Cairns Penny

refreshing banking

Established 1899

120th

ANNUAL REPORT

2018-2019

Joint letter from the Chairman and the General Manager

Dear Member

As we continue to examine how we can deliver to our customers in a better way, we present you with our first combined Chairman's and General Manager's letter.

Jeff Quilty retirement

In February 2019, Jeff Quilty retired after 18 years of service to Cairns Penny, including three years as Chairman. Jeff's unique experience in banking and finance, together with his local knowledge, added enormous value to the operations over the years and our thanks go to him and his family for their support during these years.

Following Jeff's retirement, Michael Wenzel was unanimously elected to the role of Chairman of Cairns Penny by his fellow directors, while Michael McGuigan continues to serve as deputy Chairman.

Reflecting on the last financial year

The 2019 financial year was memorable in the banking world for a number of reasons including:

1. Following a long period of record low official cash rates, even lower rates were established with the RBA decreasing rates in June 2019 and then again in July 2019 as it tries to stimulate economic growth;
2. Our banking regulator the Australian Prudential Regulation Authority lifted its benchmark restrictions on investor lending and interest only lending (subject to other measures) recognising the slowdown in the property market;
3. Then of course, there was the final report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the Hayne Report) which was released in February 2019 (more on that later); and
4. The local property market has remained subdued despite significant investment in the region and an improvement in the tourism environment.

Against this backdrop, Cairns Penny has again achieved financial success, maintaining an after-tax profit close to the previous year at $343,834 (2018: $349,814) and modest growth in total assets to $105.6 million (2018: $104.9 million). A standout in this performance has been strong loan growth of 5.7% in a comparatively quiet market and without diminishing the value that is being offered.

The Hayne Report sent some ripples through the banking community and revealed many unacceptable practices, resulting in 76 recommendations. The regulators did not escape criticism and they are becoming better resourced and more thorough in their supervision, creating additional reporting obligations most notably the Banking Executive Accountability Regime (BEAR). Using the BEAR as an example, many of these additional obligations are clearly aimed at the big end of town and entities operating with different objectives than Cairns Penny. Despite not participating in any of the practices flagged by the Hayne Report as requiring attention, Cairns Penny is regulated the same as any other bank and is required to comply with these reporting and governance requirements. The sad truth is that this increases our compliance costs with no direct benefit to our customers.

We welcome Chelsea, a new team member, who you will meet if you visit our branch. Chelsea fits beautifully within our customer service team; she shares the values and customer focus for which we are known and envied. We are sure you will also be pleased to see the old(er) familiar faces too.

Planning for the future

Our 2019 Strategic Planning Meeting was particularly successful as we identified new and better ways to make Cairns' only local bank more relevant to you and the region. We are currently working on delivering that strategy with the belief that it will help us deliver the service and respect to our current and future customers that they deserve from their bank.

After we celebrated 120 years of successfully serving the community earlier this year, we are determined to continue to:

- remain relevant by providing simple, straightforward and secure services to our customers; and
- respect that in our industry respecting the loyalty of customers, treating them fairly, and acting responsibly, are essential characteristics.

We would like to thank all our customers and our fantastic staff for all their efforts in the last financial year and look forward to an exciting year ahead.

Yours sincerely

Michael Wenzel
Chairman

Peter Phillips
General Manager

Cairns

10 September 2019

Directors' Report

Your directors present their report together with the financial report of Cairns Penny Savings & Loans Limited ("Cairns Penny" or "the Company") for the financial year ended 30 June 2019 and the auditor's report thereon.

Directors

The directors of the Company at any time during or since the end of the financial year are:

Mr M J Wenzel	Chair
Mr M M McGuigan	Deputy Chair
Ms M J Maunsell	Secretary and Public Officer
Mr J R Quilty	Retired 19 February 2019
Ms N Edwards	
Mr S M Coolican	
Mr B D Tooth	

Company secretary

Ms Margaret Maunsell was appointed to the position of company secretary on 31 March 2015. Ms Maunsell's qualifications and experience are set out below in the section titled "Information on Directors".

Principal activities

The Company is a community based financial institution.

Operating results

The profit of Cairns Penny after providing for income tax amounted to $343,834 (2018: $349,814).

Review of operations

The operations and result were affected by a reduction in the interest rate margins over the year.

Interest income decreased by $249,110 due to lower interest rates, while interest expense decreased by $215,104 also due to lower interest rates. Overall, there was a decrease in net interest income of $34,006.

Operating expenses increased by $17,751, which is reflective of an increase in employee benefits expense of $17,154, a decrease in depreciation and amortisation expense of $12,483, an increase in information technology expenses of $10,696 and general increases in other expenses.

Dividends paid or recommended

No dividends were paid or recommended during the year.

State of affairs

No significant changes in the state of affairs of Cairns Penny occurred during the financial year.

Events subsequent to reporting date

No matters or circumstances have arisen since the end of the financial year that significantly affected or may significantly affect the operations of Cairns Penny, the results of those operations, or the state of affairs of Cairns Penny in subsequent financial years.

Likely developments

The directors do not anticipate any developments of an abnormal or extraordinary nature in the operations of Cairns Penny and are unable to forecast the expected results of those operations in financial years subsequent to the financial year ended 30 June 2019.

Directors' Report (Continued)

Information on Directors

Michael Wenzel (Chair)

Michael joined the Board in February 2014. He is a Chartered Accountant, Certified Internal Auditor, Registered Company Auditor, a Graduate Member of the Australian Institute of Company Directors and a Certificated Member of the Governance Institute of Australia. Michael is the Chief Financial Officer of QBiotics Group and provides advisory services from his own firm. Michael previously worked in the audit and advisory division of KPMG in Cairns for over 13 years as a senior engagement manager, key client contact and quality control reviewer on a variety of external and internal audits. Michael is highly active with a local, well-respected charity, FNQ Cerebral Palsy Support Group.

Michael McGuigan (Deputy Chair)

Michael joined the Board in 2005. He holds a Bachelor of Laws and was admitted as a solicitor in 1984. Michael practised in Cairns until 2006 and was formerly a partner with the law firm of Farrellys. Michael has been a Notary Public since 1995. He is involved in property and financial management.

Margaret Maunsell (Company Secretary)

Margaret joined the Board in August 2009. She is a Chartered Accountant and a Member of the Australian Institute of Company Directors. A partner of local accounting firm BDO (NTH QLD) since 1993, Margaret has extensive accounting and business experience across a wide range of industries. She was previously a board member and chair of the Audit Committee at the Cairns Port Authority. Margaret has been a committee member and treasurer of a local charity, The Far North Queensland Youth Assistance Fund since 1995.

Jeff Quilty (prev Chair)

Jeff retired from the Board on 19 February 2019 having served as a director for 18 years, including 3 years a Chairman. A qualified accountant, Jeff started his career as an industrial accountant before making the move to the merchant banking sector, gaining significant experience in marketing and senior management roles. Jeff has also run his own businesses in both the holiday accommodation sector and food processing industries.

Nadine Edwards

Nadine joined the Board on 19 June 2018. Born in Cairns, Nadine holds degrees in both law and accountancy from QUT, Brisbane, and has practised as a solicitor with national law firms in Brisbane and Melbourne. In March 2004, Nadine joined the family business LJ Hooker Cairns Edge Hill and has built and maintained a reputation as a trusted name in real estate in Cairns. Nadine is a Life Member of the exclusive LJ Hooker Captains Club Multi-Million Dollar Chapter which recognises the top producers within the entire LJ Hooker network.

Simon Coolican

Simon joined the Board in February 2016. He has many years' experience in banking and has worked right across regional Queensland. Simon arrived in Cairns in 2000 and has owned a number of different businesses in that time, and currently operating his own business in the finance sector. He also works part-time as a Tribunal Member for the Queensland Civil and Administrative Tribunal and volunteers as a director of the Cairns Catholic Education Foundation Limited.

Ben Tooth

Ben joined the Board in June 2016. He is a Chartered Accountant and is the Chief Executive Officer of the Cairns Private Hospital, Cairns Day Surgery and The Cairns Clinic, part of Ramsay Health Care. He has a number of years' experience in both finance and accounting roles in Cairns, including 3 years as Chief Financial Officer at ECU Australia Ltd and 8 years at KPMG. In 2007 Ben gained international experience when he worked in London on government financial schemes with the UK National Audit Office. He is an independent member of the North Queensland Primary Healthcare Network's Finance, Audit and Risk Committee. Ben is a strong advocate for Cairns and its continued growth as a thriving, regional economy.

Directors' Report (Continued)

Meetings of Directors

During the financial year, 11 Board meetings and 25 committee meetings were held. Attendances at these meetings were:

	Board		Lending		Fit & Proper		Finance		Audit		Remuneration		Risk	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B
Mr M Wenzel	11	9	-	-	1	1	4	4	4	4	-	-	4	4
Mr M McGuigan	11	9	-	-	1	1	4	4	4	4	1	1	4	4
Mrs M Maunsell	11	10	-	-	-	-	-	-	4	3	1	1	4	3
Mr JR Quilty	8	7	8	7	-	-	3	3	2	2	1	1	2	2
Ms N Edwards	11	11	11	11	1	-	-	-	-	-	-	-	-	-
Mr S Coolican	11	9	11	9	-	-	4	4	-	-	-	-	-	-
Mr B Tooth	11	10	3	3	-	-	-	-	4	4	-	-	4	4

The May 2019 Board meeting was replaced by the Strategic Planning Meeting held on 21 May 2019.

Column A indicates the number of meetings held during the financial year while the director was a member of the Board or committee.

Column B indicates the number of meetings attended by the director during the financial year while the director was a member of the Board or committee.

Board members are able to attend any committee meeting regardless of whether they are a member of that committee.

Indemnification and insurance

Cairns Penny has not, during or since the financial year, in respect of any person who is, or has been, an officer or auditor of Cairns Penny or a related body corporate:

- indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings; or
- paid or agreed to pay a premium in respect of a contract insuring against a liability incurred as an officer for the costs or expenses to defend legal proceedings;

with the exception of the following matters.

During or since the financial year Cairns Penny has paid premiums to insure each of the directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of Cairns Penny, other than conduct involving a wilful breach of duty in relation to Cairns Penny. The total amount of the premium covering all directors was $633.

Proceedings on behalf of the company

No person has applied for leave of the court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not party to any such proceedings during the year.

Directors' Report (Continued)

Auditor's independence declaration

The lead auditor's independence declaration (made under section 307C of the *Corporations Act 2001*) is set out on page 34 and forms part of this directors' report for the year ended 30 June 2019.

Signed in accordance with a resolution of the Board of directors.

Michael Wenzel *Director*	Margaret Maunsell *Director*

Cairns
10 September 2019

Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2019

	Note	2019 $	2018 $
Interest income	4	3,607,946	3,857,056
Interest expense	4	(1,756,135)	(1,971,239)
Net interest income		1,851,811	1,885,817
Fee income		162,020	154,827
Sundry income		23,858	9,762
		2,037,689	2,050,406
Employee benefits expense		(710,092)	(692,938)
Depreciation and amortisation expense		(58,653)	(71,136)
Administrative expenses		(299,647)	(304,772)
Banking related costs		(171,266)	(165,387)
Information technology costs		(225,229)	(214,533)
Financial expenses		(1,794)	(2,262)
Occupancy expenses		(96,324)	(94,223)
Profit before income tax		474,684	505,155
Income tax expense	5(a)	(130,850)	(155,341)
Profit for the year		343,834	349,814
Other comprehensive income		-	-
Total comprehensive income		343,834	349,814

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Changes in Equity for the year ended 30 June 2019

	Retained earnings	Member share redemption reserve	General reserve for credit losses	Total
	$	$	$	$
Balance at 1 July 2017	8,792,224	5,885	300,000	9,098,109
Total comprehensive income for the year				
Profit for the year	349,814	-	-	349,814
Total comprehensive income for the year	349,814	-	-	349,814
Transactions with owners in their capacity as owners				
Transfers to/from reserves				
- member share redemption reserve	(230)	230	-	-
Balance at 30 June 2018	9,141,808	6,115	300,000	9,447,923
Balance at 1 July 2018	9,141,808	6,115	300,000	9,447,923
Total comprehensive income for the year				
Profit for the year	343,834	-	-	343,834
Total comprehensive income for the year	343,834	-	-	343,834
Transactions with owners in their capacity as owners				
Transfers to/from reserves				
- member share redemption reserve	(129)	129	-	-
Balance at 30 June 2019	9,485,513	6,244	300,000	9,791,757

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Financial Position as at 30 June 2019

	Note	2019 $	2018 $
ASSETS			
Cash and cash equivalents	6	8,321,599	12,661,296
Receivables due from other financial institutions	7	33,762,157	32,052,174
Loans and advances	8	62,689,149	59,330,779
Deferred tax assets		67,505	59,869
Plant and equipment		28,471	34,690
Intangible assets		220,710	228,271
Interest income accrued		333,745	328,404
Other investments		165,660	165,660
Other		26,010	23,961
Total assets		105,615,006	104,885,104
LIABILITIES			
Deposits	9	94,928,832	94,653,390
Payables		198,847	198,789
Interest expense accrued		552,278	461,878
Income tax payable		33,129	27,225
Employee benefits		104,845	90,712
Other financial liabilities	10	5,318	5,187
Total liabilities		95,823,249	95,437,181
Net assets		9,791,757	9,447,923
EQUITY			
Reserves	11	306,244	306,115
Retained earnings		9,485,513	9,141,808
Total equity		9,791,757	9,447,923

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Cash Flows
for the year ended 30 June 2019

	Note	2019 $	2018 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		3,602,604	3,888,471
Interest paid		(1,665,735)	(2,065,203)
Fees and other income received		187,304	164,694
Payments to suppliers and employees		(1,490,217)	(1,414,657)
		633,956	573,305
(Increase)/decrease in operating assets:			
Net (increase) in customer loans advanced		(3,360,712)	(2,593,845)
Increase/(decrease) in operating liabilities:			
Net (decrease)/increase in deposits		275,442	(20,045,522)
Net (decrease)/increase in other financial liabilities		131	(41)
Net cash from operating activities before income tax		(2,451,183)	(22,066,103)
Income tax paid		(132,582)	(200,613)
Net cash from/(used in) operating activities	14	(2,583,765)	(22,266,716)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net decrease/(increase) in receivables due from other financial institutions		(1,709,984)	21,341,302
Acquisition of plant and equipment		(8,428)	(19,794)
Acquisition of intangible assets		(37,520)	(64,477)
Net cash from/(used in) investing activities		(1,755,932)	21,257,031
Net (decrease)/increase in cash and cash equivalents		(4,339,697)	(1,009,685)
Cash and cash equivalents at 1 July		12,661,296	13,670,981
Cash and cash equivalents at 30 June	6	8,321,599	12,661,296

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements
for the year ended 30 June 2019

1 REPORTING ENTITY

Cairns Penny Savings & Loans Limited ("Cairns Penny" or "the Company") is a for-profit company incorporated and domiciled in Australia. The Company is an individual entity and primarily is a community based financial institution.

The registered office of the Company is 22 – 24 Grafton Street, Cairns, Queensland 4870. The financial report was authorised for issue by the Directors on the date shown in the directors' declaration.

2 BASIS OF PREPARATION

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs") adopted by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*. The financial report of the Company also complies with International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board ("IASB").

(b) Basis of measurement

The financial report has been prepared on the basis of historical costs.

(c) Functional and presentation currency

The financial report is presented in Australian Dollars, which is the Company's functional currency.

(d) New standards and interpretations

The Company has adopted all the amendments to Australian Accounting Standards issued by the AASB which are relevant to, and effective for, the Company's financial statements for the annual period beginning 1 July 2018. The impact of these is included below.

AASB 9 Financial Instruments

AASB 9 replaces AASB 139 *Financial Instruments: Recognition and Measurement* in its entirety. The new standard includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, and supplements the new general hedge accounting requirements previously published.

When adopting AASB 9, the Company has applied transitional relief and opted not to restate prior periods. Any differences arising from the adoption of AASB 9 in relation to classification, measurement and impairment are recognised in opening retained earnings as at 1 July 2018.

On July 1 2018, the date of initial application, the Company re-assessed the classification, measurement category and carrying amount of each financial instrument (listed below) in accordance with AASB 9. There were some changes to classification, but this did not result in changes to measurement categories (listed below). Carrying amounts were also unchanged.

Financial asset/liability	**Measurement category (unchanged)**
Cash and cash equivalents	Amortised cost
Receivables due from other financial institutions	Amortised cost
Loans and advances	Amortised cost
Other investments	Amortised cost
Deposits	Amortised cost
Payables (including income tax)	Amortised cost
Other financial liabilities	Amortised cost

Notes to the Financial Statements
for the year ended 30 June 2019

2 BASIS OF PREPARATION (CONTINUED)

(d) New standards and interpretations (continued)

AASB 15 Revenue from Contracts with Customers
AASB 15 applied for annual periods beginning 1 January 2018. It has no material impact on the financial statements.

(e) New standards and interpretations not yet adopted

AASB 16 Leases
AASB 16 becomes mandatory for annual periods beginning on or after 1 January 2019 (with early adoption permitted) and in essence requires a lessee to:

- recognise all lease assets and liabilities (including those currently classed as operating leases) on the statement of financial position, initially measured at the present value of unavoidable lease payments;
- recognise amortisation of lease assets and interest on lease liabilities as expenses over the lease term; and
- separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (which entities can choose to present within operating or financing activities consistent with presentation of any other interest paid) in the statement of cash flows.

The Company holds a property lease and has assessed the impact of AASB 16. At 1 July 2019, a lease liability and right-of-use asset will be recorded of $246,109, the modified retrospective approach will be used, with no adjustment required to retained earnings on transition.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Financial assets and liabilities

Recognition
The Company initially recognises loans and advances and deposits on the date that they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Derecognition
The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

Amortised cost measurement – Financial assets
A financial asset is held at amortised cost if the asset is held within a business model where the objective is to hold the asset to collect contractual cash flows, and where the contract terms of the asset give rise to cash flows that are solely payments of principal and interest ("SPPI"). Interest revenue is calculated using the effective interest method.

Amortised cost measurement – Financial liabilities
The amortised cost of a financial liability is the amount at which the financial liability is measured at initial recognition, minus principal repayments.

Notes to the Financial Statements
for the year ended 30 June 2019

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Financial assets and liabilities (continued)

Identification and measurement of impairment
Impairment is calculated using the expected credit loss model, which requires the Company to consider historical, current and forward-looking information (including macro-economic data) to calculate the loss allowance. The principle of the expected credit loss model is to recognise in the financial statements the deterioration in the credit quality of financial instruments over their life.

AASB 9 establishes a three-stage impairment model, based on whether there has been a significant increase in the credit risk of a financial asset since its initial recognition. The three-stages then determine the amount of impairment to be recognised as expected credit losses (ECL) at each reporting date as well as the amount of interest revenue to be recorded in future periods:

Stage 1 – Credit risk has not increased significantly since initial recognition – recognise 12 months ECL and recognise interest on a gross basis.

Stage 2 – Credit risk has increased significantly since initial recognition – recognise lifetime ECL and recognise interest on a gross basis.

Stage 3 – Financial asset is credit impaired – recognise lifetime ECL, and present interest on a net basis.

An impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognised in profit or loss.

Significant increase in credit risk
When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Company's historical experiences and expert credit assessment and including forward looking information.

Credit-impaired financial assets
At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is credit-impaired when one of more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.
Evidence that a financial asset is credit-impaired includes the following:
- Significant financial difficulty of the borrower;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance on terms that the Company would not consider otherwise;
- Becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

Default
A financial asset is considered to be in default when:
- The borrower is unlikely to pay its credit obligations in full, without recourse by the Company to actions such as realising security;
- The borrower is past due more than 90 days on any material credit obligations;
- The Company has filed for the borrower's bankruptcy in connection with the credit obligation;
- The borrower has sought or has been placed in bankruptcy resulting in the delay or avoidance of repayment of the amount owing.

In assessing whether a borrower is in default, the Company considers indicators that are:
- Qualitative (i.e. breaches of contract);
- Quantitative (i.e. overdue status and non-payment on another obligation); and
- Based on data developed internally or obtained from external sources.

The definition of default largely aligns with that of APRA.

Notes to the Financial Statements
for the year ended 30 June 2019

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Financial assets and liabilities (continued)

Write-off
Loans and debts are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

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

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

(c) Plant and equipment
Recognition and measurement
Items of plant and equipment are measured at cost less accumulated depreciation (see below) and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Depreciation
Depreciation is recognised in profit or loss using straight-line and diminishing value bases over the estimated useful lives of each part of an item of plant and equipment. The estimated useful lives range from 1.5 to 20 years.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(d) Intangible assets
Software
Software is measured at cost less accumulated amortisation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Amortisation
Amortisation is recognised in profit or loss on a straight line basis over the estimated useful lives of intangible assets, from the date that they are available for use. The estimated useful lives range from 2.5 to 10 years.

(e) Operating leases
Payments made under operating leases, where substantially all the risks and rewards remain with the lessor, are recognised in profit or loss on a straight-line basis over the term of the lease.

Notes to the Financial Statements for the year ended 30 June 2019

4 INTEREST INCOME AND EXPENSE

Interest income
Interest income is recognised in profit or loss as it accrues, using the effective interest method.

Interest expense
Interest expense is recognised in profit or loss as it accrues, using the effective interest method.

	2019 $	2018 $
Interest income		
Cash and cash equivalents	92,879	144,337
Receivables due from other financial institutions	929,809	1,120,974
Loans and advances	2,585,258	2,591,745
	3,607,946	3,857,056
Interest expense		
Deposits	(1,756,135)	(1,971,239)
Net interest income	1,851,811	1,885,817

5 INCOME TAX

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit or loss of the year.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

(a) Income tax expense

	2019	2018
Current tax expense		
Current year	140,493	150,072
Underprovided prior years	(2,007)	15,121
Sub-total	138,486	165,193
Deferred tax expense		
Origination and reversal of temporary differences	(7,636)	(9,852)
Total income tax expense	130,850	155,341

Notes to the Financial Statements
for the year ended 30 June 2019

5 INCOME TAX (CONTINUED)

		2019	2018
(a)	**Income tax expense (continued)**	**$**	**$**
	Numerical reconciliation between tax expense and pre-tax net profit		
	Profit before tax	474,680	505,155
	Income tax using the Company tax rate of 27.5% (2018: 27.5%)	130,537	138,918
	Increase in income tax expense due to:		
	Non-deductible expenses	2,320	1,302
	Income tax expense on pre-tax net profit	132,857	140,220
	Under/(over) provided in prior years	(2,007)	15,121
	Income tax expense on pre-tax net profit	130,850	155,341
(b)	**Dividend franking amount**		
	27.5% franking credits available to members of the Company for subsequent financial years	3,145,380	3,010,638

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

(a) franking credits that will arise from the payment of current tax liabilities.
(b) franking credits that the Company may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

6 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and at call deposits with banks or financial institutions.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Cash on hand	64,194	65,948
Cash at bank	7,980,044	12,320,167
At call deposits	277,361	275,181
	8,321,599	12,661,296

Notes to the Financial Statements for the year ended 30 June 2019

7 RECEIVABLES DUE FROM OTHER FINANCIAL INSTITUTIONS

Receivables due from other financial institutions such as fixed deposits and negotiable certificates of deposit are stated at their amortised cost using the effective interest method. Interest accrued on receivables due from other financial institutions is included in interest income accrued. Receivables due from other financial institutions have been assessed at an instrument level and are deemed to be held for the purpose of collecting contractual cash flows (hold to collect business model) and meet the definition of solely payments of principal and interest.

	2019 $	2018 $
Fixed deposits	24,323,327	22,123,327
Floating rate notes	6,000,089	6,005,088
Negotiable certificates of deposits	3,438,741	3,923,759
Provision for impairment – expected credit losses	-	-
	33,762,157	32,052,174
Maturity analysis		
Not longer than 3 months	16,591,377	14,584,639
Longer than 3 months and not longer than 1 year	12,670,780	12,465,406
Longer than 1 year	4,500,000	5,002,129
	33,762,157	32,052,174

All fixed deposits and negotiable certificates of deposit are denominated in Australian Dollars and held with APRA regulated Australian financial institutions. These receivables are considered to meet the definition of a low risk investment and have been considered on this basis for impairment purposes.

8 LOANS AND ADVANCES

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and advances are measured at amortised cost using the effective interest method. Loans and advances are assessed at an instrument level and are deemed to be held for the purpose of collecting contractual cash flows (hold to collect business model) and meet the definition of solely payments of principal and interest.

	2019	2018
Overdrafts	2,100,608	1,728,305
Term loans	60,594,957	57,607,974
Gross loans and advances	62,695,565	59,336,279
Provision for impairment – expected credit losses	(6,416)	(5,500)
Net loans and advances	62,689,149	59,330,779

Notes to the Financial Statements for the year ended 30 June 2019

	2019 $	2018 $
8 LOANS AND ADVANCES (CONTINUED)		
Contractual maturity analysis		
Overdrafts, at call	2,100,608	1,728,305
Not longer than 3 months	657,897	568,108
Longer than 3 months and not longer than 1 year	1,973,168	1,728,853
Longer than 1 year and not longer than 5 years	10,546,673	9,424,430
Longer than 5 years	47,417,219	45,886,583
	62,695,565	59,336,279

All loans and advances are denominated in Australian Dollars and have been made to individuals residing or entities operating in the North Queensland region.

(a) Past due but not impaired loans

	2019 Carrying value $	2019 Past due $	2019 Collateral held $	2018 Carrying value $	2018 Past due $	2018 Collateral held $
< 30 days	656,010	3,363	1,945,000	348,964	1,689	1,000,000
30 to 90 days	546,454	6,601	785,000	577,645	4,655	950,000
90 to 180 days	-	-	-	-	-	-
180 to 270 days	-	-	-	1,786	984	-
270 to 365 days	717	717	-	-	-	-
>365 days	-	-	-	-	-	-
	1,203,181	10,681	2,730,000	928,395	7,328	1,950,000

Collateral security held is by way of registered mortgage over real property.
Impairment is considered for all financial assets held at amortised cost. Impairment of a loan is recognised when there is reasonable doubt that not all of the principal and interest can be collected in accordance with the terms of the loan agreement. Impairment is assessed by specific identification in relation to individual loans.

Loans and advances have been disaggregated in the following categories:

- Residential loans;
- Commercial loans;
- Personal loans; and
- Loans that exceed 10% of capital (large exposures).

Historical information has been considered when assessing impairment of receivables. The Company has a very low history of bad debts. The following forward looking considerations have been made:

- Interest rates are declining;
- The housing market in FNQ is considered stable; and
- There are no indications that economic conditions are changing significantly.

Given the low history of bad debts and no significant events expected through review of forward looking information, the amount of expected credit losses based on historical default is considered appropriate.

Loans and advances are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Company determines that the borrower does not have the assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. 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 previously been recognised, write-offs for bad debts are recognised as expenses through profit or loss.

Notes to the Financial Statements
for the year ended 30 June 2019

8 LOANS AND ADVANCES (CONTINUED)

(b) Credit quality – security held against loans

Collateral

Cairns Penny holds collateral in respect of loans which it is permitted to sell or repledge in the absence of default by the borrower/owner. The fair value of such collateral at 30 June 2019 was $133,243,380 (2018: $134,332,337). For this purpose, fair value is based upon the most recent valuations of collateral available to Cairns Penny as it is impracticable to obtain valuations in respect of all such collateral at year-end.

At reporting date none of this collateral had been sold or repledged (2018: nil).

	2019 $	2018 $
Overdrafts		
Secured by mortgage over real estate and/or cash	2,078,663	1,699,246
Unsecured	21,945	29,059
	2,100,608	1,728,305
Term loans		
Secured by mortgage over real estate	60,373,331	57,347,885
Secured by cash	6,325	8,235
Unsecured	215,301	251,854
	60,594,957	57,607,974

(c) Concentration of loans

	2019 $	2018 $
Loans to individual or related groups of members which exceed 10% of capital	2,235,355	3,469,003
Loans by customer type were:		
Households	59,668,097	56,376,363
Commercial	3,027,468	2,959,916
	62,695,565	59,336,279

9 DEPOSITS

	2019 $	2018 $
Fixed deposits	55,538,697	56,667,759
Savings accounts	39,390,135	37,985,631
	94,928,832	94,653,390
Maturity analysis		
At call	39,390,135	37,985,631
Not longer than 3 months	18,307,418	24,933,380
Longer than 3 months and not longer than 1 year	28,296,198	25,447,169
Longer than 1 year and not longer than 5 years	8,935,081	6,287,210
	94,928,832	94,653,390

All deposits are denominated in Australian Dollars and have been made by individuals predominantly residing or entities operating in the North Queensland region.

Notes to the Financial Statements for the year ended 30 June 2019

	2019 $	2018 $
10 OTHER FINANCIAL LIABILITIES		
Redeemable preference shares, issued and fully paid		
Balance at 1 July	5,187	5,228
2,600 shares issued during the year (2018: 1,890)	260	189
1,290 shares redeemed during the year (2018: 2,300)	(129)	(230)
Balance at 30 June	5,318	5,187

Holders of shares are entitled to receive dividends as recommended by the Board and approved at a general meeting from time to time and are entitled to one vote per shareholder at meetings of the Company. All shares rank equally with regard to the Company's residual assets. Shares are not transferable, transmissible or capable of devolution by will or by operation of law and can be cancelled at the option of the shareholder or the Company in the circumstances in which the member ceases to be a member under clause 10 of the Company's constitution.

11 RESERVES

(a) Member share redemption reserve

In accordance with Practice Note 68, the Company has complied with Section 254K of the *Corporations Act 2001* via the creation of a member share redemption reserve. At the conclusion of each financial year the Company establishes the number of members that ceased to be members during the financial year and transfers the equivalent monetary amount to a member share redemption reserve from retained earnings.

(b) General reserve for credit losses

The general reserve for credit losses contains an additional allowance for bad debts, net of applicable income tax, above the provision for impairment (refer Note 8). The reserve provides a buffer against potential credit losses which are intrinsic to the overall business of the Company.

12 CONTINGENT LIABILITIES

(a) Guarantees

	2019 $	2018 $
The Company has provided guarantees on behalf of some of its members, and has a right of indemnity against any amount claimed which would create a loan secured by first mortgage or cash.	432,290	545,715

(b) Credit Union Financial Support System

On 1 January 2012 the Company became a member of the Credit Union Financial Support System ("CUFSS"). The purpose of CUFSS is to protect the interest of participating CUFSS members and to promote financial sector stability.

As a member of CUFSS, the Company may be required to advance funds of up to 3.0% of total assets to another CUFSS member requiring financial support.

The Company has not been called upon to make any such advances as at the date of these financial statements.

Notes to the Financial Statements for the year ended 30 June 2019

		2019 $	2018 $
13	**COMMITMENTS**		
(a)	**Loan commitments**		
	The following commitments to extend credit existed at balance date:		
	Loans approved but not yet drawn	3,094,280	2,673,900
	Undrawn overdrafts and credit facilities	2,006,662	1,928,464
	Balances available for redraw	6,634,432	6,739,848
		11,735,374	11,342,212
(b)	**Operating lease commitments**		
	Future operating lease rentals contracted but not provided for and payable:		
	Not later than 1 year	85,318	82,036
	Later than 1 year but not later than 5 years	181,010	266,328
	Later than 5 years	-	-
		266,328	348,364
14	**NOTES TO THE STATEMENT OF CASH FLOWS**		
	Reconciliation of cash flows from operating activities		
	Profit for the year	343,834	349,814
	Adjustments for:		
	Loss on disposal of assets	1,075	140
	Depreciation and amortisation	58,653	71,136
	Income tax expense	130,850	155,341
	Operating profit before changes in working capital and provisions	534,412	576,431
	Increase/(decrease) in interest payable	90,400	(93,964)
	(Increase)/decrease in interest receivable	(5,341)	31,416
	Increase/(decrease) in other payables	(1,038)	56,193
	(Increase)/decrease in prepayments and other assets	(949)	1,588
	(Increase)/decrease in loans and advances	(3,358,370)	(2,593,741)
	Increase/(decrease) in deposits	275,442	(20,045,522)
	Increase/(decrease) in other financial liabilities	131	(41)
	Increase/(decrease) in employee benefits	14,130	1,537
		(2,451,183)	(22,066,103)
	Income taxes paid	(132,582)	(200,613)
	Net cash from operating activities	(2,583,765)	(22,266,716)

15 RELATED PARTIES

(a) Key management personnel compensation

The key management personnel (including directors) compensation included in employee benefits expense and general administrative expenses is as follows:

	2019	2018
Short-term employee benefits	213,080	212,028
Post-employment benefits	15,269	14,749
	228,349	226,777

Notes to the Financial Statements
for the year ended 30 June 2019

15 RELATED PARTIES (CONTINUED)

(b) Loans to key management personnel and other related parties

Details regarding the aggregate of loans made, guaranteed or secured by the Company to key management personnel and their related parties at any point during the year are as follows:

	2019 $	2018 $
Loans to key management personnel	25,746	21,146
Loans to other related parties	1,629,858	2,637,352
	1,655,604	2,658,498

Details of loans made in accordance with the Company's normal terms and conditions to key management personnel and other related parties are as follows:

	2019 $	2018 $
Aggregate amount of loans at 1 July	2,658,498	1,739,935
Aggregate amount of loans advanced during the year	350,000	1,013,310
Aggregate amount of redraws during the year	95,500	17,880
Aggregate amount of repayments received during the year	(373,352)	(194,511)
Aggregate amount of loans no longer Related Parties	(1,116,436)	-
Aggregate amount of interest income and account keeping fees received and included in the determination of profit during the year	41,394	81,884
Aggregate amount of loans at 30 June	1,655,604	2,658,498

The policy for transactions with directors and key management personnel is that all loans are approved and deposits accepted on the same terms and conditions which apply to members.

There are no benefits or concessional terms and conditions applicable to the close family members of the key management personnel (2018: nil).

There are no loans which are impaired in relation to the loan balances with close family relatives of directors and key management personnel (2018: nil).

There are no service contracts to which key management personnel or their close family members are an interested party (2018: nil).

(c) Overdrafts to other related parties

Details of overdrafts made in accordance with the Company's normal terms and conditions to other related parties are as follows:

	2019 $	2018 $
Aggregate amount of overdraft facility at 30 June	100,000	200,000
Aggregate amount of overdraft facilities used at 30 June	26,734	74,925
This amount forms part of overdrafts (Note 8)		
Aggregate amount of interest income received and included in the determination of operating profit during the year	1,394	6,073

Notes to the Financial Statements for the year ended 30 June 2019

15 RELATED PARTIES (CONTINUED)

(d) Other transactions with key management personnel and other related parties

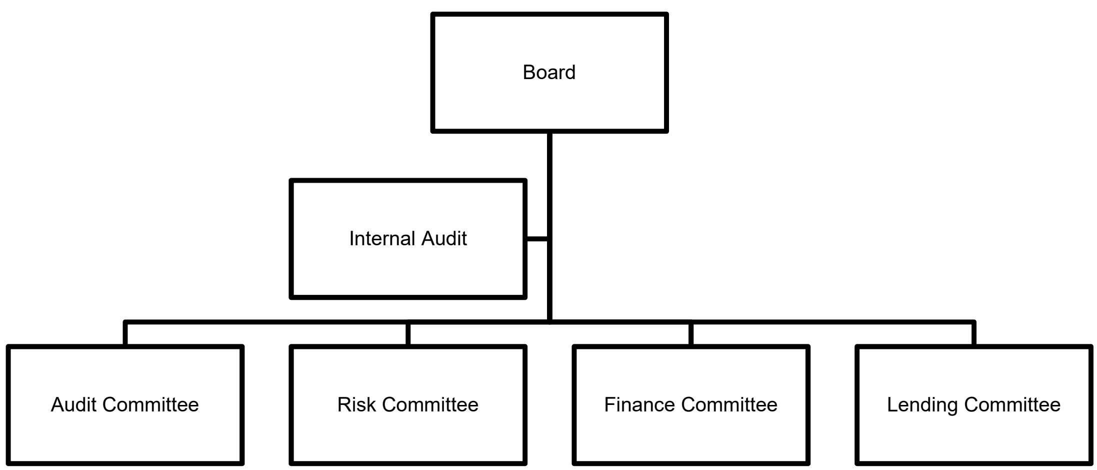
The Company has accepted deposits from key management personnel and other related parties arranged in the normal course of the Company's business and in accordance with the Company's normal terms and conditions.

Ms Maunsell is a partner in BDO (Nth Qld) which has provided accounting services to Cairns Penny for a number of years. She is not directly involved in the provision of these services. The amount paid to BDO (Nth Qld) during the year totalled $12,900 (2018: $13,400). These services are on the same terms and conditions as those entered into by the Company with other similar providers.

16 FINANCIAL INSTRUMENTS

(a) Introduction

The Board has endorsed a policy of compliance and risk management which intends to suit the risk profile of Cairns Penny. Cairns Penny's risk management focuses on the major areas of market risk, liquidity risk, credit risk and operational risk. Authority flows from the Board of Directors to the Audit, Risk, Finance and Lending Committees which are integral to the management of risk.



Board: This is the primary governing body. It approves the level of risk which Cairns Penny is exposed to and the framework for reporting and mitigating those risks.

Internal Audit: Internal audit has responsibility for implementing the controls testing and assessment as required by the Audit Committee.

Audit Committee: The Audit Committee aims to provide an objective non-executive review of the effectiveness of the Company's financial reporting and risk management framework. Specific responsibilities include:

- Reviewing the integrity of the Company's financial reporting.
- Overseeing the independence of the external auditors.
- Ensuring that there is a suitable internal audit function and that it is adequately resourced.
- Overseeing the Australian Prudential Regulation Authority ("APRA") statutory reporting requirements, as well as other financial reporting requirements.
- Providing, through regular meetings, a forum for communication between the Board, senior financial management staff involved in internal control procedures and the external auditors.

Notes to the Financial Statements
for the year ended 30 June 2019

16 FINANCIAL INSTRUMENTS (CONTINUED)

(a) Introduction (continued)

Risk Committee: The Risk Committee aims to provide an objective non-executive oversight of the implementation and operation of Cairns Penny's risk management framework. Specific responsibilities include:

- Advise the Board on current and future risk appetite and risk management strategy.
- Oversight of senior management's implementation of the risk management strategy.
- Review and recommend changes to all company risk policies.
- Evaluate the appropriateness of alternative Credit Risk Officer arrangements and consider the appointment of a Credit Risk Officer.

Finance Committee: The Finance Committee aims to provide a readily accessible executive to act quickly in response to financial issues, which may arise from time to time. Specific responsibilities include:

- Implementation of liquidity management strategies.
- Analysis of the market risk.
- Assessment of the market environment – looking at economic indicators and market views as to the forecast of future interest rate trends and likely future market conditions.
- Monitoring market trends in interest rates and continually reviewing competitiveness in this area.
- Reviewing capital requirements.

Lending Committee: The Lending Committee aims to provide expertise in the credit approval and related processes. Specific responsibilities include:

- Review of loans in arrears and remedial action taken.
- Review of bad debt recoveries.
- Reviewing and recommending changes to the lending policies and procedures.

(b) Risk management

Cairns Penny has undertaken the following strategies to minimise the risks arising from financial instruments.

Market risk

The objective of the Company's market risk management is to manage and control market risk exposures in order to optimise risk and return.

Market risk is the risk that changes in interest rates or other prices and volatilities will have an adverse effect on Cairns Penny's financial condition or results. The Company is not exposed to currency risk or other significant price risk. Cairns Penny does not trade in the financial instruments it holds on its books. It is exposed only to interest rate risk arising from changes in market interest rates.

Cairns Penny does not have a treasury operation and does not trade in financial instruments.

Interest rate risk

Interest rate risk is the risk of variability of the fair value of future cash flows arising from financial instruments due to changes in interest rates.

Cairns Penny's policy to manage the risk is to maintain a balanced 'on book' strategy by ensuring the net interest rate gaps between assets and liabilities are not excessive. The gap is measured monthly to identify large exposures to the interest rate movements and to rectify the excess through targeted fixed rate interest products available through investment assets, and term deposit liabilities to maintain the imbalance to within acceptable levels. Cairns Penny's exposure to interest rate risk is set out later in Note 16(b), which details the contractual interest change profile.

Notes to the Financial Statements
for the year ended 30 June 2019

16 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Risk management (continued)

Based on interest rate sensitivity calculations the theoretical net profit impact of a 1% increase/(decrease) assuming all other things remain equal would be:

Change 1%	Increase	Decrease
2019	$339,983	($339,983)
2018	$229,278	($229,278)

There has been no change to Cairns Penny's exposure to market risk or the way it manages and measures market risk in the reporting period.

Liquidity risk

Liquidity risk for a financial institution is that it may encounter difficulties raising funds to meet commitments associated with financial instruments, e.g. borrowing repayments or member withdrawal demands. It is the policy of the Board that Cairns Penny maintains adequate cash reserves and committed credit facilities so as to meet the member withdrawal demands when requested.

Cairns Penny is required to maintain at least 9% (2018: 9%) of total adjusted liabilities as liquid assets capable of being converted to cash within 2 business days under the APRA prudential standards. Cairns Penny's policy is to apply 15% (2018: 15%) of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. Should the liquidity ratio fall below this level management and the Board are to address the matter and ensure that the liquid funds are obtained from new deposits, or alternative facilities available.

The maturity profile of the financial liabilities, based on the contractual repayment terms is set out in Note 9.

Credit risk

Credit risk is the risk that members, financial institutions and other counterparties will be unable to meet their obligations to the financial institution which may result in financial losses. Credit risk arises principally from the loan book and investment assets.

Credit risk – loans

The analysis of Cairns Penny's loans by class, is as follows

Loans to	2019 Carrying value $	2019 Off balance sheet $	2019 Max exposure $	2018 Carrying value $	2018 Off balance sheet $	2018 Max exposure $
Households	59,066,978	10,404,746	69,471,724	56,376,363	9,932,519	66,308,882
Commercial	3,628,587	1,330,628	4,959,215	2,959,916	1,409,693	4,369,609
	62,695,565	11,735,374	74,430,939	59,336,279	11,342,212	70,678,491

Carrying value is the value on the Statement of Financial Position (Balance Sheet). Maximum exposure is the value on the Balance Sheet plus the undrawn facilities (loans approved not advanced; redraw facilities; line of credit facilities; overdraft facilities). The details are shown in Note 13(a).

All loans and facilities are within Australia. The geographic distribution is primarily in North Queensland. The distribution is not further analysed into significant areas within Australia as the exposure classes are not considered material. Concentrations by customer type and individual or related groups of members are described in Note 8(c).

The method of managing credit risk is by way of strict adherence to the credit assessment policies before the loan is approved and close monitoring of defaults in the repayment of loans thereafter on a monthly basis. The credit policy has been endorsed by the Board to ensure that loans are only made to members that are creditworthy (capable of meeting loan repayments).

16 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Risk management (continued)

Past due and impaired

A financial asset is past due when the counterparty has failed to make a payment when contractually due.

The estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognised in profit or loss. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral.

Loans and advances are segregated into portfolios based on the characteristics of the lending agreement. A provision for impairment is established using the expected credit loss model.

Provisions for impairment are maintained at a level that is consistent with the requirements of APRA.

The provision for impairment of loans and advances is based on the carrying value of loans which are past due by 90 days or more. Details are as set out in Note 8.

A summary of past due loans is set out in Note 8(a).

There has been no material movement between stages 1, 2 and 3 during the reporting period. The majority of gross carrying amount balance is in stage 1 and the ECL allowance is for loans in stage 1.

Bad debts

Amounts are written off when collection of the loan or advance is considered to be remote. All write-offs are on a case-by-case basis, taking account of the exposure at the date of the write-off.

On secured loans, the write-off takes place on ultimate realisation of collateral value, or from claims on any lenders mortgage insurance.

Collateral securing loans

Cairns Penny's loan book is primarily secured by cash or real estate, mainly residential property in Australia. Therefore, Cairns Penny is exposed to risks in the reduction in the Loan to Value (LVR) cover should the property market be subject to a decline.

The risk of losses from the loans undertaken is primarily reduced by the nature and quality of the security taken.

It is the policy of Cairns Penny to lend only up to 70% of the value of a commercial property and 80% of the value of a residential property. Loans in excess of 80% of the value of residential property may be considered, generally provided mortgage insurance from an acceptable insurer is obtained. The value of property used as security is generally determined by an independent registered valuer. Note 8(b) describes the nature and extent of the security held against the loans held at balance date.

Notes to the Financial Statements
for the year ended 30 June 2019

16 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Risk management (continued)

Concentration risk – individuals

Concentration risk is a measurement of a financial institution's exposure to an individual counterparty (or group of related parties). If prudential limits are exceeded as a proportion of the financial institution's regulatory capital (10%) a large exposure is considered to exist. No capital is required to be held against these but APRA must be informed. APRA may impose additional capital requirements if it considers the aggregate exposure to all loans over the 10% capital benchmark to be higher than acceptable.

The aggregate value of large exposure loans is set out in Note 8(c). Concentration exposures to counterparties are closely monitored.

Concentration risk – industry

There is no concentration of credit risk with respect to loans and receivables as Cairns Penny has a large number of customers dispersed in various areas of employment. This has not changed from the prior year.

Credit risk – liquid investments

Credit risk is the risk that the other party to a financial instrument will fail to discharge its obligation resulting in the financial institution incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the financial institution.

When investing funds with other financial institutions Cairns Penny applies the following:

- Cairns Penny will only deposit funds to a maximum of 100% (200% with the four major Australian banks) of its capital base with Australian Approved Deposit taking Institutions which have a short term credit rating grade of 2 or higher. Short term relates to terms of up to, and including 12 months.
- Cairns Penny will only deposit funds on a long term basis to a maximum of 100% of its capital base with Australian Approved Deposit taking Institutions which have a minimum long term credit grade rating of 2 or higher. Approval from the Finance Committee will be required for terms in excess of 12 months. Cairns Penny will not deposit funds with any financial institution for a term in excess of 24 months.
- Cairns Penny will only invest in securities eligible for repurchase transactions with the Reserve Bank of Australia where the issuer has an investment grade rating of 2 or higher. Approval of the Finance Committee is required for such investments. The maximum term to expiry on these investments must not exceed 5 years from the date of investment.
- Cairns Penny will only deposit funds on a short term basis with other Australian Approved Deposit-Taking Institutions to a maximum of 20% of its capital base.

External credit assessment for institution investments

Cairns Penny 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 guidance AGN 112. The exposure values associated with each credit quality step are as follows:	**2019** **$**	**2018** **$**
Banks – credit rating grade 1	14,501,370	14,341,493
Banks – credit rating grade 2	14,638,831	19,428,847
Banks – credit rating grade 3	-	-
Unrated	12,879,361	10,877,182
Total	42,019,562	44,647,522

Notes to the Financial Statements
for the year ended 30 June 2019

16 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Risk management (continued)

Operational risk

Operational risk is the risk of loss resulting from deficiencies in processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks. Operational risks relate mainly to those risks arising from a number of sources including legal compliance, business continuity, data infrastructure, outsourced services failures, fraud, and employee errors.

Cairns Penny's objective is to manage operational risk so as to balance the avoidance of financial losses through the implementation of controls, whilst avoiding procedures which inhibit innovation and creativity. These risks are managed through the implementation of policies and systems to monitor the likelihood of the events and minimise the impact. Systems of internal control are enhanced through:
- the segregation of duties between employee duties and functions, including approval and processing;
- documentation of the policies and procedures, employee job descriptions and responsibilities to reduce the incidence of errors and inappropriate behaviour;
- implementation of whistle blowing policies to promote a compliant culture and awareness of the duty to report exceptions by staff;
- education of members to review their account statements and report exceptions promptly;
- effective dispute resolution procedures to respond to member complaints;
- effective insurance arrangements to reduce the impact of losses; and
- contingency plans for dealing with the loss of functionality of systems, premises or staff.

Capital management

The capital levels are prescribed by APRA. Under the APRA prudential standards, capital is determined in three components:
- Credit risk
- Market risk (trading book)
- Operations risk.

The market risk component is not required as Cairns Penny is not engaged in a trading book for financial instruments.

Capital resources

Tier 1 capital

Cairns Penny's Tier 1 capital comprises Common Equity Tier 1 capital only, specifically:
- Retained earnings
- Member share redemption reserve.

In accordance with prudential standards, the value of intangible assets and deferred tax assets are deducted in determining the Common Equity Tier 1 capital.

Tier 2 capital

Tier 2 capital consists of the general reserve for credit losses which exhibit some of the loss absorption and funding flexibility features of equity. There are a number of criteria that capital instruments must meet for inclusion in Tier 2 capital resources as set down by APRA.

Notes to the Financial Statements
for the year ended 30 June 2019

16 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Risk management (continued)

Capital management (continued)

Capital in Cairns Penny is made up as follows:

	2019 $	2018 $
Tier 1		
Member share redemption reserve	6,244	6,115
Retained earnings	9,485,511	9,141,806
	9,491,755	9,147,921
Less prescribed deductions	(211,869)	(231,672)
Common Equity Tier 1 capital	9,279,886	8,916,249
Additional Tier 1 capital	-	-
Tier 1 capital	9,279,886	8,916,249
Tier 2		
Reserve for credit losses	300,000	300,000
Less prescribed deductions	-	-
Net Tier 2 capital	300,000	300,000
Total capital	9,579,886	9,216,249

Cairns Penny has set its own target minimum capital level at 15% (2018: 15%) as compared to the risk weighted assets at any given time.

The risk weights attached to each asset are based on the weights prescribed by APRA Prudential Standard APS 112. The general rules apply the risk weights according to the level of underlying security. The below summary will not reconcile back to total assets as a number of balance sheet reclassifications are required under the risk weighting methodology.

	2019		2018	
	Carrying value $	Risk weighted value $	Carrying value $	Risk weighted value $
Cash	64,194	-	65,948	-
Claims on Authorised Deposit-taking Institutions	42,353,307	14,871,553	44,975,926	16,709,367
Claims secured against eligible mortgages	61,221,704	21,879,589	57,552,071	20,345,036
Past due claims	717	717	1,786	1,786
All other claims	1,487,939	1,487,939	1,795,791	1,795,791
Fixed assets	104,818	104,818	91,233	91,233
All other assets not specified elsewhere	191,706	191,706	248,098	248,098
	105,424,385	38,536,322	104,730,853	39,191,311

The capital adequacy ratio as at the end of the financial year is as follows:

	2019	2018
Capital adequacy ratio	20.15%	19.14%

The level of capital adequacy ratio can be affected by growth in assets relative to growth in reserves and by changes in the mix of assets.

To manage the Company's capital, Cairns Penny reviews the ratio monthly and monitors major movements in the asset levels. Policies have been implemented to require reporting to the Board and APRA if the capital ratio falls below 15% (2018: 15%). Further, a capital budget projection of the capital levels is maintained annually to address how strategic decisions or trends may impact on the capital level.

Notes to the Financial Statements for the year ended 30 June 2019

16 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Risk management (continued)

Capital management (continued)

Capital on operational risk

This capital component was introduced on 1 January 2009 and coincided with changes in the asset risk weightings for specified loans and liquid investments. Previously no operational charge was prescribed.

Cairns Penny uses the standardised approach to operational risk, as set out in APRA's Prudential Standard APS114, which is considered to be most suitable for its business given the small number of distinct transaction streams. The operational risk capital requirement is calculated by mapping the three year average net interest income and net non-interest income to the various business lines.

Based on this approach, the operational risk requirement is as follows:

	2019 $	2018 $
Operational risk capital	527,299	535,252

Interest rate risk

The Company is exposed to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates. The effective interest rates ("EIR") at balance date and the periods in which they reprice for classes of income-bearing financial assets and interest-bearing financial liabilities are set out below:

2019	EIR %	0 to 3 months $	3 to 6 months $	6 to 12 months $	1 to 2 years $	More than 2 years $	Total $
Financial assets							
Cash and cash equivalents	1.07%	8,321,599	-	-	-	-	8,321,599
Receivables due from other financial institutions*	2.56%	19,773,955	8,555,579	5,766,367	-	-	34,095,901
Loans and advances**	4.20%	26,269,388	4,445,100	10,498,853	20,486,436	1,010,583	62,710,360
		54,364,942	13,000,679	16,265,220	20,486,436	1,010,583	105,127,860
Financial liabilities							
Deposits	1.78%	57,697,553	14,655,424	13,640,774	6,188,496	2,746,585	94,928,832
2018							
Financial assets							
Cash and cash equivalents	1.24%	12,661,296	-	-	-	-	12,661,296
Receivables due from other financial institutions*	2.68%	19,285,142	9,048,638	4,046,898	-	-	32,380,678
Loans and advances**	4.42%	24,892,536	4,957,889	10,859,646	16,361,715	2,277,862	59,349,648
		56,838,974	14,006,527	14,906,544	16,361,715	2,277,862	104,391,622
Financial liabilities							
Deposits	1.80%	56,646,392	13,234,904	13,907,567	6,773,878	4,090,649	94,653,390

*Includes interest income accrued

**Loans and advances are disclosed gross of the provision for impairment losses and deferred loan fees.

Fair value of financial assets and liabilities

The carrying value of the Company's financial assets and liabilities approximates their fair value.

Notes to the Financial Statements for the year ended 30 June 2019

	2019 $	2018 $
17 AUDITORS' REMUNERATION		
Audit services		
Audit of the financial report	45,700	44,800
Other regulatory audit services	16,800	15,100
	62,500	59,900
Other services		
Review of quarterly APRA returns	3,200	3,200
	3,200	3,200

18 SUBSEQUENT EVENTS

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

Directors' Declaration

In the opinion of the directors of Cairns Penny Savings & Loans Limited ("the Company"):

(a) the financial statements and notes, set out on pages 8 to 32, are in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the financial position of the Company as at 30 June 2019 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date; and

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

(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.

The directors draw attention to Note 2(a) to the financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Michael Wenzel	Margaret Maunsell
Director	*Director*

Cairns
10 September 2019

Auditor’s independence declaration

Cairns Corporate Tower
15 Lake Street
Cairns QLD 4870

Correspondence to:
PO Box 7200
Cairns QLD 4870

T +61 7 4046 8888
F +61 7 4051 0116
E info.cairns@au.gt.com
W www.grantthornton.com.au

Auditor’s independence declaration to the directors of Cairns Penny Savings & Loans Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of Cairns Penny Savings & Loans Limited for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

a No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b No contraventions of any applicable code of professional conduct in relation to the audit.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

G J Coonan
Partner – Audit & Assurance

Cairns, 10 September 2019

Independent auditor's report

Cairns Corporate Tower
15 Lake Street
Cairns QLD 4870

Correspondence to:
PO Box 7200
Cairns QLD 4870

T +61 7 4046 8888
F +61 7 4051 0116
E info.cairns@au.gt.com
W www.grantthornton.com.au

Independent auditor's report
to the members of Cairns Penny Savings & Loans Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Cairns Penny Savings & Loans Limited (the "Company"), which comprises the statement of financial position as at 30 June 2019, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Company is in accordance with the *Corporations Act 2001*, including:

a giving a true and fair view of the Company's financial position as at 30 June 2019 and of its performance for the year ended on that date; and

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

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2019, 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, 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*. The Directors' responsibility also includes 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 have 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 at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

Grant Thornton Audit Pty Ltd
Chartered Accountants

G J Coonan
Partner – Audit & Assurance

Cairns, 10 September 2019