

BALMAIN PRIVATE INVESTMENTS

Balmain Discrete Mortgage Income Trusts

INTERIM FINANCIAL REPORT
HALF-YEAR ENDED 31 DECEMBER 2019

Balmain Discrete Mortgage Income Trusts ARSN 155 909 176
Product Disclosure Statement Dated 20 November 2019
Responsible Entity and Issuer Balmain Fund Administration Limited
ABN 98 134 526 604 AFSL 333213

www.balmainprivate.com.au



Balmain Discrete Mortgage Income Trusts

ARSN 155 909 176

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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 interim financial report of the Trust, for the half-year ended 31 December 2019.

Balmain Discrete Mortgage Income Trusts became a registered scheme under the Corporations Act 2001 on 9 March 2012. Balmain Fund Administration Limited ("BFAL") 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 period are:

Name and qualifications	Experience and special responsibilities
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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.
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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.
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Steven Hall Director	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.
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John Robles Director	Mr John Robles has over 15 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 (CAANZ).
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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 period and is domiciled in Australia. There have been no significant changes in the activities of the Trust during the financial period.

Review and results of operations

Funds under management in the Trust as at 31 December 2019 were approximately \$678,547,560 (30 June 2019: \$487,210,097).

The Trust's net profit before finance costs for the period ended 31 December 2019 was \$21,453,537 (31 December 2018: \$13,703,376).

Distributions

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

	31 December 2019		31 December 2018	
	\$'000	Cents/unit	\$'000	Cents/unit
Interim distribution paid	17,436	3.67	11,170	4.09
Interim distribution payable*	4,017	0.84	2,533	0.91
	<u>21,453</u>	<u>4.51</u>	<u>13,703</u>	<u>5.00</u>

* The 31 December distribution was paid on 14 January 2020 (2018: 18 January 2019).

Performance

Returns from the Trust for the period, assuming monthly reinvestments, averaged 7.50% (2018: 7.50%).

The Trust has net assets of \$678,547,560 as at 31 December 2019 (30 June 2019: \$487,210,097).

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

Events subsequent to reporting date

There has not arisen in the interval between the end of the financial period 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 periods.

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Directors' report

Auditor's independence declaration

The auditor's independence declaration is set out on page 6 and forms part of the directors' report for the period ended 31 December 2019.

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 9th day of March 2020.

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



Andrew Griffin
Director

Auditor's Independence Declaration

To the Directors of Balmain Discrete Income Mortgage Trusts

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of Balmain Discrete Income Mortgage Trusts for the period ended 31 December 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 review; and
- b no contraventions of any applicable code of professional conduct in relation to the review.



Grant Thornton Audit Pty Ltd
Chartered Accountants



M A Adam-Smith
Partner – Audit & Assurance

Sydney, 9 March 2020

Balmain Discrete Mortgage Income Trusts
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Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2019

	Note	31 December 2019 \$'000	31 December 2018 \$'000
Income			
Interest income		25,596	15,711
Total operating income		<u>25,596</u>	<u>15,711</u>
Operating expenses			
Responsible Entity fees		3,734	1,990
Other expenses		409	18
Total expenses before finance costs		<u>4,143</u>	<u>2,008</u>
Operating profit for the period before finance costs		<u>21,453</u>	<u>13,703</u>
Finance costs attributable to unitholders			
Distributions to unitholders	9	21,453	13,703
Total finance costs		<u>21,453</u>	<u>13,703</u>
Change in net assets attributable to unit holders		<u>-</u>	<u>-</u>
Profit/(loss) for the period		-	-
Other comprehensive income		-	-
Total comprehensive income		<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 period.

These financial statements should be read in conjunction with the notes on pages 10 to 15

Balmain Discrete Mortgage Income Trusts
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Statement of financial position
As at 31 December 2019

	Note	31 December 2019 \$'000	30 June 2019 \$'000
Current assets			
Cash and cash equivalents	6	122,007	57,507
Mortgage loans	7	501,622	369,089
Total current assets		623,629	426,596
Non-current assets			
Mortgage loans	7	98,497	85,346
Total non-current assets		98,497	85,346
Total assets		722,126	511,942
Current liabilities			
Payables	8	34,019	20,494
Distribution payable	9	4,017	2,830
Total current liabilities		38,036	23,324
Non-current liabilities			
Payables	8	5,542	1,408
		5,542	1,408
Total liabilities (excluding net assets attributable to unitholders)		43,578	24,732
Net assets attributable to unitholders – liability	10	678,548	487,210

These financial statements should be read in conjunction with the notes on pages 10 to 15

Balmain Discrete Mortgage Income Trusts
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Statement of cash flows
For the half-year ended 31 December 2019

	Note	31 December 2019	31 December 2018
		\$'000	\$'000
Cash flows from operating activities			
Interest received		32,991	19,421
Responsible Entity and related parties' fees paid		(3,777)	(1,043)
Other income		(324)	126
Net payments for settlement from discharge of mortgage loans		(135,462)	(107,883)
Net cash outflow from operating activities		(106,572)	(89,379)
Cash flows from financing activities			
Applications received		965,374	404,080
Redemptions paid		(774,036)	(279,021)
Distributions paid		(20,266)	(11,210)
Net cash inflow from financing activities		171,072	113,849
Net increase in cash and cash equivalents		64,500	24,470
Cash and cash equivalents at the beginning of the financial period		57,507	21,432
Cash and cash equivalents at the end of the financial period	6	122,007	45,902

These financial statements should be read in conjunction with the notes on pages 10 to 15

Balmain Discrete Mortgage Income Trusts

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Notes to the financial statements

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 six month ended 31 December 2019.

2 Basis of preparation of half-year report

The interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporation Act 2001. The interim financial report does not include all the information required for a full annual financial report and should be read in conjunction with the annual financial statements of the Trust for the year ended 30 June 2019.

The financial statements were approved by the Board of Directors of Balmain Fund Administration Limited on 9 March 2020.

3 Significant accounting policies

The interim financial report have been prepared in accordance with the same accounting policies adopted in the Trust's latest annual financial statements for the year ended 30 June 2019.

(a) New standards, amendments and interpretations effective after 1 January 2019 and have not been early adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Trust.

4 Estimates

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

In preparing this interim financial report, the significant judgements made by management in applying the Trust's accounting policies and the key sources of estimation uncertainty were the same as those applied to the financial report as at and for the year ended 30 June 2019.

5 Rounding

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.

6 Cash and cash equivalents

	31 December 2019	30 June 2019
	\$'000	\$'000
Cash at bank	122,007	57,507
	<u>122,007</u>	<u>57,507</u>

Balmain Discrete Mortgage Income Trusts
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Notes to the financial statements

7 Mortgage loans

	31 December 2019	30 June 2019
	\$'000	\$'000
Current mortgage loans	501,622	369,089
Non-current mortgage loans	98,497	85,346
Total mortgage loans	600,119	454,435

The Trust assesses expected credit losses with reference to the history of losses and considering the collateral, debt repayment capacity, LVR and credit standing on the borrowers to determine future expected credit losses. No provision for expected credit losses has been raised against the Mortgage Loans.

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

	31 December 2019	30 June 2019
	\$'000	\$'000
Not past due	579,384	448,880
Past due 0-30 days	13,030	-
Past due 31-60 days	3,390	-
Past due 61-90 days	2,888	2,245
Past due more than 90 days	1,427	3,310
	600,119	454,435

8 Payables

	31 December 2019	30 June 2019
	\$'000	\$'000
Current		
Fees payable to the Responsible Entity	3,333	3,376
Interest in advance	19,532	16,271
Other payables	15,171	847
	38,036	20,494

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

Non-current

Interest in advance	5,542	1,408
	5,542	1,408

9 Distributions

The distributions were paid/payable as follows:	31 December 2019		31 December 2018	
	\$'000	Cents/unit	\$'000	Cents/unit
Distribution paid – Cash unit	162	0.36	127	0.60
Distribution payable – Cash unit	34	0.04	46	0.17
Distribution paid – Loan unit	17,274	3.31	11,043	3.53
Distribution payable – Loan unit	3,983	0.80	2,487	0.70
	21,453	4.51	13,703	5.00

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Distribution paid includes distribution reinvestment amount of \$2,983,554 (2018: \$1,631,486) for cash units and loan units.

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Notes to the financial statements

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.

Cash unit class

	31 December 2019		30 June 2019	
	No. of units '000	\$'000	No. of units '000	\$'000
Opening balance	32,946	32,946	10,775	10,775
Applications from investors	212,565	212,565	225,645	225,645
Applications from loan unit conversions	233,234	233,234	235,927	235,927
Redemptions to loan unit conversions	(52,543)	(52,543)	(70,491)	(70,491)
Redemptions to investors	(347,387)	(347,387)	(368,910)	(368,910)
Closing balance	<u>78,815</u>	<u>78,815</u>	<u>32,946</u>	<u>32,946</u>

Loan unit class

	No. of units				31 December 2019	
	Class B '000	Class L '000	Class N '000	Class T '000	Total No. of units '000	\$'000
Opening balance	100,202	323,958	7,219	22,885	454,264	454,264
Applications – underwriter units	406,286	-	-	-	406,286	406,286
Applications from cash units	-	347,387	-	-	347,387	347,387
Applications from Class N	-	-	-	-	-	-
Applications – Class T units	-	-	-	113,288	113,288	113,288
Redemptions to cash units	-	(233,233)	-	-	(233,233)	(233,233)
Redemptions – underwriter units	(375,099)	-	-	-	(375,099)	(375,099)
Redemptions – Class T units	-	-	-	(108,980)	(108,980)	(108,980)
Redemptions – Class N units	-	-	(4,180)	-	(4,180)	(4,180)
Closing balance	<u>131,389</u>	<u>438,112</u>	<u>3,039</u>	<u>27,193</u>	<u>599,733</u>	<u>599,733</u>

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Notes to the financial statements

10 Net assets attributable to unitholders (continued)

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

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.

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Notes to the financial statements

11 Financial risk management

The Trust's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk) credit risk and liquidity risk.

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Trust's annual financial statements as at 30 June 2019.

There have been no changes in the risk management department since year end or in any risk management policies.

12 Contingencies

There are no contingent assets as at 31 December 2019 (30 June 2019: Nil).

13 Events subsequent to the reporting date

There have been no events subsequent to reporting date which would have a material effect on the Trust's financial statements as at 31 December 2019.

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Director's declaration

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 7 to 15 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 31 December 2019 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and
 - (ii) complying with Australian Accounting Standards AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; 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.

Dated at Sydney this 9th day of March 2020

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



Andrew Griffin
Director

Independent Auditor's Report

To the Members of Balmain Discrete Mortgage Income Trusts

Report on the review of the half year financial report

Conclusion

We have reviewed the accompanying half year financial report of Balmain Discrete Mortgage Income Trusts (the Trust) which comprises the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of Balmain Discrete Mortgage Income Trusts does not give a true and fair view of the financial position of the Trust as at 31 December 2019, and of its financial performance and its cash flows for the half year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial Reporting*.

Directors' responsibility for the half year financial report

The Directors of the Responsible Entity of the Trust are responsible for the preparation of the half year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors of the Responsible Entity determine is necessary to enable the preparation of the half year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Trust's financial position as at 31 December 2019 and its performance for the half year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Balmain Discrete Mortgage Income Trusts, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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



Grant Thornton Audit Pty Ltd
Chartered Accountants



M A Adam-Smith
Partner – Audit & Assurance

Sydney, 9 March 2020

HOW TO CONTACT US

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