Cairns Bank

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ANNUAL REPORT

2022-2023

Joint letter from the Chairman and the General Manager

Dear Members

We are delighted to present you with Cairns Bank's 2023 annual report. This report reflects on the last financial year and provides insights into our future plans.

Reflecting on the last financial year

With ten increases to the cash target rate by the Reserve Bank of Australia, moving that rate from 0.85% to 4.10%, 2023 will be remembered as the year where interest rates rapidly returned towards historically normal levels following over two years at very low levels. These rate changes have impacted homeowners and decreased our lending activity as the volume of property purchases declined along with affordability. In keeping with our values, Cairns Bank minimised the rate increases in its loans, at times not increasing the standard variable rate when the cash rate was increasing and even decreasing that rate in May 2023 to help our customers.

The new rate environment also had a welcoming side, enabling depositors achieve better returns compared to recent years and increasing earnings on Cairns Bank's investments portfolio. This has assisted in returning profits to a pre-Covid level, with a net profit after tax $635,701 for the year ended 30 June 2023 compared to $257,907 for the year ended 30 June 2022.

Planning for the future

The economic environment in Australia and locally remain under close scrutiny with inflation rates and other indicators causing ongoing challenges and a degree of uncertainty.

We will continue to take a long-term view, providing competitive interest rates that look after our existing customers first and supporting Cairns locals to buy and fully own their home before retirement.

Cairns Bank is embarking on an investment program, aiming to deliver simple and helpful digital services to customers. The digital world continues to evolve, and we are mindful of the need for constant improvements. At the same time, there remains a need for personalised service and Cairns Bank stays committed to the belief that banking is a service. This includes being available to meet people face to face and responding to customers genuine needs, including having a physical branch and having cash.

We appreciate your continued support and recognition of our uniquely personal banking approach; the way banking should be.

Yours sincerely

Michael Wenzel
Chairman

Peter Phillips
General Manager

Cairns

21 September 2023

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 2023 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 G Brooks	
Ms R Wilson	
Mr M Swannell	Appointed 17 November 2022

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 $635,701 (2022: $257,907).

Review of operations

Interest income increased by $1,836,447 due to increasing interest rates, while interest expense increased by $1,225,220 also due to increasing interest rates. Overall, there was a increase in net interest income of $611,227.

Changes to the interest rate environment have remedied the poor return being achieved on receivables from other financial institutions over the past two years and returned profitability to pre-Covid levels. Operating expenses were higher than prior year, increasing by $160,821. Information technology costs continue to rise and there have been additional marketing and staff costs (in Administrative Costs).

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 2023.

Information on directors

Michael Wenzel (Chair)

Michael joined the Board in February 2014. He is a Fellow 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

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) from 1993 to 2023, Margaret has extensive accounting and business experience across a wide range of industries. Margaret retired from BDO (Nth Qld) on 30 June 2023. 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.

Directors' Report (Continued)

Information on directors (continued)

Nadine Edwards

Nadine joined the Board in 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.

George Brooks

George joined the Board in 2019. Cairns born and raised, he holds degrees in economics, commerce and applied finance. Having held a number of executive positions within major banks interstate, George brings financial services experience in marketing, home lending and financial planning distribution. After a period of self employment as a mortgage broker, his focus now is residential property development in South East Queensland, where he has worked closely with Disability Housing providers and the NDIS to provide accessible housing.

Rowan Wilson

Rowan joined the Board in August 2020. Rowan is a litigator and dispute resolution lawyer at Miller Harris, with expertise across a wide range of industry areas including construction, property, insurance, banking and finance, and insolvency. She has a Masters of Commercial Law at Melbourne University, and a pragmatic, problem-solving and forward-thinking approach to her work. After several years at a large firm in Melbourne, Rowan enjoys the personal interactions that come with a smaller firm and a smaller city. Her experience in commercial law and connection to the Cairns community are valuable contributions to the Board.

Michael Swannell

Michael joined the Board in November 2022. Michael has an extensive career built on management and technical expertise that spans management consulting, financial services and information technology. He has worked in the financial services sector for over 20 years and has undertaken work for domestic and international banks, fintechs, technology providers, card issuers and merchants.

He has been involved in the mutual banking industry since the early 2000's and has also participated in many of Australia's industry-wide payments projects including the build of the real-time payments system (NPP), establishment of the domestic card payments scheme (eftpos), and the implementation of mandatory PIN for debit and credit cards.

Michael holds a Bachelor of Science degree from Macquarie University.

Directors' Report (Continued)

Information on directors (continued)

Meetings of directors

During the financial year, 11 Board meetings and 46 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	B	A	B	A	B	A	B	A	B
Mr M Wenzel	11	10	4	4	10	10	1	1	-	-	1	1	4	4	3	2
Mr B Tooth	11	9	4	3	-	-	-	-	11	8	1	1	4	3	-	-
Mrs M Maunsell	11	10	4	4	-	-	-	-	-	-	-	-	4	3	3	3
Ms N Edwards	11	11	-	-	10	10	1	1	11	11	2	2	-	-	3	3
Mr G Brooks	11	7	-	-	10	8	-	-	11	9	1	1	-	-	-	-
Ms R Wilson	11	10	4	4	-	-	1	1	-	-	1	1	4	4	-	-
Mr M Swannell	8	7	-	-	1	1	-	-	5	5	-	-	2	1	-	-

The May 2023 Board and Lending meetings were replaced by a Strategic Planning Meeting which was held on 11 May 2023.

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 $18,260.

Directors' Report (Continued)

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 2023.

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

Ben Tooth *Director*	Nadine Edwards *Director*

Cairns

21 September 2023

Statement of Profit or Loss and Other Comprehensive Income
for the year ended 30 June 2023

	Note	2023 $	2022 $
Interest income	4	4,241,983	2,405,536
Interest expense	4	(1,642,113)	(416,893)
Net interest income		2,599,870	1,988,643
Fee income		220,318	182,163
Sundry income		10,784	8,251
		2,830,972	2,179,057
Employee benefits expense		(820,587)	(762,974)
Depreciation and amortisation expense		(183,179)	(182,541)
Administrative expenses		(408,282)	(352,606)
Banking related costs		(201,493)	(185,947)
Information technology costs		(320,645)	(281,213)
Financial expenses		(5,006)	(6,064)
Interest expense – lease liability		(26,255)	(28,646)
Occupancy expenses		(21,751)	(26,386)
Total Expenses		1,987,198	1,826,377
Profit before income tax		843,774	352,680
Income tax expense	5(a)	(208,073)	(94,773)
Profit for the year		635,701	257,907
Other comprehensive income		-	-
Total comprehensive income		635,701	257,907

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 2023

	Retained earnings $	Member share redemption reserve $	General reserve for credit losses $	Total $
Balance at 1 July 2021	10,029,351	6,717	300,000	10,336,068
Total comprehensive income for the year				
Profit for the year	257,907	-	-	257,907
Total comprehensive income for the year	257,907	-	-	257,907
Transactions with owners in their capacity as owners				
Transfers to/from reserves				
- member share redemption reserve	(607)	607	-	-
Balance at 30 June 2022	10,286,651	7,324	300,000	10,593,975
Balance at 1 July 2022	10,286,651	7,324	300,000	10,593,975
Total comprehensive income for the year				
Profit for the year	635,701	-	-	635,701
Total comprehensive income for the year	635,701	-	-	635,701
Transactions with owners in their capacity as owners				
Transfers to/from reserves				
- member share redemption reserve	(614)	614	-	-
Balance at 30 June 2023	10,921,738	7,938	300,000	11,229,676

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

Statement of Financial Position
as at 30 June 2023

	Note	2023 $	2022 $
ASSETS			
Cash and cash equivalents	6	16,827,714	19,288,844
Receivables due from other financial institutions	7(a)	37,886,581	37,776,755
Receivables other	7(b)	1,384,095	2,706,825
Loans and advances	8	73,805,537	77,760,404
Deferred tax assets		98,342	111,777
Plant and equipment		113,148	116,431
Right-of-use asset	9(a)	568,579	626,364
Intangible assets		205,624	218,274
Interest income accrued		366,588	86,663
Other investments		194,997	194,997
Other		310,768	51,263
Total assets		131,761,973	138,938,597
LIABILITIES			
Deposits	10	118,547,712	125,109,924
Borrowings	11	-	1,902,483
Payables		194,318	224,366
Interest expense accrued		784,258	137,744
Income tax payable		157,441	91,082
Employee benefits		154,693	138,172
Other financial liabilities	12	4,508	4,911
Lease liabilities	9(b)	623,761	692,105
Provisions		65,606	43,835
Total liabilities		120,532,297	128,344,622
Net assets		11,229,676	10,593,975
EQUITY			
Reserves	13	307,938	307,324
Retained earnings		10,921,738	10,286,651
Total equity		11,229,676	10,593,975

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 2023

	Note	2023 $	2022 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		3,649,773	2,366,839
Interest paid		(1,021,854)	(517,681)
Fees and other income received		286,892	208,741
Payments to suppliers and employees		(1,794,712)	(1,602,018)
		1,120,099	455,881
(Increase)/decrease in operating assets:			
Net (increase)/ decrease in customer loans advanced		3,956,537	(8,348,822)
Net decrease/(increase) in receivables		(6,562,213)	(6,561,264)
Increase/(decrease) in operating liabilities:			
Net (decrease)/increase in deposits		1,212,904	15,869,953
Net (decrease)/increase in other financial liabilities		(403)	(340)
Net cash from operating activities before income tax		(273,076)	1,415,408
Income tax paid		(128,276)	(28,670)
Net cash from/(used in) operating activities	16	(401,352)	1,386,738
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of plant and equipment		(24,666)	(4,028)
Acquisition of intangible assets		(64,285)	(54,340)
Net cash from/(used in) investing activities		(88,951)	(58,368)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings – Term Funding Facility (RBA)		(1,902,483)	-
Repayment of borrowings – lease liability		(68,344)	(56,535)
Net cash from/(used in) financing activities		(1,970,827)	(56,535)
Net increase/(decrease) in cash and cash equivalents		(2,461,130)	1,271,835
Cash and cash equivalents at 1 July		19,288,844	18,017,009
Cash and cash equivalents at 30 June	6	16,827,714	19,288,844

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 2023

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 or amended Accounting Standards and Interpretations adopted

The Company has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

(e) Accounting Standards Issued Not Yet Effective

The following new/amended accounting standards and interpretations have been issued but are not mandatory for financial years ended 30 June 2023. They have not been adopted in preparing the financial statements for the year ended 30 June 2023.

AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates

The amendment introduces a definition of accounting estimate and provides clarification that a change in an estimate occurs when there is either a change in a measurement technique or a change in an input. The standard applies to annual periods beginning on or after 1 July 2023 and apply prospectively.

Further, this standard provides that only "material" accounting policy information must be disclosed in the financial statements.

As there are no material accounting estimates, this standard is not expected to have a material impact on the Company measurement, recognition or disclosure requirements.

2 BASIS OF PREPARATION (CONTINUED)

(e) Accounting Standards Issued Not Yet Effective (continued)

AASB 2021-5 Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments clarify that the 'initial recognition exemption' does not apply to transactions where an entity recognises an asset and a liability which give rise to equal taxable and deductible temporary differences.

There will be no impact on the Company with the application of this amendment and the entity has not used the "initial recognition exemption" for accounting for deferred tax on right-of use assets and lease liabilities.

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

3 SIGNIFICANT ACCOUNTING POLICIES

(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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Financial assets and liabilities (continued)

Identification and measurement of impairment

The principle of the expected credit loss model is to recognise in the financial statements the deterioration in the credit quality of financial instruments over their life.

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

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

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

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

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

Significant increase in credit risk

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

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is credit-impaired when one of more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following:

- Significant financial difficulty of the borrower;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance on terms that the Company would not consider otherwise;
- Becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

Default

A financial asset is considered to be in default when:

- The borrower is unlikely to pay its credit obligations in full, without recourse by the Company to actions such as realising security;
- The borrower is past due more than 90 days on any material credit obligations;
- The Company has filed for the borrower's bankruptcy in connection with the credit obligation;

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Financial assets and liabilities (continued)

- 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.

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.

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.

	2023	**2022**
	$	**$**
Interest income		
Cash and cash equivalents	387,940	22,445
Receivables due from other financial institutions	1,307,952	249,348
Loans and advances	2,546,091	2,133,743
	4,241,983	2,405,536
Interest expense		
Deposits	(1,642,113)	(416,893)
Net interest income	2,599,870	1,988,643

5 INCOME TAX

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit or loss for 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	209,258	106,279
Under/ (over) provision in prior years	(3,842)	2,466
Sub-total	205,416	108,745
Deferred tax expense		
Origination and reversal of temporary differences	2,657	(13,972)
Total income tax expense	208,073	94,773

5 INCOME TAX (CONTINUED)

(a) Income tax expense (continued)

	2023 $	2022 $
Numerical reconciliation between tax expense and pre-tax net profit:		
Profit before tax	843,774	352,680
Income tax using the Company tax rate of 25% (2022: 25%)	210,944	88,170
Increase (decrease) in income tax expense due to:		
Non-deductible expenses	375	375
Income tax expense on pre-tax net profit	211,319	88,545
Change in income tax rate on deferred tax asset	-	3,762
Adjustment to prior year	596	-
Under/(over) provided in prior years	(3,842)	2,466
Income tax expense	208,073	94,773

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	67,359	74,031
Cash at bank	16,760,355	19,214,813
		-
	16,827,714	19,288,844

7 RECEIVABLES

(a) Due from 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.

	2023 $	2022 $
Fixed deposits	22,826,169	25,126,170
Floating rate notes	5,701,540	5,702,014
Negotiable certificates of deposits	9,358,872	6,948,571
	37,886,581	37,776,755
Maturity analysis		
Not longer than 3 months	26,045,731	24,616,761
Longer than 3 months and not longer than 1 year	7,639,310	7,457,978
Longer than 1 year	4,201,540	5,702,016
	37,886,581	37,776,755

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.

(b) Other

Bonds	-	1,000,000
Residential Mortgage Backed Securities	1,384,095	1,706,825
	1,384,095	2,706,825
Maturity analysis		
Longer than 3 months and not longer than 1 year	-	1,000,000
Longer than 1 year	1,384,095	1,706,825
	1,384,095	2,706,825

Other receivables are denominated in Australian Dollars and are considered to meet the definition of a low risks investments for the 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.

	2023	2022
	$	$
Overdrafts	1,692,460	2,828,363
Term loans	72,132,843	74,952,608
Gross loans and advances	73,825,303	77,780,971
Provision for impairment – expected credit losses	(19,766)	(20,567)
Net loans and advances	73,805,537	77,760,404
Contractual maturity analysis		
Overdrafts, at call	1,692,460	2,828,363
Not longer than 3 months	824,879	878,608
Longer than 3 months and not longer than 1 year	2,269,250	2,514,903
Longer than 1 year and not longer than 5 years	12,329,720	13,635,469
Longer than 5 years	56,732,574	57,923,628
	73,848,884	77,780,971

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

	2023 Carrying value	2023 Past due	2023 Collateral held	2022 Carrying value	2022 Past due	2022 Collateral held
	$	$	$	$	$	$
< 30 days	248,527	594	365,000	834,782	4,409	1,702,000
30 to 90 days	244,707	2,446	412,000	2,920	211	-
>365 days	-	-	-	-	-	-
	493,234	3,040	777,000	837,702	4,620	1,702,000

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).

8 LOANS AND ADVANCES (CONTINUED)

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

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:

- While COVID-19 is still circulating in the community, restrictions have eased and businesses have returned to relatively normal operations. In May 2023, the World Health Organisation (WHO) declared that COVID-19 is now considered to be an established and ongoing health issue which no longer constitutes a public emergency.
- The current economic conditions of forecast rising interest and inflation rates has also been considered including the repricing of fixed rate loans and they mature and their transition to higher rates.

No loans at 30 June 2023 were impaired.

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 2023 was $158,321,251 (2022: $163,567,520). 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 (2022: nil).

	2023	**2022**
	$	**$**
Overdrafts		
Secured by mortgage over real estate and/or cash	1,672,758	2,823,719
Unsecured	19,702	4,644
	1,692,460	2,828,363
Term loans		
Secured by mortgage over real estate	71,689,797	74,556,129
Secured by cash	32,069	38,138
Unsecured	410,977	358,341
	72,132,843	74,952,608

8 LOANS AND ADVANCES (CONTINUED)

(c) Concentration of loans

	2023 $	2022 $
Loans to individual or related groups of members which exceed 10% of capital	10,709,051	7,919,004
Loans by customer type were:		
Households	68,760,993	71,911,908
Commercial	5,064,310	5,869,063
	73,825,303	77,780,971

9 RIGHT–OF–USE ASSET AND LEASE LIABILITY

(a) Right-of-use asset

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 amortised 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 amortisation 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.

	2023	2022
Cost		
Balance at 1 July	866,320	876,041
Remeasurement	20,510	(9,721)
Balance at 30 June	886,830	866,320
Amortisation		
Balance at 1 July	(239,956)	(159,608)
Amortisation	(78,295)	(80,348)
Balance at 30 June	(318,251)	(239,956)
Carrying amount	568,579	626,364

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

(b) Lease liabilities

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 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.

Lease make good provision

A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised is reviewed annually and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

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

(b) Lease liabilities (continued)

	2023 $	2022 $
Lease liability at 1 July	692,105	748,816
Lease payments	(96,760)	(85,357)
Interest expense	28,416	28,646
Balance as at 30 June	623,761	692,105
Current liability	63,707	62,816
Non-current liability	560,054	629,289
	623,761	692,105

Reconciliation of future lease payments:

	2023 Future Lease Payments $	2023 Interest $	2023 Present Value of Minimum Lease Payments $	2022 Future Lease Payments $	2022 Interest $	2022 Present Value of Minimum Lease Payments $
Less than one year	85,246	21,539	63,707	89,071	26,255	62,816
Between one and five years	410,136	62,570	347,566	394,429	75,897	318,532
More than five years	220,347	7,859	212,488	328,989	18,232	310,757
	715,729	91,968	623,761	812,489	120,384	692,105

10 DEPOSITS

	2023 $	2022 $
Fixed deposits	66,780,194	63,799,821
Savings accounts	51,767,518	61,310,103
	118,547,712	125,109,924
Maturity analysis		
At call	51,767,518	61,310,103
Not longer than 3 months	26,797,237	2,042,274
Longer than 3 months and not longer than 1 year	37,739,831	35,437,557
Longer than 1 year and not longer than 5 years	2,243,126	26,319,990
	118,547,712	125,109,924

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. The Term Facility Funding was fully repaid during the year.

	2023 $	2022 $
Term Facility Funding	-	1,902,483
	-	1,902,483
Maturity analysis		
Longer than 3 months and not longer than 1 year	-	1,902,483
	-	1,902,483

12 OTHER FINANCIAL LIABILITIES

Redeemable preference shares, issued and fully paid

Balance at 1 July	4,911	5,251
2,110 shares issued during the year (2022: 2,670)	211	267
6,140 shares redeemed during the year (2022: 6,070)	(614)	(607)
Balance at 30 June	4,508	4,911

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

	2023 $	2022 $
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.	90,515	91,441

(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.

15 COMMITMENTS

(a) Loan commitments

The following commitments to extend credit existed at balance date:

	2023 $	2022 $
Loans approved but not yet drawn	1,410,478	4,948,899
Undrawn overdrafts and credit facilities	2,638,540	3,262,638
Balances available for redraw	7,081,562	7,191,710
	11,130,580	15,403,247

16 NOTES TO THE STATEMENT OF CASH FLOWS

	2023 $	2022 $
Reconciliation of cash flows from operating activities		
Profit for the year	635,701	257,907
Adjustments for:		
Depreciation and amortisation	183,179	182,541
Income tax expense	208,073	94,773
Operating profit before changes in working capital and provisions	1,026,953	535,221
Increase/(decrease) in interest payable	646,514	(72,142)
(Increase)/decrease in receivables	1,212,904	(6,561,264)
(Increase)/decrease in interest receivable	(279,925)	(23,250)
Increase/(decrease) in other payables	(30,303)	5,034
(Increase)/decrease in prepayments and other assets	(259,252)	(2,373)
(Increase)/decrease in loans and advances	3,954,870	(8,345,712)
Increase/(decrease) in deposits	(6,562,216)	15,869,953
Increase/(decrease) in other financial liabilities	(403)	(340)
Increase/(decrease) in employee benefits	16,521	19,826
Increase/(decrease) in provisions	1,261	(9,545)
	(273,076)	1,415,408
Income taxes paid	(128,276)	(28,670)
Net cash from/(used in) operating activities	(401,352)	1,386,738

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:

	2023 $	2022 $
Short-term employee benefits	257,015	225,367
Post-employment benefits	19,886	17,549
Movement in long service leave provision	2,415	4,755
	279,316	247,671

(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:

	2023 $	2022 $
Loans to key management personnel	565,067	540,328
Loans to other related parties	504,149	394,487
	1,069,216	934,815

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:

	2023 $	2022 $
Aggregate amount of loans at 1 July	934,815	970,337
Aggregate amount of loans advanced during the year	341,496	-
Aggregate amount of redraws during the year	5,496	10,334
Aggregate amount of repayments received during the year	(224,058)	(59,426)
Aggregate amount of interest income and account keeping fees received and included in the determination of profit during the year	11,467	13,570
Aggregate amount of loans at 30 June	1,069,216	934,815

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 (2022: nil).

There are no loans which are impaired in relation to the loan balances with close family relatives of directors and key management personnel (2022: nil).

There are no service contracts to which key management personnel or their close family members are an interested party (2022: nil).

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:

	2023 $	2022 $
Aggregate amount of overdraft facility at 30 June	100,000	100,000
Aggregate amount of overdraft facilities used at 30 June	-	20,218
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	701	577

(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.

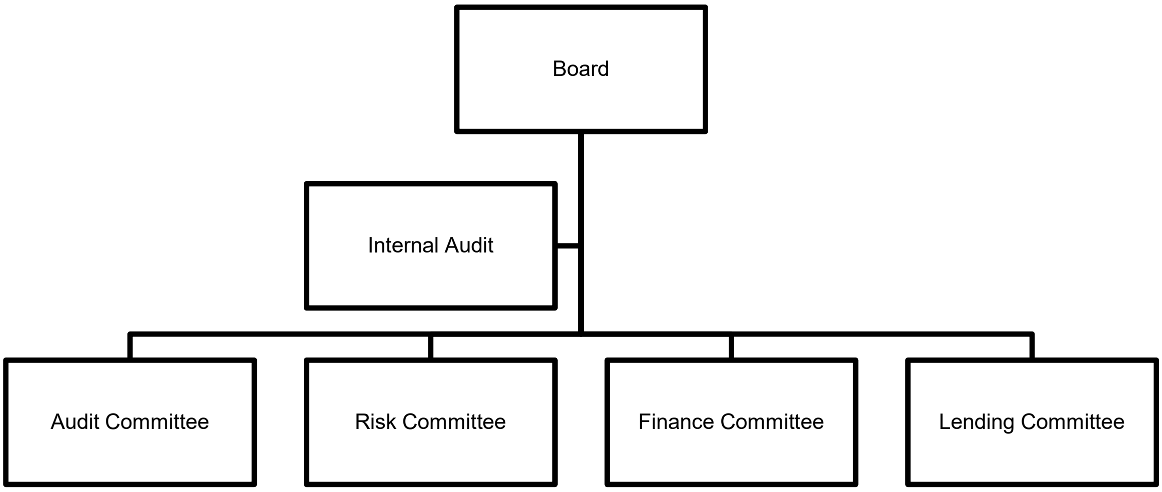
In the year to 30 June 2023, Ms Maunsell was a partner in BDO (Nth Qld)which has provided accounting services to Cairns Bank for a number of years. She is not directly involved in the provision of these services. The amount paid to BDO (Nth Qld) during the year totalled $14,764 (2022: $15,670). These services are on the same terms and conditions as those entered into by the Company with other similar providers. Ms Maunsell retired as a partner in BDO (Nth Qld) on 30 June 2023.

Ms Wilson is a partner in Miller Harris lawyers which has provided legal services to Cairns Bank in this financial year. The amount paid to Miller Harris Lawyers totalled $17,612 (2022: $8,575). These services are on the same terms and conditions as those entered into by the Company with other similar providers.

18 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

(a) Governance

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.

18 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

(a) Governance (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.

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.

18 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (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 1.00% (2022: 1.00%) increase/ (decrease) assuming all other things remain equal would be:

Change	Increase	Decrease
2023	$542,413	($542,413)
2022	$568,143	($568,143)

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% (2022: 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% (2022: 15%) of funds as liquid assets to maintain adequate funds for meeting member withdrawal requests. The ratio is checked daily. The lowest limit reached during the year ended 30 June 2023 was 17.67% (2022: 17.76%). 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.

18 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

(b) Risk management (continued)

Credit risk – loans

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

Loans to	2023 Carrying value $	2023 Off balance sheet $	2023 Max exposure $	2022 Carrying value $	2022 Off balance sheet $	2022 Max exposure $
Households	68,760,993	9,951,221	78,712,214	71,911,908	12,747,212	84,659,120
Commercial	5,064,310	1,179,359	6,243,669	5,869,063	2,656,035	8,525,098
	73,825,303	11,130,580	84,955,883	77,780,971	15,403,247	93,184,218

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 30 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.

18 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (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.

18 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (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:

	2023 $	2022 $
Banks – credit rating grade 1	20,500,367	25,363,724
Banks – credit rating grade 2	15,110,760	19,153,766
Banks – credit rating grade 3	14,549,651	2,996,819
Unrated	5,870,253	12,184,084
Total	56,031,31	59,698,393

18 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (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.

18 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (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:

	2023 $	2022 $
Tier 1		
Member share redemption reserve	7,938	7,324
Retained earnings	10,921,738	10,286,651
	10,929,676	10,293,975
Less prescribed deductions	(303,966)	(316,851)
Common Equity Tier 1 capital	10,625,710	9,977,124
Additional Tier 1 capital	-	-
Tier 1 capital	10,625,710	9,977,124
Tier 2		
Reserve for credit losses	300,000	300,000
Less prescribed deductions	-	-
Net Tier 2 capital	300,000	300,000
Total capital	10,925,710	10,277,124

Cairns Bank has set its own target minimum capital level at 17% (2022: 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.

18 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

(b) Risk management (continued)

Capital management (continued)

	2023		2022	
	Carrying value $	**Risk weighted value $**	**Carrying value $**	**Risk weighted value $**
Cash	67,359	-	74,031	-
Claims on Governments	-	-	1,002,699	-
Claims on Authorised Deposit - taking Institutions	55,495,102	14,300,180	57,075,048	16,218,491
Claims secured against eligible mortgages	73,386,141	27,422,047	73,033,701	26,365,932
Claims on Corporates	1,385,094	277,019	1,707,309	341,462
All other claims	430,679	451,560	4,771,719	4,771,719
Fixed assets	113,148	113,148	129,631	129,631
All other assets not specified elsewhere	934,666	934,666	984,450	984,450
	131,812,189	43,498,620	138,778,588	48,811,685

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

	2023	**2022**
Capital adequacy ratio	22.87%	17.38%

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 17% (2022: 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 based on 10% of RWA as per APRA guidance. APRA changed its guidance on the calculation of operational risk capital during the current year.

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

	2023 $	**2022 $**
Operational risk capital	4,349,862	594,130

18 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (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:

	EIR %	0 to 3 months	3 to 6 months	6 to 12 months	1 to 2 years	More than 2 years	Total
2023		**$**	**$**	**$**	**$**	**$**	**$**
Financial assets							
Cash and cash equivalents	2.61%	16,827,714	-	-	-	-	16,827,714
Receivables *	4.39%	32,984,437	3,412,104	3,240,723	-	-	39,637,264
Loans and advances**	3.88%	18,359,261	9,041,828	11,975,683	29,058,183	5,413,929	73,848,884
		68,171,412	12,453,932	15,216,406	29,058,183	5,413,929	130,313,862
Financial liabilities							
Deposits	2.36%	67,848,339	23,908,274	16,727,886	6,153,170	3,910,043	118,547,712
Borrowings	-	-	-	-	-	-	-
Leases	4.00%	23,067	23,067	46,800	96,583	526,212	715,729
		67,871,406	23,931,341	16,774,686	6,249,753	4,436,255	119,263,441
2022		**$**	**$**	**$**	**$**	**$**	**$**
Financial assets							
Cash and cash equivalents	0.19%	19,288,844	-	-	-	-	19,288,844
Receivables *	1.15%	31,684,169	3,904,461	4,981,613	-	-	40,570,243
Loans and advances**	2.89%	17,868,206	4,998,833	19,851,223	31,464,054	3,623,105	77,805,421
		68,841,219	8,903,294	24,832,836	31,464,054	3,623,105	137,664,508
Financial liabilities							
Deposits	0.40%	63,352,377	21,167,143	14,270,414	15,390,999	10,928,991	125,109,924
Borrowings	0.25%	-	-	-	-	1,902,483	1,902,483
Leases	4.00%	22,108	22,108	44,854	92,935	630,484	812,489
		63,374,485	21,189,251	14,315,268	15,483,934	13,461,958	127,824,896

*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.

18 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

(b) Risk management (continued)

Fraud

Fraud can arise from member cards PINS and internet passwords being compromised where not protected adequately by the members. It can also arise from other system failures. The Company has systems in place which are considered to be robust enough to prevent any material fraud. However, in common with all retail banks, fraud can potentially be a major cost to the Company. Fraud losses have previously arisen from stolen cards and card skimming.

IT Systems

The worst-case scenario would be failure of the Company's core banking and IT network suppliers, to meet customer obligations and service requirements. The Company has outsourced the IT systems management to an Independent Data Processing Centre (IDPC). This organisation has the experience in-house to manage any short-term problems and has a contingency plan to manage any related power or system failures. Other network suppliers are engaged on behalf of the Company by the industry body Indue to service the settlements with other financial institutions for direct entry, ATM and Visa Cards, and BPAY facilities.

19 AUDITORS' REMUNERATION

	2023 $	2022 $
Audit services		
Audit of the financial report	48,200	45,500
Other regulatory audit services	15,960	15,050
	64,160	60,550
Other services		
Review of quarterly APRA returns	4,000	3,800
	4,000	3,800

20 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 trading 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 2023 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:

Ben Tooth
Director

Nadine Edwards
Director

Cairns

21 September 2023

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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 (the Company), for the year ended 30 June 2023, 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

A D Cornes
Partner – Audit & Assurance

Cairns, 21 September 2023

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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 2023, 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 2023 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 (including Independence Standards)* (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 2023, 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.

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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

A D Cornes
Partner – Audit & Assurance

Cairns, 21 September 2023