

**BALANCED SECURITIES LIMITED**

**A.B.N. 54 083 514 685**

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**FINANCIAL REPORT  
FOR THE YEAR ENDED 30 JUNE 2016**

## **DIRECTORS' REPORT**

Your directors present their report on the company together with the financial statements for the company for the financial year ended 30 June 2016.

### **Principal Activities**

The principal activities of the company during the year were issuing Secured Notes and lending the money raised on first mortgages over real estate in Australia.

There were no significant changes in the nature of the company's activities during the year.

### **Operating Results**

The profit of the company after providing for income tax amounted to \$10,554,375.

### **Review of Operations**

During the financial year the company continued issuing Secured Notes to the public and lending the money raised on first mortgages over real estate security Australia wide. At balance date, the company had a total of \$119,505,398 of Secured Notes on issue.

At balance date, the company had 35 loans totalling \$174,497,615 together with cash holdings of \$26,268,775.

Profit before income tax was \$15,189,907 and profit after provision for income tax was \$10,554,375.

### **Significant Changes in the State of Affairs**

No significant changes in the company's state of affairs occurred during the year.

### **Dividends Paid or Recommended**

Fully franked dividends of \$223,862 were declared and paid to Ordinary shareholders during the year ended 30 June 2016.

Fully franked dividends of \$140,138 were declared and paid on equity arrangements with a senior employee during the year ended 30 June 2016. These dividends have been recognised as an expense through the profit and loss account.

Fully franked dividends of \$660,000 were declared and paid to Preference shareholders during the year ended 30 June 2016.

Fully franked dividends of \$440,000 were declared and paid to A Class shareholders during the year ended 30 June 2016.

Further fully franked dividends of \$191,882 were declared but not paid to Ordinary shareholders during the year ended 30 June 2016. These dividends were paid in August 2016.

Further fully franked dividends of \$120,118 were declared but not paid on equity arrangements with a senior employee during the year ended 30 June 2016. These dividends were paid in August 2016 and have been recognised as an expense through the profit and loss account for the year ended 30 June 2016.

Further fully franked dividends of \$5,688,000 were declared but not paid to A Class shareholders during the year ended 30 June 2016. These dividends were paid in August 2016.

## **DIRECTORS' REPORT**

### **Events After the Reporting Period**

On 26 July 2016 the company paid a fully franked dividend of \$660,000 to Preference shareholders.

As disclosed above, fully franked dividends totalling \$6,000,000 were paid in August 2016. These dividends had been provided for as at 30 June 2016.

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

### **Likely Developments and Expected Results of Operations**

The company expects to maintain the present status and level of operations and hence there are no likely developments in the company's operations.

### **Environmental Regulation**

The company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.

### **Information on Directors**

<b>David Morton Geer</b>	-	Managing Director / Company Secretary
Qualifications	-	LLB (Hons)
Experience	-	Is a lawyer who has been in practice for over 40 years both with Herbert Geer and now David Geer Lawyer. He specialises in the law relating to securities and real estate investments. He has been an active participant in the mortgage investment and funds management industry.
<b>Leon Gorr</b>	-	Director
Qualifications	-	BJuris LLB M.Admin
Experience	-	As a partner in the law firm HWL Ebsworth Lawyers and previously as a senior partner in the law firm Herbert Geer he has specialised in corporate and revenue law for over 35 years. He has advised clients who have become involved in mortgage lending and has been an active participant in the mortgage investment and management industry for many years.
<b>Anthony Henry May</b>	-	Director
Qualifications	-	BEc, LLB
Experience	-	Is Senior Tax Counsel in the law firm Madgwicks specialising in the areas of taxation law for over 35 years. He has advised clients and corporations in relation to public fund raising and other commercial ventures and has been an active participant in the mortgage investment and management industry for many years.

## **DIRECTORS' REPORT**

### **Meetings of Directors**

During the financial year, 13 meetings of directors were held. Attendances by each director were as follows:

<b>Name</b>	<b>Number eligible to attend</b>	<b>Number attended</b>
David Morton Geer	13	13
Leon Gorr	13	11
Anthony Henry May	13	13

### **Directors Benefits**

Other than as disclosed in Note 12 to the Accounts, no director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the company with a director, a firm of which a director is a member or an entity in which a director has a substantial financial interest.

### **Indemnifying Officers or Auditor**

The company has not, during or since the end of the financial year, in respect of any person who is or has been an officer or auditor of the company or a related body corporate:

- indemnified or made any relevant agreement for indemnifying against any liability incurred as an officer, including costs and expenses in successfully defending legal proceedings; or
- paid or agreed to pay a premium in respect of a contract insuring against a liability for the costs or expense to defend legal proceedings.

### **Options**

No options over issued shares or interests in the company were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

### **Proceedings on Behalf of the Company**

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.


The company was not a party to any such proceedings during the year.

**DIRECTORS' REPORT**


**Auditor's Independence Declaration**

The auditor's independence declaration for the year ended 30 June 2016 has been received and can be found on page 5 of the directors' report.

Signed in accordance with a resolution of the Board of Directors

  
Director: David Morton Geer

Dated this 21<sup>st</sup> day of September 2016

  
Director: Leon Gorr

Dated this 21<sup>st</sup> day of September 2016

  
Director: Anthony Henry May

Dated this 21<sup>st</sup> day of September 2016

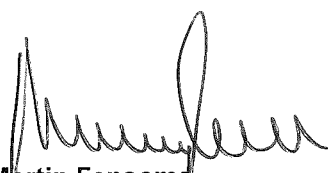
**Auditor's Independence Declaration under Section 307C of the Corporations Act 2001**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2016 there have been no contraventions of:

- (i) the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.



McLean Delmo Bentleys Audit Pty Ltd



Martin Fensome  
Partner

Signed in Hawthorn, this 29 day of September 2016

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR  
THE YEAR ENDED 30 JUNE 2016**

	<b>Note</b>	<b>2016</b> \$	<b>2015</b> \$
Revenue	2(a)	25,477,052	18,622,701
Finance and interest costs	2(b)	(6,990,391)	(7,509,250)
Impairment loss	2(b)	(360,000)	(1,605,531)
Other expenses	2(b)	<u>(2,936,754)</u>	<u>(2,127,197)</u>
Profit before income tax		15,189,907	7,380,723
Income tax expense	3	<u>(4,635,532)</u>	<u>(2,250,488)</u>
Profit for the year		<u>10,554,375</u>	<u>5,130,235</u>
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u>10,554,375</u>	<u>5,130,235</u>
Profit attributable to members of the company		<u>10,554,375</u>	<u>5,130,235</u>
Total comprehensive income attributable to members of the company		<u>10,554,375</u>	<u>5,130,235</u>

The accompanying notes form part of these financial statements.

**BALANCED SECURITIES LIMITED**  
**A.B.N. 54 083 514 685**

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2016**

	<b>Note</b>	<b>2016</b> <b>\$</b>	<b>2015</b> <b>\$</b>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	5	26,268,775	37,731,076
Accruals		20,846	-
Mortgage loans and other receivables	6	141,790,615	113,653,347
<b>TOTAL CURRENT ASSETS</b>		<b>168,080,236</b>	<b>151,384,423</b>
<b>NON-CURRENT ASSETS</b>			
Mortgage loans and other receivables	6	32,707,000	34,334,093
Deferred tax assets	3	43,762	2,119,683
Goodwill	7	22,225,000	22,225,000
<b>TOTAL NON-CURRENT ASSETS</b>		<b>54,975,762</b>	<b>58,678,776</b>
<b>TOTAL ASSETS</b>		<b>223,055,998</b>	<b>210,063,199</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Interest-bearing liabilities	8	94,150,964	88,925,783
Secured Note interest accrued		1,560,016	1,449,914
Mortgage interest received in advance		3,315,333	2,781,981
Income tax payable		2,160,861	42,777
Provision for employee benefits		145,873	145,873
Provision for dividend		5,879,881	-
Other current liabilities	9	574,435	336,348
<b>TOTAL CURRENT LIABILITIES</b>		<b>107,787,363</b>	<b>93,682,676</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing liabilities	8	25,354,434	29,858,409
Secured Note interest accrued		557,643	516,188
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>25,912,077</b>	<b>30,374,597</b>
<b>TOTAL LIABILITIES</b>		<b>133,699,440</b>	<b>124,057,273</b>
<b>NET ASSETS</b>		<b>89,356,558</b>	<b>86,005,926</b>
<b>EQUITY</b>			
Share capital	10	36,500,000	36,500,000
Retained earnings		52,856,558	49,505,926
<b>TOTAL EQUITY</b>		<b>89,356,558</b>	<b>86,005,926</b>

The accompanying notes form part of these financial statements.



**STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 30 JUNE 2016**

	Note	Ordinary Shares \$	Share Capital Preference Shares \$	A Class Shares \$	Retained Earnings \$	Total \$
<b>Balance at 1 July 2014</b>		1,000,000	5,500,000	30,000,000	49,227,573	85,727,573
Profit attributable to members of the company		-	-	-	5,130,235	5,130,235
Dividends paid or provided for	4	-	-	-	(4,851,882)	(4,851,882)
<b>Balance at 30 June 2015</b>		1,000,000	5,500,000	30,000,000	49,505,926	86,005,926
Profit attributable to members of the company		-	-	-	10,554,375	10,554,375
Dividends paid or provided for	4	-	-	-	(7,203,743)	(7,203,743)
<b>Balance at 30 June 2016</b>		1,000,000	5,500,000	30,000,000	52,856,558	89,356,558

The accompanying notes form part of these financial statements.

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

	<b>Note</b>	<b>2016</b> <b>\$</b>	<b>2015</b> <b>\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest received		23,332,517	16,848,781
Fees and other income received		2,657,041	2,540,942
Interest paid		(6,838,834)	(7,358,354)
Income tax paid		(441,527)	(807,581)
Payments to suppliers and employees		(2,698,668)	(2,127,197)
Net cash provided by operating activities	13	16,010,529	9,096,591
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net (payments) for mortgage investments		(26,870,175)	(35,254,465)
Net cash (used in) investing activities		(26,870,175)	(35,254,465)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net receipts from secured notes		721,206	4,989,309
Dividends paid		(1,323,861)	(4,851,882)
Net cash (used in) / provided by financing activities		(602,655)	137,427
Net (decrease) in cash held		(11,462,301)	(26,020,447)
Cash and cash equivalents at the beginning of the financial year		37,731,076	63,751,523
Cash and cash equivalents at the end of the financial year	5	26,268,775	37,731,076

The accompanying notes form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

**Note 1: Summary of Significant Accounting Policies**

The financial report covers Balanced Securities Limited as an individual entity, incorporated and domiciled in Australia. Balanced Securities Limited is a company limited by shares.

The financial report was authorised for issue on **27 September 2016** by the directors of the company.

**Basis of Preparation**

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The Company is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

The financial report, except for cash flow information, has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

**(a) Income Tax**

The income tax expense (income) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability, where there is no effect on accounting or taxable profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

**Note 1: Summary of Significant Accounting Policies (Cont'd)**

**(a) Income Tax (Cont'd)**

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

**(b) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

**(c) Mortgage Loans**

Mortgage loans are recognised and carried at their recoverable amounts, after assessing required provisions for impairment. Impairment of a mortgage loan is recognised when there is reasonable doubt that not all the principal and interest can be collected in accordance with the terms of the mortgage loan agreement. Impairment is assessed by specific identification in relation to individual loans.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

**Note 1: Summary of Significant Accounting Policies (Cont'd)**

**(c) Mortgage Loans (Cont'd)**

Most of the mortgage loans made by the company are short-term loans. Loans contractually due for repayment within 12 months are classified as current and loans falling due in more than a year are classified as non-current. Loans in default are repayable on demand however on balance date the loan is classified as current or non-current based on the realistic timing of repayment or reductions based on Management's knowledge and assumptions as to the amount that is expected to be repaid in the next 12 month period and later respectively.

Once a loan is in default and demand has been made by the company the underlying security for that loan is usually in the realisation process without delay subject to the company assessing the market where the security is located and determining an appropriate realisation strategy having regard to the market, the property type and the price at which the security property can be realised. The company's strategy is to avoid a fire sale at substantially discounted values in preference to a selling program that attempts to maximise the price obtained over a reasonable selling period as determined by the company; therefore, the actual realisation process could extend beyond 12 months. However, the company is of the view that in rare situations, if necessary or required, the company is able to forgo that strategy and put the security property on the market for sale at all times during that period hence the loan will be classified as a current asset.

Interest on loans where the ultimate collection of principal and interest is considered doubtful is not taken to account and accordingly those loans are classified "non-accrual".

**(d) Financial Instruments**

**Recognition and initial measurement**

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either purchase or sell the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss' in which case transaction costs are expensed to profit or loss immediately.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

**Impairment**

At each reporting date, the company assesses whether there is objective evidence that a financial instrument has been impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events having occurred, which has an impact on the estimated future cash flows of the financial asset.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

**Note 1: Summary of Significant Accounting Policies**

**(d) Financial Instruments (Cont'd)**

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

**(e) Goodwill**

Goodwill is recorded at the amount by which the purchase price for the business assets exceeds the fair value attributed to its net assets at date of acquisition. Goodwill is tested annually for impairment and carried at cost less any accumulated impairment losses.

**(f) Impairment of Assets**

At the end of each reporting period, the company assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill, intangible assets with indefinite lives and intangible assets not yet available for use.

**(g) Employee Benefits**

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

**Note 1: Summary of Significant Accounting Policies (Cont'd)**

**(h) Provisions**

Provisions are recognised when the company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at balance date.

**(i) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

**(j) Revenue**

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets is the rate inherent in the instrument.

Fees and commissions are recognised upon the delivery of the service to the customers.

**(k) Comparative Figures**

Where required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial period.

**(l) Critical Accounting Estimates and Judgments**

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the company.

*Key Estimates – Impairment*

The company assesses impairment at each reporting date by evaluation of conditions and events specific to the company that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using valuation technique calculations which incorporate various key assumptions.

As a result of current market and economic conditions and the directors' assessment of recoverable value of the security held on the loan portfolio as at 30 June 2016, the Company has no impairment provisions on any of its loans.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

**Note 1: Summary of Significant Accounting Policies (Cont'd)**

**(l) Critical Accounting Estimates and Judgments (Cont'd)**

An external valuation of goodwill was undertaken for the directors as at 30 June 2016 and confirmed the existing carrying value of goodwill remains appropriate (refer to Note 7 for further detail).

As a result of the receipt of the external valuation no provision for impairment has been raised at the current reporting period.

**(m) New Accounting Standards for Application in Future Periods**

Accounting Standards and Interpretations issued by the AASB that are not yet mandatorily applicable to the company, together with an assessment of the potential impact of such pronouncements on the company when adopted in future periods, are discussed below:

- AASB 9: *Financial Instruments* (December 2014) and associated Amending Standards (applicable for annual reporting periods commencing on or after 1 January 2018).

These Standards will be applicable retrospectively (subject to the comment on hedge accounting below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and de-recognition requirements for financial instruments and simplified requirements for hedge accounting.

The key changes made to the Standard that may affect the company on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of AASB 9, the application of such accounting would be largely prospective.

Although the directors anticipate that the adoption of AASB 9 may have an impact on the company's financial instruments, including hedging activity, it is impracticable at this stage to provide a reasonable estimate of such impact.

- AASB 15: *Revenue from Contracts with Customers* (applicable for annual reporting periods commencing on or after 1 January 2017).



**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

**Note 1: Summary of Significant Accounting Policies (Cont'd)**

**(m) New Accounting Standards for Application in Future Periods (Cont'd)**

This Standard, when effective, will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers. The core principals of AASB 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step model:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract; and
- recognise revenue when (or as) the performance obligation is satisfied.

AASB 15 also requires enhanced disclosures regarding revenues.

This Standard will require retrospective restatement and is available for early adoption.

Although the directors anticipate that the adoption of AASB 15 may have an impact on the company's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impacts.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

**(n) Employee equity**

The company has issued shares to a key employee. The terms of the issue were:

- 620,000 shares were issued in 2007 at \$1.96 per share (total of \$1,215,200)
- The issue price represented a \$0.01 discount on the market price at that time
- The shares were subject to vesting conditions relating to the employee's continuing employment with the company
- The employee satisfied all of the vesting conditions as at 1 July 2012
- The share issue was funded by a loan from the company. The loan is limited recourse and is only secured over the shares.
- The loan is interest free
- The employee is entitled to receive any dividends paid on the shares

The accounting treatment is as follows:

- The amount payable for the shares (\$1,215,200) will only be treated as equity when the amount is received by the company or the payment is virtually certain.
- The amount due from the employee (\$1,215,200) will only be recognised as an asset when either the amount is paid by the employee or the terms of the loan are changed such that payment of the amount is virtually certain.
- Any dividends paid or provided for on these shares will be expensed until the shares are treated as equity.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Note 2: Profit before Income Tax</b>		
(a) Revenue:		
Interest revenue	22,820,011	16,081,759
Other revenue	2,657,041	2,540,942
	<u>25,477,052</u>	<u>18,622,701</u>
(b) Expenses:		
Interest expense	6,990,391	7,509,250
Impairment of mortgage loans:		
- Impairments written off	7,045,000	6,033,531
- Reversal of prior year impairments	(6,685,000)	(4,428,000)
Remuneration of the auditor for:		
- auditing or reviewing the financial report	72,694	82,924
- other audit related services	2,090	-
Employee benefits expense	397,434	391,492
Employer superannuation contributions	37,604	26,938
Dividend on employee equity arrangements	260,256	120,118
Legal expenses	-	66,407
Other expenses	2,166,676	1,439,318
	<u>10,287,145</u>	<u>11,241,978</u>
<b>Note 3: Income Tax Expense</b>		
(a) The components of tax expense comprise:		
Current tax	2,559,611	363,845
Deferred tax	2,075,921	1,886,643
	<u>4,635,532</u>	<u>2,250,488</u>
(b) The prima facie tax on profit before income tax reconciled to income tax expense as follows:		
Prima facie tax payable on profit before income tax at 30% (2015: 30%)	4,556,972	2,214,217
Add tax effect of:		
- non-allowable items	78,560	36,271
Income tax expense	<u>4,635,532</u>	<u>2,250,488</u>
The applicable weighted average effective tax rates are as follows:	30%	30%

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

	2016 \$	2015 \$
<b>Note 3: Income Tax Expense (cont)</b>		
(c)Deferred tax assets constitute the following:		
<b>Opening balance – Deferred tax assets</b>	2,119,683	4,006,326
Opening balance – provision for asset impairment	2,005,500	3,333,900
Charge for year	(2,005,500)	(1,328,400)
Closing balance – provision for asset impairment	-	2,005,500
Opening balance – provision for employee benefits	43,762	43,762
Charge for year	-	-
Closing balance – provision for employee benefits	43,762	43,762
Opening balance – accrued expenses	70,421	-
Charge for year	(70,421)	70,421
Closing balance – provision for employee benefits	-	70,421
Opening balance – tax losses carried forward	-	628,664
Charge for year	-	(628,664)
Closing balance – tax losses carried forward	-	-
<b>Closing balance – Deferred tax assets</b>	43,762	2,119,683

**Note 4: Dividends Paid or Proposed**

Declared fully franked ordinary dividends of 22.386 cents per ordinary share (2015: fully franked ordinary dividends of 19.259 cents per share) franked at the rate of 30% (2015: 30%)	223,862	191,882
Declared fully franked A Class dividends of 1.466 cents per ordinary share (2015: fully franked dividends of 13.333 cents per share) franked at the rate of 30% (2015: 30%)	440,000	4,000,000
Declared fully franked preference share dividends of 12 cents per preference share (2015: fully franked preference share dividends of 12 cents per share) franked at the rate of 30% (2014: 30%)	660,000	660,000
Declared fully franked ordinary dividends of 19.188 cents per ordinary share franked at the rate of 30%	191,881	-
Declared fully franked A Class dividends of 18.96 cents per ordinary share franked at the rate of 30%	5,682,000	-
	7,203,743	4,851,882

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

	Note	2016 \$	2015 \$
<b>Note 4: Dividends Paid or Proposed (cont)</b>			
<p>The company also paid fully franked dividends of \$140,138 (2015: fully franked dividend of \$120,118) on equity arrangements with a senior employee. As outlined in Note 1(n) the dividends on these share arrangements are expensed.</p> <p>The amount of franking credits available for the subsequent reporting period are:</p>			
- franking account balance as at the reporting date at 30%		26,542,907	26,780,184
- franking credits that will arise from the payment of income tax		2,159,861	41,880
		<u>28,702,768</u>	<u>26,822,064</u>
<b>Note 5: Cash and Cash Equivalents</b>			
Cash at bank		22,863,511	29,049,034
Term Deposits		3,405,264	8,682,042
		<u>26,268,775</u>	<u>37,731,076</u>
<p>The effective interest rate on at call bank deposits for the current year ranged between 1.79% and 2.05% (2015 1.99% to 2.60%) The term deposits which had an average maturity of 90 days earned interest at rates between 2.80% and 2.94% (2015 2.97% and 3.64%).</p>			
<b>Note 6: Mortgage Loans and Other Receivables</b>			
<b>Current</b>			
Mortgage loans		141,790,615	120,338,347
Provision for asset impairment		-	(6,685,000)
		<u>141,790,615</u>	<u>113,653,347</u>
<b>Non-Current</b>			
Mortgage loans		32,707,000	34,334,093
		<u>32,707,000</u>	<u>34,334,093</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

**Note 6: Mortgage Loans and Other Receivables (cont)**

**Aging Analysis**

2016	Past Due and Impaired \$000 **	Past Due but Not Impaired (Days Overdue)				Within Initial Terms \$000	Total \$000
		< 30 \$000	31 – 60 \$000	61 - 90 \$000	> 90 \$000		
Loans Receivable	14,600	-	-	3,632	12,096	144,170	174,498
Sundry Debtors	-	-	-	-	-	-	-

\*\* At balance date previous impairment provisions against these loans have been written off and there are no impairment provisions currently against these loans. However, the loans are classified as non-accrual and are past due and therefore, have been shown separately.

2015	Past Due and Impaired \$000	Past Due but Not Impaired (Days Overdue)				Within Initial Terms \$000	Total \$000
		< 30 \$000	31 – 60 \$000	61 - 90 \$000	> 90 \$000		
Loans Receivable	24,002	5,619	-	-	4,245	114,121	147,987
Sundry Debtors	-	-	-	-	-	-	-

The class of assets described as “mortgage loans and other receivables” is considered to be the main source of credit risk related to the company.

**Mortgage Loan Classification for Loans > 5% of total assets/loan portfolio as at 30 June 2016**

Loan No	Original Loan Limit \$	Loan Balance \$	Property Type	Property Location	Loan Status	Valuation \$	Valuation Date
1	17,600,000	17,552,000	Residential	VIC	In Order	31,000,000	Aug 14
2 ***	43,765,000	14,000,000	Residential	NSW	In Order	91,115,000	Jan 16
3	13,350,000	12,860,000	Residential	NSW	In Order	21,446,000	Feb 15
4	12,000,000	11,850,000	Commercial	NSW	In Order	39,585,000	Jun 15
5	11,261,000	11,665,000	Residential	WA	In Order	23,500,000	Jun 15

\*\*\* Loan 2 represents the aggregate of 5 loans to one group secured against separate titles.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

**Note 6: Mortgage Loans and Other Receivables (cont)**

**Number and Value of Mortgage Loans as at 30 June 2016**

	<b>QLD</b>	<b>VIC</b>	<b>NSW</b>	<b>WA</b>	<b>SA</b>	<b>TOTAL</b>
Number of Loans	5	9	12	7	2	35
Value of Loans (\$M)	24.46	63.61	53.55	29.49	3.39	174.50
<b>Proportion of Value of Loans (%)</b>	14%	36%	31%	17%	2%	100%

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

**Note 6: Mortgage Loans and Other Receivables (cont)**

**Mortgage Loan Portfolio Classification as at 30 June 2016**

	<b>Commercial</b>	<b>Industrial</b>	<b>Residential</b>	<b>Retail</b>	<b>Rural</b>	<b>TOTAL</b>	<b>Construction Loans *</b>
<b>Whole Portfolio</b>							
Number of Loans	3	3	26	-	3	35	13
Value of Loans (\$M)	12.55	18.55	134.43	-	8.97	174.50	69.38
<b>Portfolio by State</b>							
<b><u>QLD</u></b>							
Number of Loans			5			5	1
Value of Loans (\$M)			24.46			24.46	3.64
<b><u>VIC</u></b>							
Number of Loans		2	7		-	9	6
Value of Loans (\$M)		12.06	51.55		-	63.61	35.46
<b><u>NSW</u></b>							
Number of Loans	1	1	9	-	1	12	4
Value of Loans (\$M)	11.85	6.50	29.63	-	5.57	53.55	20.36
<b><u>WA</u></b>							
Number of Loans	2		5			7	2
Value of Loans (\$M)	0.7		28.79			29.49	9.92
<b><u>SA</u></b>							
Number of Loans			-		2	2	-
Value of Loans (\$M)			-		3.40	3.39	-

**\*Included within total loans**



**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

**Note 6: Mortgage Loans and Other Receivables (cont)**

- Movement in the provision for impairment of receivables is as follows:

**Provision for impairment of receivables**

	<b>Amount \$</b>
<b>Provision for impairment as at 30 June 2014</b>	11,113,000
Charge for the year	1,505,000
Amounts written off	(5,933,000)
	<hr/>
<b>Provision for impairment as at 30 June 2015</b>	6,685,000
Charge for the year	360,000
Amounts written off	(7,045,000)
	<hr/>
<b>Provision for impairment as at 30 June 2016</b>	<hr/> <b>-</b> <hr/>

**Note 7: Goodwill**

	<b>2016 \$</b>	<b>2015 \$</b>
Goodwill – at cost	30,000,000	30,000,000
Less accumulated impairment losses	(7,775,000)	(7,775,000)
	<hr/>	<hr/>
Net carrying value	<hr/> <b>22,225,000</b> <hr/>	<hr/> <b>22,225,000</b> <hr/>

An external valuation of goodwill for impairment testing purposes was undertaken for the directors as at 30 June 2016 to meet their obligations pursuant to AASB 136.

The valuation of goodwill is based upon the future maintainable earnings of the company to which is applied an earnings multiple. The valuation of goodwill as at 30 June 2016 of \$53,542,770 was based upon earnings multiple of 12.2 times applied to the calculation of future maintainable earnings of \$8,966,314 per annum which excludes the effect of abnormal and one-off transactions.

Should the forecast future maintainable earnings reduce by 10% the value of goodwill would reduce to \$42,587,350 which is in excess of the current carrying value.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

**Note 7: Goodwill (cont)**

When the business commenced and the goodwill was recognised the expectation was that the business would have an indefinite life. This expectation has not changed.

The advice has confirmed that no circumstances exist that would cause the Directors to believe that the value of goodwill is less than the carrying value.

**Note 8: Interest-Bearing Liabilities**

	2016 \$	2015 \$
Secured Notes – current	94,150,964	88,925,783
Secured Notes – non-current	25,354,434	29,858,409
	<u>119,505,398</u>	<u>118,784,192</u>

**Secured Notes Maturity Analysis**

- not later than one year	94,150,964	88,925,783
- later than one but no later than two years	20,782,688	18,524,599
- later than two but no later than five years	4,571,746	11,333,810
	<u>119,505,398</u>	<u>118,784,192</u>

The repayment of all Secured Notes and Secured Note interest accrued is secured by a first ranking charge over all the company's assets including cash and cash equivalents and mortgage loans.

**Note 9: Other Current Liabilities**

Sundry creditors	<u>574,435</u>	<u>336,348</u>
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**Note 10: Share Capital**

1,000,000 ordinary shares of \$1 each fully paid	(a)	1,000,000	1,000,000
30,000,000 A class shares of \$1 each fully paid	(a)	30,000,000	30,000,000
5,500,000 Preference shares of \$1 each fully paid	(b)	5,500,000	5,500,000
		<u>36,500,000</u>	<u>36,500,000</u>

- (a) Ordinary and A Class shares confer the right to attend and vote at company meetings. Holders also have the right to dividends at a rate decided by the directors from time to time. Holders also have a right to capital on winding up of the company.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

**Note 10: Share Capital (cont)**

- (b) Declaring a dividend on Preference shares is discretionary and requires the passing of a resolution by directors. Preference shares are entitled to a dividend of 12% per annum. The entitlement is cumulative and ranks in priority to the right of ordinary shares to receive a dividend. The entitlement to a dividend is suspended in the event that the company has failed to meet any payment obligation to the holders of Secured Notes and will remain suspended until any payment breach has been remedied. Preference shares have a right to receive priority over other shares in respect of capital on winding up of the company. Preference shares confer the right to receive notice of and attend company meetings but confer no right to vote except during any period in which the company has declared but not paid a dividend on the preference shares.

**Note 11: Key Management Personnel Compensation**

Key management personnel:

**Directors**

David Morton Geer  
Leon Gorr  
Anthony Henry May

No director has received or become entitled to receive a benefit during the financial year other than as disclosed at Note 12.

**Note 12: Related Party Transactions**

**Related parties**

The company's main related parties are:

- (a) Majority shareholder - HG & R Management Pty Ltd
- (b) Key Management Personnel (see Note 11)

**Transactions with related parties**

Transactions with related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The following transactions occurred with related parties:

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

**Note 12: Related Party Transactions (cont)**

- (a) HG & R Management Pty Ltd Pty Ltd provides office space and other administrative services to the company. No charge was made for these services during the year (2015: \$Nil).
- (c) Entities associated with the directors have entered into formal Income Support Arrangements with the company. No payments were made under these arrangements during the year (2015: \$Nil)
- (d) Entities associated with the directors may purchase mortgages from the Company or sell mortgages to the Company. This allows the Company to better manage its liquidity and allows loans to be settled and subsequently transferred to the Company when all underwriting and prospectus requirements are satisfied. All such transactions are undertaken at full face value. Where instructed to do so by the borrower, the company will facilitate the payment of any amounts owing by the borrower to entities associated with the directors using the lending facility established with the company. These transactions have no impact on the company's results.

**Amounts outstanding from related parties**

There are no amounts outstanding at year end (2015: \$Nil)

**Amounts payable to related parties**

There are no amounts payable at year end (2015: \$Nil)

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

**Note 13: Cash Flow Information**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Reconciliation of Cash Flows from Operations with Profit for the Year after Income Tax</b>		
Profit for the year after income tax	10,554,375	5,130,235
Add non-cash items:		
Impairment loss	360,000	1,605,531
Provision for dividend on employee equity	120,118	-
Changes in assets and liabilities:		
Increase (decrease) in sundry debtors	(20,846)	71,454
Decrease (increase) in deferred tax assets	2,075,921	1,886,643
Increase (decrease) in secured note interest accrued	151,557	(83,841)
Increase (decrease) in mortgage interest received in advance	533,352	1,227,226
Increase (decrease) in income tax payable	2,118,084	(443,736)
Increase (decrease) in other current liabilities	117,968	(296,921)
	<hr/>	<hr/>
Cash flows from operations	16,010,529	9,096,591

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

**Note 14: Financial Risk Management**

**(a) Accounting Policies and Interest Rate Risk**

The company's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity, both recognised and unrecognised at the balance date, including the company's interest rate risk exposure are as follows:

<b>Recognised Financial Instruments</b>	<b>Accounting Policies And Financial Instrument Profile</b>	<b>Terms and Conditions Including Interest Rate Risk Profile</b>
<b>(i) Financial Assets</b>		
Cash and cash equivalents (Note 5)	Cash and cash equivalents are carried at its principal amount and lodged on bank deposits at call. Interest is recognised as income as it accrues.	Cash and cash equivalents are on call. The interest rate is repriced daily at the prevailing market rate for cash deposits. Term deposits are generally for terms $\leq 90$ days and are at prevailing market rates.
Mortgage loans and other receivables (Note 6)	Mortgage loans are recorded at their recoverable amounts with the term to maturity reflective of analysis provided at Note 6 in the notes to financial statements. Interest is recognised as income as it accrues. Interest on loans where the ultimate collection of principal and interest is considered doubtful is not accrued and recognised as income.	Mortgage loans are issued for varying maturities with variable rates of interest applying to each mortgage loan. The applicable variable interest rate on these mortgage loans ranges between 11.95% and 19.95%. (2015: 11.95% and 21.95%)
<b>(ii) Financial Liabilities</b>		
Interest bearing liabilities (Note 8)	Secured Notes are recorded at their principal amounts with the term to maturity reflective of analysis provided at Note 8 in the notes to financial statements. Interest is recognised as an expense as it accrues.	Secured Notes are issued for varying lengths of time at fixed rates of interest for the term to maturity. The applicable interest rate on these Secured Notes varies between 4.00% and 6.35%. (2015: 4.00% and 7.65%).
Secured Notes interest accrued and other current liabilities	Secured Notes interest accrued is carried at its nominal amount.	Interest on Secured Notes is payable monthly or on maturity.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

**Note 14: Financial Risk Management (Cont'd)**

**(b) Market and Interest Rate Risk Management**

The company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates, is mitigated by:

- the maintenance of a pool of mortgages whose weighted average lending rates are comfortably in excess of the investment borrowing rates;
- the issue of short and long dated Secured Notes for periods of 12 months through to 5 years while lending against mortgages on predominately shorter terms of 6-12 months;
- by maintaining a fixed interest rate regime for Secured Notes which may be repriced on maturity and independently of any increases in the mortgage lending rate, while redemptions incorporate a mechanism to recoup any upward movement in interest rates;
- by maintaining a variable interest rate regime for mortgages which incorporate an interest rate floor which allows for upward interest rate movements only and as such, a change in interest rates will not adversely impact on the company's lending margins, profitability and cash flows; and
- by adopting conservative lending policies and loan to value ratios to mitigate against the potential risk of a borrower default adversely impacting on the company's lending margins and cash flows.

**(c) Sensitivity Analysis - Interest Rate Risk**

Interest rate analysis is based on balances of financial liabilities outstanding at financial period end not exceeding 1 year, which are all at fixed rates.

Interest rate analysis is based on balances of financial assets outstanding at financial period end not exceeding 1 year, which are all variable rates which allow for upward interest rate movements only with interest rates set according to the assessed credit risk of the borrower.

Minimum and maximum exposures for financial liabilities and assets are calculated at reasonably possible shifts of 25 (2015: 25) basis points and 100 (2015: 100) basis points respectively.

The table below details the company's minimal sensitivity to interest rate shifts and reflects the limited potential for interest rate changes to adversely impact on the company's profitability.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

**Note 14: Financial Risk Management (Cont'd)**

**(c) Sensitivity Analysis - Interest Rate Risk (Cont'd)**

**SENSITIVITY ANALYSIS - INTEREST RATE RISK**  
***Increase in Interest Rates***

Annual Risk by Type

	Minimum		Average		Maximum	
	2016	2015	2016	2015	2016	2015
	\$m	\$m	\$m	\$m	\$m	\$m
Financial Assets:						
Cash and cash equivalents	0.046	0.066	0.115	0.165	0.184	0.264
Loans and receivables	0.236	0.199	0.591	0.497	0.946	0.796
Financial Liabilities:						
Secured Notes	-	-	-	-	-	-
Net positive impact on profit and equity	0.282	0.265	0.706	0.662	1.130	1.060

**SENSITIVITY ANALYSIS – INTEREST RATE RISK**  
***Decrease in Interest Rates***

Annual Risk by Type

	Minimum		Average		Maximum	
	2016	2015	2016	2015	2016	2015
	\$m	\$m	\$m	\$m	\$m	\$m
Financial assets:						
Cash and cash equivalents	(0.046)	(0.066)	(0.115)	(0.165)	(0.184)	(0.264)
Loans and receivables	-	-	-	-	-	-
Financial liabilities:						
Secured Notes	-	-	-	-	-	-
Net negative impact on profit and equity	(0.046)	(0.066)	(0.115)	(0.165)	(0.264)	(0.264)



**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

**Note 14: Financial Risk Management (Cont'd)**

**(d) Liquidity Risk**

The company manages liquidity risk by monitoring forecast cash flows and ensuring that adequate cash and cash equivalents are maintained. Ultimate responsibility for liquidity risk management rests with the directors, who have built an appropriate liquidity risk management framework for the company's short, medium and long term funding and liquidity management.

The company under its AFS Licence no. 241382 and as set out in ASIC Policy Statement 166.25(c) is required to maintain and comply with the Table 2, Option 1 test for establishing a reasonable estimate projection plus cash contingency test. The test requires the company to produce 3 monthly cashflow projections and hold cash or cash equivalents based on the amount equal to 20% of the cash outflow for the projected 3 month period(s). As at 30 June 2016 the company complies with this requirement with adequate reserves of cash or cash equivalents totalling \$26,268,775.

The company has a policy and procedure in place to estimate cash flow projections taking into consideration estimated rollovers of maturing Secured Notes, payment of loan instalments or loan repayments and cash outflows from operational activities. Reference is made to the probability of non-rollover of Secured Note maturities, the risk and maturity profile of the mortgage loan portfolio. The estimated retention rate for Secured Note rollovers approximates 95% of the Secured Note portfolio which together with directors and managements' reasonable expectation for future business and operational trends including those impacting on the legislative and economic environment allows the company to estimate its future cash flow requirements with a reasonable degree of certainty.

The company's portfolio management policy reflects a position of funding short-term first mortgage loans with a mix of short, medium and longer term investment funds as well as being supported by the retained earnings and paid up capital.

**Liquidity Risk Management Maturity Profile**

<b>30 June 2016</b>	<b>No later than 1 year \$</b>	<b>Between 1 and 2 years \$</b>	<b>Between 2 and 5 years \$</b>
Financial Liabilities:			
Secured Notes	94,150,964	20,782,688	4,571,746
Financial Assets:			
Cash and cash equivalents	26,268,775	-	-
Loans and receivables	135,116,418	39,381,197	-

**NOTES TO THE AMENDED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2014**

**Note 14: Financial Risk Management (Cont'd)**

**(d) Liquidity Risk (Cont'd)**

**Liquidity Risk Management Maturity Profile**

<b>30 June 2015</b>	<b>No later than 1 year \$</b>	<b>Between 1 and 2 years \$</b>	<b>Between 2 and 5 years \$</b>
Financial Liabilities:			
Secured Notes	88,925,783	18,524,599	11,333,811
Financial Assets:			
Cash and cash equivalents	37,731,076	-	-
Loans and receivables	113,653,347	34,334,093	-

**(e) Credit Risk**

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

The company does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the company.

The company has in place established credit risk management policies and procedures to mitigate the risk of non-payment of principal or interest on first mortgage loans advanced by the company. The principal mitigating factors are summarised as follows:

- Maximum loan to value ratios at time of drawdown not exceeding 67%.
- Initial advances for terms not greater than 3 years.
- Independent valuations of security property not more than 6 months old at date of advance.
- Loans approved at director and executive management level within approved discretions.
- Independent expert monitoring of drawdowns under construction loan advance.
- Potential for settlement risk on construction loans mitigated by incorporating where appropriate pre-sales of finished product at price levels supported by independent valuations.
- All loans advanced are interest only at variable interest rates which allow for upward interest rate movements only with interest rates set according to the assessed credit risk of the borrower.
- Internal procedures include minimum monthly monitoring of default of any borrower in payment of principal and/or interest.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

**Note 14: Financial Risk Management (Cont'd)**

**(e) Credit Risk (Cont'd)**

**Maximum Exposure to Credit Risk**

	<b>Carrying Amount</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Loans and receivables	174,497,615	147,987,440
Cash and cash equivalents	26,268,775	37,731,076

**(f) Fair Values**

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are comparable to the amounts disclosed in the statement of financial position and notes to the financial statements.

**(g) Capital Management**

As at 30 June 2016, the company's equity was \$89,356,558 (2015 - \$86,005,926) of which paid up ordinary capital and retained earnings represented \$59,356,558 (2015 - \$56,005,926).

Capital adequacy can be expressed as a financial ratio by dividing the sum of the paid up capital and retained earnings by the total of the debt plus the paid up capital and retained earnings of the company. As at 30 June 2016 the ratio as a percentage was 33% (2015 – 32%).

**Note 15: Segment Reporting**

The principal activities of the company during the review period were issuing Secured Notes and lending the money raised on first mortgages over real estate in Australia.

**Note 16: Events after the Reporting Period**

On 26 July 2016 the company paid a fully franked dividend of \$660,000 to Preference shareholders.

As disclosed in the Directors' Report, fully franked dividends totalling \$6,000,000 were paid in August 2016. This dividend had been provided for as at 30 June 2016.

**Note 17: Company Details**

The registered office and principal place of business of the company is:  
Balanced Securities Limited  
Level 23  
385 Bourke Street  
Melbourne Victoria 3000

## **DIRECTORS' DECLARATION**

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 6 to 34 are in accordance with the Corporations Act 2001 and:
  - (a) comply with Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and
  - (b) give a true and fair view of the financial position as at 30 June 2016 and of the performance for the year ended on that date of the company.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Director: David Morton Geer

Dated this 21<sup>st</sup> day of September 2016



Director: Leon Gorr

Dated this 21<sup>st</sup> day of September 2016



Director: Anthony Henry May

Dated this 21<sup>st</sup> day of September 2016

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BALANCED SECURITIES LIMITED

We have audited the accompanying financial report of Balanced Securities Limited, which comprises the statement of financial position as at 30 June 2016 and the statement of comprehensive income, statement of changes in equity 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.

### Directors' Responsibility for the Amended Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that 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 that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the amended financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the amended financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the amended financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, 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

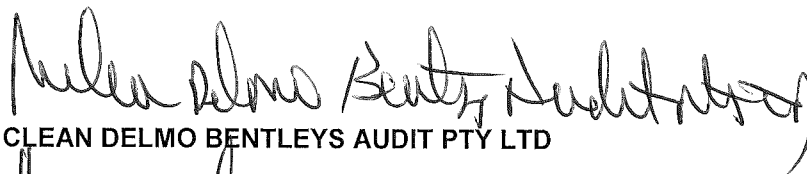
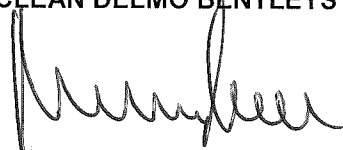
In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Balanced Securities Limited would be in the same terms if provided to the directors as at the time of this auditor's report.

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF BALANCED SECURITIES LIMITED (Continued)**

**Opinion**

In our opinion:

- (a) the financial report of Balanced Securities Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's financial position as at 30 June 2015 and of its performance and its cash flows for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

  
**MCLEAN DELMO BENTLEYS AUDIT PTY LTD**  


**Martin Fensome**

**Partner**

Dated in Hawthorn on this 27 day of September 2016