2018 ANNUAL FINANCIAL REPORT

the capricornian
community owned banking

A *real* alternative to the big banks!

Nothing was too much trouble for Leah. We're very happy and have loved the whole process

Giuliano and Melinda Licciardello

We have been members for 30 years. The Capricornian was the best choice for us to finance our new caravan

Andrew and Rhonda Kime

The Capricornian gave us a chance when the big 4 did not. Thank-you for giving us our chance to own our forever home

Chris & Anita Edser

I highly recommend Troy and The Capricornian team for all your banking needs

Daniel King

The Capricornian Ltd

ABN 54 087 650 940

Annual financial report for the year ended 30 June 2018

Contents

Directors	George Anthony Edwards *Chairman* John Francis Siganto *Deputy-Chairman* Vicki Anne Bastin-Byrne Christopher Bernard O'Brien Peter Graham Olrich
Company Secretary	Dale Frederick Grounds (Appointed 1st November 2017)
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
ATM's	Automatic Teller Machines (ATM's) are located at all branches listed above
External Auditor	BDO Audit Pty Ltd
Internal Auditor	KPMG
Solicitors	Gadens Lawyers (Brisbane) Daniels Bengtsson Pty Ltd (Sydney)
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/

During the 2017/18 financial year The Capricornian (your Credit Union) has focused on continuing to provide high levels of customer service, appropriate products and services, technological innovation and strong community support through sponsorships. These areas of focus reflect the reasons why The Capricornian continues to exist. These reasons for our existence, or objects, are listed below and can be found in our Constitution where they are among the founding principles of the organisation.

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

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

We can only strive to meet these obligations if we remain financially strong and prudent. One aspect of that financial strength is the profit we need to make each year to grow the capital base we need to continue to provide loans and deposits in Central Queensland. For 2017/18, our profit was $1,414,767 after tax. This modest profit figure has been achieved despite what has been quite a tough year economically in Central Queensland. As a result of this profit, the total equity in the Credit Union has risen to almost $23.9M.

The Capricornian also recorded strong lending growth throughout 2017/18. Total loans grew by 11.3%, well in excess of the average for other financial institutions in Australia. This growth is a testament to the focus and hard work of management and staff over the year. This result also reflects the appetite of home borrowers in Central Queensland for the service and products on offer by The Capricornian. Last year I mentioned in my report that The Capricornian was overall one of the best performing Credit Unions in Australia, and I am pleased to report that this continued into 2017/18.

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

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

- Continued strong engagement with CQ government, business and not for profit organisations.
- Staff initiatives including a staff voted "staff member of the month" program.
- The new Capricornian Community Grants Program.
- Ongoing co-operative efforts with CQU and the Rockhampton Regional Council Smart Hub to develop plans to foster growth in entrepreneurship amongst younger CQ citizens.
- Further system upgrades to Core Technological Systems designed to improve customer experience and operating efficiency.
- Very strong growth in our Digital and Social Media presence.
- A continued focus on internal efficiencies.
- A focus on recruiting people with the skills, experience and passion to serve the people of Central Queensland.
- The internal promotion of Finance Manager Mrs Michelle Alexander into the important role of Chief Financial Officer of the Credit Union.

The Royal Commission into Banking has clearly shocked many people with a range of poor examples of inadequate customer service, inappropriate sales of products and services and delayed or incomplete disclosure of information to Regulators. I want to assure our members that your Board remains vigilant in its oversight of the Credit Union and together with management, we continue to work collaboratively to ensure that The Capricornian meets its prudential and regulatory requirements, as well as ethical, community and legal obligations. That the Credit Union has the intent and capacity to meet these requirements is evidenced by the positive ongoing reports by Internal and External Auditors, and a satisfactory review by our regulator Australian Prudential Regulation Authority (APRA) during the financial year.

As you are well aware, we are a community owned and Central Queensland based Financial Institution. As a result we continue to take very seriously our obligations (it is also one of our strategic goals) to be a good community supporter. Accordingly, through staff volunteering and our community sponsorships we returned over $100k to many community organisations in 2017/18. These include, but are not limited to:

- Rockhampton Basketball Association
- Gladstone Port City Power Basketball Association
- Rockhampton Jockey Club
- Capricorn Helicopter Rescue
- Local Rugby League clubs
- The Capricornian Community Grants Program Recipients:-
    - Caves State School P & C
    - Turkey Beach Tractor Bash
    - Rocky Start Inc.

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

Mrs Jan Davis, as our first "Associate Director" has continued to develop her experience and skills during the year, as is intended by this program. As a newly created role an Associate Director does not have the roles and responsibilities of a Director, however they are able to participate in Board deliberations, without having an actual vote at the Board table. Following a successful year as an Associate Director Mrs Davis has now been appointed by the Board as a Director and is standing for formal election at the Annual General Meeting (AGM). Mrs Davis will bring her 2017/18 Capricornian experience and knowledge, as well as a prior extensive professional career background, to this role.

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

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

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

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

G. A. Edwards
Chairman

24th September 2018

Your directors present their report on the financial report of The Capricornian Ltd for the year ended 30 June 2018.

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.
(Chairman)

Experience and expertise
Principal and Director of Evans Edwards and Associates Chartered Accountants for 38 years. Director for 17 years.
Other current directorships
Director of 6 proprietary companies: Capehead Pty Ltd (director since 1981), Evans Edwards & Associates Pty Ltd (director since 2001), Manlex Pty Ltd (director since 1983), Keppel Cruises Pty Ltd (director since 2005), Capehead Superannuation Pty Ltd (director since 2012) and 452 Advice Pty Ltd (director since December 2017).
Former directorships in last 3 years
Director of Daroto Pty Ltd from 2010-2015 and Meled Pty Ltd from 2009-2016.
Special responsibilities
Ex Officio of all Committees.
Member of the Directors Nomination Committee.

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

Experience and expertise
Solicitor and Partner of Grant and Simpson Lawyers. Director for 10 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
Chairman of the Risk Management Committee (joined November 2017)
Member of the Audit Committee.
Member of the Governance Committee.

Vicki Anne BASTIN-BYRNE, GAICD

Experience and expertise
Business Proprietor. Local Government Councillor for 11 years. Director for 15 years.
Other current directorships
Director of 1 public company: Iwasaki Foundation Ltd (director since 2010).
Former directorships in last 3 years
Director of Keppel and Fitzroy Delta Alliance from 2012-2015.
Special responsibilities
Member of the Risk Management Committee.
Member of the Remuneration Committee.
Member of the Governance Committee.

Christopher Bernard O'BRIEN, B.Bus, FCPA

Experience and expertise
Business Manager. Director for 7 years.
Other current directorships
None.
Former directorships in last 3 years
None.
Special responsibilities
Chairman of the Audit Committee.
Member of the Risk Management Committee.
Member of the 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 1 year.
Other current directorships
Director of 2 public companies and 1 proprietary company: Summerland Financial Services Ltd (director since 2010), Regional Australia Bank Ltd (director since 2011), and Credit Union Foundation Australia Pty Limited (director since March 2018).
Former directorships in last 3 years
Director of Australian Settlements Limited from 2016-2017, E-Commerce Holdings Pty Ltd (2016 – May 2018) and its associated companies Financial Services Pty Ltd (2016 – February 2018), Netteller (2016 – May 2018), The System Works Pty Ltd (2016 – May 2018) and TSW Digital Pty Ltd (2016 – February 2018).
Special responsibilities
Member of the Audit Committee (joined November 2017)
Member of the Remuneration Committee.
Member of the Governance Committee (joined June 2018)

Company secretary
Dale Frederick GROUNDS, M.B.A., Grad Dip Fin Adm, Grad Dip Bus, B.A. (Econ), MAMI. Appointed 1st November 2017. (Previously Andrew John Robertson, resigned 10th November 2017).

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

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 $585,512, was $1,414,767, (2017 net profit of $1,315,201, after recording an income tax expense of $555,522).

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

Capricornian Investment Shares	2018 $	2017 $
Final ordinary dividend for the year ended 30 June 2017 equivalent to the maximum dividend benchmark rate 4.60% p.a. per share fully franked. Paid on 6th November 2017.	59,581	65,330
Interim ordinary dividend for the year ended 30 June 2018 equivalent to the maximum dividend benchmark rate 4.26% p.a. per share fully franked. Paid on 31st January 2018.	56,184	61,410

The directors have provided for the payment of a final ordinary dividend of $56,184 paid out of retained profits at 30 June 2018 on issued Investment Shares as at that date. The dividend per share provided for equates to the maximum dividend benchmark rate of 4.54% p.a. fully franked for the period ended 30 June 2018. Payment is subject to confirmation of members at the Annual General Meeting.

Review of operations
Information on the operations and financial position of the credit union and its business strategies and prospects is set out in the Chairman's Report on pages 4-5 of this annual report.

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

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

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

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

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

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

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

Meetings of directors
The numbers of meetings of the credit union's board of directors and of each board committee held during the year ended 30 June 2018, and the numbers of meetings attended by each director were:

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

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

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

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

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

Retirement, election and continuation in office of directors
Mrs V.A. Bastin-Byrne retires by rotation and is eligible for re-election.

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

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

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

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

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

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

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

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

There are no retirement allowances made for directors.

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

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

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

The key management personnel of the credit union are the directors (see pages 6 to 7 above), the Chief Executive Officer and those executives who report directly to the Chief Executive Officer. This includes the 4 executives who received the highest remuneration for the year ended 30 June 2018. The executives are:

- Dale Frederick Grounds – *Chief Executive Officer* (Appointed 10th October 2016), *Company Secretary* (Appointed 1st November 2017)
- Peter Graham Olrich – *Acting Chief Executive Officer* (Appointed 4th May 2016 until 7th October 2016)
- Graeme Walter Kemp – *General Manager Lending*
- Andrew John Robertson – *Chief Financial Officer* (Resigned 10th November 2017)
- Michelle Ann Alexander – *Chief Financial Officer* (Appointed 2nd January 2018)

Key management personnel of The Capricornian Ltd

2018

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

2017

Name	Short-term employee benefits		Post-employment benefits	Long-term benefits	
	Cash salary and fees $	Non monetary benefits $	Super-annuation $	Long service leave $	Total $
Directors					
G.A. Edwards *Chairman*	5,093	-	35,000	-	40,093
J.F. Siganto *Deputy-Chairman*	27,372	-	2,600	-	29,972
I.J. Mill***	13,209	-	1,255	-	14,464
V.A. Bastin-Byrne	260	-	25,011	-	25,271
C.B. O'Brien	130	-	27,641	-	27,771
P.G. Olrich	-	-	13,400	-	13,400
Sub-total directors	**46,064**	**-**	**104,907**	**-**	**150,971**
Other key management personnel					
D.F. Grounds	182,465	377	28,690	349	211,881
P.G. Olrich****	56,605	-	-	-	56,605
J.W.C. Brown*****	81,509	34,442	34,953	-	150,904
G.W. Kemp	124,535	671	34,544	7,924	167,674
A.J. Robertson	163,496	724	26,981	10,054	201,255
Sub-total (other key management personnel)	**608,610**	**36,214**	**125,168**	**18,327**	**788,319**
Totals	**654,674**	**36,214**	**230,075**	**18,327**	**939,290**

* A.J. Robertson resigned 10th November 2017.
** M. A. Alexander appointed 2nd January 2018.
*** I.J. Mill retired 5th December 2016.
**** P.G. Olrich appointed as Acting Chief Executive Officer from 4th May 2016 to 7th October 2016 and as a Director from 14th December 2016.
***** J.W.C. Brown resigned 29th April 2016.

Loans to key management personnel

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

Insurance of officers

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

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

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

Proceedings on behalf of the company

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

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

Regulatory Disclosures

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

Non-audit services

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

Details of the amounts paid to the auditor BDO Audit Pty Ltd (2017: PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out in Note 23.

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

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 12.

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
24th September 2018

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www.bdo.com.au

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Brisbane QLD 4000
GPO Box 457 Brisbane QLD 4001
Australia

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

As lead auditor of The Capricornian Ltd for the year ended 30 June 2018, 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, 24 September 2018

Contents

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

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

157 East Street
Rockhampton QLD 4700

A description of the nature of the credit union's operations and its principal activities is included in the directors' report on pages 6 to 11.

The financial statements were authorised for issue by the directors on 24th September 2018. 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 2018

	Notes	**2018** **$**	2017 $
Interest revenue	3	13,751,349	12,886,029
Interest expense	3	(5,588,671)	(5,208,633)
Net interest revenue		8,162,678	7,677,396
Fee and commission revenue	4	1,479,704	1,620,137
Other revenue	4	199,254	166,753
Total net interest income and other revenue		9,841,636	9,464,286
Bad and doubtful debts (expense)/revenue	11(b)	(329,030)	(248,721)
Other expenses	5	(7,512,327)	(7,344,842)
Total expenses		(7,841,357)	(7,593,563)
Profit before income tax expense		2,000,279	1,870,723
Income tax expense	6	(585,512)	(555,522)
Profit for the year attributable to members		1,414,767	1,315,201
Other comprehensive income/(loss), net of income tax			
Revaluation of land and buildings		-	-
Total comprehensive income for the year attributable to members		1,414,767	1,315,201

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

	Notes	**2018** **$**	2017 $
ASSETS			
Cash and cash equivalents	7	33,958,882	30,966,217
Receivables	8	458,753	486,509
Held-to-maturity investments with a maturity of more than 3 months	9	12,054,188	12,081,055
Loans and advances	10,11	282,339,992	253,676,643
Property, plant and equipment	12	2,954,129	2,942,680
Intangible assets	13	245,517	373,981
Deferred tax assets	14	592,824	563,107
Other assets	15	833,066	244,585
Total assets		333,437,351	301,334,777
LIABILITIES			
Deposits and borrowings	17	306,554,694	275,405,940
Other liabilities	16	2,383,554	2,692,022
Provision for income tax		116,179	149,131
Provisions	18	481,105	487,892
Total liabilities		309,535,532	278,734,985
Net assets		23,901,819	22,599,792
EQUITY			
Contributed equity	19	2,508,579	2,508,579
Reserves	20(a)	1,252,195	1,225,155
Retained earnings	20(b)	20,141,045	18,866,058
Total equity		23,901,819	22,599,792

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 2018

	Notes	Contributed Equity $	Asset Revaluation Reserve $	Credit Loss Reserve $	Retained Earnings $	Total $
Balance 1 July 2016		2,508,579	704,554	519,167	17,673,282	21,405,582
Profit for the year	20(b)	-	-	-	1,315,201	1,315,201
Other comprehensive income		-	-	-	-	-
Total comprehensive income for the year		-	-	-	1,315,201	1,315,201
Transfer to/from reserve for credit losses	20(b)	-	-	1,434	(1,434)	-
Transfer to/from other provisions		-	-	-	-	-
Total transfers to/from retained earnings		-	-	1,434	(1,434)	-
Transactions with investment shareholders						
Contributions of equity, net of transaction costs	19	-	-	-	-	-
Dividend provided for or paid	20(b)	-	-	-	(120,991)	(120,991)
		-	-	-	(120,991)	(120,991)
Balance 30 June 2017		2,508,579	704,554	520,601	18,866,058	22,599,792
Profit for the year	20(b)	-	-	-	1,414,767	1,414,767
Other comprehensive income/(loss)	20(a)	-	-	-	-	-
Total comprehensive income for the year		-	-	-	1,414,767	1,414,767
Transfer to/from reserve for credit losses	20(b)	-	-	27,040	(27,040)	-
Transfer to/from other provisions			-	-	(373)	(373)
Total transfers to/from retained earnings		-	-	27,040	(27,413)	(373)
Transactions with investment shareholders						
Contributions of equity, net of transaction costs	19	-	-	-	-	-
Dividend provided for or paid	20(b)	-	-	-	(112,367)	(112,367)
		-	-	-	(112,367)	(112,367)
Balance 30 June 2018		2,508,579	704,554	547,641	20,141,045	23,901,819

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

	Notes	**2018 $**	2017 $
Cash flows from operating activities			
Interest received		13,720,240	12,858,724
Interest paid		(5,193,189)	(5,024,366)
Loans and advances funded		(70,492,183)	(54,482,155)
Loans repaid excluding overdrafts		41,517,019	46,768,654
Net inflow in member deposits		31,148,754	7,710,162
Non interest revenue received		1,636,529	1,726,938
Payments to suppliers and employees		(8,315,247)	(6,482,182)
Income taxes paid		(648,181)	(595,803)
Net cash inflow/(outflow) from operating activities	28	3,373,742	2,479,972
Cash flows from investing activities			
Payments for property, plant and equipment and intangible assets		(303,918)	(232,359)
(Payments)/proceeds from held-to-maturity investments with a maturity of more than 3 months		26,867	(12,081,055)
Proceeds from sale of property, plant and equipment		11,738	-
Net cash outflow from investing activities		(265,313)	(12,313,414)
Cash flows from financing activities			
Dividends paid		(115,764)	(126,740)
Net cash outflow from financing activities		(115,764)	(126,740)
Net increase/(decrease) in cash and cash equivalents		2,992,665	(9,960,182)
Cash and cash equivalents at the beginning of the financial year		30,966,217	40,926,399
Cash and cash equivalents at the end of the financial year	29	33,958,882	30,966,217

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

Contents

1 Summary of significant accounting policies

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

(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, Urgent Issues Group Interpretations, *Corporations Act 2001* and the reporting requirements of the Prudential Standards.
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, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through the statement of comprehensive income, certain classes of property, plant and equipment and investment property.

(b) Fee and commission revenue

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

(c) 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.

(d) Operating leases

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

1 Summary of significant accounting policies (continued)

(e) Investments and other financial assets

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

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

(ii) Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the credit union's management has the positive intention and ability to hold to maturity.

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

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Fair value
The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the credit union establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs. Where the fair value cannot be reliably measured, available-for-sale assets are accounted for at cost.

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

(f) Fair value estimation

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

The nominal value less estimated credit adjustments of receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the credit union for similar financial instruments.

(g) Interest receivable

The interest receivable on cash equivalents and held to maturity investments is recognised in the statement of comprehensive income, with all investments expected to be held until maturity and interest received within 12 months.

(h) Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held in banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risks of change in their value, and are used by The Capricornian Ltd in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the Statements of Financial Position.

1 Summary of significant accounting policies (continued)

(i) Interest income on loans

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

(j) Loans and advances

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

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

During the year ended 30 June 2018 the credit union's provision for impairment policy consisted of the following components:

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

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

(k) 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 revaluation reserves directly in equity to the extent of the remaining reserve attributable to the asset; all other decreases are charged to the statement of comprehensive income. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to the statement of comprehensive income and depreciation based on the asset's original cost, net of tax, is transferred from the property, plant and equipment revaluation reserve to retained earnings.

1 Summary of significant accounting policies (continued)

(k) Property, plant and equipment (continued)

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

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

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

(l) Intangible Assets

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

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

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

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

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

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

(m) Member deposits

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

(n) 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 using the projected unit credit method.

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

1 Summary of significant accounting policies (continued)

(o) 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.

(p) Dividends

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

(q) 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.

(r) Deferral of fees and transaction costs

The deferral of the fees and transaction costs under the effective interest rate method results in the deferral of income to subsequent years.

(s) Significant accounting estimates and judgements

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

(t) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2018. The credit union's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard is applicable for reporting periods after 1 January 2018.

When adopted, the standard will affect in particular the credit union's accounting for impairment of loans and advances, as the new approach to accounting for impairment will require more timely recognition of expected credit losses. There will be no material impact on the credit union's accounting for financial assets or liabilities, as the new requirements for classification and measurement only affect the accounting for gains and losses on available for sale debt instruments and financial liabilities that are designated at fair value through profit and loss and the credit union does not have any such assets or liabilities. The derecognition rules have been transferred from AASB 139 *Financial Instruments: Recognition and Measurement* and have not been changed. The revisions to hedge accounting align the accounting treatment with risk management activities which will require enhanced disclosures about risk management activity however the credit union does not currently apply hedge accounting.

(ii) IFRS 15 *Revenue from contracts with customers* will replace AASB 118 which covers revenue arising from the sale of goods and the rendering of services and AASB which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The standard is applicable for reporting periods after 1 January 2018 but is available for early adoption. The credit union is yet to assess how the standard will impact on its financial reporting.

(iii) IFRS 16 *Leases* eliminates the classification of leases as either operating leases or finance leases and introduces a single lease accounting model. Applying that model, a lessee is required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The model also requires that a lessee recognise depreciation of lease assets separately from interest on lease liabilities in the income statement. The standard was published in January 16, however it only applies to annual periods beginning on or after 1 January 2019. The credit union is yet to assess how the standard will impact on its financial reporting.

2 Financial risk management

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

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

(a) Market Risk

(i) Price risk

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

(ii) Interest rate risk

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

1) Financial assets and liabilities not exposed to interest rate risk:
   - Cash on hand (*Note 7*)
   - Prepayments (*Note 8*)
   - Other liabilities (*Note 16*)
   - Provisions (*Note 18*)

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

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

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

	2018 **$**	2017 $
No longer than 1 month	-	-
More than 1 month and less than 3 months	1,023,123	2,182,423
	1,023,123	2,182,423

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

	2018 **$**	2017 $
No longer than 1 month	215,011,484	197,974,697
More than 1 month and less than 3 months	3,059,257	2,993,805
More than 3 months and less than 12 months	20,505,092	19,526,768
More than 12 months and less than 5 years	44,275,123	33,540,778
	282,850,956	254,036,048

2 Financial risk management (continued)

(a) Market Risk (continued)

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	**2018** **$**	2017 $
Sensitivity to 1% rate fall on profit and equity	161,100	239,700

The results of the interest sensitivity analysis reported provides that the credit union's exposure to loss as at 30 June 2018 is to an increase in interest rates. This is demonstrated by the positive result to accrued income in a rate fall scenario as demonstrated above.

(b) Credit risk

(i) Maximum credit risk exposure

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

- Cash and cash equivalents – current accounts with Authorised Deposit-Taking Institutions (*Note 7*)
- Receivables (*Note 8*)
- Loans and advances (*Note 10*)
- Held-to-maturity investments *(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. 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:

	2018 **$**	2017 $
• Authorised Deposit-Taking Institutions Aggregate Amount	37,068,318	30,483,617
Number of financial assets	27	22

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.

2 Financial risk management (continued)

(b) Credit risk (continued)

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:

	2018			2017		
	Carrying value	**Past due value**	**Provision**	Carrying value	Past due value	Provision
Cuscal	6,759,546	-	-	6,591,917	-	-
ADIs – rated AA- and above	11,054,188	-	-	11,081,055	-	-
ADIs – rated below AA-	24,836,616	-	-	21,389,047	-	-
Unrated institutions - ADIs	3,362,720	-	-	3,985,253	-	-
	46,013,070	-	-	43,047,272	-	-

(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.

2 Financial risk management (continued)

(b) Credit risk (continued)

Current accounts with ADI's	**2018 $**	2017 $
Investment Grade	7,873,666	8,672,147
Non-investment Grade	3,362,720	3,985,251
Total current accounts with ADI's	11,236,386	12,657,398

Held to maturity investments	**2018 $**	2017 $
Investment Grade	34,425,914	29,986,266
Non-investment Grade	-	-
Total held to maturity investments	34,425,914	29,986,266

Loans and advances	**2018 $**	2017 $
Mortgage over Residential Property	257,364,766	222,711,968
Mortgage over Other Property	15,394,465	20,899,532
Personal Loans	9,801,790	10,138,370
Unsecured overdrafts	289,935	286,198
	282,850,956	254,036,068

2018

Ageing analysis of Loans in Arrears	Category 1 loans $	Category 2 loans $	Category 3 loans $
less than 30 days	1,224,803	379,382	242,902
30 days and less than 90 days	156,645	-	105,425
90 days and less than 182 days	835,997	80,154	67,215
182 days and less than 365 days	240,020	-	517,115
365 days and over	-	481,805	64,821
	2,457,465	941,341	997,478

	Category 4 loans $
less than 14 days	9,634
14 days and less than 90 days	2,718
90 days and less than 182 days	5,810
182 days and over	993
	19,155

	Category 1 loans $	Category 2 loans $	Category 3 loans $	Category 4 loans $
Value of collateral held	5,030,000	985,000	410,000	-

2 Financial risk management (continued)

(b) Credit risk (continued)

2017

Ageing analysis of Loans in Arrears	Category 1 loans $	Category 2 loans $	Category 3 loans $
less than 30 days	2,071,629	23,107	448,518
30 days and less than 90 days	2,298,620	-	236,003
90 days and less than 182 days	757,850	-	229,141
182 days and less than 365 days	647,380	-	60,610
365 days and over	-	-	49,664
	5,775,479	23,107	1,023,936

	Category 4 loans $
less than 14 days	51,680
14 days and less than 90 days	3,202
90 days and less than 182 days	9,218
182 days and over	137
	64,237

	Category 1 loans $	Category 2 loans $	Category 3 loans $	Category 4 loans $
Value of collateral held	11,300,000	303,000	85,684	-

The value of mortgaged property held as collateral is determined by reference to most recent valuer's valuation report. The valuation report must be dated not more than six months prior to the date of the lending decision. Where the credit union has collateral via bill of sale over a vehicle, the value of the collateral is determined by reference to Glass's Information Services value. Loan to valuation ratio is calculated using total loan balances as well as available redraw and is referred to as 'LVR' throughout The Capricornian's annual report.

- Category 1 loans – Loans with eligible residential mortgage held as collateral with LVR less than 80%. Where LVR is greater than 80% there is mortgage insurance in place.
- Category 2 loans – Loans with eligible residential mortgage held as collateral with LVR greater than 80% and no mortgage insurance is in place.
- Category 3 loans – Loans with no collateral or collateral other than eligible residential mortgage or loans with eligible residential mortgage held as collateral with LVR greater than 100% and no mortgage insurance in place.
- Category 4 loans – Overdrafts which are over limit, or savings accounts without overdraft which are overdrawn.

(c) Liquidity risk

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

(i) Liquidity Management Strategy

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

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

2 Financial risk management (continued)

(c) Liquidity risk (continued)

(ii) Maturity Profile of Financial Liabilities

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

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

2017	**Within 1 month $**	**1–3 months $**	**3-12 months $**	**1-5 years $**	**At Call $**	**Total $**
Liabilities						
Deposits and borrowings	29,697,838	35,070,229	66,087,900	1,281,396	143,184,804	275,322,167
Interest payable	237,940	217,132	544,233	-	-	999,305
Total Financial Liabilities	**29,935,778**	**35,287,361**	**66,632,133**	**1,281,396**	**143,184,804**	**276,321,472**

(iii) Fair Value Measurements

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

The Capricornian Ltd has adopted the amendment to AASB 7 *Financial Instruments: Disclosures* which 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).

The Capricornian Ltd holds unlisted securities which are valued at cost as the fair value cannot be reliably measured in accordance with the accounting policy described in Note 1(e). The credit union does not hold any other financial instruments measured at fair value.

(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.

2 Financial risk management (continued)

(d) Capital risk (continued)

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:

	2018 **$**	2017 $
Tier 1 capital		
Share capital	1,045,200	1,306,500
Revaluation reserve	704,554	704,554
Retained earnings	20,141,045	18,866,058
Prescribed deductions	(909,946)	(1,004,377)
Net Tier 1 Capital	20,980,853	19,872,735
Tier 2 capital		
Subordinated debt	204,625	661,109
Credit losses reserve	547,641	520,601
Net Tier 2 Capital	752,266	1,181,710
Total Capital	21,733,119	21,054,445

The Capricornian Ltd is required to maintain a minimum capital level of 8% as compared to the risk weighted assets at any given time in accordance with APRA Prudential Standards. The Capricornian Ltd has complied with all externally imposed capital requirements throughout the period.

The level of the capital ratio can be affected by growth in assets relative to growth in reserves and by changes in the mix of assets. The capital ratios as at the end of each reporting period, for the past 5 years follows:

	2018	2017	2016	2015	2014
Capital ratio	13.88%	13.97%	14.26%	15.17%	15.57%

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.

	2018 **$**	2017 $
Interest Revenue		
Cash and cash equivalents	620,785	706,793
Investment securities	318,310	110,741
Loans and advances	12,812,254	12,068,495
	13,751,349	12,886,029
Interest Expense		
Member deposits	5,503,585	5,014,420
Investment Bonds	83,760	192,586
Borrowings	1,326	1,627
	5,588,671	5,208,633

4 Fee, commission and other revenue

	2018 **$**	2017 $
Non-interest revenue		
Fees and commissions		
-loan fee income	152,595	184,100
-other fee income	694,838	788,654
-insurance commissions	409,495	395,804
-other commissions	222,776	251,579
Subtotal	1,479,704	1,620,137
Bad debts recovered	12,561	6,204
Other revenue	186,693	160,549
Subtotal	199,254	166,753
Total non-interest revenue	1,678,958	1,786,890

5 Other expenses

	2018 **$**	2017 $
Depreciation and amortisation		
-plant and equipment	145,948	136,976
-buildings	54,511	52,000
-intangible assets	220,474	242,322
General and administration		
-personnel costs	3,288,319	3,311,415
-other	2,070,792	1,946,920
Other expenses		
-operating lease expenses	255,358	250,242
-information technology and communication expenses	920,561	858,526
-other	556,364	546,441
Total other expenses	7,512,327	7,344,842

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:

	2018 **$**	2017 $
Profit from continuing operations before income tax	2,000,279	1,870,723
Prima facie tax payable on profit at 27.5% (2017: 30%)	550,077	561,217
Add Tax effect of:		
Non-deductible entertainment	496	108
Other Non-deductible items	151	7,436
Change in company tax rate	46,924	-
	597,648	568,761
Less Tax effect of:		
Tax Building depreciation/building allowance	(12,136)	(13,239)
Income tax expense attributable to profit before income tax.	585,512	555,522
The applicable weighted average effective tax rates are as follows:	27.5%	30%

	2018 **$**	2017 $
(b) The components of tax expense comprise:		
Current tax	615,229	632,342
Deferred tax	(29,717)	(76,820)
	585,512	555,522
Income tax is attributable to:		
Profit from continuing operations	615,229	632,342
Aggregate income tax expense	615,229	632,342
Deferred income tax (revenue) expense included in income tax expense comprises:		
Decrease / (increase) in deferred tax assets (Note 14)	29,717	76,820
	585,512	555,522
(c) Tax expense (income) relating to items of other Comprehensive income		
Gains on revaluation of land and buildings	-	-
(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% (2017: 30%)	7,188,838	6,623,222

7 Cash and cash equivalents

	2018 **$**	2017 $
Cash on Hand	350,770	403,608
Current accounts with Authorised Deposit-Taking Institutions	11,236,386	12,657,398
	11,587,156	13,061,006

8 Receivables

	2018 **$**	2017 $
Interest Receivables – to be settled within 12 months	151,436	120,327
Prepayments	307,317	366,182
	458,753	486,509

9 Held-to-maturity investments

	2018 **$**	2017 $
Debt securities – at amortised cost:		
Deposits with Authorised Deposit-Taking Institutions		
With a maturity of less than 3 months	22,371,726	17,905,211
With a maturity of more than 3 months	12,054,188	12,081,055
	34,425,914	29,986,266

10 Loans and advances

	2018 **$**	2017 $
Overdrafts	5,182,055	5,483,315
Term loans	277,668,901	248,552,753
Unamortised setup costs	158,375	107,351
Unamortised establishment fees	(212,006)	(178,198)
Gross loans and advances	282,797,325	253,965,221
Provision for impairment (Note 11)	(457,333)	(288,578)
Net loans and advances	282,339,992	253,676,643

Maturity Analysis

	2018 **$**	2017 $
Unamortised setup costs	158,375	107,351
Unamortised establishment fees	(212,006)	(178,198)
Current accounts		
Overdrafts	5,182,055	5,483,315
Not longer than 3 months	2,374,437	2,427,783
Longer than 3 months and not longer than 12 months	8,905,533	8,343,729
Non-current accounts		
Longer than 1 year and not longer than 5 years	42,767,033	40,425,748
Longer than 5 years	223,621,898	197,355,493
	282,797,325	253,965,221

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 2018, the fair value of securitised loans under management is $10,700,463 (2017: $13,012,274). 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 2018, the credit union earned $140,484 (2017: $171,270) 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 loans and advances

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

	2018 $	2017 $
(a) Provisions for impairment		
Opening balance	288,578	254,109
Expense to/(from) provision	329,030	248,721
Bad debts written off from provision	(160,275)	(214,252)
Closing balance	457,333	288,578
(b) Bad and doubtful debts expense/(revenue)		
Provision for impairment	329,030	248,721
	329,030	248,721
(c) Impaired loans and past due loans		
Non-accrual loans	1,220,566	351,885
Provision for non-accrual loans	(457,333)	(186,555)
Net carrying value	763,233	165,330
Interest forgone on non-accrual loans	16,750	7,840
Balance of past-due loans	1,076,016	1,405,230

12 Property, plant and equipment

	Freehold land and Buildings $	Plant and Equipment $	Assets in Progress $	Total $
At 1 July 2016				
Cost or fair value	2,560,000	1,789,806	12,301	4,362,107
Accumulated depreciation	-	(1,359,444)	-	(1,359,444)
Carrying amount	2,560,000	430,362	12,301	3,002,663
Year ended 30 June 2017				
Carrying amount at 1 July 2016	2,560,000	430,362	12,301	3,002,663
Additions	-	128,993	-	128,993
Disposals	-	-	-	-
Transfers from Work in Progress accounts	-	12,301	(12,301)	-
Revaluation increments	-	-	-	-
Depreciation	(52,000)	(136,976)	-	(188,976)
Carrying amount at 30 June 2017	2,508,000	434,680	-	2,942,680
At 30 June 2017				
Cost or fair value	2,560,000	1,893,151	-	4,453,151
Accumulated depreciation	(52,000)	(1,458,471)	-	(1,510,471)
Carrying amount	2,508,000	434,680	-	2,942,680
Year ended 30 June 2018				
Carrying amount at 1 July 2017	2,508,000	434,680	-	2,942,680
Additions	37,669	173,148	1,091	211,908
Disposals	-	-	-	-
Transfers from Work in Progress accounts	-	-	-	-
Revaluation increments	-	-	-	-
Depreciation	(54,511)	(145,948)	-	(200,459)
Carrying amount at 30 June 2018	2,491,158	461,880	1,091	2,954,129
At 30 June 2018				
Cost or fair value	2,597,669	2,011,535	1,091	4,610,295
Accumulated depreciation	(106,511)	(1,549,655)	-	(1,656,166)
Carrying amount	2,491,158	461,880	1,091	2,954,129

Fair value hierarchy

The credit union measures fair value of assets and liabilities carries at fair value in the financial report using the following hierarchy that reflects the significance of inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market of an identical asset or liability.
Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes assets or liabilities valued using:

- Quoted market prices in active markets for similar assets or liabilities;
- Quoted prices for identical or similar assets or liabilities 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 assets and liabilities where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the asset's or liability's valuation. This category includes assets and liabilities that are valued based on quoted prices for similar assets or liabilities where significant unobservable adjustments or assumptions are required to reflect differences between them.

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.

12 Property, plant and equipment (continued)

	Level 1 $	Level 2 $	Level 3 $	Total $
2018				
Recurring fair value measurements				
Land and buildings	-	-	2,491,158	2,491,158
2017				
Recurring fair value measurements				
Land and buildings	-	-	2,508,000	2,508,000

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 2018	Range of inputs 2017	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	$225 to $300 (weighted average $271) $32 8.5%	$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 20th April 2016, 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. The current carrying value of property held in Emerald was based on an independent valuation as at 6th May 2016 by Taylor Byrne Pty Ltd. Current market value of freehold properties as at 30th June 2018 was assessed at $2,491,158 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 2016			
Cost or fair value	1,898,482	23,953	1,922,435
Accumulated amortisation	(1,408,482)	-	(1,408,482)
Carrying amount	490,000	23,953	513,953
Year ended 30 June 2017			
Carrying amount at 1 July 2016	490,000	23,953	513,953
Additions	80,381	21,969	102,350
Transfers from Work in Progress accounts	10,684	(10,684)	-
Amortisation	(242,322)	-	(242,322)
Carrying amount at 30 June 2017	338,743	35,238	373,981
At 30 June 2017			
Cost or fair value	1,989,547	35,238	2,024,785
Accumulated amortisation	(1,650,804)	-	(1,650,804)
Carrying amount	338,743	35,238	373,981
Year ended 30 June 2018			
Carrying amount at 1 July 2017	338,743	35,238	373,981
Additions	72,465	19,545	92,010
Transfers from Work in Progress accounts	21,968	(21,968)	-
Amortisation	(220,474)	-	(220,474)
Carrying amount at 30 June 2018	212,702	32,815	245,517
At 30 June 2018			
Cost	2,083,980	32,815	2,116,795
Accumulated amortisation	(1,871,278)	-	(1,871,278)
Carrying amount	212,702	32,815	245,517

14 Deferred tax assets

	2018 $	2017 $
Deferred tax assets comprise temporary differences attributable to:		
Doubtful debts	125,767	86,574
Employee benefits	116,853	128,494
Accruals	3,517	3,837
Depreciation	165,973	153,290
Excess FBT accounting over tax deduction	-	(1,176)
Prepayments (expense account)	29,242	45,976
Prepayments (asset account)	17,565	5,085
Deferred tax liabilities attributable to property, plant and equipment	133,907	141,027
	592,824	563,107

14 Deferred tax assets (continued)

	2018 $	2017 $
Movements:		
Opening balance 1 July	563,107	486,287
Change in company tax rate	(11,752)	-
Credited/(charged) to profit or loss	35,837	61,220
Credited/(charged) from deferred tax liabilities	5,632	15,600
Closing balance 30 June	592,824	563,107
Deferred tax assets to be recovered within 12 months	592,824	563,107
	592,824	563,107

15 Other assets

	2018 $	2017 $
Other assets	833,066	244,585
	833,066	244,585

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

16 Other liabilities

	2018 $	2017 $
Non-current other liabilities		
Other liabilities	64,269	69,892
Current other liabilities		
Accrued expenses	1,527,646	1,132,292
Other liabilities	791,639	1,489,838
	2,383,554	2,692,022

17 Deposits and borrowings

	2018 $	2017 $
Unsecured deposits and borrowings		
Member call deposits (including withdrawable shares)	140,681,797	143,268,576
Member term deposits	164,849,774	129,954,941
Member unsecured notes	1,023,123	2,182,423
Total deposits and borrowings	306,554,694	275,405,940
Current – within 12 months to maturity	306,554,694	274,067,817
Non-current – greater than 12 months to maturity	-	1,338,123
	306,554,694	275,405,940

Concentration of Deposits

The credit union's operations are predominately in the Central Queensland region. There is no significant exposure to a particular industry or customer group. There are no deposits lodged by individual depositors or related groups which exceed 10% of liabilities.

18 Provisions

	2018 **$**	2017 $
Non-current provisions		
Provision for employee benefits – long service leave	14,639	10,299
Current provisions		
Provision for employee benefits – annual leave	135,789	118,937
Provision for employee benefits – long service leave	274,493	299,075
Provision for dividends	56,184	59,581
	481,105	487,892

(a) Movements in provisions

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

	2018 **$**	2017 $
Carrying amount at start of year	59,581	65,330
Charged/(credited) to the income statement		
- additional provisions recognised	112,367	120,991
Dividends paid	(115,764)	(126,740)
Closing Balance as at 30 June	56,184	59,581

19 Contributed Equity

	2018 **No. of shares**	2017 No. of shares	**2018** **$**	2017 $
(a) Movement in Share Capital				
Balance at the beginning of the year	2,613,190	2,613,190	2,613,190	2,613,190
Increase due to issue of shares	-	-	-	-
Decrease due to redemption of shares	-	-	-	-
Balance at end of year	2,613,190	2,613,190	2,613,190	2,613,190
30 June 2018 **Total contributed equity**	2,613,190	2,613,190	2,613,190	2,508,579

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

20 Reserves and retained earnings

	2018 $	2017 $
(a) Reserves		
Asset revaluation reserve – opening balance	704,554	704,554
Movements:		
Decrease on revaluation – gross (Note 12)	-	-
Decrease on revaluation – deferred tax (Note 6)	-	-
Balance 30 June 2018	704,554	704,554
Credit loss reserve – opening balance	520,601	519,167
Movements:		
Increment on transfer from retained earnings	27,040	1,434
Balance 30 June 2018	547,641	520,601
Total reserves 30 June 2018	1,252,195	1,225,155

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(k).

(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.

(b) Retained earnings

	2018 $	2017 $
Retained profits at the beginning of the financial year	18,866,058	17,673,282
Profit for the year	1,414,767	1,315,201
Dividends	(112,367)	(120,991)
Transfer to credit loss reserve	(27,040)	(1,434)
Transfer to other provisions	(373)	-
Retained profits at the end of the financial year	20,141,045	18,866,058

21 Dividends

(a) Investment shares

	2018 **$**	2017 $
Final dividend for the year ended 30 June 2017 equivalent to the maximum dividend benchmark rate 4.60% p.a. per share (2016 – 5.01% p.a. per share fully franked). Paid on 6th November 2017 (2016 – 1st December 2016).	59,581	65,330
Interim dividend for the year ended 30 June 2017 equivalent to the maximum dividend benchmark rate 4.26% p.a. per share (2017 – 4.66% p.a. per share fully franked). Paid on 31st January 2018 (2017 – 30th January 2017).	56,184	61,410

The directors have provided for the payment of a final ordinary dividend of $56,184 paid out of retained profits at 30 June 2018 on Investment Shares issued as at that date. The dividend per share provided for equates to the maximum dividend benchmark rate of 4.54% p.a. fully franked for the period ended 30 June 2018. Payment is subject to confirmation of members at the Annual General Meeting.

22 Key management personnel disclosures

(a) Key management personnel compensation

	2018 **$**	2017 $
Short-term employee benefits	779,783	690,888
Post-employment benefits	139,787	230,075
Long-term benefits	9,371	18,327
	928,941	939,290

Detailed remuneration disclosures are provided in sections A-B of the remuneration report on pages 9-10.

22 Key management personnel disclosures (continued)

(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.

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

2017 Name	Balance at the start of the year	Balance at the end of the year
Directors of The Capricornian Ltd **Investment Shares.**		
George Anthony Edwards	50,500	50,500
John Francis Siganto	4,000	4,000
Vicki Anne Bastin-Byrne	2,000	2,000
Christopher Bernard O'Brien	Nil	Nil
Peter Graham Olrich	Nil	Nil
Other key management personnel of The Capricornian Ltd **Investment Shares.**		
Dale Frederick Grounds	Nil	Nil
Graeme Walter Kemp	2,000	2,000
Andrew John Robertson	2,000	2,000

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

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

22 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:

	2018 $	2017 $
Secured loans	752,396	470,652
Overdrafts	10,000	-
	762,396	470,652

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

	2018 $	2017 $
Secured loans	215,000	400,000
Overdrafts	-	-
	215,000	400,000
Interest and other revenue earned on loans amounted to:	20,603	3,670

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

	2018 $	2017 $
Total value of term and savings deposits	3,880,905	961,475
Interest paid on deposits	23,294	8,878

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.

(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.

22 Key management personnel disclosures (continued)

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

	2018 $	2017 $
Amounts recognised as expense		
Legal services	1,408	1,068

23 Remuneration of auditors

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

	2018 $	2017 $
(a) Assurance services		
Audit services		
BDO Audit Pty Ltd (2017: PricewaterhouseCoopers Australia)		
Auditing or reviewing the accounts, including half year report and regulatory reporting	116,852	166,698
(b) Taxation services		
BDO (QLD) Pty Ltd		
Tax compliance services, including company income tax returns	20,503	19,688
(c) Advisory services		
KPMG		
Internal audit work	98,928	93,008

24 Contingent liabilities

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

	2018 $	2017 $
Guarantees	319,043	309,609

25 Commitments

(a) Operating lease commitments

	2018 $	2017 $
Non cancellable operating leases contracted for but not capitalised in the accounts, payable:		
Within one year	234,229	252,039
Later than one year but not later than five years	273,676	510,780
Later than five years	-	-
	507,905	762,819

(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

	2018 $	2017 $
Loans and credit facilities approved but not yet funded or drawn at the end of the financial year:		
Loans approved but not funded	2,217,468	8,977,255
Undrawn overdraft and lines of credit	3,595,887	3,578,402
	5,813,355	12,555,657

26 Fair value of financial instruments

The fair value estimates were determined by the following methodologies and assumptions:

Cash equivalents

The carrying amount of cash and cash equivalents approximate their fair value as they are short term in nature or are receivable on demand.

Securities

Held-to-maturity investments are carried at amortised cost as these assets are intended to be held until maturity.

Loans and advances

The carrying value of loans and advances is net of provisions for impairment. This is a reasonable estimate of the fair value.

Short term borrowings

The fair value of non-interest bearing, call and variable rate deposits, and fixed rate deposits repriced within twelve months is the carrying value as at 30 June 2017.

26 Fair value of financial instruments (continued)

	2018		2017	
	Carrying value $	Fair value $	Carrying value $	Fair value $
Assets				
Cash and cash equivalents	33,958,882	33,958,882	30,966,217	30,966,217
Receivables	458,753	458,753	486,509	486,509
Held-to-maturity investments	12,054,188	12,054,188	12,081,055	12,081,055
Loans and advances	282,339,992	282,339,992	253,676,643	253,676,643
Liabilities				
Deposits and borrowings	306,554,694	306,554,694	275,405,940	275,405,940
Accrued Interest Expense and other liabilities	2,383,554	2,383,554	2,692,022	2,692,022
Provisions	481,105	481,105	487,892	487,892

27 Operational dependency

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

(a) Industry service companies

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

(b) Ultradata Australia Pty Ltd

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

(c) The System Works Pty Ltd

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

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

	2018 $	2017 $
Profit for the year	1,414,767	1,315,201
Depreciation	420,933	431,298
Provision for doubtful debts	329,030	248,721
Bad debts written off from provision	(160,275)	(214,252)
Net (gain) loss on sale of non-current assets	(11,459)	-
Change in operating assets and liabilities		
(Increase) decrease in loans	(28,814,889)	(7,499,249)
(Decrease) increase in member deposits	31,148,754	7,710,162
(Increase) decrease in deferred tax assets	(29,717)	(76,820)
(Increase) decrease in other assets	(61,707)	(87,257)
(Decrease) increase in creditors	(824,976)	560,089
Increase (decrease) in provision for income tax	(32,952)	36,539
(Decrease) increase in other provisions	(3,767)	55,540
Net cash inflow/(outflow) from operating activities	3,373,742	2,479,972

29 Reconciliation of cash

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

	2018	2017
	$	$
Cash at the end of the financial year as shown in the Statement of Cash Flows consists of:		
Cash on hand and at bank	11,587,156	13,061,006
Held-to-maturity investments with a maturity of less than 3 months	22,371,726	17,905,211
Cash at the end of the financial year	33,958,882	30,966,217

30 Related party transactions

(a) Key management personnel

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

(b) Transactions with other related parties

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

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

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

(d) Loans to/from related parties

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

In the directors' opinion:

(a) the financial statements and notes set out on pages 13-45 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 2018 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
24th September 2018

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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 2018, 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 2018 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, 24 September 2018

LOCALS HELPING LOCALS


Brothers Rugby League

RACQ Helicopter Rescue

Corporate Games

Rocky & Gladstone Basketball

Community Grants Program

Over $100,000 reinvested into the community through donations & sponsorships in 2017/18

the capricornian
community owned banking

the capricornian
community owned banking

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