

**Balmain Discrete Mortgage Income  
Trusts**

**ARSN 155 909 176**

Annual Financial Report  
Year Ended 30 June 2019

**Balmain Discrete Mortgage Income Trusts**  
**ARSN 155 909 176**  
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# Balmain Discrete Mortgage Income Trusts

## ARSN 155 909 176

### Directors' report

The directors of Balmain Fund Administration Limited ("BFAL"), 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 2019.

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 Appointed: 08/12/2008	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 Appointed: 08/12/2008	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.
Steven Hall Director Appointed: 26/10/2016	Steven is the CEO of Brookvine. He joined the board of BFAL in 2016. Brookvine is a leading independent fund placement and advisory business. Prior to joining Brookvine Steven was Head of Asset Management at IPAC Securities Limited (AXA Group) with overall responsibility for IPAC's \$13 billion multi-manager business. Steven worked with IPAC for 14 years and played a lead role in founding IPAC's multi-manager business, directing its expansion in the Asia Pacific region and growing it to be one of the leading Australasian businesses of its type. Prior to joining IPAC, Steven was a management consultant and before that, an accountant at Arthur Andersen & Co. He holds a Bachelor of Commerce from the University of New South Wales.
John Robles Director Appointed: 11/08/2014	Mr John Robles has over 18 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 and New Zealand.

# **Balmain Discrete Mortgage Income Trusts**

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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.

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 2019 were \$487,210,097 (2018: \$259,257,188).

The Trust's net profit before finance costs for the year ended 30 June 2019 was \$30,344,076 (2018: \$15,133,076).

#### **Distributions**

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

	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Distribution paid – Cash unit	338	165
Distribution payable – Cash unit	34	16
Distribution paid – Loan unit	27,176	13,297
Distribution payable – Loan unit	2,796	1,655
	<u>30,344</u>	<u>15,133</u>

# Balmain Discrete Mortgage Income Trusts

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### Directors' report

#### Performance

Returns from the Trust for the year, assuming monthly reinvestments, averaged 7.69% (2018: 7.70%).

The Trust has net assets of \$487,210,097 as at 30 June 2019 (2018: \$259,257,188).

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 2019 (2018:\$1.00).

#### Units on issue

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

	2019	2019	2018	2018
	No. of Cash units '000	No. of Loan units '000	No. of Cash units '000	No. of Loan units '000
Units on issue as at 1 July	10,775	248,482	5,221	142,877
Units issued	225,645	614,309	155,319	347,029
Loan units converted into cash units	235,927	(235,927)	136,063	(136,063)
Cash units converted into loan units	(368,910)	368,910	(232,986)	232,986
Units redeemed to investors	(70,491)	(541,510)	(52,842)	(338,347)
Units on issue as at 30 June	32,946	454,264	10,775	248,482

#### Value of the assets

	30 June 2019 \$'000	30 June 2018 \$'000
Value of the Trust's assets	511,942	270,099

The value of the Trust's assets is derived using the basis set out in Note 2 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 12 to the financial statements.

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

# **Balmain Discrete Mortgage Income Trusts**

## **ARSN 155 909 176**

### **Directors' report**

#### **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 12 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.

#### **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 2019.

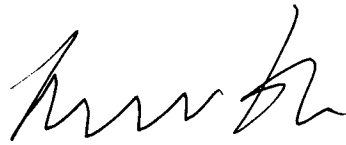
**Balmain Discrete Mortgage Income Trusts**  
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**Directors' report**

**Rounding off**

The Trust is of a type of entity referred to in Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and therefore the amounts contained in this report and in the financial 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 27<sup>th</sup> day of September 2019.

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



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Michael Holm  
Director



# Grant Thornton

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## Auditor's Independence Declaration to the Directors of the Responsible Entity 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 2019, 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 J Sheridan  
Partner – Audit & Assurance

Sydney, 27 September 2019

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**Balmain Discrete Mortgage Income Trusts****ARSN 155 909 176****Statement of profit or loss and other comprehensive income****For the year ended 30 June 2019**

	<b>Note</b>	<b>2019 \$'000</b>	<b>2018 \$'000</b>
<b>Income</b>			
Interest income	4	35,461	18,807
<b>Total operating income</b>		<u>35,461</u>	<u>18,807</u>
<b>Operating expenses</b>			
Responsible Entity fees	12	(4,358)	(3,093)
Other expenses		(759)	(581)
<b>Total expenses before finance costs</b>		<u>(5,117)</u>	<u>(3,674)</u>
<b>Operating profit for the year before finance costs</b>		<u>30,344</u>	<u>15,133</u>
<b>Finance costs attributable to unitholders</b>			
Distributions to unitholders	9	30,344	15,133
<b>Total finance costs</b>		<u>30,344</u>	<u>15,133</u>
<b>Change in net assets attributable to unit holders</b>		<u>-</u>	<u>-</u>
<b>Profit/(loss) for the year</b>		-	-
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<u>-</u>	<u>-</u>

**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.

These financial statements should be read in conjunction with the notes on pages 12 to 28

**Balmain Discrete Mortgage Income Trusts**  
**ARSN 155 909 176**  
**Statement of financial position**  
**As at 30 June 2019**

	Note	2019 \$'000	2018 \$'000
<b>Current assets</b>			
Cash and cash equivalents	6	57,507	21,432
Mortgage loans	7	369,089	195,295
<b>Total current assets</b>		426,596	216,727
<b>Non-current assets</b>			
Mortgage loans	7	85,346	53,372
<b>Total non-current assets</b>		85,346	53,372
<b>Total assets</b>		511,942	270,099
<b>Current liabilities</b>			
Payables	8	20,494	8,875
Distribution payable	9	2,830	1,671
<b>Total current liabilities</b>		23,324	10,546
<b>Non-current liabilities</b>			
Payables	8	1,408	296
<b>Total non-current liabilities</b>		1,408	296
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		24,732	10,842
<b>Net assets attributable to unitholders - liability</b>	10	487,210	259,257

These financial statements should be read in conjunction with the notes on pages 12 to 28

**Balmain Discrete Mortgage Income Trusts**  
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**Statement of cash flows**  
**For the year ended 30 June 2019**

		<b>2019</b>	<b>2018</b>
	<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Cash flows from operating activities</b>			
Interest received		45,985	17,045
Responsible Entity and related parties' fees paid		(2,460)	(2,173)
Payments for other expenses		(450)	(509)
Net payments of mortgage loans		(205,768)	(105,858)
<b>Net cash outflow from operating activities</b>	11(a)	(162,693)	(91,495)
<b>Cash flows from financing activities</b>			
Applications received		836,039	497,445
Redemptions paid		(612,001)	(388,089)
Distributions paid		(25,270)	(13,963)
<b>Net cash inflow from financing activities</b>		198,768	95,393
<b>Net increase in cash and cash equivalents</b>		36,075	3,898
<b>Cash and cash equivalents at the beginning of the financial year</b>		21,432	17,534
<b>Cash and cash equivalents at the end of the financial year</b>	6	57,507	21,432

These financial statements should be read in conjunction with the notes on pages 12 to 28

# **Balmain Discrete Mortgage Income Trusts**

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### **Notes to the financial statements**

#### **For the year ended 30 June 2019**

#### **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 2019.

#### **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 standards applicable for the current year effective 1 July 2018**

##### ***AASB 15 Revenue from Contracts with Customers***

AASB 15 Revenue from Contracts with Customers replaces AASB 118 Revenue, AASB 111 Construction Contracts and some revenue-related Interpretations. The new Standard has been applied as at 1 July 2018 using the modified retrospective approach. Under this method, the cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings at 1 July 2018 and comparatives are not restated.

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.
- Provides new and more detailed guidance of specific topics (e.g., multiple element arrangements, variable pricing, rights of return, warranties and licensing)
- expands and improves disclosures about revenue

##### **Impact on adoption:**

The Trust's only income is interest earned on Cash and Cash Equivalents and Mortgage Loans that is recognised using the effective interest rate method. The Trust has therefore determined that AASB 15 Revenue from Contracts with Customers is not applicable.

##### ***AASB 9 Financial Instruments and its consequential amendments***

AASB 9 Financial Instruments replaces AASB 139 Financial Instruments: Recognition and Measurement. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for impairment of financial assets.

When adopting AASB 9, the Trust has applied transitional relief and opted not to restate prior periods. Differences arising from the adoption of AASB 9 in relation to classification, measurement, and impairment are recognised in opening retained earnings as at 1 July 2018.

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**For the year ended 30 June 2019**

**2 Basis of preparation**

**New standards applicable for the current year effective 1 July 2018 (continued)**

**Classification and measurement of the Trust's financial assets**

AASB 9 allows for three classification categories for financial assets – amortised cost, FVOCI and FVPL. Classification is based on the business model in which a financial asset is managed and the related contractual cashflows. AASB 9 eliminates previous categories of held to maturity, loans and receivables and available for sale. Classification of financial liabilities is largely unchanged.

Impact on adoption:

The Trust's financial assets and liabilities experienced no changes to their classification and measurement on adoption of AASB 9. The Trust's mortgage loans which are held for collection continue to be measured at amortised cost.

**Impairment of the Trust's financial assets**

The Trust's financial instruments carried at amortised cost (Mortgage Loans) are subject to AASB 9's new three-stage expected credit loss model.

On adoption of AASB 9, the Trust has changed the accounting for impairment losses for financial assets by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach, and has calculated ECLs based on the Trust's historical credit loss experience, adjusted for forward-looking factors specific to the mortgage loans and the economic environment.

Impact on adoption:

The Trust has no history of impairment of the Mortgage Loans. The current credit policies, procedures and guidelines set out by the Board of Directors of the investment management Company, Balmain Funds Management Pty Limited include detailed assessment of collateral, debt repayment capacity and credit standing and impose stringent requirements on the LVR of the Mortgage Loans.

No impairment allowance was recognised for the Mortgage loans.

**(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 significant accounting policies in Note 3.

**(c) Functional and presentation currency**

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

**(d) Rounding of accounts**

The Trust is of a type of entity referred to in Australian Securities and Investments Commission (ASIC) Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and therefore the amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable), or in certain cases, to the nearest dollar.

**Balmain Discrete Mortgage Income Trusts**  
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**Notes to the financial statements**  
**For the year ended 30 June 2019**

**(e) 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 performance obligations attached to the other income is fulfilled.

**b. Expenses**

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.

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.

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

**Balmain Discrete Mortgage Income Trusts**  
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**Notes to the financial statements**  
**For the year ended 30 June 2019**

**3 Significant accounting policies (continued)**

**e. Financial instruments**

**Recognition, initial measurement and derecognition**

Financial assets and financial liabilities are recognised when the Trust becomes a party to the contractual provisions of the financial instrument, and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss, which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

**Classification and subsequent measurement of financial assets**

Except for those receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- amortised cost
- fair value through profit or loss (FVPL)
- equity instruments at fair value through other comprehensive income (FVOCI)
- debt instruments at fair value through other comprehensive income (FVOCI)

Classifications are determined by both:

- The entities business model for managing the financial asset
- The contractual cash flow characteristics of the financial assets

All income and expenses relating to financial assets that are recognised in profit or loss are presented within other expenses.

**Subsequent measurement financial assets**

*Financial assets at amortised cost*

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding
- After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Trust's cash and cash equivalents, mortgage loans and other receivables fall into this category of financial instruments.

**Balmain Discrete Mortgage Income Trusts**  
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**Notes to the financial statements**  
**For the year ended 30 June 2019**

**3 Significant accounting policies (continued)**

**(e) Financial instruments (continued)**

**Impairment of Financial assets**

AASB 9's impairment requirements use more forward looking information to recognise expected credit losses – the 'expected credit losses (ECL) model'. Instruments within the scope of the new requirements included mortgage loans and other receivables which are measured at amortised cost.

*Mortgage loans and other receivables*

The Trust makes use of a simplified approach in accounting for mortgage loans and other receivables and records the loss allowance at the amount equal to the expected lifetime credit losses. In using this practical expedient, the Trust uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Trust assess impairment of mortgage loans and other receivables on a collective basis as they possess credit risk characteristics based on days past due or when other evidence is received that a specific counterparty will default.

**Classification and measurement of financial liabilities**

As the accounting for financial liabilities remains largely unchanged from AASB 139, the Trust's financial liabilities were not impacted by the adoption of AASB 9. However, for completeness, the accounting policy is disclosed below.

The Trust's financial liabilities include trade and other payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Trust designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss.



**Balmain Discrete Mortgage Income Trusts**  
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**Notes to the financial statements**  
**For the year ended 30 June 2019**

**3 Significant accounting policies (continued)**

**(e) Financial instruments (continued)**

**Accounting policies for financial instruments applicable to 30 June 2018**

Loans and receivables

Mortgage loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Mortgage loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently recorded at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

**(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.

**(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.

**Balmain Discrete Mortgage Income Trusts**  
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**For the year ended 30 June 2019**

**4 Interest income**

	30 June 2019	30 June 2018
	\$'000	\$'000
Cash at bank	567	300
Mortgage loans	34,894	18,507
	<u>35,461</u>	<u>18,807</u>

**5 Auditor's remuneration**

	30 June 2019	30 June 2018
	\$	\$
<b>Audit services:</b>		
Audit and review of the financial report:		
Grant Thornton Audit Pty Limited	152,375	76,500
<b>Non-audit services:</b>		
Tax return preparation and lodgement:		
Grant Thornton Audit Pty Limited	5,500	5,250
	<u>157,875</u>	<u>81,750</u>

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

**6 Cash and cash equivalents**

	30 June 2019	30 June 2018
	\$'000	\$'000
Cash at bank	57,507	21,432
	<u>57,507</u>	<u>21,432</u>

**7 Mortgage loans**

	30 June 2019	30 June 2018
Financial assets at amortised cost	\$'000	\$'000
Current mortgage loans	369,089	188,749
Non-current mortgage loans	85,346	59,918
<b>Total mortgage loans</b>	<u>454,435</u>	<u>248,667</u>

**Balmain Discrete Mortgage Income Trusts**  
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**For the year ended 30 June 2019**

**8 Payables**

<b>Financial liabilities at amortised cost -</b>	<b>30 June 2019</b>	<b>30 June 2018</b>
<b>Current</b>	<b>\$'000</b>	<b>\$'000</b>
Fees payable to the Responsible Entity	3,376	1,478
Prepaid interest	16,271	6,859
Other payables	847	538
	<u>20,494</u>	<u>8,875</u>

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

<b>Financial liabilities at amortised cost –</b>	<b>30 June 2019</b>	<b>30 June 2018</b>
<b>Non-current</b>	<b>\$'000</b>	<b>\$'000</b>
Prepaid interest	1,408	296
	<u>1,408</u>	<u>296</u>

**9 Distributions**

	<b>30 June 2019</b>	<b>30 June 2018</b>
	<b>\$'000</b>	<b>\$'000</b>
The distributions were paid/payable as follows:		
Distribution paid – Cash unit	338	165
Distribution payable – Cash unit	34	16
Distribution paid – Loan unit	27,176	13,297
Distribution payable – Loan unit	2,796	1,655
	<u>30,344</u>	<u>15,133</u>

The final distribution was paid on 12<sup>th</sup> July 2019.

Distribution paid includes distribution reinvestment amount of \$3,914,892 (2018: \$1,803,208) for cash units and loan units.

**Balmain Discrete Mortgage Income Trusts**  
**ARSN 155 909 176**  
**Notes to the financial statements**  
**For the year ended 30 June 2019**

**10 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.

	30 June 2019		30 June 2018	
	No. of units '000	\$'000	No. of units '000	\$'000
Cash units	32,946	32,946	10,775	10,775
Loan units	454,264	454,264	248,482	248,482
Closing balance	487,210	487,210	259,257	259,257

**Cash unit class**

	30 June 2019		30 June 2018	
	No. of units '000	\$'000	No. of units '000	\$'000
Opening balance	10,775	10,775	5,221	5,221
Applications from investors	225,645	225,645	153,819	153,819
Applications from loan unit conversions	235,927	235,927	136,063	136,063
Redemptions to investors	(70,491)	(70,491)	(51,342)	(51,342)
Redemptions to loan unit conversions	(368,910)	(368,910)	(232,986)	(232,986)
Closing balance	32,946	32,946	10,775	10,775

**Loan unit class**

	No. of units				30 June 2019	
	Class B '000	Class L '000	Class N '000	Class T '000	Total No. of units '000	\$'000
Opening balance	34,089	190,975	2,639	20,779	248,482	248,482
Applications – underwriter units	493,761	-	-	-	493,761	493,761
Applications from cash units	-	368,910	-	-	368,910	368,910
Applications from Class N	-	-	11,219	-	11,219	11,219
Applications – Class T units	-	-	-	109,329	109,329	109,329
Redemptions to cash units	-	(235,927)	-	-	(235,927)	(235,927)
Redemptions – underwriter units	(427,648)	-	-	-	(427,648)	(427,648)
Redemptions – Class T units	-	-	-	(107,223)	(107,223)	(107,223)
Redemptions – Class N units	-	-	(6,639)	-	(6,639)	(6,639)
Closing balance	100,202	323,958	7,219	22,885	454,264	454,264

**Balmain Discrete Mortgage Income Trusts**  
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**Notes to the financial statements**  
**For the year ended 30 June 2019**

**10 Net assets attributable to unitholders (continued)**

**Loan unit class**

	<b>Class B</b>	<b>No. of units</b>		<b>Class T</b>	<b>30 June 2018</b>	
	<b>'000</b>	<b>Class L</b>	<b>Class N</b>	<b>'000</b>	<b>Total No.</b>	<b>\$'000</b>
		<b>'000</b>	<b>'000</b>		<b>of units</b>	
					<b>'000</b>	
Opening balance	40,914	94,052	6,311	1,600	142,877	142,877
Applications – underwriter units	264,188	-	-	-	264,188	264,188
Applications from cash units	-	232,986	-	-	232,986	232,986
Applications from Class N	-	-	3,947	-	3,947	3,947
Applications – Class T units	-	-	-	78,894	78,894	78,894
Redemptions to cash units	-	(136,063)	-	-	(136,063)	(136,063)
Redemptions – underwriter units	(271,013)	-	-	-	(271,013)	(271,013)
Redemptions – Class T units	-	-	-	(59,715)	(59,715)	(59,715)
Redemptions – Class N units	-	-	(7,619)	-	(7,619)	(7,619)
Closing balance	34,089	190,975	2,639	20,779	248,482	248,482

**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 N units**

Class N 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.

**Balmain Discrete Mortgage Income Trusts**  
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**Notes to the financial statements**  
**For the year ended 30 June 2019**

**11 Notes to the statement of cash flows**

**(a) Reconciliation of cash flows from operating activities**

	2019	2018
	\$'000	\$'000
Operating profit before finance costs	30,344	15,133
Change in assets and liabilities during the financial period:		
(Increase) in mortgage loans	(205,768)	(105,858)
Increase/(Decrease) in payables	12,731	(770)
Net cash inflow in operating activities	162,693	(91,495)

**Non-cash operating and financing activities**

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

	30 June 2019	30 June 2019	30 June 2018	30 June 2018
	No. of units		No. of units	
	'000	\$'000	'000	\$'000
Units created in the Trust under the distribution paid reinvestment plan	3,915	3,915	1,803	1,803

There were no non-cash operating and financing activities other than the one disclosed above.

**12 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.

**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 who are also key management personnel are:

**Balmain Discrete Mortgage Income Trusts**  
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**Notes to the financial statements**  
**For the year ended 30 June 2019**

**12 Related party disclosures (continued)**

<i><b>Name</b></i>	<i><b>Appointed</b></i>
Michael Holm (Director)	8 December 2008
Andrew Griffin (Director)	8 December 2008
John Robles (Director)	11 August 2014
Steven Hall (Director)	26 October 2016

**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 are disclosed below:

	<b>30 June 2019</b>	<b>30 June 2018</b>
	<b>\$</b>	<b>\$</b>
Management fees	4,022,310	2,712,237
Performance fees	200,306	289,156
Other reimbursable fees	135,935	91,402
Total	4,358,551	3,092,795
The following amounts are included in payables as management fees at reporting date	3,375,703	1,477,724

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.

**Key management personnel holdings of units**

As at 30 June 2019, no key management personnel held units in the Trust.

**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.

**Balmain Discrete Mortgage Income Trusts**  
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**Notes to the financial statements**  
**For the year ended 30 June 2019**

**12 Related party disclosures (continued)**

**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.

**13 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.



**Balmain Discrete Mortgage Income Trusts**  
**ARSN 155 909 176**  
**Notes to the financial statements**  
**For the year ended 30 June 2019**

**13 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:

	<b>Ratings</b>	<b>30 June 2019 \$'000</b>	<b>30 June 2018 \$'000</b>
<b>Variable rate instruments</b>			
Cash and cash equivalents	AA	57,507	21,432
Mortgage loans (current)	n/a	369,089	195,295
Mortgage loans (non current)	n/a	85,346	53,372
		<u>511,942</u>	<u>270,099</u>

***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.

	<b>30 June 2019 Profit or loss</b>		<b>30 June 2018 Profit or loss</b>	
	<b>100bp increase</b>	<b>100bp increase</b>	<b>100bp increase</b>	<b>100bp decrease</b>
<b>Variable rate instruments</b>				
Cash and cash equivalents	575	(575)	214	(214)
Mortgage loans (current)	3,691	(3,691)	1,953	(1,953)
Mortgage loans (non current)	853	(853)	534	(534)
Cash flow sensitivity (net)	<u>5,119</u>	<u>(5,119)</u>	<u>2,701</u>	<u>(2,701)</u>

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 Pty Limited 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.

**Balmain Discrete Mortgage Income Trusts**  
**ARSN 155 909 176**  
**Notes to the financial statements**  
**For the year ended 30 June 2019**

**13 Financial instruments (continued)**

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.

***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:

	<b>Credit rating</b>	<b>30 June 2019 \$'000</b>	<b>30 June 2018 \$'000</b>
Cash and cash equivalents	AA	57,507	21,432
Mortgage loans (Current assets)	n/a	369,089	195,295
Mortgage loans (Non current assets)	n/a	85,346	53,372
		<u>511,942</u>	<u>270,099</u>

***Credit quality***

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

	<b>30 June 2019</b>		<b>30 June 2018</b>	
	<b>Gross \$'000</b>	<b>Impairment \$'000</b>	<b>Gross \$'000</b>	<b>Impairment \$'000</b>
Not past due	448,880	-	242,121	-
Past due 0-30 days	-	-	-	-
Past due 31-60 days	-	-	6,546	-
Past due 61-150 days	2,245	-	-	-
Past due more than 150 days	3,310	-	-	-
	<u>454,435</u>	<u>-</u>	<u>248,667</u>	<u>-</u>

***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. During the year ended 30 June 2019, the highest loan to value ratio of any discrete loan was 67% at acceptance (2018: 66%).

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 \$864 million (2018: \$580 million).

**Balmain Discrete Mortgage Income Trusts**  
**ARSN 155 909 176**  
**Notes to the financial statements**  
**For the year ended 30 June 2019**

**13 Financial instruments (continued)**

**Collateral and other credit enhancements (continued)**

LVR Profile	30 June 2019			30 June 2018		
	Total no. of loans	Total % portfolio	Outstanding loans	Total no. of loans	Total % portfolio	Outstanding loans
< 40.00%	16	7.69%	34,948	12	14.16%	35,200
40.01% - 50.00%	24	20.28%	92,175	22	45.07%	112,069
50.01% - 60.00%	62	58.16%	264,270	31	31.87%	79,276
60.01% - 70.00%	20	13.87%	63,042	11	8.90%	22,122
	122	100%	454,435	76	100%	248,667

**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 monthly in arrears. Loan units except from Class B Loan units are able to be redeemed only at the expiry of loan term after all principal amounts have been received from the borrower.

**Balmain Discrete Mortgage Income Trusts**  
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**Notes to the financial statements**  
**For the year ended 30 June 2019**

**13 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 2019	Note	Carrying amount \$'000	Contractual cash flows \$'000	At call \$'000	0-6months \$'000	>6months \$'000
<b>Financial liabilities</b>						
Payables	8	21,902	21,902	-	20,494	1,408
Distributions payable	9	2,830	2,830	-	2,830	-
Net asset attributable to unit holders		487,210	487,210	32,946	-	454,264
		<u>511,942</u>	<u>511,942</u>	<u>32,946</u>	<u>23,324</u>	<u>455,672</u>

30 June 2018	Note	Carrying amount \$'000	Contractual cash flows \$'000	At call \$'000	0-6months \$'000	>6months \$'000
<b>Financial liabilities</b>						
Payables	8	9,171	9,171	-	2,016	7,155
Distributions payable	9	1,671	1,671	-	1,671	-
Net asset attributable to unit holders		259,257	259,257	10,775	-	248,482
		<u>270,099</u>	<u>270,099</u>	<u>10,775</u>	<u>3,687</u>	<u>255,637</u>

**14 Contingencies**

There are no contingent liabilities as at 30 June 2019 (2018: Nil).

**15 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 2019.

**16 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.

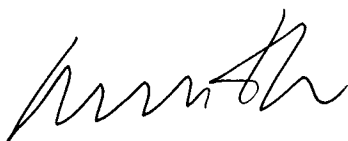
**Balmain Discrete Mortgage Income Trusts**  
**Directors' declaration**  
**As at 30 June 2019**

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 28 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 2019 and of its performance for the year ended 30 June 2019; and
  - (ii) complying with Accounting Standards and the Corporations Regulations 2001 and 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 this 27 day of September 2019

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



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Michael Holm  
Director

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

### Report on the audit of the financial report

#### Auditor's Opinion

We have audited the financial report of Balmain Discrete Mortgage Income Trusts (the Trust), which comprises the statement of financial position as at 30 June 2019, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Trust is in accordance with the *Corporations Act 2001*, including:

- a giving a true and fair view of the Trust's financial position as at 30 June 2019 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 Trust in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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**Information Other than the Financial Report and Auditor's Report Thereon**

The Directors of the Responsible Entity are responsible for the other information. The other information comprises the information included in the Trust's financial report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of the Directors of the Responsible Entity 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 responsibility of the Directors of the Responsible Entity 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.

In preparing the financial report, the Directors of the Responsible Entity are responsible for assessing the Trust'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 Trust 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:

[https://www.auasb.gov.au/auditors\\_responsibilities/ar4.pdf](https://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 J Sheridan  
Partner – Audit & Assurance

Sydney, 27 September 2019