



## **The Capricornian Ltd**

ABN 54 087 650 940

### **Interim report**

**for the half-year ended 31 December 2017**

**The Capricornian Ltd** ABN 54 087 650 940  
**Interim report – 31 December 2017**

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by The Capricornian Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The financial statements were authorised for issue by the directors on 2<sup>nd</sup> March 2018. The credit union has the power to amend and reissue the financial statements.

<b>Directors</b>	George Anthony Edwards <i>Chairman</i>  John Francis Siganto <i>Deputy Chairman</i>  Vicki Anne Bastin-Byrne  Christopher Bernard O'Brien  Peter Graham Olrich
<b>Secretary</b>	Dale Frederick Grounds (appointed 31 <sup>st</sup> October 2017)
<b>Registered office</b>	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 <a href="mailto:info@capricornian.com.au">info@capricornian.com.au</a> Phonefast 1300 654 654 Online Banking <a href="http://www.capricornian.com.au">www.capricornian.com.au</a>
<b>Branches</b>	Stockland Rockhampton, Yaamba Road, North Rockhampton 2 James Street, Yeppoon 115 Egerton Street, Emerald Blomfield Street, Miriam Vale 174 Goondoon Street, Gladstone
<b>ATM's</b>	Automatic Teller Machines (ATM's) are located at all locations listed above
<b>External Auditor</b>	BDO Audit Pty Ltd
<b>Internal Auditor</b>	KPMG
<b>Solicitors</b>	Gadens Lawyers (Brisbane) Daniels Bengtsson Pty Ltd (Sydney)
<b>Affiliations</b>	Cuscal Ltd Australian Settlements Limited Customer Owned Banking Association
<b>Website address</b>	<a href="http://www.capricornian.com.au">www.capricornian.com.au</a>
<b>Regulatory Disclosures</b>	<a href="http://www.capricornian.com.au/About-Us/Prudential-Disclosures/">www.capricornian.com.au/About-Us/Prudential-Disclosures/</a>

## Directors' report

Your directors present their report on the operations of The Capricornian Ltd for the half-year ended 31 December 2017.

### Directors

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

George Anthony EDWARDS (Chairman)

John Francis SIGANTO (Deputy Chairman)

Vicki Anne BASTIN-BYRNE

Christopher Bernard O'BRIEN

Peter Graham Olrich

### Review of operations

The Capricornian Ltd has performed strongly in the first six months of the current financial year, as measured by asset and loan growth, and profitability. In all these measures we have exceeded by some margin our year to date targets. This result is made even more impressive when local, state and national economic factors are considered. House prices in our key markets continue to reduce, albeit at reduced percentages; new private housing approvals for the year ended 30 June 2017 were only a third of the number for the year ended 30 June 2012; and with an unemployment rate of just under 7%, well above the state average.

The post-tax profit of \$755,895 represents a 12% increase on the same period last year. In the face of ongoing low loan interest rates and significant cost pressures through technology initiatives it is pleasing to note that the Cost to Income ratio of the Credit Union for the first six months of the financial year was 77.3%, which reflects the ongoing efforts to identify and eliminate unnecessary expenses.

Staff engagement has remained a major focus of the management team and during this financial year we have been able to introduce an automated staff survey tool which has allowed us to measure the success of recent initiatives. The staff rewarded our efforts with a score in excess of both general business and financial sector averages in Australia. This engagement is sought so as to ensure we continue to have professional and knowledgeable staff ready to help with the increasingly challenging financial realities of our members.

The Capricornian's Community involvement continues in all of our regions. Highlights of our community participation in the half year have been:

- Disability Action Week 2017 – Emu Park Beach day
- Rockhampton Christmas Parade 2017
- Rockhampton and Gladstone Basketball Associations
- The Capricornian Staff Blood donation program

### Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

### Auditor

BDO Audit Pty Ltd was appointed as auditor 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  
2<sup>nd</sup> March 2018



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## DECLARATION OF INDEPENDENCE BY MICHAEL CUTRI TO THE DIRECTORS OF THE CAPRICORNIAN LTD

As lead auditor for the review of The Capricornian Ltd for the half-year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been:

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

M Cutri  
Director

**BDO Audit Pty Ltd**

Brisbane, 02 March 2018

**The Capricornian Ltd**  
**Statement of Comprehensive Income**  
For the half-year ended 31 December 2017

	Notes	Half-year	
		2017 \$	2016 \$
Interest revenue	3	6,798,392	6,496,443
Interest expense	3	(2,749,214)	(2,669,737)
Net interest revenue		4,049,178	3,826,706
Fee and commission revenue	4	751,193	831,416
Other revenue	4	75,556	80,019
Total net interest income and other revenue		4,875,927	4,738,141
Bad and doubtful debts (expense)/revenue		(63,225)	(159,462)
Other expenses	5	(3,770,088)	(3,615,201)
Total expenses		(3,833,313)	(3,774,663)
Profit before income tax expense		1,042,614	963,478
Income tax expense		(286,719)	(289,044)
Profit for the half-year attributable to members		755,895	674,434
Other comprehensive income, net of income tax		-	-
Total comprehensive income for the half-year attributable to members		755,895	674,434

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

**The Capricornian Ltd**  
**Statement of Financial Position**  
As at 31 December 2017

	Notes	31 December 2017 \$	30 June 2017 \$
<b>ASSETS</b>			
Cash on hand and at bank		8,709,188	13,061,006
Receivables		651,398	486,509
Held-to-maturity investments with a maturity of less than 3 months		25,381,854	17,905,211
Held-to-maturity investments with a maturity of more than 3 months		12,067,511	12,081,055
Loans and advances		270,040,402	253,676,643
Property, plant and equipment		3,015,253	2,942,680
Intangible Assets		323,112	373,981
Deferred tax assets		563,107	563,107
Other assets	8	101,355	244,585
<b>Total assets</b>		320,853,180	301,334,777
<b>LIABILITIES</b>			
Deposits		293,075,814	273,223,517
Borrowings		1,677,123	2,182,423
Other liabilities		2,197,261	2,692,022
Provision for income tax		133,941	149,131
Provisions		469,473	487,892
<b>Total liabilities</b>		297,553,612	278,734,985
<b>Net assets</b>		23,299,568	22,599,792
<b>EQUITY</b>			
Contributed equity		2,508,579	2,508,579
Reserves		1,226,920	1,225,155
Retained profits		19,564,069	18,866,058
<b>Total equity</b>		23,299,568	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**  
For the half-year ended 31 December 2017

	Contributed Equity \$	Reserves \$	Retained Earnings \$	Total \$
<b>Balance 1 July 2016</b>	2,508,579	1,223,721	17,707,236	21,439,536
Profit for the half-year as reported in the 2016 interim report	-	-	674,434	674,434
Other comprehensive income, net of tax	-	-	-	-
<b>Total comprehensive income for the year</b>	-	-	674,434	674,434
Transfer to / from reserve for credit losses	-	(4,634)	4,634	-
<b>Total transfers to / from retained earnings</b>	-	(4,634)	4,634	-
<b>Transactions with investment shareholders</b>				
Dividend provided for	-	-	(61,388)	(61,388)
	-	-	(61,388)	(61,388)
Balance half-year ended 31 December 2016	2,508,579	1,219,087	18,324,916	22,052,582
Balance 1 July 2017	2,508,579	1,225,155	18,866,058	22,599,792
Profit for the half-year as reported in the 2017 interim report	-	-	755,895	755,895
Other comprehensive income, net of tax	-	-	-	-
<b>Total comprehensive income for the year</b>	-	-	755,895	755,895
Transfer to / from reserve for credit losses	-	1,765	(1,765)	-
<b>Total transfers to / from retained earnings</b>	-	1,765	(1,765)	-
<b>Transactions with investment shareholders</b>				
Dividend provided for	-	-	(56,119)	(56,119)
	-	-	(56,119)	(56,119)
Balance half-year ended 31 December 2017	2,508,579	1,226,920	19,564,069	23,299,568

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



**The Capricornian Ltd**  
**Statement of Cash Flows**  
For the half-year ended 31 December 2017

	<b>Half-year</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>		
Interest received	6,779,874	6,499,520
Interest paid	(2,383,872)	(2,431,695)
Loans and advances funded	(38,399,172)	(24,962,336)
Loans repaid excluding overdrafts	21,985,469	24,384,142
Net inflow in member deposits	19,852,297	6,939,725
Non interest revenue received	750,023	716,396
Cash paid to suppliers and employees	(4,405,905)	(4,000,936)
Income taxes paid	(301,909)	(278,662)
<b>Net cash inflow from operating activities</b>	<b>3,876,805</b>	<b>6,866,154</b>
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment and intangible assets		
Payments for held-to-maturity investments with a maturity of more than 3 months	13,545	(1,000,000)
Payments for property, plant and equipment and intangible assets	(200,923)	(165,424)
Proceeds from sale of property, plant and equipment	279	-
<b>Net cash outflow from investing activities</b>	<b>(187,099)</b>	<b>(1,165,424)</b>
<b>Cash flows from financing activities</b>		
Repayment of Borrowings	(505,300)	(155,017)
Dividends paid	(59,581)	(65,330)
<b>Net cash outflow from financing activities</b>	<b>(564,881)</b>	<b>(220,347)</b>
<b>Net increase in cash and cash equivalents</b>	<b>3,124,825</b>	<b>5,480,383</b>
Cash and cash equivalents at the beginning of the half-year	30,966,217	40,926,399
<b>Cash and cash equivalents at end of the half-year</b>	<b>34,091,042</b>	<b>46,406,782</b>

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

## 1 Basis of preparation of half-year report

This general purpose financial report for the interim half-year reporting period ended 31 December 2017 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by The Capricornian Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

A number of new or amended standards became applicable for the current reporting period, however The Capricornian Ltd did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

## 2 Cash and cash equivalents

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

	<b>Half-year</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Cash on hand and at bank	8,709,188	17,554,630
Held-to-maturity investments with a maturity of less than 3 months	25,381,854	28,852,152
	34,091,042	46,406,782

## 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.

	<b>Half-year</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<b>Interest Revenue</b>		
Cash and cash equivalents	77,028	82,053
Investment securities	377,384	328,838
Loans and advances	6,343,392	6,085,552
	6,798,392	6,496,443
<b>Interest Expense</b>		
Member deposits	2,700,187	2,558,694
Investment bonds	48,041	110,417
Borrowings	986	626
	2,749,214	2,669,737

#### 4 Fee, Commission and Other Revenue

	<b>Half-year</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Non-Interest Revenue		
Fees and commissions		
-loan fee income	80,473	100,862
-other fee income	354,036	410,171
-insurance commissions	198,045	196,026
-other commissions	118,639	124,357
Subtotal	751,193	831,416
Bad debts recovered	2,942	1,890
Other revenue		
-other	72,614	78,129
Subtotal	75,556	80,019
Total non-interest revenue	826,749	911,435

#### 5 Other Expenses

	<b>Half-year</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Depreciation and amortisation		
-plant and equipment	71,434	66,601
-buildings	26,628	26,000
-intangible assets	121,287	119,076
General and administration		
-personnel costs	1,682,345	1,645,569
-other	1,052,776	980,516
Other expenses		
-operating lease expenses	127,142	126,395
-other	688,476	651,044
Total Other Expenses	3,770,088	3,615,201

#### 6 Dividends

	<b>Half-year</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<b>Investment Shares</b>		
Final dividend for the year ended 30 June 2017 (paid on 6 <sup>th</sup> November 2017)	59,581	65,330
Interim dividend for the half year ended 31 December 2017 (paid on 31 <sup>st</sup> January 2018)	56,119	61,388

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

## 7 Contingent Liabilities

### Guarantees

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

	<b>31 December 2017</b>	30 June 2017
	\$	\$
Guarantees	360,174	309,609

## 8 Other Assets

	<b>31 December 2017</b>	30 June 2017
	\$	\$
Other Assets	101,355	244,585
	<u>101,355</u>	<u>244,585</u>

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

## 9 Events Subsequent to Reporting Date

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

## 10 Fair Values

### (a) Fair value hierarchy

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument;
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using:
  - o quoted market prices in active markets for similar instruments;
  - o quoted prices for identical or similar instruments in markets that are considered less than active; or;
  - o other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

## 10 Fair Values (Cont.)

### (a) Fair value hierarchy (cont.)

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

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

### (b) Fair value estimates

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

#### Cash and cash equivalents and other receivables

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

#### Loans and advances

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

#### Financial assets held-to-maturity

The carrying values of financial assets held-to-maturity approximate their net fair value due to short-term maturities of these securities.

#### Deposits from members

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

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

The table below categorises assets measured and recognised at fair value at the reporting date by the level of the fair value hierarchy into which the fair value measurement is categorised.

	Level 1	Level 2	Level 3	Total fair values	Total carrying amount
	\$	\$	\$	\$	\$
<b>December 2017</b>					
<b>Financial liabilities</b>					
Deposits	-	294,395,489	-	294,395,489	293,075,814
<b>June 2017</b>					
<b>Financial liabilities</b>					
Deposits	-	274,152,006	-	274,152,006	273,223,517

In the directors' opinion:

- (a) the financial statements and notes set out on pages 5 to 12 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of The Capricornian Ltd's financial position as at 31 December 2017 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that The Capricornian Ltd will be able to pay its debts as and when they become due and payable

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

G. A. Edwards  
Director

J. F. Siganto  
Director

Rockhampton  
2<sup>nd</sup> March 2018

## INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of The Capricornian Ltd

### Report on the Half-Year Financial Report

#### Conclusion

We have reviewed the half-year financial report of The Capricornian Ltd (the Company), which comprises the statement of financial position as at 31 December 2017, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year then ended, notes comprising a statement of significant accounting policies and other explanatory information, and the directors' declaration.

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

Giving a true and fair view of the Company's financial position as at 31 December 2017 and of its financial performance for the half-year ended on that date; and

Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

#### Directors' responsibility for the Half-Year Financial Report

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

#### Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2017 and its performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.



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

#### **Independence**

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

**BDO Audit Pty Ltd**

**M Cutri**

**Director**

Brisbane, 02 March 2018