54 087 650 940

Interim report

for the half-year ended 31 December 2019

The Capricornian Ltd ABN 54 087 650 940
Interim report – 31 December 2019

Contents

	Page
Corporate directory	2
Directors' report	3
Auditor's Independence Declaration	4
Interim financial report	5
Directors' declaration	15
Independent review report to the members	16

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by The Capricornian Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The financial statements were authorised for issue by the directors on 13th March 2020. The credit union has the power to amend and reissue the financial statements.

Directors	George Anthony Edwards <i>Chairman</i> John Francis Siganto <i>Deputy Chairman</i> Vicki Anne Bastin-Byrne Christopher Bernard O'Brien Peter Graham Olrich Janette Linda Davis
Company Secretaries	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 locations 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/

Directors' report

Your directors present their report on the operations of The Capricornian Ltd for the half-year ended 31 December 2019.

Directors

The following persons were directors of The Capricornian Ltd during the whole of the half-year and up to the date of this report:

George Anthony EDWARDS (Chairman)
John Francis SIGANTO (Deputy Chairman)
Vicki Anne BASTIN-BYRNE
Christopher Bernard O'BRIEN
Peter Graham OLRICH
Janette Linda DAVIS

Review of operations

The December 2019 post-tax result of \$679,917 reflects the impact of lowered interest rates and stagnant lending growth over the half-year. Given that the prior half-year result was positively impacted by unbudgeted income (namely net insurance proceeds of \$154,160 following the loss of a credit union owned property), the result, while 8.7% lower than the prior year (exclusive of the prior year insurance proceeds), has remained satisfactory in the face of continued economic pressures placed on performance. The half-year result also reflects the Credit Union's ongoing investment in technology, reflecting the cost incurred throughout the half-year in transitioning the Credit Union's technology services to a new host provider. It is anticipated that the Credit Union and its membership will benefit from enhanced long-term capabilities and initiatives that this migration will offer.

A major milestone was achieved throughout the six months to December 2019 with the Credit Union celebrating its 60th Anniversary. This accomplishment highlights the Board and Management's continued commitment to ensuring the longevity of the Credit Union and cements The Capricornian as one of the longest established Credit Unions in Queensland.

In addition to our substantial financial commitment in Central Queensland via sponsorships and the Community Grants program, The Capricornian's community involvement has continued throughout the region. Highlights of our community participation in the half-year include:

- The Capricornian Charity Golf Day supporting Give Me 5 For Kids and Riders for Razzle
- Participation in the Rockhampton Christmas Parade 2019
- Gold Sponsor of Rockhampton Symphony Orchestra
- Supporter of the Great Western Bull Riders Association Ltd

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 4.

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

G. A. Edwards
Director

C.B. O'Brien
Director

Rockhampton
13th March 2020

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

As lead auditor for the review of The Capricornian Ltd for the half-year ended 31 December 2019, I declare that, to the best of my knowledge and belief, there have been:

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

M Cutri
Director

BDO Audit Pty Ltd

Brisbane, 13 March 2020

The Capricornian Ltd
Statement of Comprehensive Income
For the half-year ended 31 December 2019

	Notes	Half-year	
		2019 \$	2018 \$
Interest revenue	3	6,913,937	7,245,450
Interest expense	3	<u>(2,592,497)</u>	<u>(2,983,303)</u>
Net interest revenue		4,321,440	4,262,147
Fee and commission revenue	4	672,269	678,958
Other revenue	4	89,890	499,097
Total net interest income and other revenue		5,083,599	5,440,202
Impairment expense on loans and advances		(43,881)	(32,550)
Other expenses	5	(4,104,626)	(4,167,977)
Total expenses		<u>(4,148,507)</u>	<u>(4,200,527)</u>
Profit before income tax expense		<u>935,092</u>	<u>1,239,675</u>
Income tax expense		(255,175)	(340,911)
Profit for the half-year attributable to members		679,917	898,764
Other comprehensive income, net of income tax		-	-
Total comprehensive income for the half-year attributable to members		<u>679,917</u>	<u>898,764</u>

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

The Capricornian Ltd
Statement of Financial Position
As at 31 December 2019

	Notes	31 December 2019 \$	30 June 2019 \$
ASSETS			
Cash and cash equivalents	2	36,898,801	36,634,813
Receivables		558,527	441,062
Due from other financial institutions		18,464,852	17,562,670
Loans and advances		289,453,018	289,947,951
Non-current assets available for sale		-	80,000
Property, plant and equipment		2,443,746	2,538,088
Intangible Assets		947,718	264,256
Deferred tax assets		371,018	371,018
Other assets	8	<u>301,274</u>	<u>244,004</u>
Total assets		<u>349,438,954</u>	<u>348,083,862</u>
LIABILITIES			
Deposits and borrowings		320,532,781	319,675,690
Other liabilities		2,351,721	2,776,271
Provision for income tax		255,172	(42,597)
Provisions		<u>532,212</u>	<u>537,697</u>
Total liabilities		<u>323,671,886</u>	<u>322,947,061</u>
Net assets		<u>25,767,068</u>	<u>25,136,801</u>
EQUITY			
Contributed equity		2,508,579	2,508,579
Reserves		965,384	992,544
Retained profits		22,293,105	21,635,678
Total equity		<u>25,767,068</u>	<u>25,136,801</u>

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

The Capricornian Ltd
Statement of Changes in Equity
For the half-year ended 31 December 2019

	Contributed Equity \$	Asset Revaluation Reserve \$	Credit Loss Reserve \$	Retained Earnings \$	Total \$
Balance 1 July 2018	2,508,579	704,554	547,641	20,141,045	23,901,819
Profit for the half-year as reported in the 2018 interim report	-	-	-	898,764	898,764
Other comprehensive income, net of tax	-	-	-	-	-
Total comprehensive income for the year	-	-	-	898,764	898,764
Transfer to / from reserve for credit losses	-	-	19,048	(19,048)	-
Total transfers to / from retained earnings	-	-	19,048	(19,048)	-
Transactions with investment shareholders					
Dividend provided for	-	-	-	(65,329)	(65,329)
	-	-	-	(65,329)	(65,329)
Balance half-year ended 31 December 2018	2,508,579	704,554	566,689	20,955,432	24,735,254
Balance 1 July 2019	2,508,579	398,253	594,291	21,635,678	25,136,801
Profit for the half-year as reported in the 2019 interim report	-	-	-	679,917	679,917
Other comprehensive income, net of tax	-	-	-	-	-
Total comprehensive income for the year	-	-	-	679,917	679,917
Transfer to / from reserve for credit losses	-	-	(27,160)	27,160	-
Total transfers to / from retained earnings	-	-	(27,160)	27,160	-
Transactions with investment shareholders					
Dividend provided for	-	-	-	(49,650)	(49,650)
	-	-	-	(49,650)	(49,650)
Balance half-year ended 31 December 2019	2,508,579	398,253	567,131	22,293,105	25,767,068

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

The Capricornian Ltd
Statement of Cash Flows
For the half-year ended 31 December 2019

	Half-year	
	2019	2018
	\$	\$
Cash flows from operating activities		
Interest received	6,940,494	7,250,617
Interest paid	(2,443,883)	(2,703,790)
Loans and advances funded	(25,193,415)	(24,751,047)
Loans repaid excluding overdrafts	25,625,809	22,648,704
Net inflow in member deposits	857,092	2,386,834
Non interest revenue received	406,682	185,114
Payments to suppliers and employees	(3,523,118)	(2,953,525)
Income taxes paid	42,594	(272,960)
Net cash inflow from operating activities	2,712,255	1,789,947
Cash flows from investing activities		
Payments for investments measured at amortised cost with a maturity of more than 3 months	(1,934,562)	1,012,861
Payments for property, plant and equipment and intangible assets	(553,602)	(39,733)
Proceeds from sale of property, plant and equipment	100,000	406,761
Net cash inflow from investing activities	(2,388,164)	(1,379,889)
Cash flows from financing activities		
Repayment of Borrowings	-	(85,623)
Dividends paid	(60,103)	(58,797)
Net cash outflow from financing activities	(60,103)	(144,420)
Net increase in cash and cash equivalents	263,988	3,025,416
Cash and cash equivalents at the beginning of the half-year	36,634,813	33,958,882
Cash and cash equivalents at end of the half-year	36,898,801	36,984,298

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

1 Basis of preparation of half-year report

This general purpose financial report for the interim half-year reporting period ended 31 December 2019 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by The Capricornian Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

(a) New and amended standards adopted by The Capricornian Ltd

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the annual financial report for the financial year ended 30 June 2019, except for the adoption of new standards effective as of 1 July 2019. The Credit Union has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

AASB 16 Leases replaces AASB 117 'Leases' along with three Interpretations.

The adoption of this new Standard has resulted in the credit union recognising a right-of-use asset and related lease liability in connection with all former operating leases.

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting AASB 16 being recognised in equity as an adjustment to the opening balance of retained surplus for the current period. Prior periods have not been restated.

The credit union has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of AASB 16, being 1 July 2019. At this date, the credit union has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

On transition to AASB 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under AASB 16 was 3.5%.

Statement of Profit & Loss and Other Comprehensive Income (extract)	Amounts under AASB 117	Adjustments	Amounts under AASB 16
Expenses	133,109	(123,884)	9,225

Statement of Financial Position (extract)	Amounts under AASB 117	Adjustments	Amounts under AASB 16
Assets			
Right of use asset	-	396,942	396,942
Liabilities			
Financial liabilities	-	389,760	389,760

Leases

Accounting policy applied from 1 July 2019

Leased Assets (Right-of-use assets)

The credit union has applied AASB 16 using the modified retrospective approach and therefore comparative information has not been restated.

At lease commencement date, the credit union recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the credit union, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

1 Basis of preparation of half-year report (continued)

(a) New and amended standards adopted by The Capricornian Ltd (continued)

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 remeasurement of lease liabilities.

Subsequent to initial adoption the credit union has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

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

Lease liability

Lease liabilities are measured at amortised cost using the effective interest method. A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the credit union's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated 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.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

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

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

2 Cash and cash equivalents

Cash at the end of the period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	Half-year	
	2019	2018
	\$	\$
Cash on hand and at bank	18,449,136	13,619,344
Investments measured at amortised cost with a maturity of less than 3 months	18,449,665	24,365,444
	36,898,801	37,984,788

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.

	Half-year	
	2019	2018
	\$	\$
Interest Revenue		
Cash and cash equivalents	198,084	347,498
Investment securities	186,339	164,995
Loans and advances	6,529,514	6,732,957
	6,913,937	7,245,450

3 Interest Revenue and Interest Expense (continued)

Interest Expense

Member deposits	2,582,848	2,960,536
Investment bonds	-	22,233
Borrowings	3,357	534
Right of Use Asset – finance costs	6,292	-
	2,592,497	2,983,303

4 Fee, Commission and Other Revenue

	Half-year	
	2019	2018
	\$	\$
Non-Interest Revenue		
Fees and commissions		
-loan fee income	81,014	73,432
-other fee income	300,063	314,857
-insurance commissions	189,090	196,462
-other commissions	102,102	94,207
Subtotal	672,269	678,958
Bad debts recovered	1,620	1,465
Other revenue		
-insurance claim proceeds on loss of property	-	389,056
-other	88,270	108,576
Subtotal	89,890	499,097
Total non-interest revenue	762,159	1,178,055

5 Other Expenses

	Half-year	
	2019	2018
	\$	\$
Depreciation and amortisation		
-plant and equipment	83,586	72,905
-buildings	20,125	27,363
-intangible assets	33,289	97,991
-Right of use asset – amortisation expenses	110,410	-
General and administration		
-personnel costs	1,795,356	1,614,454
-superannuation costs	121,803	133,903
-other	1,126,637	1,111,195
Other expenses		
-operating lease expenses	9,225	128,801
-information technology and communication expenses	502,262	493,157
-loss on disposal of property	-	234,896
-other	301,933	253,312
Total Other Expenses	4,104,626	4,167,977

6 Dividends

	Half-year	
	2019	2018
	\$	\$
Investment Shares		
Final dividend for the year ended 30 June 2019 (paid on 4 th November 2019)	60,103	58,797
Interim dividend for the half year ended 31 December 2019 (paid on 31 st January 2020)	49,650	62,717

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

7 Contingent Liabilities

Guarantees

The Capricornian 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 Capricornian's normal lending policies.

	31 December 2019	30 June 2019
	\$	\$
Guarantees	201,185	303,758

8 Other Assets

	31 December 2019	30 June 2019
	\$	\$
Other Assets	301,274	244,004
	301,274	244,004

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

9 Events Subsequent to Reporting Date

No matters or circumstances have arisen since the end of the half-year which would be likely to have a significant affect on the operations of the credit union, the results of these operations or the state of affairs of the credit union in subsequent financial periods.

10 Fair Values

(a) Fair value hierarchy

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument;
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using:
 - o quoted market prices in active markets for similar instruments;
 - o quoted prices for identical or similar instruments in markets that are considered less than active; or;
 - o 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.

(a) Fair value hierarchy (continued)

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

(b) Fair value estimates

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

Cash and cash equivalents and other receivables

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

Loans and advances

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

Financial assets measured at amortised cost

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

Deposits from members

The fair value of at call and variable rate deposits, and fixed rate deposits repriced within twelve months, approximates the carrying value. Discounted cash flow models based upon deposit types and related maturities were used to calculate the fair value of other term deposits. The discount rates applied were based on the current benchmark rate offered for the actual remaining term of the portfolio as at 31 December.

10 Fair Values (continued)

(c) Financial instruments measured at fair value - Fair value hierarchy

The table below categorises assets 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 fair values	Total carrying amount
	\$	\$	\$	\$	\$
December 2019					
Financial liabilities					
Deposits	-	322,132,398	-	322,132,398	320,532,781
June 2019					
Financial liabilities					
Deposits	-	321,135,659	-	321,135,659	319,675,690

In the directors' opinion:

- (a) the financial statements and notes set out on pages 5 to 14 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of The Capricornian Ltd's financial position as at 31 December 2019 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that The Capricornian Ltd will be able to pay its debts as and when they become due and payable

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

G. A. Edwards
Director

C.B. O'Brien
Director

Rockhampton
13th March 2020

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of The Capricornian Ltd

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of The Capricornian Ltd (the Company), which comprises the statement of financial position as at 31 December 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year then ended, notes comprising a statement of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Company is not in accordance with the *Corporations Act 2001* including:

- A. Giving a true and fair view of the Company's financial position as at 31 December 2019 and of its financial performance for the half-year ended on that date; and
- B. Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2019 and its performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.



A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. 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 review report.

BDO Audit Pty Ltd

M Cutri

Director

Brisbane, 12 March 2020