2020 ANNUAL FINANCIAL REPORT

THE CAPRICORNIAN LTD
ABN 54 087 650 940
AFSL / AUSTRALIAN CREDIT LICENCE 246780

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDING 30 JUNE 2020

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Contents

Directors	George Anthony Edwards *Chairman*
	John Francis Siganto *Deputy-Chairman*
	Vicki Anne Bastin-Byrne
	Christopher Bernard O'Brien (resigned 30th September 2020)
	Peter Graham Olrich
	Janette Linda Davis
	Ian John Mill (appointed 24th August 2020)
Company Secretary	Dale Frederick Grounds
	Michelle Ann Alexander
Registered office	157 East Street, Rockhampton Qld 4700
	A.F.S.L. 246 780
	A.B.N. 54 087 650 940
	Telephone (07) 4931 4900
	Facsimile (07) 4931 4970
	Email info@capricornian.com.au
	Phonefast 1300 654 654
	Online Banking www.capricornian.com.au
Branches	157 East Street, Rockhampton Stockland Rockhampton, Yaamba Road, North Rockhampton 2 James Street, Yeppoon 115 Egerton Street, Emerald Blomfield Street, Miriam Vale 174 Goondoon Street, Gladstone 29 Eclipse Street, Springsure
ATM's	Automatic Teller Machines (ATM's) are located at all branches listed above with the exception of Gladstone and Springsure Branches
External Auditor	BDO Audit Pty Ltd
Internal Auditor	KPMG
Solicitors	Gadens Lawyers (Brisbane) Daniels Bengtsson Pty Ltd (Sydney) Results Legal Solutions (Brisbane)
Affiliations	Cuscal Ltd Australian Settlements Limited Customer Owned Banking Association
Website address	www.capricornian.com.au
Regulatory Disclosures	www.capricornian.com.au/About-Us/Prudential-Disclosures/

The events of 2019-2020 will no doubt be remembered by us all for their impact on us each individually, our families, and our Capricornian family.

I feel that this year has demonstrated yet again, the difference between The Capricornian and the "banking" sector. This difference was shown in our caring for our members by the actions we took at the commencement of the COVID-19 pandemic as follows:

- 44.70% (3,870) of Members were personally contacted by telephone by our staff to enquire into their personal and financial wellbeing within six months of the pandemic commencement. Our staff started our contact program with our most vulnerable Members and our reassurance was gratefully acknowleged by many Members.

- Just under 40 Borrowing Members have had their loans treated concessionally for up to six months under the COVID-19 Hardship arrangement authorised by our regulator, Australian Prudential Regulation Authority (APRA). This program was designed to allow people to 'mark time' during the peak of the economic issues brought on by the pandemic.

- More than 30 of these Borrowing Members have now successfully exited from their concessional loan treatment, and resumed their normal repayment plans. We continue to work with the remaining Borrowing Members receiving support and expect most to exit the support over the coming six months.

- At the date of this report, less than 1% of our loan portfolio is subject to the COVID-19 deferred repayment option. While the full effects of these deferments will take many months to unfold, the longstanding prudent lending practices of The Capricornian has meant that our Members have been better able to cope with the financial challenges brought on by COVID-19.

- All Borrowing Members who had their loan treated concessionally have been personally contacted monthly by our dedicated staff who ensured that our assistance remained appropriate.

Notwithstanding the impacts of the COVID-19 pandemic, The Capricornian (your Credit Union) has continued to perform well this year. Our after-tax profit was $1,662,659, a small decrease on last year's figure of $1,667,048 as a result of additional costs incurred due to the COVID-19 challenges we faced.

Notable achievements this year include:

- Membership grew by 0.84%

- Gross Assets grew by 5.05%

- All branches have experienced growth

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

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

These five areas of strategic intent are to:

1. Focus on our members. This means providing the products, services and access required by our members in a financially and socially sustainable way. This means physical and digital access.
2. Focus on our staff. This means ensuring our staff have the support, training, resources and leadership necessary to provide meet the member's needs, satisfy stakeholder requirements and properly manage the Credit Union.
3. Build capability. This means with develop 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 TCL will be noted as always giving due regard to effective Risk Management; Prudential Standards; legal obligations; Governance and Cultural best practice; and remaining focused on the best interest of the Customer Owned Banking sector and our members.
5. Enrich our communities. This will be achieved by operating within community expectations, providing financial support and equitable access and acting in a way that acknowledges our social licence for banking services.

Through our ongoing community engagement initiatives and strategies we have contributed over $100,000 to many community groups and non-for-profit organisations in 2019-2020. These include, but are not limited to :

- Rockhampton Basketball Association
- Rockhampton Jockey Club
- Rockhampton Symphony Orchestra
- Rockhampton Art Gallery
- Springsure Rugby League
- Local Rockhampton, Capricorn and surrounding Bowls Clubs
- Capricorn Helicopter Resue Service
- Local Rugby League and Soccer Clubs
- The Capricornian Community Grants Program Recipients:
    - Bungundarra Rurual Fire Service
    - Cooberrie Park Wildlife Sanctuary
    - Gladstone Football Club
    - Suncity Sports Club

The recently announced closure of the Central Queensland branches of MyState Bank (formerly The Rock) has resulted in a considerable inflow of new members seeking to place their banking facilities with a reliable, stable, solid, local, community owned Financial Institution such as The Capricornian Ltd. We anticipate this trend will continue, further adding to our ability to provide ongoing benefits to the Central Queensland community.

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

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

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

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

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

G. A. Edwards
Chairman

29th October 2020

Your directors present their report on the financial report of The Capricornian Ltd for the year ended 30 June 2020.

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 40 years. Director for 19 years.
Other current directorships
Director of 7 proprietary companies: Capehead Pty Ltd (director since 1981), Evans Edwards & Associates Pty Ltd (director since 2001), Manlex Pty Ltd (director since 1983), Keppel Cruises Pty Ltd (director since 2005), Capehead Superannuation Pty Ltd (director since 2012), 452 Advice Pty Ltd (director since December 2017) and 452 Finance Pty Ltd (director since November 2018).
Former directorships in last 3 years
None.
Special responsibilities
Ex Officio of all Committees.
Member of the Directors Nomination Committee.

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

Experience and expertise
Solicitor and Partner of Grant and Simpson Lawyers. Director for 12 years.
Other current directorships
Director of 3 proprietary companies: Grant and Simpson Service Co. Pty Ltd (director since 1997), Otnagis Pty Ltd (director since 2006), Basildon Pty Ltd (director since 2008).
Former directorships in last 3 years
None.
Special responsibilities
Chair of the Risk Committee
Member of the Audit Committee.

Vicki Anne BASTIN-BYRNE, GAICD

Experience and expertise
Business Proprietor. Local Government Councillor for 11 years. Director for 17 years.
Other current directorships
Director of 1 public company: Iwasaki Foundation Ltd (director since 2010).
Former directorships in last 3 years
None.
Special responsibilities
Chair of the Governance and Remuneration Committee.
Member of the Risk Committee.

Christopher Bernard O'BRIEN, B.Bus, FCPA

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

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

Experience and expertise
Management Consultant. Former CEO of Credit Union Australia. Director for 3 years.
Other current directorships
Director of 2 public companies: Summerland Financial Services Ltd (director since 2010) and Regional Australia Bank Ltd (director since 2011).
Former directorships in last 3 years
Director of Credit union Foundation Australia Pty Ltd (March 2018 – October 2018), Australian Settlements Limited (2016-2017), E-Commerce Holdings Pty Ltd (2016 – May 2018) and its associated companies Financial Services Pty Ltd (2016 – February 2018), Netteller (2016 – May 2018), The System Works Pty Ltd (2016 – May 2018) and TSW Digital Pty Ltd (2016 – February 2018).
Special responsibilities
Chair of the Audit Committee (appointed 30th September 2020).
Member of the Risk Committee.
Member of the Governance and Remuneration Committee.

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

Experience and expertise
Council Member CQUniversity Council for 7 years. Senior Internal Auditor of CQUniversity for 13 years. Director for 1 year.
Other current directorships
None.
Former directorships in last 3 years
None.
Special responsibilities
Member of the Audit Committee.
Member of the Governance and Remuneration Committee.

Ian John MILL, Dip H.A.

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

Company secretaries

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

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

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

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

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

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

Results
The profit from ordinary activities, after related income tax of $615,676, was $1,662,659, (2019 net profit of $1,667,048, after recording an income tax expense of $600,336).

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

	2020 $	2019 $
<u>Capricornian Investment Shares</u>		
Final ordinary dividend for the year ended 30 June 2019 equivalent to the maximum dividend benchmark rate 4.63% p.a. per share fully franked (2018 - 4.54% p.a. per share fully franked). Paid on 4th November 2019 (2018 - 6th November 2018).	60,103	58,797
Interim ordinary dividend for the year ended 30 June 2020 equivalent to the maximum dividend benchmark rate 3.78% p.a. per share fully franked (2019 - 4.76% p.a. per share fully franked). Paid on 31st January 2020 (2019 - 31st January 2019).	49,651	62,717

The directors have provided for the payment of a final ordinary dividend of $46,645 paid out of retained earnings at 30 June 2020 on issued Investment Shares as at that date. The dividend per share provided for equates to the maximum dividend benchmark rate of 3.59% p.a. fully franked for the period ended 30 June 2020. Payment is subject to confirmation of members at the Annual General Meeting.

Review of operations
Information on the operations and financial position of the credit union and its business strategies and prospects is set out in the Chairman's Report on pages 3-4 of this annual report.

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

Events after the end of the financial year
No other matters or circumstances have arisen since the end of the reporting period which have significantly affected or may significantly affect the operations, the results of those operations, or the state of affairs of The Capricornian Ltd in subsequent financial years.

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

Performance in relation to environmental regulations
The Capricornian 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 2020, and the numbers of meetings attended by each director were:

	Full meetings of directors		Meetings of committees: Audit		Risk Management		Governance and Remuneration	
	A	B	A	B	A	B	A	B
G.A. Edwards	10	9	-	4	-	4	-	2
J.F. Siganto	10	9	4	3	4	4	-	1
V.A. Bastin-Byrne	10	10	-	4	4	4	2	2
C.B. O'Brien	10	9	4	4	4	3	2	2
P.G. Olrich	10	10	4	4	4	4	2	2
J.L. Davis	10	9	4	4	-	4	2	2

A = Number of meetings held during the time the director held office or was a member of the committee during the year. Committee meetings may be attended by all Directors irrespective of committee membership. Attendance by Directors at committee meetings of which they are not a member is reported despite non-eligibility.
B = Number of meetings attended.

The role of the audit committee is to:
- Monitor compliance with board policies as well as prudential and statutory requirements.
- Oversee financial reporting, external and internal audits, and appointment of the external auditor.

The role of the risk management committee is to:
- Provide objective, independent and non-executive reviews of The Capricornian's Prudential Risk Management Framework.

The role of the governance and 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 P.G. Olrich retires by rotation and is eligible for re-election.

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

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

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

Proceedings on behalf of the company
No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the credit union, or to intervene in any proceedings to which the credit union is a party, for the purpose of taking responsibility on behalf of the credit union for all or part of those proceedings.

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

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

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

Details of the amounts paid to the auditor BDO Audit Pty Ltd for audit and non-audit services provided during the year are set out in Note 22.

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

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

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 10.

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
29th October 2020

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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 2020, 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, 29 October 2020

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

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

157 East Street
Rockhampton QLD 4700

A description of the nature of the credit union's operations and its principal activities is included in the directors' report on pages 5 to 9.

The financial statements were authorised for issue by the directors on 29th October 2020. The credit union has the power to amend and reissue the financial statements.

The Capricornian Ltd
Statement of Comprehensive Income
For the year ended 30 June 2020

	Notes	**2020** **$**	2019 $
Interest revenue	3	13,342,117	14,523,674
Interest expense	3	(4,530,071)	(5,988,406)
Net interest revenue		8,812,046	8,535,268
Fee and commission revenue	4	1,304,431	1,369,994
Other income	4	189,940	609,966
Total net interest revenue, fee and commission revenue and other income		10,306,417	10,515,228
Impairment expense on loan and advances	11(b)	(252,024)	(67,295)
Other expenses	5	(7,776,058)	(8,180,549)
Total expenses		(8,028,082)	(8,247,844)
Profit before income tax expense		2,278,335	2,267,384
Income tax expense	6	(615,676)	(600,336)
Profit for the year attributable to members		1,662,659	1,667,048
Other comprehensive income/(loss), that will not be reclassified to profit or loss			
Revaluation of land and buildings		-	(306,301)
Total comprehensive income for the year attributable to members		1,662,659	1,360,747

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

The Capricornian Ltd
Statement of Financial Position
As at 30 June 2020

	Notes	**2020 $**	2019 $
ASSETS			
Cash and cash equivalents	7	39,642,308	36,634,813
Receivables	8	459,458	441,062
Due from other financial institutions	9	29,454,886	17,562,670
Loans and advances	10	292,125,057	289,947,951
Non-current assets available for sale		-	80,000
Property, plant and equipment	12	2,924,468	2,538,088
Intangible assets	13	572,839	264,256
Deferred tax assets	14	386,763	371,018
Other assets		106,126	244,004
Total assets		365,671,905	348,083,862
LIABILITIES			
Deposits and borrowings	16	335,112,299	319,675,690
Other liabilities	15	3,067,865	2,776,271
Provision for income tax		182,169	(42,597)
Provisions	17	607,390	537,697
Total liabilities		338,969,723	322,947,061
Net assets		26,702,182	25,136,801
EQUITY			
Contributed equity	18	2,508,579	2,508,579
Reserves	19	971,547	992,544
Retained earnings		23,222,056	21,635,678
Total equity		26,702,182	25,136,801

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

The Capricornian Ltd
Statement of Changes in Equity
As at 30 June 2020

	Notes	Contributed Equity $	Asset Revaluation Reserve $	Credit Loss Reserve $	Retained Earnings $	Total $
Balance 1 July 2018		2,508,579	704,554	547,641	20,141,045	23,901,819
Profit for the year		-	-	-	1,667,048	1,667,048
Other comprehensive income, net of tax		-	(306,301)	-	-	(306,301)
Total comprehensive income for the year		-	(306,301)	-	1,667,048	1,360,747
Transfer to/from reserve for credit losses		-	-	46,650	(46,650)	-
Transfer to/from other provisions		-	-	-	(333)	(333)
Total transfers to/from retained earnings		-	-	46,650	(46,983)	(333)
Transactions with investment shareholders						
Contributions of equity, net of transaction costs	18	-	-	-	-	-
Dividend provided for or paid		-	-	-	(125,432)	(125,432)
		-	398,253	594,291	(125,432)	(125,432)
Balance 30 June 2019		2,508,579	398,253	594,291	21,635,678	25,136,801
Profit for the year		-	-	-	1,662,659	1,662,659
Other comprehensive income/(loss), net of tax		-	-	-	-	-
Total comprehensive income for the year		-	-	-	1,662,659	1,662,659
Transfer to/from reserve for credit losses		-	-	(20,997)	20,997	-
Transfer to/from other provisions			-	-	(982)	(982)
Total transfers to/from retained earnings		-	-	(20,997)	20,015	(982)
Transactions with investment shareholders						
Contributions of equity, net of transaction costs	18	-	-	-	-	-
Dividend provided for or paid	20	-	-	-	(96,296)	(96,296)
		-	-	-	(96,296)	(96,296)
Balance 30 June 2020		2,508,579	398,253	573,294	23,222,056	26,702,182

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

	Notes	**2020 $**	2019 $
Cash flows from operating activities			
Interest received		13,368,537	14,547,300
Interest paid		(5,299,918)	(5,873,312)
Loans and advances funded		(49,648,543)	(48,476,058)
Loans repaid excluding overdrafts		47,060,637	40,528,842
Net inflow in member deposits		6,933,928	13,120,995
Non interest revenue received		1,306,299	2,003,859
Payments to suppliers and employees		(5,573,914)	(7,029,637)
Income taxes paid		(646,016)	(508,702)
Net cash inflow/(outflow) from operating activities	27	7,501,010	8,313,287
Cash flows from investing activities			
Payments for property, plant and equipment and intangible assets		(743,649)	(452,893)
Payments for investments measured at amortised cost with a maturity of more than 3 months		(11,892,201)	(5,508,483)
Proceeds from sale of property, plant and equipment		20,000	445,533
Net cash outflow from investing activities		(12,615,850)	(5,515,842)
Cash flows from financing activities			
Principal payments of lease liabilities		270,593	-
Net inflow from borrowings		8,502,682	-
Dividends paid		(109,754)	(121,514)
Net cash outflow from financing activities		8,122,335	(121,514)
Net increase/(decrease) in cash and cash equivalents		3,007,495	2,675,931
Cash and cash equivalents at the beginning of the financial year		36,634,813	33,958,882
Cash and cash equivalents at the end of the financial year	28	39,642,308	36,634,813

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.

(a) Basis of preparation

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

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

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

Historical cost convention
These financial statements have been prepared on an accruals basis and are based on historical cost convention except for certain classes of property, plant and equipment and investment property.

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

A number of new or amended standards became applicable for the current reporting period and the credit union had to change its accounting policies as a result of adopting the standards. The most relevant to the credit union follows:

- AASB 16 *Leases*
- Interpretation 23 *Uncertainty over Income Tax Treatment*

AASB 16 *Leases*

This standard and its consequential amendments were applied from 1 July 2019, replacing the accounting requirements applicable to leases in AASB 117 *Leases* and related interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases. This mean that for most leases, a right-of-use asset and a lease liability will be recognised, with the right-of-use asset being depreciated and the lease liability being unwound in principal and interest components over the life of the lease.

The credit union transitioned to AASB 16 using the modified retrospective approach, where the right-of-use asset is recognised at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments relating to the lease recognised in the Statement of Financial Position immediately before the date of initial application, using the Credit Union's incremental borrowing rate at the date of initial application. Comparative figures have not been restated.

The credit union elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 July 2019. Instead, the credit union applied the standard only to contracts that were previously identified as leases applying AASB 117 and IFRIC 4 at the date of initial application. The credit union also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets). The credit union further applied the other practical expedients as permitted by the standard as follows:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- The use of hindsight in determining the lease term where the contract contains options to extend of terminate the lease;
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

At 1 July 2019, the credit union recorded a lease liability and right-of-use asset amounting to $273,817 using a weighted incremental borrowing rate of 3.5%. There was no impact on retained surplus upon adoption of AASB 16.

1 Summary of significant accounting policies (continued)

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

Reconciliation of operating lease commitments disclosed as at 30 June 2019 to initial measurement of lease liability at 1 July 2019

	$
Operating lease commitments disclosed as at 30 June 2019	583,928
Add: Exercise of extension option	-
Less: Short-term leases	-
Less: Low-value leases	-
Less: Impact of discounting using the credit union's incremental borrowing rate at 1 July 2019	(120,363)
Lease liability as at 1 July 2019	463,566

AASB Interpretation 23 *Uncertainty over Income Tax Treatment*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of AASB 112 *Income Taxes*. It does not apply to taxes or levies outside the scope of AASB 112, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances.

Upon adoption of the Interpretation, the credit union considered whether it has any uncertain tax positions. The credit union determined, based on its tax compliance, it is probable that its tax treatments will be accepted by the taxation authorities. The Interpretation did not have an impact on the financial statements.

(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.

1 Summary of significant accounting policies (continued)

(e) Operating leases

Accounting policy prior to 1 July 2019

Leases in which a significant proportion of the risks and rewards of ownership is retained by the lessor is classified as operating leases (Note 24 (a)). Payments made under operating leases (net of any incentives received by the lessor) is charged to the statement of comprehensive income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which the termination takes place.

(f) Leases

The credit union has changed its accounting policy for leases. The impact of the change is described in Note 1 (b).

Until 30 June 2019, leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 30 June 2020, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the credit union.

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.

To determine the incremental borrowing rate, the credit union uses recent third-party financing received by the individual lessee 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.

1 Summary of significant accounting policies (continued)

(f) Leases (continued)

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

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

(g) 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.

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.

1 Summary of significant accounting policies (continued)

(g) Financial assets and financial liabilities (continued)

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.

(v) Fair Value Measurement

Refer to Note 1 (h) 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).

1 Summary of significant accounting policies (continued)

(g) Financial assets and financial liabilities (continued)

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

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

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

Measurement of ECL

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

- loans and advances that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the credit union in accordance with the contract and the cash flows that the credit union expects to receive); and
- loans and advances assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

Credit Quality of financial assets

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

Credit-impaired loans and advances

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

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

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.

(h) Fair value measurement

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

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

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

1 Summary of significant accounting policies (continued)

(h) Fair value measurement (continued)

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.

(i) 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.

(j) 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.

(k) 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. Transacation 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.

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).

1 Summary of significant accounting policies (continued)

(l) Loans and advances

Loans and advances are initially recognised at fair value plus transaction costs directly attributable to the origination of the loan or advance, which are primarily brokerage and origination fees. These costs are amortised over the estimated life of the loan. Subsequently, loans and advances are measured at amortised cost using the effective interest rate method, net of any provision for credit impairment.

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

(m) 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 revalution reserves in respect of those assets to retained earnings.

(n) Intangible Assets

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

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

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

1 Summary of significant accounting policies (continued)

(n) Intangible Assets (continued)

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.

(o) 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.

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

(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 (g), Note 1 (h) and Note 1 (l) for further information regarding such estimates.

1 Summary of significant accounting policies (continued)

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

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2020. The credit union's assessment of the impact of these new standards and interpretations is set out below.

(i) Amendments to AASB 13 - *Definition of a Business* (applicable to reporting periods after 1 January 2020).
Clarifies the definition of a 'business' in AASB 3 Business Combinations to assist in determining whether a transaction should be accounted for as a business combination or as an asset acquisition. The credit union is yet to assess how the amendments to the standard will impact on its financial reporting.

(ii) Amendments to AASB 101 and AASB 108 – *Definition of Material* (applicable to reporting periods after 1 January 2020).
AASB 101 Presentation of Financial Statements and AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors include a definition of 'materiality' which must be applied when judging whether information should be included, or amounts adjusted, in the financial statements.
Consequential amendments have also been made to ensure that the definition of 'material' is consistent across all IFRS Standards, as well as the Revised Conceptual Framework (2018) and IFRS Practice Statement 2 Making Materiality Judgements. The credit union is yet to assess how the amendments to the standard will impact on its financial reporting.

(iii) Amendments to AASB 7, AASB 9 and AASB 139 – *Interest Rate Benchmark Reform* (applicable to reporting periods after 1 January 2020).

These amendments were issued by the Australian Accounting Standards Board in October 2019 and modify some of the hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by interest rate benchmark reform.
The amendments also require disclosure of additional information about hedging relationships that are directly affected by the uncertainties caused by interest rate benchmark reform. Amendments to the standard are not expected to impact the credit union.

(iv) Amendments to AASB 1054 – *Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia* (applicable to reporting periods after 1 January 2020).

These amendments have added a new paragraph 17 to AASB 1054 Australian Additional Disclosures which clarifies that, in complying with paragraph 30 of AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors, entities intending to assert compliance with IFRS must also disclose the potential effect of IFRS standards that are yet to be issued by the AASB. The credit union is yet to assess how the amendments to the standard will impact on its financial reporting.

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

There are four main changes to the classification requirements:

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

(vi) AASB 2020-4 (Issued June 2020)- Amendments to Australian Accounting Standards – COVID-19 Related Rent Concessions (applicable to reporting periods beginning on or after 1 June 2020).

These amendments introduce a practical expedient that permits lessees not to assess whether a rent concession that occurs as a direct consequence of the COVID-19 pandemic is a lease modification, provided all of the following criteria are met:

1 Summary of significant accounting policies (continued)

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

- Change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately prior to the change
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (for example, a concession would meet this condition if it resulted in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021), and
- There is no substantive change to other terms and conditions of the lease.

In such cases, the concessions are accounted for as if they were not a lease modification. Amendments to the standard are not expected to impact the credit union.

2 Financial risk management

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

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

(a) Market Risk

(i) Interest rate risk

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

1) Financial assets and liabilities not exposed to interest rate risk:
    - Cash and cash equivalents (*Note 7*)
    - Other liabilities (*Note 15*)

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

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

	2020 **$**	2019 $
No longer than 1 month	180,052,019	211,726,955
More than 1 month and less than 3 months	5,110,855	2,947,470
More than 3 months and less than 12 months	32,723,292	22,852,185
More than 12 months and less than 5 years	74,710,125	52,684,323
	292,596,291	290,210,933

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.

2 Financial risk management (continued)

(a) Market Risk (continued)

	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 %
2020							
Cash and Cash Equivalents	21,077	-	-	-	2,102	23,179	0.18
Due from other Financial institutions	22,994	16,463	759	5,702	-	45,918	1.19
Other receivables	-	-	-	-	459	459	-
Loans and advances	178,834	39,052	74,710	-	-	292,596	4.05
Subordinated debt	-	-	-	-	-	-	-
Other payables	-	-	-	-	(3,068)	(3,068)	-
Deposits	(124,404)	(171,752)	-	-	(30,454)	(326,610)	(0.98)
Borrowings	-	-	(8,503)	-	-	(8,503)	(0.25)
	98,501	(116,237)	66,966	5,702	(30,961)	23,971	2.48
2019							
Cash and Cash Equivalents	16,747	-	-	-	483	17,231	1.29
Due from other Financial institutions	16,563	19,404	-	-	-	35,967	2.34
Other receivables	-	-	-	-	441	441	-
Loans and advances	209,017	28,510	52,684	-	-	290,211	4.68
Subordinated debt	-	-	-	-	-	-	-
Other payables	-	-	-	-	(2,776)	(2,776)	-
Deposits	(110,710)	(183,268)	-	-	(25,697)	(319,676)	(1.81)
	131,616	(135,354)	52,684	-	(27,549)	21,398	2.46

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	**2020 $**	2019 $
Sensitivity to 1% rate fall on profit and equity	208,800	(79,600)

The results of the interest sensitivity analysis reported provides that the credit union's exposure to loss as at 30 June 2020 is to an decrease in interest rates. This is demonstrated by the negative result in the prior year to accrued income in a rate fall scenario as demonstrated above.

2 Financial risk management (continued)

(b) Credit Risk

(i) Maximum credit risk exposure

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

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

(ii) Concentration of credit risk

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

The credit union's operations are predominately in the Central Queensland region. Total loans due from members located in Central Queensland form 94% ($275,125,380) 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:

	2020 **$**	2019 $
• Authorised Deposit-Taking Institutions Aggregate Amount	58,399,747	45,731,731
Number of financial assets	32	28

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

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

(iii) External credit assessment for institutional investments

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

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

	2020 **$**	2019 $
ADIs – rated AA- and above	40,370,144	21,782,633
ADIs – rated below AA-	17,450,687	19,833,876
Unrated institutions - ADIs	10,884,464	12,082,245
	68,705,295	53,698,754

2 Financial risk management (continued)

(b) Credit Risk (continued)

(iv) Credit Risk Management System

The credit risk management system ensures that:

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

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

Current accounts with ADI's	**2020 $**	2019 $
Investment Grade	12,901,650	4,649,734
Non-investment Grade	9,885,818	12,082,245
Total current accounts with ADI's	22,787,468	16,731,979

Due from other financial institutions	**2020 $**	2019 $
Investment Grade	44,919,179	36,966,774
Non-investment Grade	998,646	-
Total due from other financial institutions	45,917,825	36,966,774

Loans and advances	**2020 $**	2019 $
Mortgage over Residential Property	268,482,278	263,830,143
Mortgage over Other Property	16,329,370	16,905,096
Personal Loans and overdrafts	7,784,643	9,475,694
	292,596,291	290,210,933

Lifetime expected credit losses	**2020 $**	2019 $
Credit impaired	3,925,925	3,436,611
Non-credit impaired	288,670,366	286,774,322
Unamortised setup costs	132,422	104,985
Unamortised establishment fees	(221,898)	(136,959)
Lifetime expected credit losses		
-Stage 1	(69,737)	(30,982)
-Stage 2	(81,160)	(13,438)
-Stage 3	(230,861)	(186,588)
Net loans and advances	292,125,057	289,947,951

2 Financial risk management (continued)

(b) Credit Risk (continued)

Collateral held and other credit enhancements

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

	2020 **$**	2019 $
Loans and advances with no collateral	7,784,643	9,475,694
Loans and advances with collateral	284,811,648	280,735,239
Gross loans and advances	292,596,291	290,210,933

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 impairement

See accounting policy in Note 1 (g).

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 toa 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 qualitiative factors, including a backstop based on delinquency, of which this would be taken into consideration for the watch-list. Another factor which deems the portfolio's credit risk to have increased significantly since initial recognition is if, based on the credit union's model, the LVR of the loan has increased past the threshold for it to be deemed a risk as identified above.

2 Financial risk management (continued)

(b) Credit Risk (continued)

As a backstop, the credit union considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due or, for overlimit overdrafts and overdrawn accounts with no approved facility, more than 14 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

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

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

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

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

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

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

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

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

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

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

(v) Consideration of COVID-19 on Credit Risk

As at 30 June 2020, COVID-19 has not had a significant impact on the credit union as:

- Just under 40 Borrowing Members have had their loans treated concessionally for up to six months under the COVID-19 Hardship arrangement authorised by APRA.
- More than 30 of these Borrowing Members have now sucessefully exited from their concessional loan treatment, and resumed their normal repayment plans.
- Post 30 June 2020 and at the date of this report, less than 1% of the loan portfolio is subject to the COVID-19 deferred repayment option.

(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.

2 Financial risk management (continued)

(c) Liquidity risk (continued)

(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.

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

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

(iii) Liquid funds

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

Liquid funds to total adjusted liabilities	**2020 %**	2019 %
As at 30 June	17.23	16.22
Average for the year	16.37	15.30
Minimum during the year	14.60	13.74

Liquid funds to total deposits	**2020 %**	2019 %
As at 30 June	18.28	16.95

(iv) Fair Value Measurements

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

2 Financial risk management (continued)

(c) Liquidity risk (continued)

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

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

(d) Capital risk

The Australian Prudential Regulatory Authority (APRA) sets and monitors capital requirements for The Capricornian Ltd under Australian Prudential Standard 110 Capital Adequacy. Under the Standard The Capricornian Ltd must maintain minimum levels of Tier 1 capital and may also hold Tier 2 capital up to certain prescribed limits. Tier 1 capital comprises the highest quality components of capital that fully satisfy the following essential characteristics:

- Provide a permanent and unrestricted commitment of funds;
- Are freely available to absorb losses;
- Do not impose any unavoidable servicing charges against earnings;
- Rank behind claims of depositrs and other creditors in the event of winding up.

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

Tier 2 capital comprises capital instruments that, to varying degrees, fall short of the quality of Tier 1 capital but exhibit some of the features of equity and contribute to the overall strength of The Capricornian Ltd as a going concern. The Capricornian Ltd's Tier 2 capital includes credit losses reserve and qualifying subordinated loans, adjusted by regulatory adjustments.

Capital in The Capricornian Ltd is made up as follows:

	2020 **$**	2019 $
Tier 1 capital		
Share capital	522,600	783,900
Revaluation reserve	398,253	398,253
Retained earnings	23,222,056	21,635,678
Prescribed deductions	(615,747)	(575,441)
Net Tier 1 Capital	23,527,162	22,242,390

Tier 2 capital	**2020** **$**	2019 $
Subordinated debt	-	-
Credit losses reserve	573,294	594,291
Net Tier 2 Capital	573,294	594,291
Total Capital	24,100,456	22,836,681

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.

2 Financial risk management (continued)

(d) Capital risk (continued)

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:

	2020	2019	2018	2017	2016
Capital ratio	14.69%	14.03%	13.88%	13.97%	14.26%

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.

	2020 $	2019 $
Interest Revenue		
Cash and cash equivalents	328,714	684,379
Investment securities	329,424	345,813
Loans and advances	12,683,979	13,493,482
	13,342,117	14,523,674
Interest Expense		
Member deposits	4,503,366	5,946,530
Investment Bonds	-	39,147
Borrowings	13,670	2,729
Right of Use Asset – finance costs	13,035	-
	4,530,071	5,988,406

4 Fee, commission and other revenue

	2020 $	2019 $
Non-interest revenue		
Fees and commissions		
-loan fee income	161,740	143,836
-other fee income	583,805	642,927
-insurance commissions	365,295	395,779
-other commissions	193,591	187,452
Subtotal	1,304,431	1,369,994
Bad debts recovered	2,925	2,600
Other revenue		
-insurance claim proceeds on loss of property	-	427,962
-other	187,015	179,404
Subtotal	189,940	609,966
Total non-interest revenue	1,494,371	1,979,960

5 Other expenses

	2020 $	2019 $
Depreciation and amortisation		
-plant and equipment	190,764	143,373
-buildings	40,250	50,577
-intangible assets	66,330	151,389
-Right of use asset – amortisation expense	241,014	-
General and administration		
-personnel costs	3,081,750	3,260,795
-superannuation costs	291,120	286,656
-other	2,221,464	2,238,113
Other expenses		
-operating lease expenses	11,174	253,103
-information technology and communication expenses	1,073,551	1,033,203
-loss on disposal of property	8,529	234,896
-other	550,112	528,444
Total other expenses	7,776,058	8,180,549

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:

	2020 $	2019 $
Profit from continuing operations before income tax	2,278,335	2,267,384
Prima facie tax payable on profit at 27.5% (2019: 27.5%)	626,542	623,531
Add Tax effect of:		
Non-deductible entertainment	3,951	291
Non-deductible depreciation and amortisation	-	11,434
Other Non-deductible items	11,069	-
Change in company tax rate	-	-
	641,562	635,256
Less Tax effect of:		
Tax Building depreciation/building allowance	(12,136)	(12,136)
Overprovision for income tax	-	(22,784)
Cash Flow Boost	(13,750)	-
Income tax expense attributable to profit before income tax.	615,676	600,336
The applicable weighted average effective tax rates are as follows:	27.5%	27.5%
(b) The components of tax expense comprise:		
Current tax	631,421	535,221
Deferred Tax Asset	(15,745)	87,899
Overprovision for tax in prior year	-	(22,784)
	615,676	600,336
Deferred income tax (revenue) expense included in income tax expense comprises:		
(Decrease) / increase in deferred tax assets	(228,913)	(221,806)
Total deferred tax assets (Note 14)	386,763	371,018
(d) Balance of franking account at year end adjusted for franking credits or debits arising from payment of the provision for income tax or receipt of dividends receivable at the reporting date based on a tax rate of 27.5% (2019: 27.5%)	8,256,366	7,671,982

7 Cash and cash equivalents

	2020 **$**	2019 $
Cash equivalents	379,933	483,259
Current accounts due from other financial institutions	26,779,438	20,727,451
Investments due from other financial institutions with a maturity of less than 3 months	12,482,937	15,424,103
	39,642,308	36,634,813

8 Receivables

	2020 **$**	2019 $
Accrued Interest – to be settled within 12 months	101,390	127,810
Prepayments	358,068	313,252
	459,458	441,062

9 Investments due from other financial institutions

	2020 **$**	2019 $
Debt securities – at amortised cost:		
Investments due from other financial institutions with a maturity of more than 3 months	29,454,886	17,562,670
	29,454,886	17,562,670

10 Loans and advances

	2020 **$**	2019 $
Overdrafts	4,638,852	4,923,563
Term loans	287,957,439	285,287,370
Gross loans and advances	292,596,291	290,210,933
Unamortised setup costs	132,422	104,985
Unamortised establishment fees	(221,898)	(136,959)
Provision for impairment (Note 11)	(381,758)	(231,008)
Net loans and advances	292,125,057	289,947,951
Amount of loans and advances expected to be recovered more than 12 months after the reporting date	280,027,683	277,887,340

Maturity Analysis

	2020 **$**	2019 $
Current accounts		
Overdrafts	4,638,852	4,923,563
Not longer than 3 months	3,270,931	3,205,687
Longer than 3 months and not longer than 12 months	9,222,015	9,090,203
Non-current accounts		
Longer than 1 year and not longer than 5 years	45,442,164	44,164,007
Longer than 5 years	230,022,329	228,827,473
	292,596,291	290,210,933

10 Loans and advances (continued)

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

At 30 June 2020, the fair value of securitised loans under management is $5,505,324 (2019: $9,345,280). 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 2020, the credit union earned $133,782 (2019: $115,108) 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).

	2020 **$**	2019 $
(a) Provisions for impairment		
Opening balance	231,008	457,333
Impairment expense	252,024	67,295
Bad debts written off from provision	(101,274)	(293,620)
Closing balance	381,758	231,008
(b) Impairment expense on loans and advances to members		
Increase / (decrease) in provision for impairment	353,298	360,915
Bad debts written off	(101,274)	(293,620)
	252,024	67,295
(c) Impairment measurement for loans and advances at amortised cost		
Specific provision - Lifetime Expected Credit Losses (ECL)	312,021	200,026
Collective provision – Lifetime ECL	-	-
Collective provision – 12 Months ECL	69,737	30,982
Total collective provision for impairment	69,737	30,982
Total provision for impairment	381,758	231,008

12 Property, plant and equipment

	Freehold land and Buildings $	Plant and Equipment $	Right-Of-Use Assets $	Assets in Progress $	Total $
At 1 July 2018					
Cost or fair value	2,597,669	2,011,535	-	1,091	4,453,151
Accumulated depreciation	(106,511)	(1,549,655)	-	-	(1,510,471)
Carrying amount	2,491,158	461,880	-	1,091	2,954,129
Year ended 30 June 2019					
Carrying amount at 1 July 2018	2,491,158	461,880	-	1,091	2,954,129
Additions	-	280,124	-	10,657	290,781
Disposals	(234,895)	(17,566)	-	-	(252,461)
Transfers from Work in Progress accounts	-	1,091	-	(1,091)	-
Revaluation increments	(172,394)	-	-	-	(172,394)
Depreciation	(50,577)	(151,390)	-	-	(201,967)
Carrying amount at 30 June 2019	2,033,292	574,139	-	10,657	2,618,088
At 30 June 2019					
Cost or fair value	2,040,000	1,794,978	-	10,657	3,845,635
Accumulated depreciation	(6,708)	(1,220,839)	-	-	(1,227,547)
Carrying amount	2,033,292	574,139	-	10,657	2,618,088
Year ended 30 June 2020					
Carrying amount at 1 July 2019	2,033,292	574,139	-	10,657	2,618,088
Additions	-	79,880	520,201	288,856	888,937
Disposals	(80,000)	(30,529)	-	-	(110,529)
Transfers from Work in Progress accounts	-	280,219	-	(280,219)	-
Revaluation increments	-	-	-	-	-
Depreciation	(40,250)	(190,764)	(241,014)	-	(472,028)
Carrying amount at 30 June 2020	1,913,042	712,945	279,187	19,294	2,924,468
At 30 June 2020					
Cost or fair value	1,960,000	2,342,885	520,201	19,294	4,842,380
Accumulated depreciation	(46,958)	(1,629,940)	(241,014)	-	(1,917,192)
Carrying amount	1,913,042	712,945	279,187	19,294	2,924,468

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 $
2020				
Recurring fair value measurements				
Land and buildings	-	-	1,913,042	1,913,042
2019				
Recurring fair value measurements				
Land and buildings	-	-	2,033,292	2,033,292

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 2020	Range of inputs (per previous valuation performed in 2016)	Relationship between unobservable inputs and fair value
Buildings (Property, plant and equipment)	Income approach based on estimated rental value of the property. Market rentals, outgoings and capitalisation rates are estimated by an external valuer based on comparable transactions and industry data.	Market Gross Rent ($/sqm) Outgoings ($/sqm) Capitalisation Rate	$253 $37 8.75%	$225 to $300 (weighted average $271) $32 8.5%	The higher the outgoings and capitalisation rate, the lower the fair value. The higher the gross rent, the higher the fair value.

Recognised fair value measurements

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

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

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

The credit union engages external, independent and qualified valuers to determine the fair value of the credit union's properties at least every three years. A revaluation of freehold land and buildings at 157 East Street, Rockhampton was performed by directors as at 21st May 2019, based on an assessment of the current market value. In performing the revaluation, directors referred to an independent valuation by Herron Todd White (Central Queensland) Pty Ltd. Current market value of freehold properties as at 30th June 2020 was assessed at $1,913,042 and it is the opinion of the directors that this current carrying value is appropriate.

13 Intangible assets

	Software $	Asset in Progress $	Total $
At 1 July 2018			
Cost	2,083,980	32,815	2,116,795
Accumulated amortisation	(1,871,278)	-	(1,871,278)
Carrying amount	212,702	32,815	245,517
Year ended 30 June 2019			
Carrying amount at 1 July 2018	212,702	32,815	245,517
Additions	20,746	141,366	162,112
Transfers from Work in Progress accounts	9,738	(9,738)	-
Amortisation	(143,373)	-	(143,373)
Carrying amount at 30 June 2019	99,813	164,443	264,256
At 30 June 2019			
Cost	2,114,464	164,443	2,278,907
Accumulated amortisation	(2,014,651)	-	(2,014,651)
Carrying amount	99,813	164,443	264,256
Year ended 30 June 2020			
Carrying amount at 1 July 2019	99,813	164,443	264,256
Additions	30,445	344,468	374,913
Transfers from Work in Progress accounts	60,445	(60,445)	-
Amortisation	(66,330)	-	(66,330)
Carrying amount at 30 June 2020	124,373	448,466	572,839
At 30 June 2020			
Cost	2,165,422	448,466	2,613,888
Accumulated amortisation	(2,041,049)	-	(2,041,049)
Carrying amount	124,373	448,466	572,839

14 Deferred tax assets

	2020 $	2019 $
Deferred tax assets comprise temporary differences attributable to:		
Provision for expected credit losses	104,983	63,527
Employee benefits	154,205	131,338
Accruals	6,810	3,517
Depreciation	57,501	117,943
Excess FBT accounting over tax deduction	-	853
Prepayments (expense account)	47,411	38,114
Prepayments (asset account)	15,853	15,726
Deferred tax liabilities attributable to property, plant and equipment	-	-
	386,763	371,018

14 Deferred tax assets (continued)

	2020 $	2019 $
Movements:		
Opening balance 1 July	371,018	592,824
Change in company tax rate	-	-
Reversal of DTA no longer recognised	-	(133,907)
Credited/(charged) to profit or loss	15,745	(87,899)
Credited/(charged) from deferred tax liabilities	-	-
Closing balance 30 June	386,763	371,018
Deferred tax assets to be recovered within 12 months	386,763	371,018

15 Other liabilities

	2020 $	2019 $
Non-current other liabilities		
Other liabilities	57,842	56,523
Current other liabilities		
Accrued expenses	1,136,475	1,610,933
Lease Liabilities	273,817	-
Other liabilities	1,599,730	1,108,815
	3,067,865	2,776,271

16 Deposits and borrowings

	2020 $	2019 $
Unsecured deposits and borrowings		
Member call deposits (including withdrawable shares)	154,858,147	136,407,279
Member term deposits	171,751,470	183,268,411
RBA Term Funding Facility	8,502,682	-
Total deposits and borrowings	335,112,299	319,675,690
Current – within 12 months to maturity	326,609,617	319,675,690
Non-current – greater than 12 months to maturity	8,502,682	-
	335,112,299	319,675,690

Concentration of Deposits

The credit union's operations are predominately in the Central Queensland region with 85% ($277,261,796) 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

	2020 **$**	2019 $
Non-current provisions		
Provision for employee benefits – long service leave	32,047	23,203
Current provisions		
Provision for employee benefits – annual leave	205,508	159,746
Provision for employee benefits – long service leave	323,190	294,645
Provision for dividends	46,645	60,103
	607,390	537,697

(a) Movements in provisions

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

	2020 **$**	2019 $
Carrying amount at start of year	60,103	56,184
Additional provisions recognised	96,296	125,432
Dividends paid	(109,754)	(121,513)
Closing Balance as at 30 June	46,645	60,103

18 Contributed Equity

	2020 **No. of shares**	2019 No. of shares	**2020** **$**	2019 $
(a) Movement in Share Capital				
Balance at the beginning of the year	2,613,190	2,613,190	2,508,579	2,508,579
Increase due to issue of shares	-	-	-	-
Decrease due to redemption of shares	-	-	-	-
Balance at end of year	2,613,190	2,613,190	2,508,579	2,508,579
30 June 2020 Total contributed equity	2,613,190	2,613,190	2,508,579	2,508,579

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

19 Reserves and retained earnings

	2020 **$**	2019 $
Reserves		
Asset revaluation reserve – opening balance	398,253	704,554
Movements:		
Decrease on revaluation – gross (Note 12)	-	(172,394)
Decrease on revaluation – deferred tax (Note 14)	-	(133,907)
Balance 30 June 2020	398,253	398,253
Credit loss reserve – opening balance	594,291	547,641
Movements:		
Increment on transfer from retained earnings	(20,997)	46,650
Balance 30 June 2020	573,294	594,291
Total reserves 30 June 2020	971,547	992,544

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 (m).

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

20 Dividends

(a) Investment shares

	2020 **$**	2019 $
Final dividend for the year ended 30 June 2019 equivalent to the maximum dividend benchmark rate 4.63% p.a. per share (2018 – 4.54% p.a. per share fully franked). Paid on 4th November 2019 (2018 – 5th November 2018).	60,103	58,797
Interim dividend for the year ended 30 June 2019 equivalent to the maximum dividend benchmark rate 3.78% p.a. per share (2019 – 4.76% p.a. per share fully franked). Paid on 31st January 2020 (2019 – 31st January 2019).	49,651	62,717

The directors have provided for the payment of a final ordinary dividend of $46,645 paid out of retained profits at 30 June 2020 on Investment Shares issued as at that date. The dividend per share provided for equates to the maximum dividend benchmark rate of 3.59% p.a. fully franked for the period ended 30 June 2020. Payment is subject to confirmation of members at the Annual General Meeting.

21 Key management personnel disclosures

(a) Key management personnel compensation

	2020 **$**	2019 $
Short-term employee benefits	789,019	734,115
Post-employment benefits	133,653	138,462
Long-term benefits	11,966	9,737
	934,638	882,314

(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.

2020 Name	Balance at the start of the year	Balance at the end of the year
Directors of The Capricornian Ltd **Investment Shares.**		
George Anthony Edwards	50,500	50,500
John Francis Siganto	4,000	4,000
Vicki Anne Bastin-Byrne	2,000	2,000
Christopher Bernard O'Brien	Nil	Nil
Peter Graham Olrich	Nil	Nil
Janette Linda Davis	Nil	Nil
Other key management personnel of The Capricornian Ltd **Investment Shares.**		
Dale Frederick Grounds	Nil	Nil
Graeme Walter Kemp	2,000	2,000
Michelle Ann Alexander	Nil	Nil

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

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

21 Key management personnel disclosures (continued)

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

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

	2020 $	2019 $
Secured loans	934,876	1,279,371
Overdrafts	10,000	10,000
	944,876	1,289,371

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

	2020 $	2019 $
Secured loans	340,000	787,864
Overdrafts	-	-
	340,000	787,864
Interest and other revenue earned on loans amounted to:	50,589	49,201

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

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

	2020 $	2019 $
Total value of term and savings deposits	2,731,143	2,221,099
Interest paid on deposits	48,714	40,546

The Capricornian Ltd's policy for receiving deposits from KMP and close family members is that all deposits are accepted on the same terms and conditions which applied to members for each type of deposit. This policy has been adhered to for the full financial year.

KMP and close family members have received interest on deposits with the credit union during the financial year. Interest has been paid on terms and conditions no more favourable than those available on similar transactions to members of the credit union.

21 Key management personnel disclosures (continued)

(e) Other transactions with key management personnel

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

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

	2020 $	2019 $
Amounts recognised as expense		
Legal services	1,285	-

22 Remuneration of auditors

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

	2020 $	2019 $
(a) Assurance services		
Audit services		
BDO Audit Pty Ltd		
Auditing or reviewing the accounts, including half year report and regulatory reporting	131,998	128,753
(b) Taxation services		
BDO (QLD) Pty Ltd		
Tax compliance services, including company income tax returns	23,828	33,077
(c) Advisory services		
KPMG		
Internal audit work	112,437	73,573
BDO		
Sundry consultancy	24,133	-
	136,570	73,573

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.

	2020 $	2019 $
Guarantees	209,372	303,758

24 Commitments

(a) Operating lease commitments

	2020 $	2019 $
Non cancellable operating leases contracted for but not capitalised in the accounts, payable:		
Within one year	-	330,108
Later than one year but not later than five years	-	253,820
Later than five years	-	-
	-	583,928

(i) Operating Leases

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

(b) Outstanding loan commitments

	2020 $	2019 $
Loans and credit facilities approved but not yet funded or drawn at the end of the financial year:		
Loans approved but not funded	2,229,546	6,079,540
Undrawn overdraft and lines of credit	3,546,473	3,401,051
	5,776,019	9,480,591

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:
  - quoted market prices in active markets for similar instruments;
  - quoted prices for identical or similar instruments in markets that are considered less than active; or;
  - other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values for financial instruments traded in active markets are based on quoted market prices at reporting date. The quoted market price for financial assets is the current bid price. The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. To the extent possible assumptions used are based on observable market prices and rates at the end of the reporting date.

25 Fair Values (continued)

(a) Fair value hierarchy (continued)

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

(b) Fair value estimates

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

Cash and cash equivalents and other receivables

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

Loans and advances

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

Financial assets measured at amortised cost

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

Deposits from members

The fair value of at call and variable rate deposits, and fixed rate deposits repriced within twelve months, approximates the carrying value. Discounted cash flow models based upon deposit types and related maturities were used to calculate the fair value of other term deposits. The discount rates applied were based on the current benchmark rate offered for the actual remaining term of the portfolio as at 30 June.

26 Operational dependency

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

(a) Industry service companies

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

(b) Ultradata Australia Pty Ltd

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

(c) TransAction Solutions Ltd

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

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

	2020 **$**	2019 $
Profit for the year	1,662,659	1,667,048
Depreciation	538,358	345,339
Provision for doubtful debts	252,024	67,295
Bad debts written off from provision	(101,274)	(293,620)
Net (gain) loss on sale of non-current assets	(11,471)	(428,380)
Change in operating assets and liabilities		
(Increase) decrease in loans	(2,385,358)	(7,359,976)
(Decrease) increase in member deposits	6,933,928	13,120,995
(Increase) decrease in deferred tax assets	(15,745)	221,806
(Increase) decrease in other assets	165,020	119,409
(Decrease) increase in creditors	(154,952)	959,807
Increase (decrease) in provision for income tax	224,766	(158,776)
(Decrease) increase in other provisions	83,151	52,340
Net cash inflow/(outflow) from operating activities	7,501,010	8,313,287

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.

	2020 **$**	2019 $
Cash at the end of the financial year as shown in the Statement of Cash Flows consists of:		
Cash on hand and at bank	27,159,369	21,210,710
Cash equivalents	12,482,939	15,424,103
Cash at the end of the financial year	39,642,308	36,634,813

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 2020 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 12-50 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 2020 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
29th October 2020

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INDEPENDENT AUDITOR'S REPORT

To the members of The Capricornian Ltd

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of The Capricornian Ltd (the Company), which comprises the statement of financial position as at 30 June 2020, 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 2020 and of its financial performance for the year ended on that date; and .

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

Basis for opinion

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

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

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

Other information

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

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

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

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

Responsibilities of the directors for the Financial Report

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

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

Auditor's responsibilities for the audit of the Financial Report

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

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

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

This description forms part of our auditor's report.

BDO Audit Pty Ltd

M Cutri

Director

Brisbane, 29 October 2020


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capricornian