Balmain Discrete Mortgage Income Trusts

ARSN 155 909 176

Annual Financial Report
Year Ended 30 June 2016

Balmain Discrete Mortgage Income Trusts
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Directors' report

The directors of Balmain Fund Administration Limited (the "Responsible Entity"), the responsible entity of the Balmain Discrete Mortgage Income Trusts (the "Trust") present their report together with the financial report of the Trust, for the year ended 30 June 2016.

Balmain Discrete Mortgage Income Trusts became a registered scheme under the Corporations Act 2001 on 9 March 2012. Balmain Fund Administration Limited became the responsible entity on 9 March 2012.

Responsible Entity

The registered office and principal place of business of the Responsible Entity and the Trust is Level 14, 60 Castlereagh Street, Sydney NSW 2000.

The directors of Balmain Fund Administration Limited at any time during or since the end of the financial year are:

Name and qualifications	Experience and special responsibilities
Michael Holm Director	Mr Michael Holm is the founder of Balmain NB Corporation Limited (Balmain Corporation). Starting the business in 1979, Michael has helped Balmain Corporation to grow from a one man start up to the largest commercial loan origination and loan servicer in Australia. Michael also serves as Chairman and as a Director in Balmain Corporation's fund management, capital markets and loan servicing businesses. Michael has over 30 years' experience in commercial property financing.
Andrew Griffin Director	Mr Andrew Griffin commenced his career in property development in 1987 when he joined the Trafalgar Property Group holding a number of positions, and was appointed Managing Director in 1992. Andrew commenced trading as Principal of the Griffin Property Group in 1997, and successfully undertook a number of landmark developments in the Sydney region. Andrew joined Balmain Corporation as Chief Executive Officer in 2004 establishing a number of strategic investments, and has continued to be involved in both the property and finance markets for over 20 years at the highest level.
John Robles Director	Mr John Robles has over 14 years' experience in property and finance and is the Head of Finance for Balmain Corporation. Prior to joining Balmain in October 2008, John was an auditor for more than eight years at KPMG in Sydney and PWC in London. John manages statutory reporting, management accounting, fund accounting and taxation of the Group. John has a Bachelor of Commerce from Sydney University and is a member of the Institute of Chartered Accountants in Australia.

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Directors' report

Principal activities

The Trust is a management investment scheme which comprises a Cash Management Account and a series of discrete mortgage income trusts that each hold no more than one first mortgage loan over property.

The Trust did not have any employees during the year and is domiciled in Australia. There have been no significant changes in the activities of the Trust during the financial year.

Review and results of operations

Funds under management in the Trust as at 30 June 2016 were approximately $31,989,505 (2015:$ 14,655,000).

The Trust's net profit before finance costs for the year ended 30 June 2016 was $1,821,844 (2015: $983,000).

Distributions

Distributions paid or payable by the Trust in respect of the financial year were:

	2016	2015
	$'000	$'000
Distribution paid – Cash unit	46	21
Distribution payable – Cash unit	3	5
Distribution paid – Loan unit	1,288	821
Distribution payable – Loan unit	485	136
	1,822	983

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Performance

Returns from the Trust for the year, assuming monthly reinvestments, averaged 8.29% (2015: 6.67%).

Returns from the Sub-trusts during the year were as follows:

Sub-trusts	2016 Targeted Return	2016 Actual Return	2015 Targeted Return	2015 Actual Return
Apollo Street	-	-	5.40%	5.40%
Binnies Road	7.50%	7.50%	-	-
Birdwood Street	6.25%	6.25%	-	-
Barrie Road	5.75%	5.75%	5.75%	5.75%
Captain Cook Drive	7.10%	7.10%	7.10%	7.10%
Cecil 1	7.50%	7.50%	-	-
Cecil 2	12.50%	12.50%	-	-
Curran	7.30%	7.30%	-	-
Castlefield	9.10%	9.10%	-	-
Darley Street	-	-	7.60%	8.04%
Darling Street	6.40%	6.54%	6.40%	6.40%
Floriston Road 1	-	-	6.95%	7.07%
Floriston Road 2	7.10%	7.10%	7.10%	7.10%
Geissman Street 1	7.20%	7.20%	7.20%	7.20%
Geissman Street 2	7.15%	7.15%		
Glen Street 1	-	-	6.10%	6.10%
Glen Street 2	6.20%	6.20%	-	-
Hermitage Road 1	-	-	8.10%	8.10%
Hermitage Road 2	7.00%	7.00%	7.00%	7.00%
Joyce Street	6.70%	6.70%	6.70%	6.70%
Kings Cross Road 1	5.55%	5.61%	5.55%	5.55%
Kings Cross Road 2	8.55%	8.55%		
Lygon Street	-	-	6.60%	7.07%
McCarrs	6.75%	6.75%	-	-
Mirage Street	7.50%	7.50%	-	-
North High Street	8.95%	9.92%	8.95%	8.95%
Polo Avenue 2	-	-	6.05%	6.52%
Power Avenue	-	-	6.10%	6.75%
Routley Drive	7.00%	7.00%	-	-
Townson	7.75%	7.75%	-	-
Twin Creek	10.00%	10.00%	-	-
Walker Street 2	-	-	6.35%	6.60%
Welsby Street	-	-	5.65%	6.30%

The Trust has net assets of $31,989,505 as at 30 June 2016 (2015: $14,655,000).

Future performance is not guaranteed. Investors should exercise care in using past performance as a predictor of future performance.

Likely developments

Further information about likely developments in future years has not been included in this report because disclosure of information would be likely to result in unreasonable prejudice to the Trust.

Unit redemption price

The redemption price (ex-distribution) per unit is $1.00 as at 30 June 2016 (2015:$1.00).

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Directors' report

Units on issue

The movement in units on issue in the Trust during the year was as follows:

	2016 No. of Cash units '000	2016 No. of Loan units '000	2015 No. of Cash units '000	2015 No. of Loan units '000
Units on issue as at 1 July	2,308	12,347	198	15,790
Units issued	22,702	28,274	9,603	3,102
Loan units converted into cash units	10,376	(10,331)	9,859	(9,833)
Cash units converted into loan units	(25,679)	25,679	(14,046)	14,046
Units redeemed to investors	(7,272)	(26,414)	(3,306)	(10,758)
Units on issue as at 30 June	2,435	29,555	2,308	12,347

Value of the assets

	30 June 2016 $'000	30 June 2015 $'000
Value of the Trust's assets	31,990	14,655

The value of the Trust's assets is derived using the basis set out in Note 3 to the financial statements.

Responsible Entity's remuneration

Fees paid to the Responsible Entity and its associates out of the Trust property during the year are disclosed in Note 13 to the financial statements.

No fees were paid out of the Trust property to the directors of the Responsible Entity during the year.

Interests of the Responsible Entity

The number of units held in the Trust by the Responsible Entity during the financial year is disclosed in Note 13 to the financial statements.

Proceedings on behalf of the Trust

No person has applied for leave of court to bring proceedings on behalf of the Trust, or intervene in any proceedings to which the Trust is party, for the purpose of taking responsibility on behalf of the Trust for all or any part of their proceedings. The Trust was not a party to any such proceedings during the year.

State of affairs

There were no significant changes in the state of affairs of the Trust that occurred during the financial year under review.

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Directors' report

Events subsequent to reporting date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Responsible Entity, to significantly affect the operations of the Trust, the results of those operations, or the state of affairs of the Trust, in future financial years.

Environmental regulation

The Trust's operations are not subject to significant environmental regulations under either Commonwealth, State or Territory legislation, in respect of its activities during the year covered by this report.

Indemnification and insurance of officers and auditors

Indemnification

Under the Trust Constitution the Responsible Entity, including its officers and employees, is indemnified out of the Trust's assets for any loss, damage, expense or other liability incurred in properly performing or exercising any of its powers, duties or rights in relation to the Trust.

The Trust has not indemnified or made a relevant agreement for indemnifying against a liability any person who is or has been an auditor of the Trust.

Insurance premiums

No insurance premiums are paid out of the Trust's assets in relation to insurance cover for the Responsible Entity, its officers and employees, the Compliance Committee or the auditors of the Trust.

Auditor

Grant Thornton Audit Pty Limited was appointed as auditors in the year in accordance with section 327 of the Corporations Act 2001.

Auditor's independence declaration

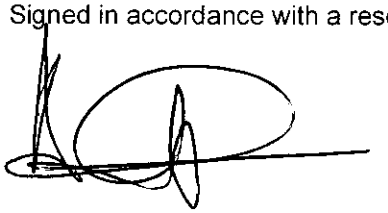
The auditor's independence declaration is set out on page 8 and forms part of the directors' report for the year ended 30 June 2016.

Rounding off

The Trust is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191 and accordingly, amounts in the financial statements and Directors' Report have been rounded to the nearest $1,000 (where rounding is applicable), or in certain cases, to the nearest dollar.

Dated at Sydney this 16th day of September 2016.

Signed in accordance with a resolution of the Directors of Balmain Fund Administration Limited:



Andrew Griffin
Director

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Auditor's Independence Declaration
To the Directors of Balmain Discrete Mortgage Income Trusts

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Balmain Discrete Mortgage Income Trusts for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

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

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

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A Sheridan
Partner - Audit & Assurance

Sydney, 16 September 2016

Grant Thornton Audit Pty Ltd ACN 130 913 594
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Statement of profit or loss and other comprehensive income
For the year ended 30 June 2016

	Note	2016 $'000	2015 $'000
Income			
Interest income	4	2,202	1,203
Total operating income		2,202	1,203
Operating expenses			
Responsible Entity fees	13	(313)	(187)
Other expenses		(67)	(33)
Total expenses before finance costs		(380)	(220)
Operating profit for the year before finance costs		1,822	983
Finance costs attributable to unitholders			
Distributions to unitholders	10	1,822	983
Total finance costs		1,822	983
Change in net assets attributable to unit holders		-	-
Profit/(loss) for the year		-	-
Other comprehensive income		-	-
Total comprehensive income		-	-

Statement of changes in equity

The Trust's net assets attributable to unitholders are classified as a liability under AASB132 Financial Instruments: *Presentation*. As such, the Trust has no equity and no changes in equity have been presented for the current year.

The notes on pages 12 to 26 are an integral part of these financial statements

Balmain Discrete Mortgage Income Trusts
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Statement of financial position
As at 30 June 2016

	Note	30 June 2016 $'000	30 June 2015 $'000
Current assets			
Cash and cash equivalents	6	4,013	2,961
Mortgage loans	7	20,839	10,747
Trade and other receivables	8	10	11
Total current assets		24,862	13,719
Non-current assets			
Mortgage loans	7	8,721	1,600
Total non-current assets		8,721	1,600
Total assets		33,583	15,319
Current liabilities			
Payables	9	1,106	523
Distribution payable	10	488	141
Total current liabilities		1,594	664
Total liabilities (excluding net assets attributable to unitholders)		1,594	664
Net assets attributable to unitholders - liability	11	31,989	14,655

The notes on pages 12 to 26 are an integral part of these financial statements

Balmain Discrete Mortgage Income Trusts
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Statement of cash flows
For the year ended 30 June 2016

	Note	2016	2015
		$'000	$'000
Cash flows from operating activities			
Interest received		2,495	1,108
Responsible Entity and related parties' fees paid		(231)	(168)
Payments for other expenses		(66)	(33)
Other		208	21
Net payments for settlement/ (proceeds from discharge) of mortgage loans		(17,213)	5,824
Net cash (outflow)/inflow from operating activities	12(a)	(14,807)	6,752
Cash flows from financing activities			
Applications received		51,020	10,324
Redemptions paid		(33,686)	(14,038)
Distributions paid		(1,475)	(1,116)
Net cash (outflow)/inflow from financing activities		15,859	(4,830)
Net increase in cash and cash equivalents		1,052	1,922
Cash and cash equivalents at the beginning of the financial year		2,961	1,039
Cash and cash equivalents at the end of the financial year	6	4,013	2,961

The notes on pages 12 to 26 are an integral part of these financial statements

Balmain Discrete Mortgage Income Trusts
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Notes to the financial statements
For the year ended 30 June 2016

1 Reporting entity

Balmain Discrete Mortgage Income Trusts is a registered managed investment scheme under the Corporations Act 2001. The financial report of the Trust is for the year ended 30 June 2016.

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) (including Australian Interpretations) issued by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial report of the Trust complies with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).

New and revised accounting standards applicable for the first time to the current reporting period

The financial report has been prepared in accordance with accounting standards adopted in the Trust's last annual financial statements for the year ended 30 June 2015. New accounting standards effective for the first time in the current year have been assessed and have not had a significant impact on the Trust's accounting policies or amounts reported during the year.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except where otherwise stated.

The basis of measurement for the entity's assets and liabilities are detailed in the accounting policies of Note 3.

(c) Functional and presentation currency

These financial statements are presented in Australian dollars, which is the Trust's functional currency.

The Trust is of a kind referred to in ASIC Corporations (Rounding in Financial/Director's Report) Instrument 2016/191 and accordingly, amounts in the financial statements and Directors' Report have been rounded to the nearest $1,000 (where rounding is applicable), or in certain cases, to the nearest dollar.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make adjustments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, unless otherwise stated in the following text.

(a) Revenue recognition

(i) Interest income

Interest income is recognised in the Statement of Profit and Loss and Other Comprehensive Income on an effective interest rate basis.

(ii) Other income

Other income is recognised in the Statement of Profit and Loss and Other Comprehensive Income when the right to receive the revenue has been established.

(b) Expenses

(i) Responsible Entity fees

Fees payable to the Responsible Entity are recognised in the Statement of Profit and Loss and Other Comprehensive Income on an accruals basis. Fees relating to specific events or transactions are charged upon completion or occurrence of the relevant service or event.

(ii) Other operating expenses

All other operating expenses are recognised in the Statement of Profit and Loss and Other Comprehensive Income on an accruals basis.

(c) Taxation

Under current legislation, the Trust is not subject to income tax as its taxable income, including assessable realised capital gains, is distributed in full to the unit holders.

The Trust fully distributes its distributable income, calculated in accordance with the Trust Constitution and applicable taxation legislation, to unit holders who are presently entitled to the income under the Trust's Constitution.

(d) Goods and services tax

Responsible Entity fees, custody fees and other expenses are recognised net of the amount of goods and services tax (GST) recoverable from the Australian Taxation Office (ATO) as a reduced input tax credit (RITC).

Payables are stated with the amount of GST included.

The net amount of GST recoverable from the ATO is included in receivables in the Statement of Financial Position.

GST is included in the statement of cash flows on a gross basis.

3 Significant accounting policies (continued)

(e) Financial instruments

(i) Classification

Financial instruments comprise:

- Financial assets that are classified as loans and receivables.
- Financial liabilities that are at fair value through profit or loss.

(ii) Recognition

The Trust recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

Financial instruments are recognised using trade date accounting. From this date any gains and losses arising from changes in the fair value of the financial assets or financial liabilities are recorded in profit or loss in the period in which they arise.

(iii) Measurement

Financial instruments are measured initially at fair value (transaction price) plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial instruments are amortised over the contractual term of the instrument.

Subsequent to initial recognition, all instruments classified at fair value through profit or loss are measured at fair value with changes in their fair value recognised in profit or loss.

Mortgage loans and receivables are carried at amortised cost using the effective interest rate method.

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective interest rate.

Receivables are due for settlement no more than 30 days from the date of recognition. Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the Statement of Profit or Loss and Other Comprehensive Income.

Financial liabilities arising from the redeemable units issued by the Trust are carried at the redemption amount representing the investors' right to a residual interest in the Trust's assets, effectively fair value at reporting date.

3 Significant accounting policies (continued)

(e) Financial instruments (continued)

(iv) Interest income and expense

Interest income and expense is recognised in profit or loss as it accrues, using the effective interest method of the instrument calculated at the acquisition or origination date. Interest income and expense includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest basis. Interest income is recognised on a gross basis, including withholding tax, if any.

Interest income on debt instruments at fair value through profit or loss is accrued using the effective interest method and classified to the Interest income line item within the Statement of Profit or Loss and Other Comprehensive Income.

(v) Derecognition

The Trust derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with AASB 139.

The Trust uses the weighted average method to determine realised gains and losses on derecognition of financial assets not at fair value.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

(vi) Impairment

Financial assets that are stated at amortised cost are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such indication exists, impairment testing is carried out and an impairment loss is recognised in the profit or loss as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the profit or loss.

(f) Cash and cash equivalents

Cash comprises current deposits with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

(g) Unit prices

The unit price is based on unit price accounting outlined in the Trust's Constitution and PDS.

3 Significant accounting policies (continued)

(h) Finance costs

Distributions paid and payable on units are recognised in the profit or loss as finance costs and as a liability where not paid. Distributions paid are included in cash flows from financing activities in the Statement of Cash Flows.

(i) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting periods and have not been early adopted by the Trust. The director's assessment of the impact of these new standards (to the extent relevant to the Trust) and interpretations is set out below:

AASB 9 Financial Instruments (effective from 1 January 2018)

AASB 9 Financial Instrument s addresses the classification, measurement and derecognition of financial assets and liabilities. The standards is not applicable until 1 January 2018 but is available for early adoption.

There will be no impact on the Trust's accounting for liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Trust does not have any such liabilities. The derecognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed. The Trust has not yet decided when to adopt AASB 9.

AASB 15 Revenue from Contracts with Customers (effective 1 January 2018)

AASB 15 Revenue from Contracts with Customers replaces AASB 118 Revenue, AASB 111 Construction Contracts and some revenue-related Interpretations. The main changes are:

- establishment of a new revenue recognition model.
- changes to the basis for deciding whether revenue is to be recognised over time or at a point in time.

The entity is yet to undertake a detailed assessment of the impact of AASB 15. However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ended 30 June 2019.

4 Interest income

	2016	2015
	$'000	$'000
Cash at bank	45	26
Mortgage loans	2,157	1,177
	2,202	1,203

5 Auditor's remuneration

	2016	2015
	$	$
Audit services:		
Audit and review of the financial report:		
Grant Thornton Audit Pty Limited	33,730	32,000
Non-audit services:		
Grant Thornton Audit Pty Limited	3,750	3,750
	37,480	35,750

The auditors' remuneration is paid by Balmain Funds Management Pty Limited, the management company of the Trust.

6 Cash and cash equivalents

	30 June 2016 $'000	30 June 2015 $'000
Cash at bank	4,013	2,961
	4,013	2,961

7 Mortgage loans

	30 June 2016 $'000	30 June 2015 $'000
Current mortgage loans	20,839	10,747
Non-current mortgage loans	8,721	1,600
Total mortgage loans	29,560	12,347

8 Trade and other receivables

	30 June 2016 $'000	30 June 2015 $'000
Other receivables	10	11
	10	11

All of the receivables are non-interest bearing and expected to be recovered within 12 months of the reporting date. There are no receivables past due or impaired as of the reporting date.

9 Payables

	30 June 2016 $'000	30 June 2015 $'000
Fees payable to the Responsible Entity	127	45
Other payables	979	478
	1,106	523

All payables are non-interest bearing and expected to be settled within 12 months of the reporting date.

10 Distributions

	2016 $'000	2015 $'000
The distributions were paid/payable as follows:		
Distribution paid – Cash unit	46	21
Distribution payable – Cash unit	3	5
Distribution paid – Loan unit	1,288	821
Distribution payable – Loan unit	485	136
	1,822	983

The final distribution was paid on 13th July 2016.
Distribution paid includes distribution reinvestment amount of $45,903 (2015:$26,084) for cash units and loan units.

11 Net assets attributable to unitholders

The Trust considers its capital to be unitholders' Funds. The Trust manages its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability.

The objective of the Trust is to provide unitholders with returns in accordance with the PDS. The Trust aims to deliver this objective mainly through investing in mortgage loans.

The Trust strives to invest in products that meet the Trust's investment objectives while maintaining sufficient liquidity to meet unitholders' redemptions.

Cash unit class

	30 June 2016		30 June 2015	
	No. of units '000	$'000	No. of units '000	$'000
Opening balance	2,308	2,308	198	198
Applications from investors	22,702	22,702	9,603	9,603
Applications from loan unit conversions	10,376	10,376	9,859	9,859
Redemptions to investors	(7,272)	(7,272)	(3,306)	(3,306)
Redemptions to loan unit conversions	(25,679)	(25,679)	(14,046)	(14,046)
Closing balance	2,435	2,435	2,308	2,308

11 Net assets attributable to unitholders (continued)

Loan unit class

	No. of units				30 June 2016
	Class B '000	Class L '000	Class T '000	Total No. of units '000	$'000
Opening balance	721	11,626	-	12,347	12,347
Applications – underwriter units	25,501	-	-	25,501	25,501
Applications from cash units	-	25,679	-	25,679	25,679
Application – Class T units	-	-	2,773	2,773	2,773
Redemptions to cash units	-	(10,331)	-	(10,331)	(10,331)
Redemptions – underwriter units	(25,829)	-	-	(25,829)	(25,829)
Redemptions – Class T units	-	-	(585)	(585)	(585)
Closing balance	393	26,974	2,188	29,555	29,555

Loan unit class

	No. of units		30 June 2015	
	Class B '000	Class L '000	Total No. of units '000	$'000
Opening balance	8,377	7,413	15,790	15,790
Applications – underwriter units	3,102	-	3,102	3,102
Applications from cash units	-	14,046	14,046	14,046
Redemptions to cash units	-	(9,833)	(9,833)	(9,833)
Redemptions – underwriter units	(10,758)	-	(10,758)	(10,758)
Closing balance	721	11,626	12,347	12,347

General terms
All units have the same rights to income. In the event of a wind-up of the Trust, each unit is entitled to a pro-rata share of the net assets of the Trust.

Class B Units
Class B units do not have any voting rights attaching to them and can be redeemed earlier than the repayment of the mortgage loans.

Class L units
Class L units have the same voting rights of one vote for each unit held. They are only able to be redeemed when the underlying loan in the sub-trust has been repaid.

Class T units
Class T units have the same voting rights of one vote for each unit held. They are only able to be redeemed when the underlying loan in the sub-trust has been repaid.

Cash units
Cash units have the same voting rights of one vote for each unit held. They are able to be redeemed upon 7 days' notice to the Investment Manager.

12 Notes to the statement of cash flows

(a) Reconciliation of cash flows from operating activities

	2016	2015
	$'000	$'000
Operating profit before finance costs	1,822	983
Change in assets and liabilities during the financial period:		
Decrease/ (Increase) in trade and other receivables	1	(8)
(Increase)/Decrease in mortgage loans	(17,213)	5,824
Increase/(Decrease) in payables	583	(47)
Net cash inflow in operating activities	(14,807)	6,752

(b) Non–cash operating and financing activities

The following non-cash investing and unitholder activities occurred during the period.

	2016	2016	2015	2015
	No. of units		No. of units	
	$'000	$'000	$'000	$'000
Units created in the Trust under the distribution paid reinvestment plan	45	45	26	26

	2016	2015
	$'000	$'000
Issue of loan units to underwriter in exchange for mortgage loans	-	416

13 Related party disclosures

Responsible Entity

The Responsible Entity of the Trust is Balmain Fund Administration Limited (ABN 98 134 526 604), a wholly owned subsidiary of Balmain NB Corporation Limited (ABN 86 107 505 760).

Balmain Funds Management Pty Limited (ABN 36 134 652 707) is the investment manager for the mortgage assets of the Trust and is a related party to Balmain NB Corporation Limited.

13 Related party disclosures (continued)

Key management personnel

The Trust does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage the activities of the Trust. The directors of the Responsible Entity are key management personnel of that entity and their names are:

Name	*Appointed*
Michael Holm (Director)	8 December 2008
Andrew Griffin (Director)	8 December 2008
John Robles (Director)	11 August 2014

Remuneration of directors of the Responsible Entity

Remuneration of the directors is paid directly by the Responsible Entity. The directors are not provided with any remuneration by the Trust itself, and there are no agreements in place between the directors and the Trust to this effect.

The Responsible Entity determines remuneration levels and ensures they are competitively set to attract and retain appropriately qualified and experienced directors.

Management fees and other transactions

The fees paid or payable by the Trust to the Responsible Entity and management fees paid or payable to Balmain Funds Management Pty Limited, the Trust manager during the year

	2016	2015
	$	$
Management fees	285,452	144,794
Performance fees	16,288	36,478
Other reimbursable fees	10,778	5,098
Total	312,518	186,370
The following amounts are included in payables as management fees at reporting date	126,662	44,923

The fees charged to the Trust during the financial year include those charged by the Responsible Entity directly for the management of the assets, plus investment manager, registry and custodial fees.

Expenses excluded are those that would have ordinarily been incurred by a direct investor in the underlying assets of the Trust, such as brokerage, transaction costs and government expenses.

Responsible Entity's holdings of units

As at 30 June 2016 no key management personnel held units in the Trust. Details of these related party unit holdings are discussed below.

13 Related party disclosures (continued)

Related party transaction

The terms and conditions of the transactions with directors and their director related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

Other transactions within the Trust

Apart from those details disclosed in this note, no director has entered into a material contract with the Trust during the period and there were no material contracts involving directors' interests subsisting at period end.

14 Financial instruments

The Trusts' investing activities expose it to the following risks from its use of financial instruments:

- market risk
- credit risk
- liquidity risk

The nature and extent of the financial instruments employed by the Trust are discussed below. The Responsible Entity has overall responsibility for the establishment and oversight of the Trust's risk management framework.

This note presents information about the Trust's exposure to each of the above risks, the Trust's objectives, policies and processes for measuring and managing risk.

Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and equity prices will affect the Trust's income or value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

Interest rate risk

Interest rate risk consists of cash flow interest rate risk (the risk that future cash flows of a financial instrument will vary due to changes in market interest rates) and fair value interest rate risk (the risk that the value of a financial instrument will vary due to changes in market interest rates).

Management of interest rate risk

The Trust's interest bearing financial assets mature or reprice in the short-term, no longer than twelve months. As a result, the Trust is subject to limited exposure to fair value interest rate risk due to the fluctuations in the prevailing levels of market interest rates. Any excess cash and cash equivalents of the Trust are invested in cash management accounts that are at call.

14 Financial instruments (continued)

Exposure to interest rate risk

As at the reporting date the interest rate profile of the Trust's interest bearing instruments was:

	Ratings	30 June 2016 $'000	30 June 2015 $'000
Variable rate instruments			
Cash and cash equivalents	AA	4,013	2,961
Mortgage loans (current)	n/a	20,839	10,747
Mortgage loans (non current)	n/a	8,721	1,600
Loans and receivables	n/a	10	11
		33,583	15,319

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/ (decreased) profit or loss by the amounts shown below.

	30 June 2016 Profit or loss		30 June 2015 Profit or loss	
	100bp increase	100bp increase	100bp increase	100bp decrease
Variable rate instruments				
Cash and cash equivalents	40	(40)	30	(30)
Mortgage loans (current)	208	(208)	107	(107)
Mortgage loans (non current)	87	(87)	16	(16)
Cash flow sensitivity (net)	335	(335)	153	(153)

As the Trust does not hold any equity investment or assets and liabilities in foreign currencies, the Trust does not consider that it has exposure to equity price risk or currency risk.

Credit risk

Credit risk is the risk of financial loss to the Trust if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Management of credit risk

The Trust invests in loans in Australian capital cities and regional centres secured by registered first mortgages.

The Trust is required to implement credit policies, procedures and lending guidelines set out by the Board of Directors of the investment management company, Balmain Funds Management Pty Limited with formalised loan approval authorities in place.

The BFAL and Balmain Funds Management Boards have established a Credit and Investment Committee ("CIC") for the Trust. The CIC is responsible for the assessment and approval of loan transactions in accordance with Trust lending guidelines and lending authorities.

The directors of the Responsible Entity retain overall responsibility for the quality and performance of the Trust's credit portfolios and for monitoring and controlling all credit risks in the Trust's loans. A lending system is in place to enable the Trust to control and monitor credit risk exposures.

14 Financial instruments (continued)

Credit exposure

The carrying amount of the Trust's financial assets represents the maximum credit exposure before taking into account any collateral held or other credit enhancements unless such credit enhancements meet the offsetting requirements.

The Trust's maximum exposure to credit risk at the reporting date was:

	Credit rating	30 June 2016 $'000	30 June 2015 $'000
Cash and cash equivalents	AA	4,013	2,961
Trade and other receivables	n/a	10	11
Mortgage loans (Current assets)	n/a	20,839	10,747
Mortgage loans (Non current assets)	n/a	8,721	1,600
		33,583	**15,319**

Credit quality

The aging of the Trust's mortgage loans at the reporting date was:

	30 June 2016		30 June 2015	
	Gross $'000	Impairment $'000	Gross $'000	Impairment $'000
Not past due	28,418	-	12,347	-
Past due 0-30 days	1,142	-	-	-
Past due 31-60 days	-	-	-	-
Past due 61-90 days	-	-	-	-
Past due more than 90 days	-	-	-	-
	29,560	-	12,347	-

Past due but not impaired

There are mortgages with a value of $1,142,473 (2015: nil) past due which are not considered to be impaired as the value of related security is in excess of the loan due.

Collateral and other credit enhancements

The Trust's loan assessment policy is fundamentally based on collateral, debt repayment capacity and credit standing. Collateral can be an important mitigation of credit risk and the majority of the loan to valuation ratio ("LVR") is up to 70% at acceptance and confirmed via compliance sign off prior to settlement of the advance.

The Trust is required to implement guidelines on the acceptability of specific classes of collateral or credit risk mitigation, and determine suitable valuation parameters. Such parameters are expected to be conservative, reviewed regularly and supported by empirical evidence. Security structures and legal covenants are required to be subject to regular review to ensure that they continue to fulfil their intended purpose and remain in line with local market practice. Independent valuations of the total collateral for the mortgaged loans is $63 million (2015: $30 million).

14 Financial instruments (continued)

Collateral and other credit enhancements (continued)

LVR Profile	30 June 2016			30 June 2015		
	Total no. of loans	Total % portfolio	Outstanding loans	Total no. of loans	Total % portfolio	Outstanding loans
< 40.00%	4	23.25%	6,872	4	37.26%	4,600
40.01% - 50.00%	3	21.99%	6,500	1	12.96%	1,600
50.01% -60.00%	8	53.36%	15,772	3	29.64%	3,660
60.01% - 70.00%	1	1.41%	416	3	20.14%	2,487
70.01% - 80.00%	-	-	-	-	-	-
80.01% - 100.00%	-	-	-	-	-	-
	16	100%	29,560	11	100%	12,347

Liquidity risk

Liquidity risk is the risk that the Trust will not be able to meet its financial obligations as they fall due.

Management of liquidity risk

Distributions will be paid from Trust income.

The income generated by the Trust in respect of cash units is derived from interest received from the cash management account. Income distributions are paid monthly in arrears. Cash units are able to be redeemed at any time. All amounts invested in cash units are retained in an at-call cash management account.

The income generated by the Trust in respect of a particular loan unit is derived from the interest paid by the borrowers in respect of the associated loan or from prepaid interest. Income distributions from cash units are paid monthly in arrears. Income distributions from loan units are paid quarterly in arrears. Loan units (Class L and Class T) are able to be redeemed only at the expiry of loan term after all principal amounts have been received from the borrower.

14 Financial instruments (continued)

Exposure to liquidity risk

The table below presents cash flows payable by the Trust by remaining contractual maturities at the reporting date. The amounts disclosed are the contractual, undiscounted cash flows:

30 June 2016	Note	Carrying amount $'000	Contractual cash flows $'000	At call $'000	0-6months $'000	>6months $'000
Financial liabilities						
Payables	9	1,106	1,106	-	1,106	-
Distributions payable	10	488	488	-	488	-
Net asset attributable to unit holders		31,989	31,989	2,435	-	29,554
		33,583	33,583	2,435	1,594	29,554

30 June 2015	Note	Carrying amount $'000	Contractual cash flows $'000	At call $'000	0-6months $'000	>6months $'000
Financial liabilities						
Payables	9	523	523	-	523	-
Distributions payable	10	141	141	-	141	-
Net asset attributable to unit holders		14,655	14,655	2,308	-	12,347
		15,319	15,319	2,308	664	12,347

15 Contingencies

There are no contingent assets or contingent liabilities as at 30 June 2016.

16 Events subsequent to the reporting date

There have been no events subsequent to the reporting date which would have a material effect on the Trust's financial statements as at 30 June 2016.

17 Trust details

Balmain Discrete Mortgage Income Trusts, registered and domiciled in Australia, is a registered managed investment scheme.

The address of the registered office is:

Level 14
60 Castlereagh Street
Sydney NSW 2000
AUSTRALIA

The Responsible Entity had no employees at the end of the year.

Balmain Discrete Mortgage Income Trusts
Directors' declaration
As at 30 June 2016

In the opinion of the directors of Balmain Fund Administration Limited, the responsible entity of Balmain Discrete Mortgage Income Trusts (the "Trust"):

(a) the financial statements and notes, set out on pages 9 to 26 are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the financial position of the Trust as at 30 June 2016 and of its performance for the year ended 30 June 2016; and

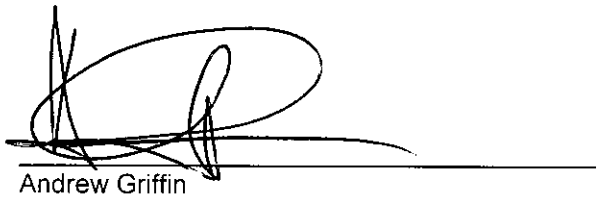
  (ii) complying with Accounting Standards and the Corporations Regulations 2001and other mandatory professional reporting standards; and

(b) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

(c) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a);

Dated at Sydney this16th day of September 2016

Signed in accordance with a resolution of the Directors of Balmain Fund Administration Limited:



Andrew Griffin
Director

Independent auditor's report

GT to provide

Grant Thornton

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Independent Auditor's Report
To the Members of Balmain Discrete Mortgage Income Trusts

We have audited the accompanying financial report of Balmain Discrete Mortgage Income Trusts (the "Trust"), which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Responsible Entity of the Trust.

Directors of the Responsible Entity's responsibility for the financial report

The Directors of the Responsible Entity of the Trust 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 of the Responsible Entity's responsibility also includes such internal control as the Directors of the Responsible Entity 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. The Directors of the Responsible Entity also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Trust's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors of the Responsible Entity, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion:

a the financial report of Balmain Discrete Mortgage Income Trusts is in accordance with the Corporations Act 2001, including:

   i. giving a true and fair view of the Trust's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

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

b. the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

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GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A Sheridan
Partner - Audit & Assurance

Sydney, 16 September 2016