Cairns Penny

refreshing banking

Established 1899

119th

ANNUAL REPORT

2017-2018

Chairman's Report

It is with great pride that I inform you that Cairns Penny has recorded another positive year with continued strengthening of our balance sheet and strong results for the year ending 30 June 2018.

The Banking Royal Commission has been a major event for the finance industry over the past year and has already produced positive results, even though final recommendations from its investigation are yet to be announced. The enquiry has highlighted numerous unhealthy, unfair or unethical banking practices, and resulted in regulation changes to end these poor practices.

I am pleased to report Cairns Penny has not had to make any changes to our practices in response to the Royal Commission as we continue to be guided by ethical values and practices, and consistently work to benefit our members. However, the regulation changes have increased the level of reporting required by all financial institutions, including Cairns Penny.

Other regulation changes include caps on investment lending and interest only loans. These caps are clearly designed to create a soft landing for the property bubble which has developed in the southern cities, particularly Sydney and Melbourne. While these measures appear to have been effective in controlling lending behaviour in those cities, they have also produced unintended consequences for regional cities like Cairns which do not suffer the same systemic issues. Cairns Penny is working with finance regulators to ensure our customers continue to receive our full level of quality services.

At the end of this financial year we farewelled Angela Capitano who retired from the Board after 23 years of service! I'd like to thank Angela for her terrific work with us. At the same time, I'd like to welcome Nadine Edwards, another prominent local real estate agent, to the Cairns Penny Board after being unanimously elected by the Directors to fill the casual vacancy.

The Board has taken the opportunity to review the Constitution of Cairns Penny to ensure that it remains relevant and current to our customers. Changes have been proposed to align Cairns Penny operations with some current market practices and increase clarification in these areas. The changes will be considered and voted on by members at the October 2018 Annual General Meeting.

Cairns Penny operates with a clear strategic direction that distinguishes it from most other financial institutions. Our conservative financial values are the solid foundations on which we have built trust and value in our community and customers. It appears this may now be the new path for the entire finance industry thanks to the Banking Royal Commission.

Cairns Penny looks forward to continuing our positive standing in the finance industry and local community over the coming year for the benefit of its customers and all Cairns residents.

Jeff Quilty | Chairman

General Manager's Report

Cairns Penny recorded another solid result in the 2018 year. The after-tax result of $349,814 (2017: $403,137), while lower than the previous year, remains strong and consistent with our ambitions and long-term plans. The ever- present challenge of increasing costs had some impact on the result. Part of these increases is attributable to those costs which are difficult to control including size-based compliance fees and volume-based transaction fees. The remainder relate to implementation of strategic decisions including an increase in employee benefits aligned with the decision to increase staff numbers and continued investment in technology upgrades. Operations and the result were also affected by a planned reduction in total assets arising from the rationalisation of large deposit concentrations and a reduction in the percentage interest rate margin over the year as we continue to strive for the right balance between depositor and borrower needs.

Good lending growth has again been achieved, no mean feat in a market that is intensely competitive generally based on headline rates and incentives to attract new borrowers at the expense of existing borrowers. Cairns Penny remains committed to putting our existing customers first and has maintained a standard variable lending rate for all customers at a level that is highly competitive.

In keeping with our mission to provide excellent customer service we have employed another person in our lending team, increasing our ability to provide personal services to lending customers. Other staff changes during the year have seen some new faces at Cairns Penny and we welcome Tina, Tara and Angie to the team.

Following on from the major upgrade of the banking computer systems commenced last year we have continued to invest heavily in technology during the year. While much of this remains in progress we look forward to achieving some efficiencies within our business processes which will enable us to continue to focus and provide outstanding personal, face to face services. Given the rate of technology changes in the industry at present we expect that our required investment in this area will continue to be high over the coming years; one of the more complex challenges we have faced.

The launch of our Bank of Mum and Dad product has been well received and reflects the benefits of being the local financial institution with the ability to develop real and practical solutions to the issues that people in our community are facing.

My report would not be complete without expressing my heartfelt thanks to the team at Cairns Penny. I am constantly amazed at the ability of these people to deal with change and challenges in good spirits and with smiles on their faces.

Peter Phillips | General Manager

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 2018 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 J R Quilty	Chair
Mr M M McGuigan	Deputy Chair
Ms M J Maunsell	Secretary and Public Officer
Ms N Edwards	Appointed 19 June 2018
Mrs A Capitanio	Retired 19 June 2018
Mr M J Wenzel	
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 $349,814 (2017: $403,137).

Review of operations

The operations and result were affected by a reduction in the interest rate margins over the year and a planned reduction in total assets arising from the rationalisation of large deposit concentrations.

Interest income decreased by $363,195 due to reduced receivable balances, while interest expense decreased by $386,744 due to reduced deposits. Overall there was an increase in net interest income of $23,549.

Operating expenses increased by $86,449, which is reflective of an increase in employee benefits expense of $57,064, an increase in depreciation and amortisation expense of $13,585 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 2018.

Directors' Report (Continued)

Information on Directors

Jeff Quilty (Chair)

Jeff joined the Board in May 2001 and was appointed as Chair in 2016. 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.

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.

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, 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.

Angela Capitanio

Angela retired from the Board on 19 June 2018 having served as a director since 1995 – over 23 years. Angela brought extensive local knowledge to the board particularly derived from her experience as the owner of one of Cairns' leading real estate offices, Ray White Cairns Central. Angela has been the recipient of numerous awards and accolades over recent years including the Cairns Business Woman of the Year and Queensland Real Estate Salesperson of the Year.

Michael Wenzel

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 and provides advisory services from his own firm. Michael worked in the audit and advisory division of KPMG in Cairns for over 13 years as 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 branch of a well-respected charity, FNQ Cerebral Palsy Support Group.

Simon Coolican

Simon joined the Board in February 2016. He has a number of years' experience in banking and has worked across regional Queensland. Simon arrived in Cairns in 2000 and has owned a number of different businesses, currently operating his own business in Cairns and Darwin. He works part-time as a Tribunal Member for the Queensland Civil and Administrative Tribunal, volunteers as a director of the Cairns Catholic Education Foundation Limited and is Chairman of St Joseph's school board in Cairns.

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 26 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 JR Quilty	11	11	12	12			4	4	4	4	0	0	4	4
Mr M McGuigan	11	9			2	2	4	4	4	4			4	4
Mrs M Maunsell	11	9							4	4	0	0	4	4
Ms N Edwards	0	0												
Ms A Capitanio	11	9	12	10	2	2					0	0		
Mr M Wenzel	11	9			2	2	4	4	4	4			4	4
Mr S Coolican	11	11	12	12			4	4						
Mr B Tooth	11	11							4	2			4	3

The May 2018 Board meeting was replaced by Strategic Planning Meeting held on 16 May 2018.

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 33 and forms part of this directors' report for the year ended 30 June 2018.

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

Jeff Quilty
Director

Margaret Maunsell
Director

Cairns
18 September 2018

Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2018

	Note	2018 $	2017 $
Interest income	4	3,857,056	4,220,251
Interest expense	4	(1,971,239)	(2,357,983)
Net interest income		1,885,817	1,862,268
Fee income		154,827	156,459
Sundry income		9,762	4,206
		2,050,406	2,022,933
Employee benefits expense		(692,938)	(635,874)
Depreciation and amortisation expense		(71,136)	(57,551)
Administrative expenses		(304,772)	(324,201)
Banking related costs		(165,387)	(147,425)
Information technology costs		(214,533)	(198,536)
Financial expenses		(2,262)	(3,139)
Occupancy expenses		(94,223)	(92,076)
Profit before income tax		505,155	564,131
Income tax expense	5(a)	(155,341)	(160,994)
Profit for the year		349,814	403,137
Other comprehensive income		-	-
Total comprehensive income		349,814	403,137

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 2018

	Retained earnings $	Member share redemption reserve $	General reserve for credit losses $	Total $
Balance at 1 July 2016	8,389,344	5,628	300,000	8,694,972
Total comprehensive income for the year				
Profit for the year	403,137	-	-	403,137
Total comprehensive income for the year	403,137	-	-	403,137
Transactions with owners in their capacity as owners				
Transfers to/from reserves				
- member share redemption reserve	(257)	257	-	-
Balance at 30 June 2017	8,792,224	5,885	300,000	9,098,109
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

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

Statement of Financial Position as at 30 June 2018

	Note	2018 $	2017 $
ASSETS			
Cash and cash equivalents	6	12,661,296	13,670,981
Receivables due from other financial institutions	7	32,052,174	53,393,476
Loans and advances	8	59,330,779	56,737,038
Deferred tax assets		59,869	50,018
Plant and equipment		34,690	24,958
Intangible assets		228,271	225,006
Interest income accrued		328,404	359,820
Other investments		165,660	165,660
Other		23,961	24,608
Total assets		104,885,104	124,651,565
LIABILITIES			
Deposits	9	94,653,390	114,698,912
Payables		198,789	141,652
Interest expense accrued		461,878	555,843
Income tax payable		27,225	62,646
Employee benefits		90,712	89,175
Other financial liabilities	10	5,187	5,228
Total liabilities		95,437,181	115,553,456
Net assets		9,447,923	9,098,109
EQUITY			
Reserves	11	306,115	305,885
Retained earnings		9,141,808	8,792,224
Total equity		9,447,923	9,098,109

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 2018

	Note	2018 $	2017 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		3,888,471	4,161,543
Interest paid		(2,065,203)	(2,297,355)
Fees and other income received		164,694	155,393
Payments to suppliers and employees		(1,414,657)	(1,421,563)
		573,305	598,018
(Increase)/decrease in operating assets:			
Net increase in customer loans advanced		(2,593,845)	(1,336,203)
Increase/(decrease) in operating liabilities:			
Net (decrease)/increase in deposits		(20,045,522)	20,121,637
Net decrease in other financial liabilities		(41)	(101)
Net cash from operating activities before income tax		(22,066,103)	19,383,351
Income tax paid		(200,613)	(175,003)
Net cash from/(used in) operating activities	14	(22,266,716)	19,208,348
CASH FLOWS FROM INVESTING ACTIVITIES			
Net decrease/(increase) in receivables due from other financial institutions		21,341,302	(14,002,179)
Acquisition of plant and equipment		(19,794)	(1,669)
Acquisition of intangible assets		(64,477)	(180,436)
Net cash from/(used in) investing activities		21,257,031	(14,184,284)
Net (decrease)/increase in cash and cash equivalents		(1,009,685)	5,024,064
Cash and cash equivalents at 1 July		13,670,981	8,646,917
Cash and cash equivalents at 30 June	6	12,661,296	13,670,981

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 2018

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 18 September 2018.

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 2017. None of the amendments have had a significant impact on the Company nor are they expected to materially affect future periods.

(e) New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 July 2017, and have not been applied in preparing these financial statements. The following new standards may have an impact on the Company’s financial statements. The Company has performed a preliminary assessment, the results of which are included below.

The Company does not plan to adopt these standards early.

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. The standard will become effective for annual periods beginning 1 July 2018.

The Company’s investments are for the primary purpose of obtaining the contract cash flow (and are not for the purpose of trading). It is expected that the investments will be eligible to be measured at amortised cost in which case there will be no change from the current method of accounting.

AASB 15 Revenue from Contracts with Customers

AASB 15 replaces AASB 111 *Construction Contracts*, AASB 118 *Revenue* and AASB 1004 *Contributions.* The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The standard will become effective for annual periods beginning 1 January 2018.

The application of this standard may apply to loan application fees, however any impact is expected to be immaterial.

2 BASIS OF PREPARATION (CONTINUED)

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.

A right of use asset and corresponding liability will need to be accounted for in terms of current operating leases held by the Company. The impact is not expected to be material.

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

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Identification and measurement of impairment (excluding loans and advances)

At each reporting date the Company assesses whether financial assets are impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more loss events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost 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.

Individually significant financial assets are tested for impairment on an individual basis.

All impairment losses are recognised in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 2018

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.

	2018 $	2017 $
Interest income		
Cash and cash equivalents	144,337	136,308
Receivables due from other financial institutions	1,120,974	1,495,474
Loans and advances	2,591,745	2,588,469
	3,857,056	4,220,251
Interest expense		
Deposits	(1,971,239)	(2,357,983)
Net interest income	1,885,817	1,862,268

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

	2018 $	2017 $
Current tax expense		
Current year	150,072	153,215
Underprovided prior years	15,121	(285)
Sub-total	165,193	152,930
Deferred tax expense		
Origination and reversal of temporary differences	(9,852)	3,224
Change in tax rate	-	4,840
	(9,852)	8,064
Total income tax expense	155,341	160,994

		2018	2017
(a)	**Income tax expense (continued)**	**$**	**$**
	Numerical reconciliation between tax expense and pre-tax net profit		
	Profit before tax	505,155	564,131
	Income tax using the Company tax rate of 27.5% (2017: 27.5%)	138,918	155,136
	Increase in income tax expense due to:		
	Non-deductible expenses	1,302	1,303
	Income tax expense on pre-tax net profit	140,220	156,439
	Under/(over) provided in prior years	15,121	(285)
	Change in tax rate	-	4,840
	Income tax expense on pre-tax net profit	155,341	160,994
(b)	**Dividend franking amount**		
	27.5% franking credits available to members of the Company for subsequent financial years	3,010,638	2,810,024

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.

	2018	2017
Cash on hand	65,948	76,375
Cash at bank	12,320,167	13,350,998
At call deposits	275,181	243,608
	12,661,296	13,670,981

Notes to the Financial Statements
for the year ended 30 June 2018

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.

	2018 $	2017 $
Fixed deposits	22,123,327	38,474,326
Floating rate notes	6,005,088	7,012,863
Negotiable certificates of deposits	3,923,759	7,906,287
	32,052,174	53,393,476
Maturity analysis		
Not longer than 3 months	14,584,639	26,531,476
Longer than 3 months and not longer than 1 year	12,465,406	19,849,137
Longer than 1 year	5,002,129	7,012,863
	32,052,174	53,393,476

All fixed deposits and negotiable certificates of deposit are denominated in Australian Dollars and held with Australian financial institutions.

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 initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method and after assessing provisions for impairment losses.

Overdrafts	1,728,305	2,011,086
Term loans	57,607,974	54,731,452
Gross loans and advances	59,336,279	56,742,538
Specific provision for impairment	(5,500)	(5,500)
Net loans and advances	59,330,779	56,737,038

Notes to the Financial Statements for the year ended 30 June 2018

	2018	2017
	$	$
8 LOANS AND ADVANCES (CONTINUED)		
Contractual maturity analysis		
Overdrafts, at call	1,728,305	2,011,086
No longer than 3 months	568,108	549,949
Longer than 3 months and not longer than 1 year	1,728,853	1,595,519
Longer than 1 year and not longer than 5 years	9,424,430	8,609,187
Longer than 5 years	45,886,583	43,976,797
	59,336,279	56,742,538

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

	2018 Carrying value	2018 Past due	2018 Collateral held	2017 Carrying value	2017 Past due	2017 Collateral held
	$	$	$	$	$	$
< 30 days	348,964	1,689	1,000,000	1,253,192	3,145	2,120,000
30 to 90 days	577,645	4,655	950,000	247,367	3,132	885,000
90 to 180 days	-	-	-	285,403	6,876	420,000
180 to 270 days	1,786	984	-	-	-	-
270 to 365 days	-	-	-	-	-	-
>365 days	-	-	-	-	-	-
	928,395	7,328	1,950,000	1,785,962	13,153	3,425,000

Collateral security held is by way of registered mortgage over real property.

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.

All loans and advances are reviewed and graded according to the anticipated level of credit risk in accordance with the Company's credit quality policy as follows:

- "Non-accrual loans" are loans and advances which are 90 days past due and where the recovery of all interest and principal is considered to be reasonably doubtful, and hence impairment losses are recognised.
- "Restructured loans" arise when the borrower is granted a concession due to continuing difficulties in meeting the original terms, and the revised terms are not comparable to new facilities. Loans with revised terms are included in non-accrual loans when impairment losses are recognised.
- "Assets acquired through the enforcement of security" are assets acquired in full or partial settlement of a loan or similar facility through the enforcement of security arrangements.
- "Impaired" loans are loans where the counterparty has failed to make a payment when contractually due and that failure has continued for a period exceeding 90 days.

At 30 June 2018 no loans were classified as non-accrual, restructured or assets acquired through the enforcement of security (2017: nil).

Bad debts are written off when identified. If a provision for impairment has been recognised in relation to a loan, write-offs for bad debts are made against the provision. If no provision for impairment has 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 2018

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 2018 was $134,332,337 (2017: $129,666,137). 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 (2017: nil).

	2018 $	2017 $
Overdrafts		
Secured by mortgage over real estate and/or cash	1,699,246	1,972,333
Unsecured	29,059	38,753
	1,728,305	2,011,086
Term loans		
Secured by mortgage over real estate	57,347,885	54,505,802
Secured by cash	8,235	27,112
Unsecured	251,854	198,538
	57,607,974	54,731,452

(c) Concentration of loans

	2018 $	2017 $
(i) Loans to individual or related groups of members which exceed 10% of capital	3,469,003	3,509,884
(ii) Loans by customer type were:		
Households	56,376,363	53,522,359
Commercial	2,959,916	3,220,179
	59,336,279	56,742,538

9 DEPOSITS

	2018 $	2017 $
Fixed deposits	56,667,759	79,037,689
Savings accounts	37,985,631	35,661,223
	94,653,390	114,698,912
Maturity analysis		
At call	37,985,631	35,661,223
Not longer than 3 months	24,933,380	51,360,002
Longer than 3 months and not longer than 1 year	25,447,169	23,644,853
Longer than 1 year and not longer than 5 years	6,287,210	4,032,834
	94,653,390	114,698,912

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 2018

10 OTHER FINANCIAL LIABILITIES

	2018 $	2017 $
Redeemable preference shares, issued and fully paid		
Balance at 1 July	5,228	5,329
1,890 shares issued during the year (2017: 1,560)	189	156
2,300 shares redeemed during the year (2017: 2,570)	(230)	(257)
Balance at 30 June	5,187	5,228

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 profits.

(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

	2018 $	2017 $
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.	545,715	502,288

(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 members 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 2018

		2018 $	2017 $
13	**COMMITMENTS**		
(a)	**Loan commitments**		
	The following commitments to extend credit existed at balance date:		
	Loans approved but not yet drawn	2,673,900	2,613,482
	Undrawn overdrafts and credit facilities	1,928,464	1,540,591
	Balances available for redraw	6,739,848	6,026,693
		11,342,212	10,180,766
(b)	**Operating lease commitments**		
	Future operating lease rentals contracted but not provided for and payable:		
	Not later than 1 year	82,036	78,475
	Later than 1 year but not later than 5 years	266,328	350,026
	Later than 5 years	-	-
		348,364	428,501
14	**NOTES TO THE STATEMENT OF CASH FLOWS**		
	Reconciliation of cash flows from operating activities		
	Profit for the year	349,814	403,137
	Adjustments for:		
	Loss on disposal of assets	140	-
	Depreciation and amortisation	71,136	57,551
	Income tax expense	155,341	160,994
	Operating profit before changes in working capital and provisions	576,431	621,682
	Increase/(decrease) in interest payable	(93,964)	60,628
	(Increase)/decrease in interest receivable	31,416	(58,708)
	Increase/(decrease) in other payables	56,193	(23,627)
	(Increase)/decrease in prepayments and other assets	1,588	(3,082)
	(Increase)/decrease in loans and advances	(2,593,741)	(1,341,475)
	Increase/(decrease) in deposits	(20,045,522)	20,121,637
	Increase/(decrease) in other financial liabilities	(41)	(101)
	Increase/(decrease) in employee benefits	1,537	6,397
		(22,066,103)	19,383,351
	Income taxes paid	(200,613)	(175,003)
	Net cash from operating activities	(22,266,716)	19,208,348

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:

	2018 $	2017 $
Short-term employee benefits	212,028	198,261
Post-employment benefits	14,749	14,320
	226,777	212,581

Notes to the Financial Statements for the year ended 30 June 2018

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:

	2018 $	2017 $
Loans to key management personnel	21,146	51,452
Loans to other related parties	2,637,352	1,688,483
	2,658,498	1,739,935

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:

	2018 $	2017 $
Aggregate amount of loans at 1 July	1,739,935	2,610,018
Aggregate amount of loans advanced during the year	1,013,310	55,000
Aggregate amount of redraws during the year	17,880	11,500
Aggregate amount of repayments received during the year	(194,511)	(1,014,867)
Aggregate amount of interest income and account keeping fees received and included in the determination of profit during the year	81,884	78,284
Aggregate amount of loans at 30 June	2,658,498	1,739,935

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 (2017: nil).

There are no loans which are impaired in relation to the loan balances with close family relatives of directors and key management personnel (2017: nil).

There are no service contracts to which key management personnel or their close family members are an interested party (2017: 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:

	2018 $	2017 $
Aggregate amount of overdraft facility at 30 June	200,000	265,000
Aggregate amount of overdraft facilities used at 30 June	74,925	154,866
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	6,073	9,848

Notes to the Financial Statements for the year ended 30 June 2018

15 RELATED PARTIES (CONTINUED)

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

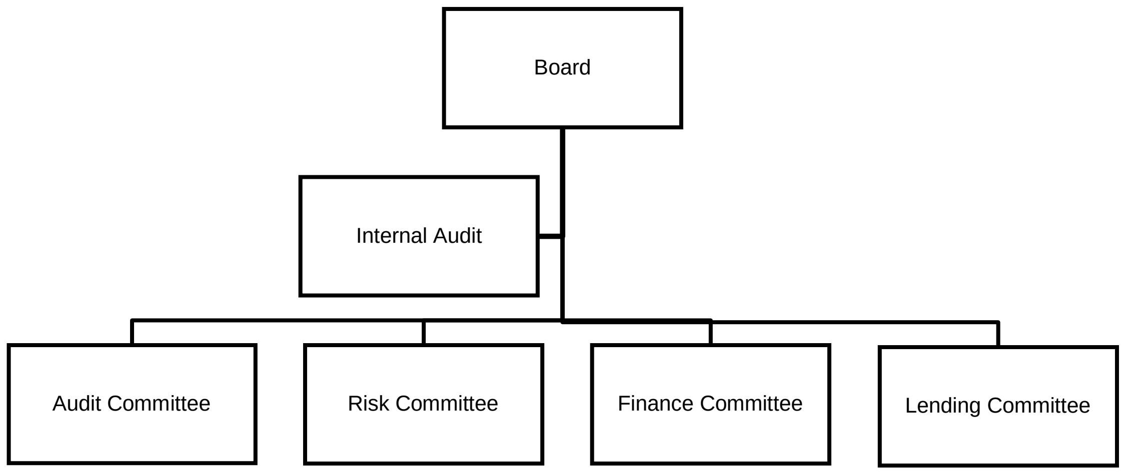
The Company has accepted deposits from key management personnel and other related parties arranged in the normal course of the Company's business and in accordance with the Company's normal terms and conditions.

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 $13,400 (2017: $12,840). 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 2018

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 in Note 16(g), which details the contractual interest change profile.

Notes to the Financial Statements
for the year ended 30 June 2018

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
2018	$229,278	($229,278)
2017	$256,259	($256,259)

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% (2017: 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% (2017: 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	2018 Carrying value $	2018 Off balance sheet $	2018 Max exposure $	2017 Carrying value $	2017 Off balance sheet $	2017 Max exposure $
Households	56,376,363	9,932,519	66,308,882	53,522,359	9,293,132	62,815,490
Commercial	2,959,916	1,409,693	4,369,609	3,220,179	887,634	4,107,814
	59,336,279	11,342,212	70,678,491	56,742,538	10,180,766	66,923,304

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).

Notes to the Financial Statements for the year ended 30 June 2018

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.

A provision for incurred losses is established on all past due loans after a specified period of repayment default where it is probable that some of the capital will not be repaid or recovered. Specific loans and portfolios of assets are provided against depending on a number of factors including changes in a counterparty's industry and technological developments, as well as identified structural weaknesses or deterioration in cash flows.

Provisions for impairment are maintained at a level that management deems sufficient to absorb probable incurred losses in the Company's loan portfolio from homogenous portfolios of assets and individually identified loans.

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 but not impaired loans is set out in Note 8(a).

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.

A reconciliation in the movement in the provision for impairment is provided in Note 8.

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 2018

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:

a. 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.
b. 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.
c. 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.
d. 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:	**2018** **$**	**2017** **$**
Banks – credit rating grade 1	14,341,493	18,372,325
Banks – credit rating grade 2	19,428,847	31,967,163
Banks – credit rating grade 3	-	1,951,986
Unrated	10,877,182	14,696,608
Total	44,647,522	66,988,082

Investments with Banks – credit rating 3 were purchased in December 2016 at which time the credit rate grading was 2. In May 2017 Standard and Poor downgraded the counterparty. The investment matured in November 2017.

Notes to the Financial Statements
for the year ended 30 June 2018

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 2018

16 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Risk Management (continued)

Capital management (continued)

Capital in Cairns Penny is made up as follows:

	2018 $	2017 $
Tier 1		
Member share redemption reserve	6,115	5,885
Retained earnings	9,141,806	8,792,224
	9,147,921	8,798,109
Less prescribed deductions	(231,672)	(264,066)
Common Equity Tier 1 capital	8,916,249	8,534,043
Additional Tier 1 capital	-	-
Tier 1 capital	8,916,249	8,534,043
Tier 2		
Reserve for credit losses	300,000	300,000
Less prescribed deductions	-	-
Net Tier 2 capital	300,000	300,000
Total capital	9,216,249	8,834,043

Cairns Penny has set its own target minimum capital level at 15% (2017: 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.

	2018		2017	
	Carrying value $	Risk weighted value $	Carrying value $	Risk weighted value $
Cash	65,948	-	76,375	-
Claims on Authorised Deposit-taking Institutions	44,975,926	16,709,367	67,347,903	20,099,622
Claims secured against eligible mortgages	57,552,071	20,345,036	54,731,266	19,435,341
Past due claims	1,786	1,786	285,429	285,429
All other claims	1,795,791	1,795,791	1,739,133	1,739,133
Fixed assets	91,233	91,233	35,914	35,914
All other assets not specified elsewhere	248,098	248,098	279,415	279,415
	104,730,853	39,191,311	124,495,435	41,874,854

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

	2018	2017
Capital adequacy ratio	22.54%	17.58%

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% (2017: 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 2018

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:

	2018 $	2017 $
Operational risk capital	535,252	499,599

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:

2018	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	1.24%	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
2017							
Financial assets							
Cash and cash equivalents	1.20%	13,670,981	-	-	-	-	13,670,981
Receivables due from other financial institutions*	2.59%	40,258,048	9,443,700	4,051,548	-	-	53,753,296
Loans and advances**	4.49%	27,626,449	2,812,633	6,761,890	14,130,364	5,424,446	56,755,782
		81,555,478	12,256,333	10,813,438	14,130,364	5,424,446	124,180,059
Financial liabilities							
Deposits	2.20%	87,021,225	12,344,364	11,300,489	706,440	3,326,394	114,698,912

*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 2018

		2018	2017
		$	$
17	**AUDITORS' REMUNERATION**		
	Audit services		
	Audit of the financial report	44,800	43,900
	Other regulatory audit services	15,100	15,356
		59,900	59,256
	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 31, 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 2018 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:

Jeff Quilty
Director

Margaret Maunsell
Director

Cairns
18 September 2018

Auditor's independence declaration

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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 2018, 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, 18 September 2018

Independent auditor's report

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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 2018, 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 2018 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 2018, 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, 18 September 2018

Cairns Penny
refreshing banking

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ABN 68 087 933 757

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