



Cairns Bank

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125TH
ANNUAL REPORT
2023-2024

Joint letter from the Chairman and the Chief Executive Officer

Dear Members

We are delighted to present you with Cairns Bank's 2024 annual report. This report reflects on the last financial year and provides insights into our strategic direction.

Reflecting on the last financial year

We achieved a profit for the year after tax of \$260.35k (2023 \$635.70k).

Interest rates remained relatively steady in 2024 with only one increase in the cash rate target during the year, being 0.25% in November 2023, taking the rate to 4.35%. As a result, we saw interest rates return to near historically average levels across our loan, deposit, and treasury portfolios, with our net interest margin improving to 1.99%. We achieved sound levels of net growth in our loans portfolio of \$5.17m (7.00%) to \$78.97m and an increase in our deposits portfolio of \$3.19m (2.69%) to \$121.74m.

In terms of business expenses, administrative expenses increased due to increasing legal, compliance and transaction processing costs, together with additional investment in advertising and marketing. Staff costs increased due to the recruitment of the new Chief Executive Officer, the new Chief Information Officer, and another Mobile Lending Consultant. Depreciation and amortisation expenses increased due to the write-off of previously capitalised costs for the current version of the core banking system as we prepared for implementation of a major software upgrade, which was completed in July.

Overall, the trading environment has continued to be challenging. Although interest rates have returned to more normal levels, costs have increased and continue to increase due to a combination of the impact of economic inflation on our inputs and investments made in our people, marketing promotion, and technology.

We would like to acknowledge our former General Manager, Peter Phillips, who after a long and distinguished career with Cairns Bank, "hung up his tie" and handed over the keys to Liam during the year. On behalf of the Board, we thank Peter for his outstanding service and wish him all the very best for the future.

Strategic direction

Cairns Bank is embarking on the next phase of our investment program to deliver a more competitive and comprehensive range of local banking solutions tailored to the needs of our customers. We recently launched a new range of home loan products with a broader range of features, including on-line redraw, and improved pricing. We have developed a new marketing strategy and recently launched a revamped digitally-enabled website. In July 2024 we also completed an upgrade to the latest version of our core banking system, together with a much-improved internet banking solution and mobile customer interface. More developments are planned to be launched later in the 2025 financial year.

Joint letter from the Chairman and the Chief Executive Officer (Continued)

We remain focused on our mission to provide a competitive range of local banking solutions that are tailored to the needs of our customers. It's the way banking should be – local, helpful, and 100% customer owned. In doing so, we remain committed to providing outstanding personalised service to our customers. We appreciate your continued support.

Yours sincerely



Michael Wenzel
Chairman

Cairns

19 September 2024



Liam Tiernan
Chief Executive Officer

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 2024 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

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 providing retail financial services in the form of taking deposits and giving credit facilities to members. No significant changes to these activities occurred during the year.

Operating results

The profit of Cairns Bank after providing for income tax amounted to \$260,356 (2023: \$635,701).

Review of operations

Interest income increased by \$1,896,666 due to increasing interest rates and loan growth, while interest expense increased by \$1,839,421 also due to increasing interest rates and deposits growth. Overall, there was an increase in net interest income of \$57,245.

Interest rates have increased on the loans, deposits and treasury investments portfolio. Fixed rate loans have been repricing to higher rates as their fixed rates have matured.

Operating expenses were higher than prior year, increasing by \$544,855, due to higher administrative expenses, staff costs and depreciation.

- Administrative expenses have increased primarily due to legal and compliance, visa charges and advertising and marketing.
- Staff costs have increased primarily due to the recruitment of the new Chief Executive Officer and the recruitment of additional staff, being Chief Information Officer and an additional Mobile Lending Consultant.
- Depreciation costs increased due to the write-off of capitalised costs for the current version of the core banking system as we prepared for the implementation of our version upgrade, ready for "go live" in July 2024.

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 2024.

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 Fellow 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 OAM (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.

Michael 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, 12 Board meetings and 28 committee meetings were held. Attendances at these meetings were:

	Board		Audit		Finance		Fit & Proper		Lending		Nominations		Risk		Remuneration *		Strategic Planning	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	B	B
Mr M Wenzel	12	12	4	4	4	4	1	1	-	-	-	-	4	4	1	1	1	1
Mr B Tooth	12	8	4	4	-	-	-	-	12	9	1	1	4	4	-	-	1	1
Mrs M Maunsell	12	9	4	4	-	-	-	-	-	-	-	-	4	4	1	1	1	1
Ms N Edwards	12	10	-	-	4	3	1	1	12	11	1	1	-	-	1	1	1	1
Mr G Brooks	12	12	-	-	4	4	-	-	12	12	-	-	-	-	-	-	1	1
Ms R Wilson	12	11	4	4	-	-	1	0	-	-	-	-	4	4	-	-	1	1
Mr M Swannell	12	12	-	-	-	-	-	-	12	12	1	1	4	4	-	-	1	1

(*) Remuneration Committee met early July for 2024 review

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 \$16,387.

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 39 and forms part of this directors' report for the year ended 30 June 2024.

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



Ben Tooth
Director



Nadine Edwards
Director

Cairns

19 September 2024

**Statement of Profit or Loss and Other Comprehensive Income
for the year ended 30 June 2024**

	Note	2024 \$	2023 \$
Interest income	4	6,138,649	4,241,983
Interest expense	4	(3,481,534)	(1,642,113)
Net interest income		2,657,115	2,599,870
Fee income		213,520	220,318
Sundry income		8,923	10,784
		2,879,558	2,830,972
Employee benefits expense		(1,006,440)	(820,587)
Depreciation and amortisation expense		(207,304)	(183,179)
Administrative expenses		(653,223)	(408,282)
Banking related costs		(273,379)	(201,493)
Information technology costs		(333,251)	(320,645)
Financial expenses		(1,528)	(5,006)
Interest expense – lease liability		(21,648)	(26,255)
Occupancy expenses		(35,280)	(21,751)
Total Expenses		(2,532,053)	(1,987,198)
Profit before income tax		347,505	843,774
Income tax expense	5	(87,149)	(208,073)
Profit for the year		260,356	635,701
Other comprehensive income		-	-
Total comprehensive income		260,356	635,701

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 2024**

	Retained earnings \$	Member share redemption reserve \$	General reserve for credit losses \$	Total \$
Balance at 1 July 2022	10,286,651	7,324	300,000	10,593,975
<i>Total comprehensive income for the year</i>				
Profit for the year	635,701	-	-	635,701
Total comprehensive income for the year	635,701	-	-	635,701
<i>Transactions with owners in their capacity as owners</i>				
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
Balance at 1 July 2023				
<i>Total comprehensive income for the year</i>				
Profit for the year	260,356	-	-	260,356
Total comprehensive income for the year	260,356	-	-	260,356
<i>Transactions with owners in their capacity as owners</i>				
Transfers to/from reserves				
- member share redemption reserve	(259)	259	-	-
Balance at 30 June 2024	11,181,835	8,197	300,000	11,490,032

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

**Statement of Financial Position
as at 30 June 2024**

	Note	2024 \$	2023 \$
ASSETS			
Cash and cash equivalents		13,564,850	16,827,714
Receivables due from other financial institutions	6(a)	40,041,968	37,886,581
Receivables other	6(b)	985,388	1,384,095
Loans and advances	7	78,971,456	73,805,537
Income tax receivable		110,642	-
Deferred tax assets		69,719	98,342
Plant and equipment		92,931	113,148
Right-of-use asset	8(a)	481,191	568,579
Intangible assets		312,190	205,624
Interest income accrued		468,905	366,588
Other investments		194,997	194,997
Other		80,886	310,768
Total assets		135,375,123	131,761,973
LIABILITIES			
Deposits	9	121,741,067	118,547,712
Payables		188,149	194,318
Interest expense accrued		1,256,741	784,258
Income tax payable		-	157,441
Employee benefits		83,143	154,693
Other financial liabilities	10	4,523	4,508
Lease liabilities	8(b)	551,137	623,761
Provisions		60,331	65,606
Total liabilities		123,885,091	120,532,297
Net assets		11,490,032	11,229,676
EQUITY			
Reserves	11	308,197	307,938
Retained earnings		11,181,835	10,921,738
Total equity		11,490,032	11,229,676

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 2024

	Note	2024 \$	2023 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		6,230,573	3,649,773
Interest paid		(3,030,699)	(1,021,854)
Fees and other income received		282,941	286,892
Payments to suppliers and employees		(2,322,988)	(1,794,712)
		<u>1,159,827</u>	<u>1,120,099</u>
<i>(Increase)/decrease in operating assets:</i>			
Net (increase)/ decrease in customer loans advanced		(5,170,348)	3,956,537
Net (increase) in receivables		(1,756,680)	(6,562,213)
<i>Increase/(decrease) in operating liabilities:</i>			
Net increase in deposits		3,193,356	1,212,904
Net (decrease)/increase in other financial liabilities		15	(403)
Net cash from operating activities before income tax		<u>(2,573,830)</u>	<u>(273,076)</u>
Income tax paid		(326,608)	(128,276)
Net cash from/(used in) operating activities	14	<u>(2,900,438)</u>	<u>(401,352)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of plant and equipment		(14,357)	(24,666)
Acquisition of intangible assets		(275,445)	(64,285)
Net cash from/(used in) investing activities		<u>(289,802)</u>	<u>(88,951)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings – Term Funding Facility (RBA)		-	(1,902,483)
Repayment of borrowings – lease liability		(72,624)	(68,344)
Net cash from/(used in) financing activities		<u>(72,624)</u>	<u>(1,970,827)</u>
Net increase/(decrease) in cash and cash equivalents		(3,262,864)	(2,461,130)
Cash and cash equivalents at 1 July		<u>16,827,714</u>	<u>19,288,844</u>
Cash and cash equivalents at 30 June		<u>13,564,850</u>	<u>16,827,714</u>

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 2024

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, member owned 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 2024. They have not been adopted in preparing the financial statements for the year ended 30 June 2024.

AASB 18 Presentation and Disclosure in Financial Statements

When these amendments are first adopted on 1 July 2027, subtotals in the Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2028 may differ, including restated comparatives for the year ended 30 June 2027. However, there will be no change to net profit or loss after taxation in either period.

There may also be changes in the way interest and dividend cash inflows and outflows are presented in the Statement of Cash Flows, which may impact the subtotals for cash generated or utilised from operating activities, investing activities and financing activities.

Lastly, additional information will be disclosed in the notes to the financial statements if the entity uses management-defined performance measures in public communications outside the financial statements to communicate management's view of aspects of the entity's financial performance.

Notes to the Financial Statements for the year ended 30 June 2024

3 MATERIAL 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.

**Notes to the Financial Statements
for the year ended 30 June 2024**

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.

	2024	2023
	\$	\$
<i>Interest income</i>		
Cash and cash equivalents	620,747	387,940
Receivables due from other financial institutions	2,019,479	1,307,952
Loans and advances	3,498,423	2,546,091
	<u>6,138,649</u>	<u>4,241,983</u>
<i>Interest expense</i>		
Deposits	(3,481,534)	(1,642,113)
Net interest income	<u>2,657,115</u>	<u>2,599,870</u>

5 INCOME TAX

Current tax expense

Current year	58,628	209,258
Under/ (over) provision in prior years	(103)	(3,842)
<i>Sub-total</i>	<u>58,525</u>	<u>205,416</u>

Deferred tax expense

Origination and reversal of temporary differences	28,624	2,657
Total income tax expense	<u>87,149</u>	<u>208,073</u>

Numerical reconciliation between tax expense and pre-tax net profit:

Profit before tax	347,505	843,774
Income tax using the Company tax rate of 25% (2023: 25%)	86,877	210,944
Increase (decrease) in income tax expense due to:		
Non-deductible expenses	375	375
Income tax expense on pre-tax net profit	<u>87,252</u>	<u>211,319</u>
Adjustment to prior year	-	596
Under/(over) provided in prior years	<u>(103)</u>	<u>(3,842)</u>
Income tax expense	<u>87,149</u>	<u>208,073</u>

**Notes to the Financial Statements
for the year ended 30 June 2024**

6 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.

	2024	2023
	\$	\$
Fixed deposits	30,426,170	22,826,169
Floating rate notes	4,201,064	5,701,540
Negotiable certificates of deposits	5,414,734	9,358,872
	<u>40,041,968</u>	<u>37,886,581</u>
<i>Maturity analysis</i>		
Not longer than 3 months	18,452,171	26,045,731
Longer than 3 months and not longer than 1 year	17,388,733	7,639,310
Longer than 1 year	4,201,064	4,201,540
	<u>40,041,968</u>	<u>37,886,581</u>

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

Residential Mortgage Backed Securities	985,388	1,384,095
	<u>985,388</u>	<u>1,384,095</u>
<i>Maturity analysis</i>		
Longer than 1 year	985,388	1,384,095
	<u>985,388</u>	<u>1,384,095</u>

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

Notes to the Financial Statements for the year ended 30 June 2024

7 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.

	2024	2023
	\$	\$
Overdrafts	1,623,288	1,692,460
Term loans	77,372,178	72,132,843
Gross loans and advances	78,995,466	73,825,303
Provision for impairment – expected credit losses	(24,010)	(19,766)
Net loans and advances	<u>78,971,456</u>	<u>73,805,537</u>
<i>Contractual maturity analysis</i>		
Overdrafts, at call	1,623,288	1,692,460
Not longer than 3 months	794,168	824,879
Longer than 3 months and not longer than 1 year	2,342,628	2,269,250
Longer than 1 year and not longer than 5 years	12,983,053	12,329,720
Longer than 5 years	61,276,095	56,732,574
	<u>79,019,232</u>	<u>73,848,884</u>

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

(a) Past due but not impaired loans

	2024	2024	2024	2023	2023	2023
	Carrying	Past due	Collateral	Carrying	Past due	Collateral
	value		held	value		held
	\$	\$	\$	\$	\$	\$
< 30 days	529,267	1,118	640,000	248,527	594	365,000
30 to 90 days	255,826	4,566	475,000	244,707	2,446	412,000
	<u>785,093</u>	<u>5,684</u>	<u>1,115,000</u>	<u>493,234</u>	<u>3,040</u>	<u>777,000</u>

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).

**Notes to the Financial Statements
for the year ended 30 June 2024**

7 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.

Current economic conditions of forecast rising interest and inflation rates have been considered including the repricing of fixed rate loans and they mature and their transition to higher rates.

No loans at 30 June 2024 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 2024 was \$168,928,166 (2023: \$158,321,251). 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 (2023: nil).

	2024	2023
	\$	\$
<i>Overdrafts</i>		
Secured by mortgage over real estate and/or cash	1,612,144	1,672,758
Unsecured	11,144	19,702
	<u>1,623,288</u>	<u>1,692,460</u>
<i>Term loans</i>		
Secured by mortgage over real estate	76,899,731	71,689,797
Secured by cash	8,447	32,069
Unsecured	464,000	410,977
	<u>77,372,178</u>	<u>72,132,843</u>

**Notes to the Financial Statements
for the year ended 30 June 2024**

7 LOANS AND ADVANCES (CONTINUED)

(c) Concentration of loans

	2024	2023
	\$	\$
Loans to individual or related groups of members which exceed 10% of capital	3,003,340	10,709,051
Loans by customer type were:		
Households	73,166,012	68,760,993
Commercial	5,829,454	5,064,310
	<u>78,995,466</u>	<u>73,825,303</u>

8 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.

Cost

Balance at 1 July	886,830	866,320
Remeasurement	(5,188)	20,510
Balance at 30 June	<u>881,642</u>	<u>886,830</u>

Amortisation

Balance at 1 July	(318,251)	(239,956)
Amortisation	(82,200)	(78,295)
Balance at 30 June	<u>(400,451)</u>	<u>(318,251)</u>

Carrying amount	<u>481,191</u>	<u>568,579</u>
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Notes to the Financial Statements for the year ended 30 June 2024

8 RIGHT-OF-USE ASSET AND LEASE LIABILITY (CONTINUED)

(b) Lease liabilities

A lease liability is recognised at the commencement date of a lease.

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. 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.

**Notes to the Financial Statements
for the year ended 30 June 2024**

8 RIGHT-OF-USE ASSET AND LEASE LIABILITY (CONTINUED)

(b) Lease liabilities (continued)

	2024	2023
	\$	\$
Lease liability at 1 July	623,761	692,105
Lease payments	(94,272)	(96,760)
Interest expense	21,648	28,416
Balance as at 30 June	<u>551,137</u>	<u>623,761</u>
Current liability	67,054	63,707
Non-current liability	484,083	560,054
	<u>551,137</u>	<u>623,761</u>

Reconciliation of future lease payments:

	2024	2024	2024	2023	2023	2023
	Future Lease	Interest	Present	Future Lease	Interest	Present Value
	Payments		Value of	Payments		of Minimum
			Minimum			Lease
			Lease			Payments
			Payments			
	\$	\$	\$	\$	\$	\$
Less than one year	96,583	20,701	75,882	85,246	21,539	63,707
Between one and five years	426,542	48,051	378,491	410,136	62,570	347,566
More than five years	98,530	1,766	96,764	220,347	7,859	212,488
	<u>621,655</u>	<u>70,518</u>	<u>551,137</u>	<u>715,729</u>	<u>91,968</u>	<u>623,761</u>

9 DEPOSITS

	2024	2023
	\$	\$
Fixed deposits	71,287,189	66,780,194
Savings accounts	50,453,878	51,767,518
	<u>121,741,067</u>	<u>118,547,712</u>
<i>Maturity analysis</i>		
At call	50,453,877	51,767,518
Not longer than 3 months	28,429,947	26,797,237
Longer than 3 months and not longer than 1 year	38,263,401	37,739,831
Longer than 1 year and not longer than 5 years	4,593,843	2,243,126
	<u>121,741,067</u>	<u>118,547,712</u>

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

**Notes to the Financial Statements
for the year ended 30 June 2024**

10 OTHER FINANCIAL LIABILITIES

Redeemable preference shares, issued and fully paid

	2024	2023
	\$	\$
Balance at 1 July	4,508	4,911
2,740 shares issued during the year (2023: 2,110)	274	211
2,590 shares redeemed during the year (2023: 6,140)	(259)	(614)
Balance at 30 June	<u>4,523</u>	<u>4,508</u>

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

11 RESERVES

(a) Member share redemption reserve

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

(b) General reserve for credit losses

The general reserve for credit losses contains an additional allowance for bad debts, net of applicable income tax, above the provision for impairment (refer Note 7). The reserve provides a buffer against potential credit losses which are intrinsic to the overall business of the Company.

12 CONTINGENT LIABILITIES

(a) Guarantees

	2024	2023
	\$	\$
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.	<u>68,969</u>	<u>90,515</u>

**Notes to the Financial Statements
for the year ended 30 June 2024**

12 CONTINGENT LIABILITIES (CONTINUED)

(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.

13 COMMITMENTS

(a) Loan commitments

The following commitments to extend credit existed at balance date:

	2024	2023
	\$	\$
Loans approved but not yet drawn	2,068,772	1,410,478
Undrawn overdrafts and credit facilities	2,822,712	2,638,540
Balances available for redraw	7,660,805	7,081,562
	<u>12,552,289</u>	<u>11,130,580</u>

**Notes to the Financial Statements
for the year ended 30 June 2024**

14 NOTES TO THE STATEMENT OF CASH FLOWS

	2024	2023
	\$	\$
Reconciliation of cash flows from operating activities		
Profit for the year	260,356	635,701
<i>Adjustments for:</i>		
Depreciation and amortisation	207,304	183,179
Loss on disposal of assets	78,342	-
Income tax expense	87,149	208,073
Operating profit before changes in working capital and provisions	633,151	1,026,953
Increase/(decrease) in interest payable	472,483	646,514
(Increase)/decrease in receivables	(1,756,680)	1,212,904
(Increase)/decrease in interest receivable	(102,317)	(279,925)
Increase/(decrease) in other payables	(7,476)	(30,303)
(Increase)/decrease in prepayments and other assets	231,191	(259,252)
(Increase)/decrease in loans and advances	(5,165,916)	3,954,870
Increase/(decrease) in deposits	3,193,356	(6,562,216)
Increase/(decrease) in other financial liabilities	15	(403)
Increase/(decrease) in employee benefits	(71,550)	16,521
Increase/(decrease) in provisions	(87)	1,261
	(2,573,830)	(273,076)
Income taxes paid	(326,608)	(128,276)
Net cash from/(used in) operating activities	(2,900,438)	(401,352)

15 RELATED PARTIES

(a) Key management personnel compensation

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

	2024	2023
	\$	\$
Short-term employee benefits	431,952	257,015
Post-employment benefits	41,128	19,886
Movement in long service leave provision	(57,787)	2,415
	415,293	279,316

**Notes to the Financial Statements
for the year ended 30 June 2024**

15 RELATED PARTIES (CONTINUED)

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

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

	2024	2023
	\$	\$
Loans to key management personnel	-	565,067
Loans to other related parties	484,180	504,149
	<u>484,180</u>	<u>1,069,216</u>

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	1,069,216	934,815
Aggregate amount of loans advanced during the year	49,779	341,496
Aggregate amount of redraws during the year	-	5,496
Aggregate amount of loans no longer related parties	(595,826)	-
Aggregate amount of repayments received during the year	(69,358)	(224,058)
Aggregate amount of interest income and account keeping fees received and included in the determination of profit during the year	<u>30,369</u>	<u>11,467</u>
Aggregate amount of loans at 30 June	<u>484,180</u>	<u>1,069,216</u>

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 (2023: nil).

There are no loans which are impaired in relation to the loan balances with close family relatives of directors and key management personnel (2023: nil).

There are no service contracts to which key management personnel or their close family members are an interested party (2023: nil).

**Notes to the Financial Statements
for the year ended 30 June 2024**

15 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:

	2024	2023
	\$	\$
Aggregate amount of overdraft facility at 30 June	-	100,000
Aggregate amount of overdraft facilities used at 30 June	-	-
This amount forms part of overdrafts (Note 7)		
Aggregate amount of interest income received and included in the determination of operating profit during the year	-	701

(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 2024, 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 \$22,938 (2023: \$17,612). These services are on the same terms and conditions as those entered into by the Company with other similar providers.

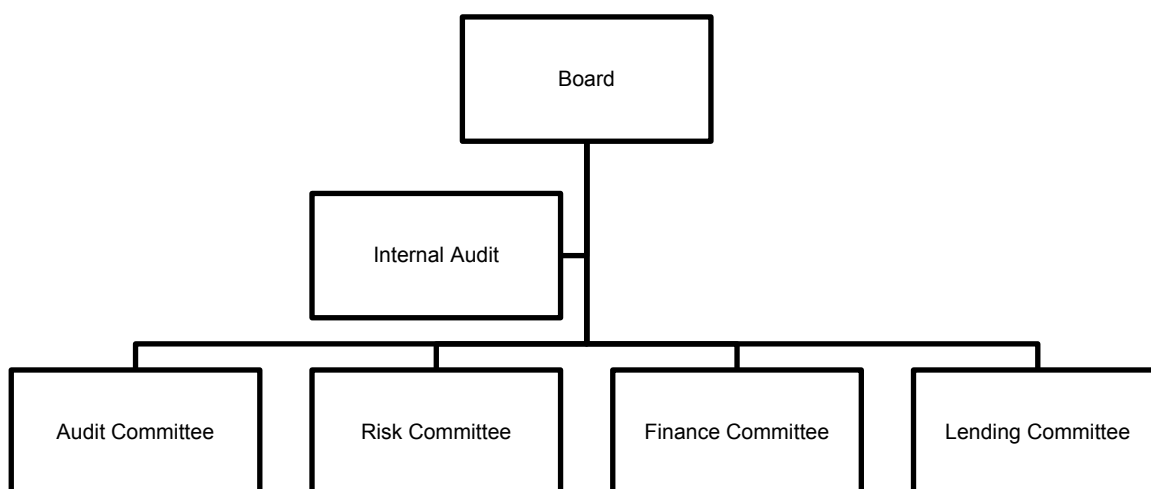
In the year to 30 June 2023, Ms Maunsell was a partner in BDO (Nth Qld) which has provided accounting services to Cairns Bank for a number of years. She was not directly involved in the provision of these services. Ms Maunsell retired as a partner in BDO (Nth Qld) on 30 June 2023. The amount paid to BDO (Nth Qld) during the 2023 year totalled \$14,764. 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 2024

16 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.

Notes to the Financial Statements for the year ended 30 June 2024

16 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 non-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.

Notes to the Financial Statements for the year ended 30 June 2024

16 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 16(b), which details the contractual interest change profile.

Based on interest rate sensitivity calculations the theoretical net profit impact of a 1.00% (2023: 1.00%) increase/ (decrease) assuming all other things remain equal would be:

Change	Increase	Decrease
2024	\$544,484	(\$544,484)
2023	\$542,413	(\$542,413)

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% (2023: 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% (2023: 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 2024 was 19.49% (2023: 17.67%). Should the liquidity ratio fall below this level management and the Board are to address the matter and ensure that the liquid funds are obtained from new deposits, or alternative facilities available.

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

Credit risk

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

**Notes to the Financial Statements
for the year ended 30 June 2024**

16 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	2024	2024	2024	2023	2023	2023
	Carrying value	Off balance sheet	Max exposure	Carrying value	Off balance sheet	Max exposure
	\$	\$	\$	\$	\$	\$
Households	73,166,012	11,202,894	84,368,906	68,760,993	9,951,221	78,712,214
Commercial	5,829,454	1,349,395	7,178,849	5,064,310	1,179,359	6,243,669
	<u>78,995,466</u>	<u>12,552,289</u>	<u>91,547,755</u>	<u>73,825,303</u>	<u>11,130,580</u>	<u>84,955,883</u>

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

All loans and facilities are within Australia. The geographic distribution is primarily in 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 which exceed 10% of capital are described in Note 7(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 7.

A summary of past due loans is set out in Note 7(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 2024

16 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 7(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 7(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 2024**

16 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:

	2024	2023
	\$	\$
Banks – credit rating grade 1	16,049,555	20,500,367
Banks – credit rating grade 2	11,153,234	15,110,760
Banks – credit rating grade 3	11,162,564	14,549,651
Unrated	16,181,936	5,870,253
Total	<u>54,547,289</u>	<u>56,031,031</u>

Notes to the Financial Statements for the year ended 30 June 2024

16 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.

**Notes to the Financial Statements
for the year ended 30 June 2024**

16 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:

	2024	2023
	\$	\$
Tier 1		
Member share redemption reserve	8,197	7,938
Retained earnings	11,181,835	10,921,738
	<hr/> 11,190,032	<hr/> 10,929,676
Less prescribed deductions	(177,247)	(303,966)
Common Equity Tier 1 capital	11,012,785	10,625,710
Additional Tier 1 capital	-	-
	<hr/> 11,012,785	<hr/> 10,625,710
Tier 1 capital	<hr/> 11,012,785	<hr/> 10,625,710
Tier 2		
Reserve for credit losses	300,000	300,000
Less prescribed deductions	-	-
Net Tier 2 capital	<hr/> 300,000	<hr/> 300,000
Total capital	<hr/> 11,312,785	<hr/> 10,925,710

Cairns Bank has set its own target minimum capital level at 17% (2023: 17%) 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 2024**

16 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

(b) Risk management (continued)

Capital management (continued)

	2024		2023	
	Carrying value	Risk weighted value	Carrying value	Risk weighted value
	\$	\$	\$	\$
Cash	44,917	-	67,359	-
Claims on Governments	-	-	-	-
Claims on Authorised Deposit - taking Institutions	54,029,967	15,959,264	55,495,102	14,300,180
Claims secured against eligible mortgages	78,461,463	28,591,522	73,386,141	27,422,047
Claims on Corporates	986,231	197,246	1,385,094	277,019
All other claims	479,029	504,348	430,679	451,560
Fixed assets	297,594	297,594	113,148	113,148
All other assets not specified elsewhere	962,957	962,957	934,666	934,666
	<u>135,262,158</u>	<u>46,512,931</u>	<u>131,812,189</u>	<u>43,498,620</u>

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

	2024	2023
Capital adequacy ratio	22.11%	22.87%

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% (2023: 17%). 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:

	2024	2023
	\$	\$
Operational risk capital	4,651,293	4,349,862

**Notes to the Financial Statements
for the year ended 30 June 2024**

16 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
2024		\$	\$	\$	\$	\$	\$
<i>Financial assets</i>							
Cash and cash equivalents	4.19%	13,564,850	-	-	-	-	13,564,850
Receivables *	5.03%	30,199,763	8,060,005	3,236,493	-	-	41,496,261
Loans and advances**	5.19%	17,951,166	4,520,953	20,975,897	23,820,259	11,750,957	79,019,232
		61,715,779	12,580,958	24,212,390	23,820,259	11,750,957	134,080,343
<i>Financial liabilities</i>							
Deposits	3.10%	55,960,148	25,216,970	23,095,887	13,617,980	3,850,082	121,741,067
Leases	4.00%	24,066	24,066	48,452	100,446	424,626	621,655
		55,984,214	25,241,036	23,144,339	13,718,425	4,274,708	122,362,723
2023		\$	\$	\$	\$	\$	\$
<i>Financial assets</i>							
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
<i>Financial liabilities</i>							
Deposits	2.36%	67,848,339	23,908,274	16,727,886	6,153,170	3,910,043	118,547,712
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

*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 2024**

16 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.

17 AUDITORS' REMUNERATION

	2024	2023
	\$	\$
<i>Audit services</i>		
Audit of the financial report	50,100	48,200
Other regulatory audit services	16,600	15,960
	<hr/> 66,700	<hr/> 64,160
<i>Other services</i>		
Review of quarterly APRA returns	4,000	4,000
	<hr/> 4,000	<hr/> 4,000

18 SUBSEQUENT EVENTS

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

***Consolidated Entity Disclosure Statement
As at 30 June 2024***

Subsection 295(3A)(a) of the *Corporations Act 2001* does not apply to the Company as the Company is not required to prepare consolidated financial statements under Australian Accounting Standards and as a result the requirement to prepare a Consolidated Entity Disclosure Statement does not apply.

Directors' Declaration

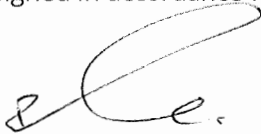
In the opinion of the directors of Cairns Penny Savings & Loans Limited trading as Cairns Bank ("the Company"):

- (a) the financial statements and notes, set out on pages 8 to 36, 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 2024 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.

The Consolidated Entity Disclosure Statement on page 37 is true and correct as at 30 June 2024.

Signed in accordance with a resolution of the directors:



Ben Tooth
Director



Nadine Edwards
Director

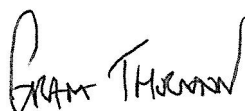
Cairns
19 September 2024

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 2024, 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, 19 September 2024

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 2024, 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 material accounting policy information, the consolidated entity disclosure statement 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 2024 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 2024, 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:

- a) the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* (other than the consolidated entity disclosure statement); and
- b) the consolidated entity disclosure statement that is true and correct in accordance with the *Corporations Act 2001*, and

for such internal control as the directors determine is necessary to enable the preparation of:

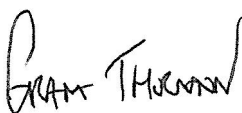
- i) the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- ii) the consolidated entity disclosure statement that is true and correct and is free of misstatement, whether due to fraud or error.

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, 19 September 2024