





### **Vale Vince Griffin**

Mr Vince Griffin, or "Mr Credit Union", was a staunch advocate of Credit Unions as an alternative to the major banks. Mr Griffin became involved with the Credit Union, the Park Avenue Parish Credit Co-operative Society Ltd, where a devoted group of volunteers worked diligently to build what would become The Capricornian Ltd; the longest standing credit union in Queensland.

In 1979, two decades after its establishment and with a membership base of around 500 members, the [then] Board of Directors approached Mr Griffin who at the time was an enthusiastic volunteer. Mr Griffin accepted the invitation to become the Credit Union's first professional Manager, and held this position for 15 years until his retirement in 1994.

Following his retirement, Mr Griffin remained an active supporter of the Credit Union. Each year, and as part of his ongoing commitment to the success and longevity of the Credit Union, Mr Griffin would attend the Annual General Meeting maintaining his connections with the Directors and staff that strive to continue his legacy.

On behalf of the Board of Directors, Management, Staff and Members, we offer our sincere condolences to Mr Griffin's family and we deeply appreciate the contribution he made to our organisation, and the Central Queensland community.



**Directors**

George Anthony Edwards  
*Chairman*

John Francis Siganto  
*Deputy-Chairman*

Vicki Anne Bastin-Byrne (resigned 30<sup>th</sup> September 2021)

Peter Graham Olrich

Janette Linda Davis

Ian John Mill

Narelle Lisa Pearce (appointed 25<sup>th</sup> October 2021)

**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 1300 314 900

Facsimile (07) 4931 4970

Email [info@capricornian.com.au](mailto:info@capricornian.com.au)

Phonefast 1300 654 654

Online Banking [www.capricornian.com.au](http://www.capricornian.com.au)

**Branches**

157 East Street, Rockhampton

Stockland Rockhampton, Yaamba Road, North Rockhampton

2 James Street, Yeppoon

115 Egerton Street, Emerald

1/27 Blomfield Street, Miriam Vale

174 Goondoon Street, Gladstone

29 Eclipse Street, Springsure

4 Conran Street, Capella

**ATM's**

Automatic Teller Machines (ATM's) are located at all branches listed above with the exception of Stockland Rockhampton, Gladstone, Springsure and Capella 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**

[www.capricornian.com.au](http://www.capricornian.com.au)

**Regulatory Disclosures**

[www.capricornian.com.au/About-Us/reports-policies-disclosure](http://www.capricornian.com.au/About-Us/reports-policies-disclosure)

The first six months of the 2021/22 financial year was overshadowed by the threat of COVID-19 on our community, economy, staff and members. The second six months was then impacted by the reality of the pandemic as a number of waves of infection rolled over Central Queensland from Christmas 2021 to June 2022. While we saw significant numbers of staff ill, or caring for family members, The Capricornian continued to open our branches, staff our call centre and ensure that the 'back office' functions required to maintain a compliant, member focused and sustainable Approved Deposit Taking Institution. I would like to commend our management and staff for the way they sometimes 'worked logistical miracles' to ensure this occurred.

This reality has highlighted the benefit that accrues to our members from the difference between The Capricornian and the "banking" sector. Our members remain at the forefront of our strategy and our commitment to maintain the largest number of points of access to financial services in Central Queensland (branches and call centre). Notwithstanding the times of uncertainty we have been living in, and continue to live in, we have maintained a friendly face in a convenient location or a friendly local Central Queensland voice available to assist.

Within this environment of the impacts of the COVID-19 pandemic, coupled with an increase in technology costs and a record increase in the number of local houses sold to buyers from outside Central Queensland (CQ), The Capricornian (your Credit Union) has produced a reduced but reasonable level of profit. Our after-tax profit was \$826,853, a decrease on last year's figure of \$1,493,259.

Outside the financial result, there were a number of highlights from the past financial year:

- Our capital position is solid with a Common Equity Tier 1 Capital ratio (%RWA) of 14.64%, well above the minimum requirements set by our regulator.
- Our level of Liquidity is a very healthy 21.18%.
- All branches experienced growth in new members.

The Capricornian recorded a modest loan portfolio reduction throughout 2021/22. This was predominantly generated by a record level of house sales in CQ, which in turn lead to a significant increase in loan repayments, well above what we had anticipated. Corelogic reported that sales of houses in Central Queensland in the 12 months to May 2022 were 28.1% higher than one year ago, and 67.9% above the five year average for the region. While funding of new loans totalled just under \$63M, repayments in excess of \$88M reduced the loan portfolio by 4.17%. While this reduction was disappointing, The Capricornian has seen a significant increase in loans applications and fundings for the new financial year which bodes well for an increase in the loan portfolio for the 2022/23 year.

From a strategic perspective the Board remains committed to six 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 six 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 members' 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 The Capricornian 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.
6. Ensure Resilience. This will be achieved by ensuring The Capricornian aligns its Information Security Management Systems (ISMS), Risk Management, Business Continuity Plan (BCP) and Financial structures to prudential guides, Industry best practice and accounting standards.

Our focus on community engagement is on strengthening relationships whilst supporting worthy not-for-profit organisations throughout Central Queensland. Our revised community engagement strategy has focused on leveraging the grass roots level relationships of our branches with community groups, engaging higher level corporate sponsorships aligning with our FIRST values and partnering with innovative community grants projects. We have contributed over \$100,000 to Corporate Sponsorships, Branch Sponsorships and our Community Grants Programs throughout the 2021 – 2022 financial year. We have proudly supported the CQ community for over 60 years, and we look forward to continuing support in the years to come.



Our monetary support was distributed to 23 groups, some of which are listed below:-

- *Capricorn Coast Community Events*
- *Fitzroy Frogs Triathlon Club*
- *Rockhampton Agricultural Show*
- *Rockhampton Basketball Inc.*
- *Rockhampton Bowls Club*
- *Rockhampton Museum of Art*
- *Rockhampton Symphony Orchestra*
  
- *The Capricornian Community Grants Program Recipients:*
  - *Capella State High School P&C*
  - *Caribee Amateur Swimming Club*
  - *Gindi Tennis Club*
  - *Gracemere Scout Group*
  - *Our Lady of the Sacred Heart Catholic Primary School P&F*
  - *Rugby Capricornia Referees Association*
  - *Rockhampton Equestrian Group Inc*
  - *Zonta Club of Rockhampton*

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

I would once again like to pay tribute to and express my thanks, on behalf of the Board, to each and every member of staff and management for their efforts during the pandemic, and helping to maintain The Capricornian as a strong member-focused Financial Institution. The CEO Mr. Grounds and his management team in particular have undertaken and excelled at a difficult job in trying times with good humour and diligence.

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

Notwithstanding our excellent products and services, 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 the Board of your Credit Union, are extremely confident 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

28<sup>th</sup> October 2022

Your directors present their report on the financial report of The Capricornian Ltd for the year ended 30 June 2022.

#### **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 42 years. Director for 21 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.

Chair of the Governance and Remuneration Committee (resigned 16<sup>th</sup> December 2021).

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 14 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 Governance and Remuneration Committee.

Vicki Anne BASTIN-BYRNE, GAICD

#### **Experience and expertise**

Business Proprietor. Local Government Councillor for 11 years. Director for 18 years. Resigned 30<sup>th</sup> 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**

Member of the Audit Committee (resigned 30<sup>th</sup> September 2021).

Member of the Risk Committee (resigned 30<sup>th</sup> September 2021).

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

#### **Experience and expertise**

Management Consultant. Former CEO of Credit Union Australia. Director for 5 years.

#### **Other current directorships**

Director of 1 public company: Regional Australia Bank Ltd (director since 2011).

#### **Former directorships in last 3 years**

Director of Summerland Financial Services Ltd (February 2010 – November 2020).

#### **Special responsibilities**

Chair of the Audit Committee.

Member of the Risk Committee.

Member of the Governance and Remuneration Committee.

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

**Experience and expertise**

Council Member CQUniversity Council for 7 years. Senior Internal Auditor of CQUniversity for 13 years. Director for 3 years.

**Other current directorships**

None.

**Former directorships in last 3 years**

None.

**Special responsibilities**

Member of the Audit Committee.

Member of the Risk Committee.

Chair of the Governance and Remuneration Committee (appointed 16<sup>th</sup> December 2021).

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 24<sup>th</sup> 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.

Narelle Lisa Pearse, BComm, MComm, EMBA, Grad Dip Psychology, Grad Cert Economic Development, FCA, GAICD

**Experience and expertise**

Vice President – Student & Corporate Services and CFO of CQUniversity for 8 years. Fellow of Chartered Accountants Australia & New Zealand. Former Council Member CQUniversity for 5 years. Appointed as a Director 25<sup>th</sup> October 2021.

**Other current directorships**

Director of 3 proprietary companies: CQU Travel Centre Pty Ltd (director since 2014), Mask-Ed International Pty Ltd (director since 2014), Datamuster Pty Ltd (director since 2018). Other directorships include: Central Queensland Hospital Foundation (director since 2021), PT CQU Executive Business Training Centre (Indonesia) (director since 2019).

**Former directorships in last 3 years**

Director of Capricorn Tourism and Economic Development Limited (December 2016 – October 2021).

**Special responsibilities**

Member of the Audit Committee (appointed 16<sup>th</sup> December 2021).

Member of the Risk Committee (appointed 16<sup>th</sup> December 2021).

**Company Secretaries**

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

**Experience and expertise**

Chief Executive Officer. Former CEO of Family First Credit Union.

Michelle Ann ALEXANDER, B.Bus (Accounting), CPA. Appointed 9<sup>th</sup> 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 \$283,599, was \$826,853, (2021 net profit of \$1,493,259, after recording an income tax expense of \$536,589).

### Dividends

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

	2022 \$	2021 \$
<u>Capricornian Investment Shares</u>		
Final ordinary dividend for the year ended 30 June 2021 equivalent to the maximum dividend benchmark rate 2.58% p.a. per share fully franked (2020 – 3.59% p.a. per share fully franked). Paid on 3 <sup>rd</sup> December 2021 (2020 – 14 <sup>th</sup> December 2020).	33,449	46,645
Interim ordinary dividend for the year ended 30 June 2022 equivalent to the maximum dividend benchmark rate 2.62% p.a. per share fully franked (2021 – 2.70% p.a. per share fully franked). Paid on 3 <sup>rd</sup> December 2021 (2021 – 5 <sup>th</sup> February 2021).	29,006	35,539

In accordance with the Notice of Redemption issued to the holders of Investment Shares, the Investment Shares were redeemed at face value on 3<sup>rd</sup> December 2021.

### 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 5-6 of this Annual Financial 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 Financial 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 2022, 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	10	10	-	3	-	3	-	2
J.F. Siganto	10	9	-	-	4	3	2	2
V.A. Bastin-Byrne*	3	3	1	1	1	1	-	-
P.G. Olrich	10	10	3	3	4	4	2	2
J.L. Davis	10	10	3	3	4	4	2	2
I.J. Mill	10	10	3	2	4	4	2	1
N.L. Pearse**	7	10	2	2	2	4	-	-

\* Resigned as a Director and member of the Audit Committee and Risk Committee 30<sup>th</sup> September 2021.

\*\* Appointed as a Director 25<sup>th</sup> October 2021. Appointed as a member of the Audit Committee and Risk Committee 16<sup>th</sup> December 2021.

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

Mr G.A. Edwards retires by rotation and is eligible for re-election.

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

#### 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/reports-policies-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  
28<sup>th</sup> October 2022



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 2022, I declare that, to the best of my knowledge and belief, there have been:

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

M Cutri

Director

**BDO Audit Pty Ltd**

Brisbane, 28 October 2022



**The Capricornian Ltd**  
**Statement of Comprehensive Income**  
For the year ended 30 June 2022

	Notes	2022 \$	2021 \$
Interest revenue	3	10,378,830	11,421,432
Interest expense	3	(1,005,391)	(2,147,418)
Net interest revenue		9,373,439	9,274,014
Fee and commission revenue	4	1,222,116	1,277,794
Other income	4	190,055	238,285
Total net interest revenue, fee and commission revenue and other income		10,785,610	10,790,093
Impairment expense on loan and advances	11(b)	95,000	(183,732)
Other expenses	5	(9,770,158)	(8,576,513)
Total expenses		(9,675,158)	(8,760,245)
Profit before income tax expense		1,110,452	2,029,848
Income tax expense	6	(283,599)	(536,589)
Profit for the year attributable to members		826,853	1,493,259
Other comprehensive income/(loss), that will not be reclassified to profit or loss			
Revaluation of land and buildings (net of tax)		-	277,209
Total comprehensive income for the year attributable to members		826,853	1,770,468

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



	Notes	2022 \$	2021 \$
<b>ASSETS</b>			
Cash and cash equivalents	7	51,998,883	53,899,527
Receivables	8	710,072	472,153
Investments due from other financial institutions	9	53,221,299	48,101,590
Loans and advances	10	289,148,682	301,635,430
Property, plant and equipment	12	3,642,678	3,774,840
Intangible assets	13	1,365,483	1,265,987
Deferred tax assets	14	-	69,003
Provision for income tax		70,928	136,481
Other assets		396,838	338,496
<b>Total assets</b>		<b>400,554,863</b>	<b>409,693,507</b>
<b>LIABILITIES</b>			
Deposits	16	360,227,035	366,896,859
Borrowings	16	10,325,482	10,325,482
Other liabilities	15	2,535,771	3,396,602
Deferred tax liabilities	14	46,938	-
Provisions	17	691,062	671,820
<b>Total liabilities</b>		<b>373,826,288</b>	<b>381,290,763</b>
<b>Net assets</b>		<b>26,728,575</b>	<b>28,402,744</b>
<b>EQUITY</b>			
Contributed equity	18	-	2,508,579
Reserves	19	675,462	1,254,771
Retained earnings		26,053,113	24,639,394
<b>Total equity</b>		<b>26,728,575</b>	<b>28,402,744</b>

*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 year ended 30 June 2022

	Notes	Contributed Equity \$	Asset Revaluation Reserve \$	Credit Loss Reserve \$	Retained Earnings \$	Total \$
<b>Balance 1 July 2020</b>		2,508,579	398,253	573,294	23,222,056	26,702,182
Profit for the year		-	-	-	1,493,259	1,493,259
Other comprehensive income, net of tax		-	277,209	-	-	277,209
<b>Total comprehensive income for the year</b>		-	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)
<b>Total transfers to/from retained earnings</b>		-	-	6,015	(6,933)	(918)
<b>Transactions with investment shareholders</b>						
Contributions of equity, net of transaction costs	18	-	-	-	-	-
Dividend provided for or paid		-	-	-	(68,988)	(68,988)
		-	-	-	(68,988)	(68,988)
<b>Balance 30 June 2021</b>		2,508,579	675,462	579,309	24,639,394	28,402,744
Balance 1 July 2021						
Profit for the year		-	-	-	826,853	826,853
Other comprehensive income/(loss), net of tax		-	-	-	-	-
<b>Total comprehensive income for the year</b>		-	-	-	826,853	826,853
Transfer to/from reserve for credit losses		-	-	(579,309)	579,309	-
Transfer to/from other provisions		-	-	-	36,563	36,563
<b>Total transfers to/from retained earnings</b>		-	-	(579,309)	615,872	36,563
<b>Transactions with investment shareholders</b>						
Redemption of shares	18	(2,508,579)	-	-	-	(2,508,579)
Dividend provided for or paid	20	-	-	-	(29,006)	(29,006)
		(2,508,579)	-	-	(29,006)	(2,537,585)
<b>Balance 30 June 2022</b>		-	675,462	-	26,053,113	26,728,575

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

	Notes	2022 \$	2021 \$
<b>Cash flows from operating activities</b>			
Interest received		10,303,123	11,320,353
Interest paid		(1,233,755)	(2,424,007)
Loans and advances funded		(65,930,647)	(80,851,292)
Loans repaid excluding overdrafts		78,385,788	71,110,178
Net movement in member deposits		(6,669,822)	40,287,242
Non interest revenue received		1,407,527	1,259,329
Payments to suppliers and employees		(10,648,312)	(7,017,944)
Income taxes paid		(102,108)	(537,480)
<b>Net cash inflow/(outflow) from operating activities</b>	27	<u>5,511,794</u>	<u>33,146,379</u>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment and intangible assets		(947,338)	(1,723,114)
Net increment in investments due from other financial institutions		(6,119,699)	(18,646,715)
<b>Net cash outflow from investing activities</b>		<u>(7,067,037)</u>	<u>(20,369,829)</u>
<b>Cash flows from financing activities</b>			
Principal payments of lease liabilities	15	(282,946)	(259,947)
Net inflow from borrowings		-	1,822,800
Dividends paid	20	(62,455)	(82,184)
<b>Net cash outflow from financing activities</b>		<u>(345,401)</u>	<u>1,480,669</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		(1,900,644)	14,257,219
Cash and cash equivalents at the beginning of the financial year		53,899,527	39,642,308
<b>Cash and cash equivalents at the end of the financial year</b>	28	<u>51,998,883</u>	<u>53,899,527</u>

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

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## 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 and the *Corporations Act 2001*.

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.

### (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 2021 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 securitization of residential mortgages into special purpose entities. All securitisation transactions are reviewed and assessed based on the above-noted derecognition criteria. In instances where the Credit Union's securitizations do not qualify for derecognition based on the above criteria, the Credit Union does not derecognise the transferred financial assets but records a secured borrowing with respect to any consideration received. For details of the Credit Union's policy on securitisation refer to Note 10.

#### Financial liabilities

The Credit Union 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 quantitative 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).

Credit Risk Portfolios – 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 quantitative 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

Generating the term structure of PD – 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.

Determining whether credit risk has increased significantly – 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 2022, the current Central Queensland unemployment rate of 5.20% (2021: 6.20%) 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 (2021: 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 (f) 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 reliably 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) Borrowings

Borrowings comprise the Term Funding Facility (TFF) that was established in March 2020 by the Reserve Bank of Australia (RBA) as part of a comprehensive policy package to support the Australian economy in the face of economic and financial disruptions resulting from the COVID-19 pandemic. The TFF provides a source of low cost funding for the banking system, with funding available for three year terms at an initial fixed interest rate of 0.25%, with further borrowing at 0.10%. The TFF borrowings are secured by several floating rate investments held by the RBA totalling \$10,259,000.

### (p) 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.

### (q) 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, e.g. 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.

## 1 Summary of significant accounting policies (continued)

### (r) 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.

### (s) 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.

### (t) 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) and Note 2 (b) for further information regarding such estimates.

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

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

- (i) 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.

- (ii) 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

Market risk is the potential adverse change in the Credit Union's income or the value of its net assets arising from the movement in interest rates or other market prices. The Credit Union is not exposed to currency risk and other price risk. The Credit Union does not trade in financial instruments it holds on its books.

The Credit Union is exposed to interest rate risk arising from changes in market interest rates due to the mismatches between the repricing dates of assets and liabilities. The Board monitors these risks through quarterly reporting.

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

#### Value at Risk (VaR)

The policy of the Credit Union is to maintain a balanced strategy by ensuring the net interest rate gaps between assets and liabilities are not excessive. This is measured and monitored using the Value at Risk methodology (VaR). The Credit Union's policy limit in respect of VaR is to keep this measurement below 2% of capital. The VaR is measured quarterly to identify any large exposures to interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets and term deposit liabilities to rectify the imbalance to within acceptable levels.

As at 30 June 2022, the Credit Union's Value at Risk was calculated at \$645,239 or 2.49% of capital (30 June 2021: \$348,648 or 1.37% of capital). Strategies are currently in place to reduce the current VaR to within the Board's approved risk appetite target.

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:
  - Investments due from other financial institutions (*Note 9*)
  - Deposits and borrowings – member call deposits and member term deposits (*Note 16*)
- 3) Loans and advances will potentially reprice in accordance with the following schedule:-

	2022 \$	2021 \$
No longer than 1 month	128,551,500	157,354,185
More than 1 month and less than 3 months	12,022,400	9,833,870
More than 3 months and less than 12 months	46,358,098	41,077,778
More than 12 months and less than 5 years	102,652,986	93,953,036
	<u>289,584,984</u>	<u>302,218,869</u>

## 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 %
<b>2022</b>							
Cash and Cash Equivalents	10,972	38,940	-	-	2,087	51,999	0.88
Investments due from other financial institutions	23,375	3,947	14,964	10,935	-	53,221	2.43
Other receivables	-	-	-	-	710	710	-
Loans and advances	123,320	63,612	102,653	-	-	289,585	3.40
Other payables	-	-	-	-	(2,536)	(2,536)	-
Deposits	(178,428)	(129,911)	(7,438)	-	(44,450)	(360,227)	(0.26)
Borrowings	-	(4,496)	(5,829)	-	-	(10,325)	(0.17)
	<b>(20,761)</b>	<b>(27,908)</b>	<b>104,350</b>	<b>10,935</b>	<b>(44,189)</b>	<b>22,427</b>	<b>2.68</b>
<b>2021</b>							
Cash and Cash Equivalents	-	-	-	-	18,927	18,927	0.00
Investments 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
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)
	<b>17,676</b>	<b>(71,299)</b>	<b>88,188</b>	<b>20,178</b>	<b>(30,670)</b>	<b>24,073</b>	<b>2.51</b>

### 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	2022 \$	2021 \$
Sensitivity to 1% rate fall on profit and equity	860,100	1,062,500

The results of the interest sensitivity analysis reported provides that the Credit Union's exposure to loss as at 30 June 2022 is to a decrease in interest rates.

## 2 Financial risk management (continued)

### (b) Credit Risk

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

#### (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) Credit Risk – Loans and advances

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

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

The risk of losses from loans to members is primarily reduced by the nature and quality of the security taken. The Board Policy is to maintain at least 50% of total assets in residential mortgages.

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

### Loans and Advances – Collateral held

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

The principal types of collateral held against loans and advances is shown below.

Loans and advances	2022 \$	2021 \$
Mortgage over Residential Property	265,809,126	278,368,147
Mortgage over Other Property	17,963,178	14,953,913
Personal Loans and overdrafts	5,812,680	8,896,809
	289,584,984	302,218,869

## 2 Financial risk management (continued)

### (b) Credit Risk (continued)

#### (iii) 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% (\$270,904,674) 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:

	2022 \$	2021 \$
• Authorised Deposit-Taking Institutions Aggregate Amount	70,859,813	86,484,080
Number of financial assets	46	47

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 Capricornian Ltd compared to the industry is relatively low such that the risk of loss is reduced.

#### (iv) 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:

	2022 \$	2021 \$
ADIs – rated AA- and above	45,965,130	54,282,282
ADIs – rated below AA-	36,900,716	24,735,427
Unrated institutions - ADIs	21,767,278	22,462,493
	104,633,124	101,480,202

#### (v) 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 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.



## 2 Financial risk management (continued)

### (b) Credit Risk (continued)

Current accounts with ADI's	2022 \$	2021 \$
Investment Grade	1,699,189	4,943,553
Non-investment Grade	9,773,008	13,462,968
Total current accounts with ADI's	11,472,197	18,406,521

Due from other financial institutions	2022 \$	2021 \$
Investment Grade	81,166,657	74,074,149
Non-investment Grade	11,994,270	8,999,532
Total due from other financial institutions	93,160,927	83,073,681

Lifetime expected credit losses	2022 \$	2021 \$
Credit impaired	5,339,758	5,896,679
Non-credit impaired	284,245,226	296,322,190
Unamortised setup costs	228,323	246,320
Unamortised establishment fees	(342,775)	(323,538)
Lifetime expected credit losses		
-Stage 1	(57,041)	(177,176)
-Stage 2	(38,852)	(36,376)
-Stage 3	(225,957)	(292,669)
Net loans and advances	289,148,682	301,635,430

### Collateral held and other credit enhancements

The Credit Union holds collateral against loans and advances to customers as detailed below:

	2022 \$	2021 \$
Loans and advances with no collateral	5,812,680	8,896,808
Loans and advances with collateral	283,772,304	293,322,061
Gross loans and advances	289,584,984	302,218,869

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

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

## 2 Financial risk management (continued)

### (c) Credit Risk (continued)

Impaired exposures under the expected credit loss model consist of:

- Retail loans which are contractually 90 days or more past due.
- Off-balance sheet credit exposures where current circumstances indicate that losses may be incurred.

Forward-looking information

Forward-looking information is used in the measurement of ECLs through probability weighted scenarios and includes macroeconomic variables that influence credit losses such as unemployment rates and changing house prices.

Assessment of significant increase in credit risk

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

Credit-impaired financial assets

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

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

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

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

Write off

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

Significant accounting judgements and estimates

In determining ECL, management judgement is applied, using objective, reasonable and supportable information about current and forecast economic conditions. Macro-economic variables used in these scenarios, include unemployment rates, GDP growth rates and residential and commercial property price indices.

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

## 2 Financial risk management (continued)

### (b) Credit Risk (continued)

#### 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.

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.

## **2 Financial risk management (continued)**

### **(b) Credit Risk (continued)**

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 2022, COVID-19 has not had a significant impact on the Credit Union and all 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.

#### **(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.

## 2 Financial risk management (continued)

### (c) Liquidity risk (continued)

2022	Within 1 month \$	1–3 months \$	3–12 months \$	1–5 years \$	At Call \$	Total \$
<b>Liabilities</b>						
Deposits	32,269,794	37,870,092	61,460,727	5,748,807	222,877,615	360,227,035
Borrowings	-	-	4,496,624	5,828,858	-	10,325,482
Interest payable	70,230	49,257	106,568	29,749	-	255,804
Lease liabilities	27,028	54,146	178,376	487,321	-	746,871
<b>Total Financial Liabilities</b>	<b>32,367,052</b>	<b>37,973,495</b>	<b>66,242,295</b>	<b>12,094,735</b>	<b>222,877,615</b>	<b>371,555,192</b>

2021	Within 1 month \$	1–3 months \$	3–12 months \$	1–5 years \$	At Call \$	Total \$
<b>Liabilities</b>						
Deposits	32,439,049	45,240,883	78,503,483	12,179,778	208,859,148	377,222,341
Borrowings	-	-	-	10,325,482	-	10,325,482
Interest payable	113,390	125,197	224,857	14,357	-	477,801
Lease liabilities	24,616	49,136	174,809	703,965	-	952,526
<b>Total Financial Liabilities</b>	<b>32,577,055</b>	<b>45,415,216</b>	<b>78,903,149</b>	<b>12,898,100</b>	<b>208,859,148</b>	<b>378,652,668</b>

#### (iii) Liquid funds

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

Liquid funds to total adjusted liabilities	2022 %	2021 %
As at 30 June	21.18	20.83
Average for the year	21.07	22.19
Minimum during the year	19.31	17.38

#### Liquid funds to total deposits

	2022 %	2021 %
As at 30 June	22.76	22.56

#### (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:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- 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
- 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. Deductions from Tier 1 capital as prescribed by APRA include deferred tax assets (if applicable) and the carrying value of any software.

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:

	2022 \$	2021 \$
<b>Tier 1 capital</b>		
Share capital	-	261,300
Revaluation reserve	675,462	675,462
Retained earnings	26,053,113	24,639,394
Prescribed deductions	(797,113)	(754,827)
Net Tier 1 Capital	<u>25,931,462</u>	<u>24,821,329</u>
<b>Tier 2 capital</b>		
	2022 \$	2021 \$
Credit losses reserve	-	579,309
Net Tier 2 Capital	<u>-</u>	<u>579,309</u>
Total Capital	<u>25,931,462</u>	<u>25,400,638</u>

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:

	2022	2021	2020	2019	2018
Capital ratio	14.95%	14.50%	14.69%	14.03%	13.88%

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.

	2022 \$	2021 \$
<b>Interest Revenue</b>		
Cash and cash equivalents	302,879	210,340
Investments due from other financial institutions	221,073	217,240
Loans and advances	9,854,878	10,993,852
	<u>10,378,830</u>	<u>11,421,432</u>
<b>Interest Expense</b>		
Member deposits	953,118	2,106,704
Borrowings	23,626	21,301
Lease liabilities	28,647	19,413
	<u>1,005,391</u>	<u>2,147,418</u>

### 4 Fee, commission and other revenue

	2022 \$	2021 \$
Non-interest revenue		
Fees and commissions		
-loan fee income	157,569	192,443
-other fee income	534,238	543,404
-insurance commissions	416,876	379,477
-other commissions	113,433	162,470
Subtotal	<u>1,222,116</u>	<u>1,277,794</u>
Bad debts recovered	9,783	10,066
Other revenue	180,272	228,219
Subtotal	<u>190,055</u>	<u>238,285</u>
Total non-interest revenue	<u>1,412,171</u>	<u>1,516,079</u>

### 5 Other expenses

	2022 \$	2021 \$
Depreciation and amortisation		
-plant and equipment	220,439	203,761
-buildings	44,141	40,251
-intangible assets	392,333	94,098
-Right of use asset – amortisation expense	322,091	201,094
General and administration		
-personnel costs	4,106,373	3,475,031
-superannuation costs	380,997	331,911
-audit costs	310,754	296,030
-subscriptions and affiliation costs	374,707	362,550
-member transactional banking costs	703,894	706,288
-other	1,146,740	1,130,788
Other expenses		
-lease expenses	(56,749)	27,953
-information technology and communication expenses	1,269,338	1,177,051
-other	555,100	529,707
Total other expenses	<u>9,770,158</u>	<u>8,576,513</u>



## 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:

	2022 \$	2021 \$
Profit before income tax	1,110,452	2,029,848
Prima facie tax payable on profit at 25% (2021: 26%)	277,613	527,760
Add Tax effect of:		
Non-deductible entertainment	3,329	1,741
Non-deductible depreciation and amortisation	-	-
Other Non-deductible items	11,036	10,465
Change in company tax rate	2,654	21,096
	<u>294,632</u>	<u>561,062</u>
Tax Building depreciation/building allowance	(11,033)	(11,473)
Overprovision for income tax	-	-
Cash Flow Boost	-	(13,000)
Income tax expense attributable to profit before income tax.	<u>283,599</u>	<u>536,589</u>

The applicable weighted average effective tax rates are as follows:

25%                      26%

- (b) The components of tax expense comprise:

Current tax	167,660	218,830
Deferred Tax Asset	113,285	296,663
Change in company tax rate	2,654	21,096
	<u>283,599</u>	<u>536,589</u>

Deferred income tax (revenue) expense included in income tax expense comprises:

(Decrease) / increase in deferred tax assets	(330,537)	(467,586)
Total deferred tax assets/(liabilities) (Note 14)	<u>(46,938)</u>	<u>69,003</u>

- (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 25% (2021: 26%)

8,593,161                      8,446,320

## 7 Cash and cash equivalents

	2022 \$	2021 \$
Cash equivalents	587,058	520,915
Current accounts due from other financial institutions	11,472,195	18,406,521
Investments due from other financial institutions with original maturity of less than 3 months	39,939,630	34,972,091
	<u>51,998,883</u>	<u>53,899,527</u>

## 8 Receivables

	2022 \$	2021 \$
Accrued Interest – to be settled within 12 months	278,176	202,469
Prepayments	431,896	269,684
	<u>710,072</u>	<u>472,153</u>

## 9 Investments due from other financial institutions

	2022 \$	2021 \$
Debt securities – at amortised cost:		
Investments due from other financial institutions with original maturity of more than 3 months	53,221,299	48,101,590
	<u>53,221,299</u>	<u>48,101,590</u>

## 10 Loans and advances

	2022 \$	2021 \$
Overdrafts	2,285,581	1,764,953
Term loans	287,299,403	300,453,916
Gross loans and advances	<u>289,584,984</u>	<u>302,218,869</u>
Unamortised setup costs	228,323	246,320
Unamortised establishment fees	(342,775)	(323,538)
Provision for impairment (Note 11)	<u>(321,850)</u>	<u>(506,221)</u>
Net loans and advances	<u>289,148,682</u>	<u>301,635,430</u>
Amount of loans and advances expected to be recovered more than 12 months after the reporting date	276,966,310	289,360,243

### Maturity Analysis

	2022 \$	2021 \$
Current accounts		
Overdrafts	2,285,581	1,764,954
Not longer than 3 months	3,228,345	3,327,329
Longer than 3 months and not longer than 12 months	9,275,877	9,454,079
Non-current accounts		
Longer than 1 year and not longer than 5 years	47,041,155	47,433,506
Longer than 5 years	<u>227,754,026</u>	<u>240,239,001</u>
	<u>289,584,984</u>	<u>302,218,869</u>

### 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 2022, the fair value of securitised loans under management is \$2,347,285 (2021: \$3,618,600). 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 2022, the Credit Union earned \$68,621 (2021: \$104,622) 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).

	2022 \$	2021 \$
<b>(a) Provisions for impairment</b>		
Opening balance	506,221	381,758
Impairment expense	(95,000)	183,732
Bad debts written off from provision	(89,371)	(59,269)
Closing balance	<u>321,850</u>	<u>506,221</u>
<b>(b) Provision for expected credit loss</b>		
Increase / (decrease) in provision for impairment	(5,629)	243,001
Bad debts written off	(89,371)	(59,269)
	<u>(95,000)</u>	<u>183,732</u>
<b>(c) Impairment measurement for loans and advances at amortised cost</b>		
Specific provision - Lifetime expected credit losses (ECL)	264,809	329,045
Collective provision – Lifetime ECL	-	-
Collective provision – 12 Months ECL	57,041	177,176
Total collective provision for impairment	<u>57,041</u>	<u>177,176</u>
Total provision for impairment	<u>321,850</u>	<u>506,221</u>
<b>(d) Impairment measurement for loans and advances at amortised cost</b>		

	Stage 1 12-month ECL \$	Stage 2 Lifetime ECL \$	Stage 3 Credit-impaired \$	Total provision \$
<b>At 1 July 2020</b>	69,737	81,160	230,861	381,758
<i>Changes due to loans and advances recognised in the opening balance that have:</i>				
- Transferred to 12-month ECL	6,432	(6,432)	-	-
- Transferred to lifetime ECL not credit-impaired	(36,136)	36,136	-	-
- Transferred to lifetime ECL credit-impaired	(44,676)	(5,542)	50,218	-
Net re-measurement of loss allowance	181,819	(68,946)	11,590	124,463
<b>Balance at 30 June 2021</b>	<u>177,176</u>	<u>36,376</u>	<u>292,669</u>	<u>506,221</u>
<b>At 1 July 2021</b>	177,176	36,376	292,669	506,221
<i>Changes due to loans and advances recognised in the opening balance that have:</i>				
- Transferred to 12-month ECL	-	-	-	-
- Transferred to lifetime ECL not credit-impaired	(6,881)	6,881	-	-
- Transferred to lifetime ECL credit-impaired	(81,889)	-	81,889	-
Net re-measurement of loss allowance	(31,365)	(4,405)	(148,601)	(184,371)
<b>Balance at 30 June 2022</b>	<u>57,041</u>	<u>38,852</u>	<u>225,957</u>	<u>321,850</u>

## 12 Property, plant and equipment

	Freehold land and Buildings \$	Plant and Equipment \$	Right-Of- Use Assets \$	Assets in Progress \$	Total \$
<b>At 1 July 2020</b>					
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)	-	(1,917,912)
Carrying amount	1,913,042	712,945	279,187	19,294	2,924,468
<b>Year ended 30 June 2021</b>					
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
<b>At 30 June 2021</b>					
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
<b>Year ended 30 June 2022</b>					
Carrying amount at 1 July 2021	2,150,000	639,308	969,382	16,150	3,774,840
Additions	5,646	158,079	105,393	185,391	454,509
Disposals	-	-	-	-	-
Transfers from Work in Progress accounts	-	141,528	-	(141,528)	-
Revaluation increments	-	-	-	-	-
Depreciation	(44,141)	(220,439)	(322,091)	-	(586,671)
Carrying amount at 30 June 2022	2,111,505	718,476	752,684	60,013	3,642,678
<b>At 30 June 2022</b>					
Cost or fair value	2,155,646	2,772,618	1,158,501	60,013	6,146,778
Accumulated depreciation	(44,141)	(2,054,142)	(405,817)	-	(2,504,100)
Carrying amount	2,111,505	718,476	752,684	60,013	3,642,678

### 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 \$
<b>2022</b>				
Recurring fair value measurements				
Land and buildings	-	-	2,111,505	2,111,505
<b>2021</b>				
Recurring fair value measurements				
Land and buildings	-	-	2,150,000	2,150,000

## 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 2022	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)	\$220 to \$295 (weighted average \$266)	\$253	The higher the outgoings and capitalisation rate, the lower the fair value.
		Outgoings (\$/sqm)	\$41	\$37	
		Capitalisation Rate	8.50%	8.75%	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 19 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 30 June 2022 was assessed at \$2,111,505, comprising \$350,000 in relation to the value of the land and \$1,761,505 in relation to the value of the building. It is the opinion of the directors that this current carrying value is appropriate.

### 13 Intangible assets

	Software \$	Asset in Progress \$	Total \$
<b>At 1 July 2020</b>			
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
<b>Year ended 30 June 2021</b>			
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
<b>At 30 June 2021</b>			
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
<b>Year ended 30 June 2022</b>			
Carrying amount at 1 July 2021	1,119,057	146,930	1,265,987
Additions	-	491,829	491,829
Transfers from Work in Progress accounts	476,017	(476,017)	-
Amortisation	(392,333)	-	(392,333)
Carrying amount at 30 June 2022	1,202,741	162,742	1,365,483
<b>At 30 June 2022</b>			
Cost	3,730,221	162,742	3,892,963
Accumulated amortisation	(2,527,480)	-	(2,527,480)
Carrying amount	1,202,741	162,742	1,365,483

### 14 Deferred tax assets/(liabilities)

	2022 \$	2021 \$
Deferred tax assets/(liabilities) comprise temporary differences attributable to:		
Provision for expected credit losses	80,463	131,617
Employee benefits	172,765	165,977
Accruals	7,574	7,089
Depreciation	(296,543)	(243,320)
Prepayments (expense account)	48,437	38,444
Prepayments (asset account)	(59,634)	(30,804)
	(46,938)	69,003
<b>Movements:</b>		
Opening balance 1 July	69,003	386,763
Credited/(charged) to profit or loss	(115,941)	(317,760)
Closing balance 30 June	(46,938)	69,003
Deferred tax assets/(liabilities) to be recovered within 12 months	(46,938)	69,003

## 15 Other liabilities

	2022 \$	2021 \$
Current other liabilities		
Accrued expenses	503,941	927,225
Lease Liabilities	259,550	248,561
Other liabilities	1,224,894	1,457,502
Non-current other liabilities		
Lease Liabilities	487,321	703,965
Other liabilities	60,065	59,349
	<u>2,535,771</u>	<u>3,396,602</u>

### Lease liabilities

	\$
As at July 2020	273,817
Additions	958,069
Interest expense	(19,413)
Lease payments	(259,947)
Balance at 30 June 2021	<u>952,526</u>
As at July 2021	952,526
Additions	105,938
Interest expense	(28,647)
Lease payments	(282,946)
Balance at 30 June 2022	<u>746,871</u>

(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.

## 16 Deposits and borrowings

	2022 \$	2021 \$
Unsecured deposits		
Member call deposits (including withdrawable shares)	222,877,615	208,859,149
Member term deposits	137,349,420	158,037,710
Total deposits	<u>360,227,035</u>	<u>366,896,859</u>
Secured borrowings		
RBA Term Funding Facility	10,325,482	10,325,482
Total borrowings	<u>10,325,482</u>	<u>10,325,482</u>
Current – within 12 months to maturity	358,974,852	366,896,859
Non-current – greater than 12 months to maturity	11,577,665	10,325,482
	<u>370,552,517</u>	<u>377,222,341</u>

### Concentration of Deposits

The Credit Union's operations are predominately in the Central Queensland region with 94% (\$337,494,709) 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

	2022 \$	2021 \$
Non-current provisions		
Provision for employee benefits – long service leave	13,601	33,593
Current provisions		
Provision for employee benefits – annual leave	318,245	262,288
Provision for employee benefits – long service leave	359,216	342,490
Provision for dividends	-	33,449
	<u>691,062</u>	<u>671,820</u>

### (a) Movements in provisions

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

	2022 \$	2021 \$
Carrying amount at start of year	33,449	46,645
Additional provisions recognised	29,006	68,988
Dividends paid	(62,455)	(82,184)
Closing Balance as at 30 June	<u>-</u>	<u>33,449</u>

## 18 Contributed Equity

	2022 No. of shares	2021 No. of shares	2022 \$	2021 \$
(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	(2,613,190)	-	(2,508,579)	-
Balance at end of year	<u>-</u>	<u>2,613,190</u>	<u>-</u>	<u>2,508,579</u>
<b>Total contributed equity</b>	<u>-</u>	<u>2,613,190</u>	<u>-</u>	<u>2,508,579</u>

In accordance with the Notice of Redemption issued to the holders of Investment Shares, the Investment Shares were redeemed at face value on 3<sup>rd</sup> December 2021.

## 19 Reserves and retained earnings

	2022 \$	2021 \$
<b>Reserves</b>		
Asset revaluation reserve – opening balance	675,462	398,253
Movements:		
Increase on revaluation – gross (Note 12)	-	277,209
<b>Balance 30 June</b>	675,462	675,462
Credit loss reserve – opening balance	579,309	573,294
Movements:		
Transfer to retained earnings	(579,309)	6,015
<b>Balance 30 June</b>	-	579,309
<b>Total reserves 30 June</b>	675,462	1,254,771

### 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 (I).

(ii) *Credit loss reserve*

Effective 1 January 2022, in accordance with APRA requirements, the Credit Union is longer required to maintain a General Reserve for Credit Losses. The amount that was previously captured under this calculation is inherently included in the calculation of the Expected Credit Loss (see Note 12). Therefore, in accordance with the accounting standards, this reserve has been transferred to retained earnings.

## 20 Dividends

### (a) Investment shares

	2022 \$	2021 \$
Final dividend for the year ended 30 June 2021 equivalent to the maximum dividend benchmark rate 2.58% p.a. per share (2020 – 3.59% p.a. per share fully franked). Paid on 3 <sup>rd</sup> December 2021 (2020 – 14 <sup>th</sup> December 2020).	33,449	46,645
Interim dividend for the year ended 30 June 2022 equivalent to the maximum dividend benchmark rate 2.62% p.a. per share (2021 – 2.70% p.a. per share fully franked). Paid on 3 <sup>rd</sup> December 2021 (2021 – 5 <sup>th</sup> February 2021).	29,006	35,539
	62,455	82,184

In accordance with the Notice of Redemption issued to the holders of Investment Shares, the Investment Shares were redeemed at face value on 3<sup>rd</sup> December 2021.

## 21 Key management personnel disclosures

### (a) Key management personnel compensation

	2022 \$	2021 \$
Short-term employee benefits	904,429	915,300
Post-employment benefits	137,625	123,862
Long-term benefits	13,766	16,745
	1,055,820	1,055,907

### (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. All Investment Shares were redeemed on 3<sup>rd</sup> December 2021 in accordance with the Notice of Redemption to all holders of Investment Shares.

2022		
Name	Balance at the start of the year	Balance at the end of the year
<b>Directors of The Capricornian Ltd Investment Shares.</b>		
George Anthony Edwards	50,500	Nil
John Francis Siganto	4,000	Nil
Vicki Anne Bastin-Byrne	2,000	Nil
Peter Graham Olrich	Nil	Nil
Janette Linda Davis	Nil	Nil
Narelle Lisa Pearse	Nil	Nil
<b>Other key management personnel of The Capricornian Ltd Investment Shares.</b>		
Dale Frederick Grounds	Nil	Nil
Graeme Walter Kemp	2,000	2,000
Michelle Ann Alexander	Nil	Nil
Tristan Scott Kipling	Nil	Nil

2021		
Name	Balance at the start of the year	Balance at the end of the year
<b>Directors of The Capricornian Ltd Investment Shares.</b>		
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
<b>Other key management personnel of The Capricornian Ltd Investment Shares.</b>		
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:

	2022 \$	2021 \$
Secured loans	1,824,468	1,769,708
Overdrafts	68,000	18,000
	1,892,468	1,787,708

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

	2022 \$	2021 \$
Secured loans	675,000	680,000
Interest and other revenue earned on loans amounted to:	36,935	39,167

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

	2022 \$	2021 \$
Total value of term and savings deposits	1,485,219	3,641,543
Interest paid on deposits	9,079	17,939

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

There were no transactions with key management personnel during the year ended 30 June 2022.

## 22 Remuneration of auditors

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

	2022 \$	2021 \$
<b>(a) Assurance services</b>		
Audit services		
BDO Audit Pty Ltd		
Auditing or reviewing the accounts, including regulatory reporting	126,048	130,917
<b>(b) Taxation services</b>		
BDO Tax Pty Ltd		
Tax compliance services, including company income tax returns	26,751	26,891
<b>(c) Advisory services</b>		
KPMG		
Internal audit work	92,946	107,504
Sundry consultancy	-	94,346
BDO Tax Pty Ltd		
Sundry consultancy	-	26,930
	92,946	228,780

## 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.

	2022 \$	2021 \$
Guarantees	218,168	123,645

## 24 Commitments

### (a) Outstanding loan commitments

	2022 \$	2021 \$
Loans and credit facilities approved but not yet funded or drawn at the end of the financial year:		
Loans approved but not funded	8,859,179	10,152,897
Undrawn overdraft and lines of credit	2,826,260	4,265,630
	11,685,439	14,418,527

## 25 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.

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

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.

## 25 Fair values (continued)

### (b) Fair value estimates (continued)

	2022		2021	
	Total fair values \$	Carrying amount \$	Total fair values \$	Carrying amount \$
<b>Financial assets for which fair values are disclosed</b>				
Cash and cash equivalents	51,998,883	51,998,883	53,899,527	53,899,527
Due from other financial institutions	53,221,299	53,221,299	48,101,590	48,101,590
Other receivables	710,072	710,072	472,153	472,153
Loans and advances	289,584,984	289,148,682	302,218,869	301,635,430
<b>Financial liabilities for which fair values are disclosed</b>				
Deposits	360,227,035	360,227,035	366,896,859	366,896,859
Payables and other liabilities	2,535,771	2,535,771	3,396,602	3,396,602
Lease Liabilities	746,871	746,871	952,526	952,526
Borrowings	10,325,482	10,325,482	10,325,482	10,325,482

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

## 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

	2022 \$	2021 \$
Profit for the year	832,839	1,493,259
Depreciation	979,004	539,203
Provision for doubtful debts	(95,000)	183,732
Bad debts written off from provision	(89,371)	(59,269)
Net (gain) loss on sale of non-current assets	-	-
Change in operating assets and liabilities		
(Increase) decrease in loans	12,633,883	(9,622,576)
(Decrease) increase in member deposits	(6,669,822)	40,287,242
(Increase) decrease in deferred tax assets	-	317,760
(Increase) decrease in other assets	(58,340)	(40,258)
(Decrease) increase in creditors	(2,249,596)	288,310
Increase (decrease) in provision for income tax	175,506	(318,650)
(Decrease) increase in other provisions	52,691	77,626
Net cash inflow/(outflow) from operating activities	5,511,794	33,146,379



## 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.

	2022 \$	2021 \$
Cash at the end of the financial year as shown in the Statement of Cash Flows consists of:		
Cash on hand and at bank	12,059,253	22,907,436
Cash equivalents	39,939,630	30,992,091
Cash at the end of the financial year	<u>51,998,883</u>	<u>53,899,527</u>

## 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 2022 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 13-53 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 2022 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  
28<sup>th</sup> October 2022



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 2022, 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 2022 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (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](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, 28 October 2022









1300 314 900

[www.capricornian.com.au](http://www.capricornian.com.au)

The Capricornian Ltd ABN 54 087 650 940

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