Cairns Bank

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ANNUAL REPORT

2019-2020

Joint letter from the Chairman and the General Manager

Dear Members

It is with great pleasure that we present this reflection on the 2020 financial year.

Board changes

In March 2020, Michael McGuigan retired from the Board having served since 2005. As a true local, Michael brought a unique insight on our community along with his professional and business skills as a solicitor.

Following Michael's departure, the directors unanimously elected Ben Tooth to the position of Deputy Chair.

In April, the Board appointed local solicitor Melissa Nielsen to fill the casual vacancy created by Michael McGuigan's resignation. Sadly, Melissa was diagnosed with a rare form of cancer shortly after her appointment and, following a short battle with the illness, passed away in June 2020. Recently, local solicitor Rowan Wilson was appointed by the Board to fill the casual vacancy.

Reflecting on the last financial year

Cairns Bank achieved a strong result with total assets growing from $106 million to $125 million and a solid after tax surplus of $335,309. Once again, we achieved loan growth in excess of 5% despite the challenges presented to the local economy.

There were two significant impacts on our activities last year, our new brand Cairns Bank and the COVID-19 pandemic.

The new brand Cairns Bank was officially commenced in January 2020 along with the launch of our new website. The website was purpose built for Cairns Bank with a view to being more user friendly as well as adapting to use on mobile devices – tablets and smart phones- which has given it an App like appeal. While the associated marketing launch of the brand was frustrated to a large extent by the restrictions created by the pandemic, we saw an immediate increase in lending and customer activity following the launch which has contributed to the results achieved. The only outstanding brand-related change is the reissue of our Visa debit cards which will commence later in 2020. This change was deliberately planned to coincide with a time when we were required to replace all cards to comply with new technology requirements.

COVID-19 has impacted the Cairns economy and brought about changes to all aspects of living and day-to-day life in the region. Throughout the entire time, including in March/April when workplace restrictions were in full swing, our staff continued to bring their best to work, even at those times when they were working from home. It was a foreign (and difficult) experience to be encouraging customers not to see us for a while, yet staff managed to find ways to continue the high level of personal service. Alternative arrangements were made for our customers who are in the high risk group or just felt uncomfortable coming into the branch as they normally would.

We are grateful that the health impact to date in our region has been relatively mild. However, the economic impact is strong and continuing. It is times like these that our conservative approach of putting security above profit becomes most valuable, enabling us to provide the support and security that our customers need in uncertain times.

Planning for the future

Clearly, we will continue to be affected by COVID-19 related developments and the impact on our region. There are also positive aspects to this, particularly from a technology perspective. Cairns Bank continues to invest in maintaining and upgrading its IT platform to ensure a seamless, quality service to its members. Several developments are also occurring within the industry that will have an impact on our competitiveness and ability to bring our unique approach to banking to more people. Rest assured, this will not take away our personal approach or our commitment to existing customers to provide simple, straightforward, and secure services, personally.

One of the significant lessons so far from COVID-19 is the importance of community. There has never been a more important time to look local and support local. Cairns Bank has always sought to source goods and services locally first and has stepped this up over the past six months. We thank you for choosing Cairns Bank and supporting local.

Yours sincerely

Michael Wenzel
Chairman

Peter Phillips
General Manager

Cairns

8 September 2020

Directors' Report

Your directors present their report together with the financial report of Cairns Penny Savings & Loans Limited trading as Cairns Bank ("Cairns Bank" or "the Company") for the financial year ended 30 June 2020 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 B D Tooth	Deputy Chair
Ms M J Maunsell	Secretary and Public Officer
Ms N Edwards	
Mr S M Coolican	
Mr G Brooks	Commenced 28 October 2019
Mrs M A Nielsen	Commenced 21 April 2020, Ceased 10 June 2020
Mr M M McGuigan	Ceased 17 March 2020
Ms R Wilson	Commenced 2 September 2020

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 Bank after providing for income tax amounted to $335,309 (2019: $343,834).

Review of operations

Interest income decreased by $266,082 due to lower interest rates, while interest expense decreased by $360,377 also due to lower interest rates. Overall, there was an increase in net interest income of $94,295.

Operating expenses increased by $241,222. The provision for impairment increased by $30,076 to recognise the potential increase in credit losses arising from the economic impact of COVID-19. Other significant increases in expenditure related to website, marketing, depreciation and office fit out and software write offs.

AASB 16 *Leases* had a significant impact on the current period. The current profit before income tax expense was reduced by $34,189. This included an increased depreciation and amortisation expense of $79,803 and increased finance costs of $34,516, offset by a reduction in other expenses (reclassification of lease expenses) of $78,348. As at 30 June 2020, net assets were reduced by $35,972 (attributable to right-of-use assets, lease liabilities and deferred tax assets).

The impact of the Coronavirus (COVID-19) pandemic is ongoing. It is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

Directors' Report (Continued)

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 Bank 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 Bank, the results of those operations, or the state of affairs of Cairns Bank in subsequent financial years.

Likely developments

Other than as noted above the directors do not anticipate any developments of an abnormal or extraordinary nature in the operations of Cairns Bank and are unable to forecast the expected results of those operations in financial years subsequent to the financial year ended 30 June 2020.

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.

Ben Tooth (Deputy Chair)

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 board of North Queensland Primary Healthcare Network. Ben is a strong advocate for Cairns and its continued growth as a thriving, regional economy.

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.

Michael McGuigan (Previous Deputy Chair, retired 17 March 2020)

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. Michael retired from the Board on 17 March 2020.

Directors' Report (Continued)

Information on directors (continued)

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.

George Brooks

George brings experience drawn from commercial, residential and wealth management leadership roles with a number of major banks at regional and state level. Cairns born and educated, George spent many years with major banks before choosing to set up his own business in the finance industry as well as working in the real estate sector.

Melissa Nielsen

Melissa Nielsen was appointed to the Board commencing 21 April 2020. Melissa brought a wealth of legal and community experience to the Board of Cairns Bank. Melissa passed away in June 2020.

Rowan Wilson

Rowan Wilson was appointed to the Board with responsibilities commencing 2 September 2020. Rowan is a partner in the local firm Miller Harris Lawyers with experience in banking and finance , construction, property and insurance.

Meetings of directors

During the financial year, 11 Board meetings and 28 committee meetings were held. Attendances at these meetings were:

	Board		Audit		Finance		Fit & Proper		Lending		Nominations		Risk		Remuneration	
	A	B	A	B	A	B	A	A	B	A	A	B	A	B	A	B
Mr M Wenzel	11	9	4	4	5	5	1	1	-	-	1	1	4	4	1	1
Mr B Tooth	11	9	4	4	-	-	-	-	11	8	2	2	4	4	-	-
Mrs M Maunsell	11	9	4	4	-	-	-	-	-	-	-	-	4	4	1	1
Mr M McGuigan	10	8	3	3	3	2	1	1	-	-	2	2	3	3	1	1
Ms N Edwards	11	11	-	-	-	-	1	1	11	11	2	2	-	-	-	-
Mr S Coolican	11	9	-	-	5	5	-	-	8	8	-	-	-	-	-	-
Mr G Brooks	8	8	-	-	5	3	-	-	8	8	-	-	-	-	-	-
Mrs M Nielsen	2	1	1	-	-	-	-	-	-	-	-	-	1	-	-	-

Directors' Report (Continued)

Information on directors (continued)

The June 2020 Board and Lending meetings were replaced by Strategic Planning Meeting on 16 June 2020.

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 Bank has not, during or since the financial year, in respect of any person who is, or has been, an officer or auditor of Cairns Bank 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 matter.

During or since the financial year Cairns Bank 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 Bank, other than conduct involving a wilful breach of duty in relation to Cairns Bank. The total amount of the premium covering all directors was $10,485.

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.

Auditor's independence declaration

The lead auditor's independence declaration (made under section 307C of the *Corporations Act 2001*) is set out on page 40 and forms part of this directors' report for the year ended 30 June 2020.

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

Michael Wenzel	Margaret Maunsell
Director	*Director*

Cairns

8 September 2020

Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2020

	Note	2020 $	2019 $
Interest income	4	3,341,864	3,607,946
Interest expense	4	(1,395,758)	(1,756,135)
Net interest income		1,946,106	1,851,811
Fee income		170,872	162,020
Sundry income		109,426	23,858
		2,226,404	2,037,689
Employee benefits expense		(735,883)	(710,092)
Depreciation and amortisation expense		(159,958)	(58,653)
Administrative expenses		(421,921)	(299,647)
Banking related costs		(191,301)	(171,266)
Information technology costs		(233,248)	(225,229)
Financial expenses		(35,694)	(1,794)
Occupancy expenses		(26,222)	(96,324)
Profit before income tax		422,177	474,684
Income tax expense	5(a)	(86,868)	(130,850)
Profit for the year		335,309	343,834
Other comprehensive income		-	-
Total comprehensive income		335,309	343,834

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 2020

	Retained earnings $	Member share redemption reserve $	General reserve for credit losses $	Total $
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
Balance at 1 July 2019	9,485,513	6,244	300,000	9,791,757
Total comprehensive income for the year				
Profit for the year	335,309	-	-	335,309
Total comprehensive income for the year	335,309	-	-	335,309
Transactions with owners in their capacity as owners				
Transfers to/from reserves				
- member share redemption reserve	(169)	169	-	-
Balance at 30 June 2020	9,820,653	6,413	300,000	10,127,066

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

Statement of Financial Position
as at 30 June 2020

	Note	2020 $	2019 $
ASSETS			
Cash and cash equivalents	6	17,006,938	8,321,599
Receivables due from other financial institutions	7	40,794,962	33,762,157
Loans and advances	8	65,951,208	62,689,149
Deferred tax assets		92,507	67,505
Plant and equipment		151,180	28,471
Right-of-use asset	9	791,383	-
Intangible assets		202,089	220,710
Interest income accrued		197,671	333,745
Other investments		165,660	165,660
Other		39,731	26,010
Total assets		125,393,329	105,615,006
LIABILITIES			
Deposits	10	111,816,865	94,928,832
Borrowings	11	1,902,483	-
Payables		149,390	198,847
Interest expense accrued		424,149	552,278
Income tax payable		-	33,129
Employee benefits		119,821	104,845
Other financial liabilities	12	5,346	5,318
Lease liabilities	9	799,795	-
Provisions		48,414	-
Total liabilities		115,266,263	95,823,249
Net assets		10,127,066	9,791,757
EQUITY			
Reserves	13	306,413	306,244
Retained earnings		9,820,653	9,485,513
Total equity		10,127,066	9,791,757

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 2020

	Note	2020 $	2019 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		3,477,939	3,602,604
Interest paid		(1,556,622)	(1,665,735)
Fees and other income received		283,884	187,304
Payments to suppliers and employees		(1,566,883)	(1,490,217)
		638,318	633,956
(Increase)/decrease in operating assets:			
Net (increase) in customer loans advanced		(3,295,720)	(3,360,712)
Increase/(decrease) in operating liabilities:			
Net (decrease)/increase in deposits		16,888,033	275,442
Net (decrease)/increase in other financial liabilities		28	131
Net cash from operating activities before income tax		14,230,659	(2,451,183)
Income tax paid		(145,665)	(132,582)
Net cash from/(used in) operating activities	16	14,084,994	(2,583,765)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net decrease/(increase) in receivables due from other financial institutions		(7,032,806)	(1,709,984)
Proceeds from borrowings – Term Funding Facility		1,902,483	-
Repayment of borrowings – lease liability		(45,614)	-
Acquisition of plant and equipment		(153,952)	(8,428)
Acquisition of intangible assets		(69,766)	(37,520)
Net cash from/(used in) investing activities		(5,399,655)	(1,755,932)
Net increase/(decrease) in cash and cash equivalents		8,685,339	(4,339,697)
Cash and cash equivalents at 1 July		8,321,599	12,661,296
Cash and cash equivalents at 30 June	6	17,006,938	8,321,599

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 2020

1 REPORTING ENTITY

Cairns Penny Savings & Loans Limited trading as Cairns Bank ("Cairns Bank" 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 2019. The impact of these is included below.

AASB 16 Leases

The Company has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 *Leases* and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating expenses) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments is separately disclosed in financing activities.

Notes to the Financial Statements for the year ended 30 June 2020

2 BASIS OF PREPARATION (CONTINUED)

(d) New standards and interpretations (continued)

AASB 16 Leases (continued)

Impact of adoption

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated.

The following adjustments were recorded on adoption of AASB 16:

	$
Right of use asset	871,187
Reversal of lease incentive	20,853
Lease liability	(845,408)
Make good provision	(46,632)
Impact to retained earnings	-

The following is a reconciliation of total operating lease commitments at 30 June 2019 (as disclosed in the financial statement to 30 June) to the lease liabilities recognised at 1 July 2019:

	$
Total operating lease commitments disclosed at 30 June 2019	266,328
Discounted using incremental borrowing rate	(212,299)
Reasonably certain extensions	791,379
Total lease liabilities recognised under AASB16 at 1 July 2019	845,408

(e) New standards and interpretations not yet adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Company for the annual reporting period ended 30 June 2020. The Company's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Company, is set out below.

Conceptual Framework for Financial Reporting (Conceptual Framework)

The revised Conceptual Framework is applicable to annual reporting periods beginning on or after 1 July 2021 and early adoption is permitted. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards. Where the Company has relied on the existing framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under the Australian Accounting Standards, the Company may need to review such policies under the revised framework. At this time, the application of the Conceptual Framework is not expected to have a material impact on the financial statements.

Notes to the Financial Statements for the year ended 30 June 2020

3 SIGNIFICANT ACCOUNTING POLICIES

Other than the adoption of new accounting standard AASB *Leases* as discussed in Note 2(d), 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 expire.

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.

The Company has determined that all of its financial assets except for other investments fall within the amortised cost category.

Fair value through profit or loss measurement – Financial assets

All financial assets not classified as measured at amortised cost as described above are measured at fair value through profit or loss. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

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.

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.

Notes to the Financial Statements for the year ended 30 June 2020

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Financial assets and liabilities (continued)

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 2020

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.

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.

(b) 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.

(c) 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.

Notes to the Financial Statements for the year ended 30 June 2020

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.

	2020 $	2019 $
Interest income		
Cash and cash equivalents	93,417	92,879
Receivables due from other financial institutions	664,444	929,809
Loans and advances	2,584,003	2,585,258
	3,341,864	3,607,946
Interest expense		
Deposits	(1,395,758)	(1,756,135)
Net interest income	1,946,106	1,851,811

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

Current tax expense		
Current year	115,932	140,493
Overprovided prior years	(3,309)	(2,007)
Sub-total	112,623	138,486
Deferred tax expense		
Origination and reversal of temporary differences	(25,755)	(7,636)
Total income tax expense	86,868	130,850

Notes to the Financial Statements for the year ended 30 June 2020

5 INCOME TAX (CONTINUED)

	2020 $	2019 $
Numerical reconciliation between tax expense and pre-tax net profit		
Profit before tax	422,177	474,684
Income tax using the Company tax rate of 27.5% (2019: 27.5%)	116,099	130,537
Increase (decrease)in income tax expense due to:		
Non-deductible expenses	1,578	2,320
Non-assessable income	(27,500)	-
Income tax expense on pre-tax net profit	90,177	132,857
Under/(over) provided in prior years	(3,309)	(2,007)
Income tax expense on pre-tax net profit	86,868	130,850

(b) Dividend franking amount

	2020	2019
27.5% franking credits available to members of the Company for subsequent financial years	3,295,348	3,145,380

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	105,598	64,194
Cash at bank	16,695,192	7,980,044
At call deposits	206,148	277,361
	17,006,938	8,321,599

Notes to the Financial Statements for the year ended 30 June 2020

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.

	2020 $	2019 $
Fixed deposits	32,326,168	24,323,327
Floating rate notes	4,500,000	6,000,089
Negotiable certificates of deposits	3,968,794	3,438,741
	40,794,962	33,762,157
Maturity analysis		
Not longer than 3 months	30,800,688	16,591,377
Longer than 3 months and not longer than 1 year	5,994,274	12,670,780
Longer than 1 year	4,000,000	4,500,000
	40,794,962	33,762,157

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.

Overdrafts	1,721,444	2,100,608
Term loans	64,266,256	60,594,957
Gross loans and advances	65,987,700	62,695,565
Provision for impairment – expected credit losses	(36,492)	(6,416)
Net loans and advances	65,951,208	62,689,149

Notes to the Financial Statements for the year ended 30 June 2020

8 LOANS AND ADVANCES (CONTINUED)

Contractual maturity analysis		
Overdrafts, at call	1,721,444	2,100,608
Not longer than 3 months	736,285	657,897
Longer than 3 months and not longer than 1 year	2,089,421	1,973,168
Longer than 1 year and not longer than 5 years	11,255,504	10,546,673
Longer than 5 years	50,185,046	47,417,219
	65,987,700	62,695,565

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

(a) Past due but not impaired loans

	2020 Carrying value	2020 Past due	2020 Collateral held	2019 Carrying value	2019 Past due	2019 Collateral held
	$	$	$	$	$	$
< 30 days	590,632	3,233	1,065,000	656,010	3,363	1,945,000
30 to 90 days	1,002,766	12,564	2,485,000	546,454	6,601	785,000
90 to 180 days	-	-	-	-	-	-
180 to 270 days	-	-	-	-	-	-
270 to 365 days	-	-	-	717	717	-
>365 days	92	92	-	-	-	-
	1,593,490	15,889	3,550,000	1,203,181	10,681	2,730,000

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 low;
- The housing market in Far North Queensland is considered stable; and
- The impact of COVID-19.

Notes to the Financial Statements for the year ended 30 June 2020

8 LOANS AND ADVANCES (CONTINUED)

(a) Past due but not impaired loans (continued)

The Company has increased its monitoring of debt recovery as there is an increased probability of customers delaying payment or being unable to pay, due to the Coronavirus (COVID-19) pandemic. As a result, the calculation of expected credit losses has been revised as at 30 June 2020 and rates have increased in each category in consideration of the unknown outcome of COVID-19.

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.

(b) Credit quality – security held against loans

Collateral

Cairns Bank 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 2020 was $142,731,940 (2019: $133,243,380). For this purpose, fair value is based upon the most recent valuations of collateral available to Cairns Bank 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 (2019: nil).

	2020	**2019**
	$	**$**
Overdrafts		
Secured by mortgage over real estate and/or cash	1,705,595	2,078,663
Unsecured	15,849	21,945
	1,721,444	2,100,608
Term loans		
Secured by mortgage over real estate	64,084,289	60,373,331
Secured by cash	4,931	6,325
Unsecured	177,036	215,301
	64,266,256	60,594,957

Notes to the Financial Statements for the year ended 30 June 2020

8 LOANS AND ADVANCES (CONTINUED)

(c) Concentration of loans

Loans to individual or related groups of members which exceed 10% of capital	4,661,653	2,235,355
Loans by customer type were:		
Households	62,944,506	59,668,097
Commercial	3,043,194	3,027,468
	65,987,700	62,695,565

9 RIGHT–OF–USE ASSET AND LEASE LIABILITY

(a) Right-of-use asset

Recognition of asset	871,187	-
Amortisation	(79,804)	-
Balance at 30 June	791,383	-

(b) Lease liability

Recognition of liability	845,408	-
Repayment of borrowings	(45,614)	-
Balance as at 30 June	799,794	-
Current liability	50,981	-
Non-current liability	748,813	-
	799,794	-

(a) Right-of-use asset

Policy from 1 July 2019

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

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

The Company has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Notes to the Financial Statements for the year ended 30 June 2020

9 RIGHT–OF–USE ASSET AND LEASE LIABILITY (CONTINUED)

(b) Lease liabilities

Policy from 1 July 2019

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may Lease liabilities include the importance of the asset to the Company's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The Company reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

Incremental borrowing rate

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the Company's estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

Notes to the Financial Statements for the year ended 30 June 2020

10 DEPOSITS

	2020 $	2019 $
Fixed deposits	69,070,349	55,538,697
Savings accounts	42,746,516	39,390,135
	111,816,865	94,928,832
Maturity analysis		
At call	42,746,516	39,390,135
Not longer than 3 months	12,729,024	18,307,418
Longer than 3 months and not longer than 1 year	35,572,540	28,296,198
Longer than 1 year and not longer than 5 years	20,768,785	8,935,081
	111,816,865	94,928,832

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

11 BORROWINGS

The Reserve Bank of Australia (“RBA”) has established a facility offering three-year funding to authorised deposit-taking institutions (“ADIs”). The facility has two objectives:

- to reinforce the benefits to the economy of a lower cash rate, by reducing the funding costs of ADIs and in turn helping to reduce interest rates for borrowers. It will complement the reduction in funding costs from the Reserve Bank's target for three-year Australian Government bond yields; and
- to encourage ADIs to support businesses during a difficult period, ADIs will have access to additional low-cost funding if they expand their lending to businesses over the period ahead. The scheme encourages lending to all businesses, although the incentives are stronger for small and medium-sized enterprises (SMEs).

The RBA has encouraged ADIs to take advantage of the scheme to support their customers and help the economy through the COVID-19 period.

The term of the facility is three years from the date of drawing and funding is provided at a fixed interest rate of 25 basis points.

	2020 $	2019 $
Term Facility Funding	1,902,483	-
	1,902,483	-

Notes to the Financial Statements for the year ended 30 June 2020

12 OTHER FINANCIAL LIABILITIES

Redeemable preference shares, issued and fully paid

Balance at 1 July	5,318	5,187
1,970 shares issued during the year (2019: 2,600)	197	260
1,690 shares redeemed during the year (2019: 1,290)	(169)	(129)
Balance at 30 June	5,346	5,318

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.

13 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.

14 CONTINGENT LIABILITIES

(a) Guarantees

	2020 $	2019 $
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.	263,328	432,290

(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 2020

15 COMMITMENTS

(a) Loan commitments

The following commitments to extend credit existed at balance date:

Loans approved but not yet drawn	2,041,000	3,094,280
Undrawn overdrafts and credit facilities	2,408,844	2,006,662
Balances available for redraw	6,926,837	6,634,432
	11,376,681	11,735,374

(b) Operating lease commitments

Future operating lease rentals contracted but not provided for and payable:		
Not later than 1 year		85,318
Later than 1 year but not later than 5 years		181,010
Later than 5 years		-
		266,328

Refer Note 9 for recognition of right-of-use asset and lease liability under AASB 16 from 1 July 2019.

16 NOTES TO THE STATEMENT OF CASH FLOWS

	2020 $	2019 $
Reconciliation of cash flows from operating activities		
Profit for the year	335,309	343,834
Adjustments for:		
Loss on disposal of assets	39,475	1,075
Depreciation and amortisation	159,958	58,653
Income tax expense	86,868	130,850
Operating profit before changes in working capital and provisions	621,610	534,412
Increase/(decrease) in interest payable	(128,129)	90,400
(Increase)/decrease in interest receivable	136,074	(5,341)
Increase/(decrease) in other payables	(75,840)	(1,038)
(Increase)/decrease in prepayments and other assets	(12,447)	(949)
(Increase)/decrease in loans and advances	(3,262,059)	(3,358,370)
Increase/(decrease) in deposits	16,888,033	275,442
Increase/(decrease) in other financial liabilities	28	131
Increase/(decrease) in employee benefits	14,975	14,130
Increase/(decrease) in provisions	48,414	-
	14,230,659	(2,451,183)
Income taxes paid	(145,665)	(132,582)
Net cash from/(used in) operating activities	14,084,994	(2,583,765)

Notes to the Financial Statements
for the year ended 30 June 2020

17 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:

	2020 $	2019 $
Short-term employee benefits	227,880	213,080
Post-employment benefits	15,790	15,269
	243,670	228,349

(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:

Loans to key management personnel	12,900	25,746
Loans to other related parties	329,392	1,629,858
	342,292	1,655,604

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:

Aggregate amount of loans at 1 July	1,655,604	2,658,498
Aggregate amount of loans advanced during the year	-	350,000
Aggregate amount of redraws during the year	10,000	95,500
Aggregate amount of repayments received during the year	(961,892)	(373,352)
Aggregate amount of loans no longer related parties	(388,800)	(1,116,436)
Aggregate amount of interest income and account keeping fees received and included in the determination of profit during the year	27,380	41,394
Aggregate amount of loans at 30 June	342,292	1,655,604

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 (2019: nil).

There are no loans which are impaired in relation to the loan balances with close family relatives of directors and key management personnel (2019: nil).

There are no service contracts to which key management personnel or their close family members are an interested party (2019: nil).

Notes to the Financial Statements for the year ended 30 June 2020

17 RELATED PARTIES (CONTINUED)

(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:

	2020 $	**2019 $**
Aggregate amount of overdraft facility at 30 June	100,000	100,000
Aggregate amount of overdraft facilities used at 30 June	13,168	26,734
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	872	1,394

(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.

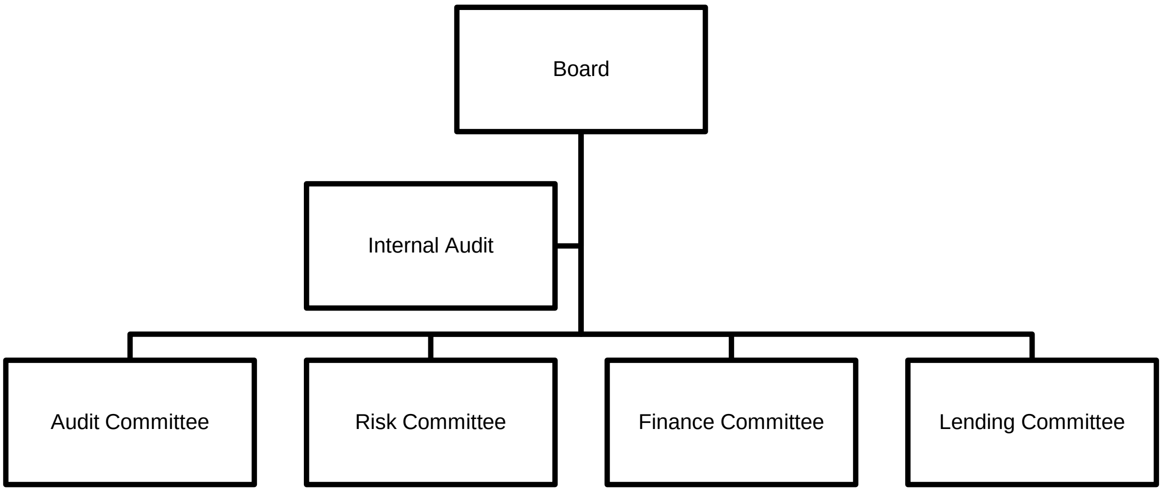
Ms Maunsell is a partner in BDO (Nth Qld) which has provided accounting services to Cairns Bank for a number of years. She is not directly involved in the provision of these services. The amount paid to BDO (Nth Qld) during the year totalled $11,500 (2019: $12,900). These services are on the same terms and conditions as those entered into by the Company with other similar providers.

Notes to the Financial Statements for the year ended 30 June 2020

18 FINANCIAL INSTRUMENTS

(a) Introduction

The Board has endorsed a policy of compliance and risk management which intends to suit the risk profile of Cairns Bank. Cairns Bank'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 Bank 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 2020

18 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 Bank'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 Bank 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 Bank's financial condition or results. The Company is not exposed to currency risk or other significant price risk. Cairns Bank 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 Bank does not have a treasury operation and does not trade in financial instruments.

Notes to the Financial Statements for the year ended 30 June 2020

18 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Risk management (continued)

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 Bank'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 Bank's exposure to interest rate risk is set out later in Note 18(b), which details the contractual interest change profile.

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
2020	$275,961	($275,961)
2019	$339,983	($339,983)

There has been no change to Cairns Bank'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 Bank maintains adequate cash reserves and committed credit facilities so as to meet the member withdrawal demands when requested.

Cairns Bank is required to maintain at least 9% (2019: 9%) of total adjusted liabilities as liquid assets capable of being converted to cash within 2 business days under the APRA prudential standards. Cairns Bank's policy is to apply 15% (2019: 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 10.

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.

Notes to the Financial Statements for the year ended 30 June 2020

18 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Risk management (continued)

Credit risk – loans

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

Loans to	2020 Carrying value $	2020 Off balance sheet $	2020 Max exposure $	2019 Carrying value $	2019 Off balance sheet $	2019 Max exposure $
Households	62,944,506	9,768,171	72,712,677	59,066,978	10,404,746	69,471,724
Commercial	3,043,194	1,608,510	4,651,704	3,628,587	1,330,628	4,959,215
	65,987,700	11,376,681	77,364,381	62,695,565	11,735,374	74,430,939

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 15(a).

All loans and facilities are within Australia. The geographic distribution is primarily in Far 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).

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.

Notes to the Financial Statements for the year ended 30 June 2020

18 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Risk management (continued)

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 Bank's loan book is primarily secured by cash or real estate, mainly residential property in Australia. Therefore, Cairns Bank 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 Bank 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.

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 Bank has a large number of customers dispersed in various areas of employment. This has not changed from the prior year.

Notes to the Financial Statements for the year ended 30 June 2020

18 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Risk management (continued)

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 Bank applies the following:

- Cairns Bank 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 Bank 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 Bank will not deposit funds with any financial institution for a term in excess of 24 months.
- Cairns Bank 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 Bank 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 Bank 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:

	2020 $	2019 $
Banks – credit rating grade 1	22,719,361	14,501,370
Banks – credit rating grade 2	28,068,794	14,638,831
Banks – credit rating grade 3	-	-
Unrated	6,908,148	12,879,361
Total	57,696,303	42,019,562

Notes to the Financial Statements for the year ended 30 June 2020

18 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 Bank'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 Bank is not engaged in a trading book for financial instruments.

Capital resources - Tier 1 capital

Cairns Bank'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.

Notes to the Financial Statements for the year ended 30 June 2020

18 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Risk management (continued)

Capital management (continued)

Capital resources - 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.

Capital in Cairns Bank is made up as follows:

	2020 $	2019 $
Tier 1		
Member share redemption reserve	6,413	6,244
Retained earnings	9,820,650	9,485,511
	9,827,063	9,491,755
Less prescribed deductions	(294,595)	(211,869)
Common Equity Tier 1 capital	9,532,468	9,279,886
Additional Tier 1 capital	-	-
Tier 1 capital	9,532,468	9,279,886
Tier 2		
Reserve for credit losses	300,000	300,000
Less prescribed deductions	-	-
Net Tier 2 capital	300,000	300,000
Total capital	9,832,468	9,579,886

Cairns Bank has set its own target minimum capital level at 15% (2019: 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.

Notes to the Financial Statements
for the year ended 30 June 2020

18 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Risk management (continued)

Capital management (continued)

	2020		2019	
	Carrying value $	Risk weighted value $	Carrying value $	Risk weighted value $
Cash	105,598	-	64,194	-
Claims on Authorised Deposit - taking Institutions	57,893,971	17,948,378	42,353,307	14,871,553
Claims secured against eligible mortgages	64,677,398	23,235,637	61,221,704	21,879,589
Past due claims	91	91	717	717
All other claims	1,328,591	1,328,591	1,487,939	1,487,939
Fixed assets	151,179	151,179	104,818	104,818
All other assets not specified elsewhere	996,771	996,771	191,706	191,706
	125,153,599	43,660,647	105,424,385	38,536,322

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

	2020	2019
Capital adequacy ratio	18.81%	20.15%

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 Bank 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% (2019: 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.

Capital on operational risk

Cairns Bank 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:

	2020 $	2019 $
Operational risk capital	523,324	527,299

Notes to the Financial Statements for the year ended 30 June 2020

18 FINANCIAL INSTRUMENTS (CONTINUED)

(b) Risk management (continued)

Capital management (continued)

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:

2020	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	0.54%	17,006,938	-	-	-	-	17,006,938
Receivables due from other financial institutions*	1.38%	33,966,994	7,025,640	-	-	-	40,992,634
Loans and advances**	3.73%	23,218,879	7,017,415	16,094,867	18,119,285	1,555,637	66,006,083
		74,192,811	14,043,055	16,094,867	18,119,285	1,555,637	124,005,655
Financial liabilities							
Deposits	1.06%	55,475,540	18,500,934	17,071,606	13,114,723	7,654,061	111,816,864
Borrowings	0.25%	-	-	-	-	1,902,483	1,902,483
Leases	4.00%	-	-	-	-	799,795	799,795
		55,475,540	18,500,934	17,071,606	13,114,723	10,356,339	114,519,142
2019							
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

*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 2020

19 AUDITORS' REMUNERATION

	2020 $	2019 $
Audit services		
Audit of the financial report	46,850	45,700
Other regulatory audit services	17,225	16,800
	64,075	62,500
Other services		
Review of quarterly APRA returns	4,000	3,200
	4,000	3,200

20 SUBSEQUENT EVENTS

The impact of the Coronavirus (COVID-19) pandemic is ongoing and it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

Directors' Declaration

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

(a) the financial statements and notes, set out on pages 7 to 38, 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 2020 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
Director

MJ Maunsell

Margaret Maunsell
Director

Cairns

8 September 2020

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 2020, 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

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

G J Coonan
Partner – Audit & Assurance

Cairns, 8 September 2020

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 2020, 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 2020 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 2020, 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

Grant Thornton Audit Pty Ltd
Chartered Accountants

G J Coonan
Partner – Audit & Assurance

Cairns, 8 September 2020