

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

Annual Financial Report
Year Ended 30 June 2021

Balmain Discrete Mortgage Income Trusts

ARSN 155 909 176

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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 2021.

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

Resigned:
16/09/2020

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.

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Directors' report

Brendan Howell
Director

Appointed:
6/11/2020

Brendan has a Bachelor of Economic (majoring in Accounting and Economics) from the University of Sydney and a Diploma in Finance & Investment from the Securities Institute of Australia, and 30 years' experience in the funds management industry. He was formerly an associate member of both the Securities Institute of Australia and the Institute of Chartered Accountants in Australia. Brendan has a property and accounting background, and from the period 1990 to 1998 held senior positions with a leading Australian trustee company administering listed and unlisted property trusts. For the past 22 years Brendan has been directly involved with MIA Services Pty Limited, a company which specialises in funds management compliance, and acts as an independent consultant and external compliance committee member for a number of properties, equity and infrastructure fund managers. Brendan also acts as an independent director for several unlisted public companies, some of which act as responsible entities.

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 2021 were \$853,038,187 (2020: \$713,274,408).

The Trust's net profit before finance costs for the year ended 30 June 2021 was \$56,938,328 (2020: \$45,480,034).

Distributions

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

	2021	2020
	\$'000	\$'000
Distribution paid – Cash units	96	325
Distribution payable – Cash units	4	12
Distribution paid – Loan units	52,171	40,891
Distribution payable – Loan units	4,667	4,252
	<u>56,938</u>	<u>45,480</u>

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Directors' report

Performance

Returns from the Trust for the year, assuming monthly reinvestments, averaged 7.11% (2020: 7.36%).

The Trust has net assets of \$853,038,187 as at 30 June 2021 (2020: \$713,274,408).

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 2021 (2020:\$1.00).

Units on issue

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

	2021	2021	2020	2020
	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	63,192	650,082	32,946	454,264
Units issued	338,932	997,225	349,719	938,647
Loan units converted into cash units	544,348	(544,348)	479,009	(479,009)
Cash units converted into loan units	(731,079)	731,079	(649,795)	649,795
Units redeemed to investors	(150,016)	(1,046,377)	(148,687)	(913,615)
Units on issue as at 30 June	65,377	787,661	63,192	650,082

Value of the assets

	30 June 2021 \$'000	30 June 2020 \$'000
Value of the Trust's assets	880,132	750,391

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.

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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

Beginning in January 2020, global financial markets have experienced and may continue to experience significant volatility resulting from the spread of a novel coronavirus known as COVID-19, resulting in a pandemic declared by the World Health Organisation in March 2020. Australia's experience in dealing and containing the spread the COVID-19 has fared considerably better than other countries around the world until post year end. The flow on effect has resulted in volatility across the entire economy and various sub-markets or industries given the imposed restrictions. While difficult to predict the impact of the current situation on the future performance of the various markets and industries, the Manager of the Trust continues to monitor the current situation to assess the potential implications of COVID-19 on the Trust's operational and financial performance. The assessment of the Obligors will include monitoring the ability and capacity to make loan repayments and any market value decline of underlying real property collateral due to changes in demand of purchase, significant changes in core property fundamentals and various rental markets, and the associated impact on the Trust's financial performance.

Events subsequent to reporting date

As discussed above, the COVID-19 pandemic has impacted the Group during the period. Subsequent to the end of the financial year, the pandemic and its impact has continued to evolve with further outbreaks resulting in lockdown restrictions in NSW, Victoria and elsewhere in Australia, additional border closures between states, new stimulus measures and many other items. It is therefore not practical to estimate the potential impact, positive or negative, after reporting date.

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.

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Directors' report

Auditor

Grant Thornton Audit Pty Limited continues in office as auditor 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 2021.

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 24th day of September 2021.

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



Andrew Griffin
Director

Auditor's Independence Declaration

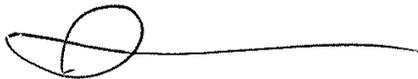
To the Directors of the Responsible Entity of Balmain Discrete Mortgage Income Trusts

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 2021, 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



M A Adam-Smith
Partner - Audit & Assurance

Sydney, 24 September 2021

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Statement of profit or loss and other comprehensive income
For the year ended 30 June 2021

	Note	2021 \$'000	2020 \$'000
Income			
Interest income	4	67,182	53,739
Total operating income		<u>67,182</u>	<u>53,739</u>
Operating expenses			
Responsible Entity fees	12	(9,125)	(7,701)
Other expenses		(1,119)	(558)
Total expenses before finance costs		<u>(10,244)</u>	<u>(8,259)</u>
Operating profit for the year before finance costs		<u>56,938</u>	<u>45,480</u>
Finance costs attributable to unitholders			
Distributions to unitholders	9	56,938	45,480
Total finance costs		<u>56,938</u>	<u>45,480</u>
Change in net assets attributable to unit holders		<u>-</u>	<u>-</u>
Profit/(loss) for the year		-	-
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 statement of changes in equity has been presented for the current and comparative year.

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 financial position
As at 30 June 2021

	Note	2021 \$'000	2020 \$'000
Current assets			
Cash and cash equivalents	6	92,068	99,390
Mortgage loans	7	676,118	515,293
Total current assets		768,186	614,683
Non-current assets			
Mortgage loans	7	111,693	135,708
Total non-current assets		111,693	135,708
Total assets		879,879	750,391
Current liabilities			
Payables	8	18,173	23,280
Distribution payable	9	4,605	4,264
Total current liabilities		22,778	27,544
Non-current liabilities			
Payables	8	4,063	9,573
Total non-current liabilities		4,063	9,573
Total liabilities (excluding net assets attributable to unitholders)		26,841	37,117
Net assets attributable to unitholders – liability	10	853,038	713,274

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 2021

	Note	2021	2020
		\$'000	\$'000
Cash flows from operating activities			
Interest received		64,186	65,004
Responsible Entity and related parties' fees paid		(9,108)	(7,482)
Payments for other expenses		(8,757)	(1,091)
Net payments of mortgage loans		(136,810)	(196,566)
Net cash outflow from operating activities	11(a)	(90,489)	(140,135)
Cash flows from financing activities			
Applications received		1,880,505	1,767,375
Redemptions paid		(1,740,741)	(1,541,311)
Distributions paid		(56,597)	(44,046)
Net cash inflow from financing activities		83,167	182,018
Net increase in cash and cash equivalents		(7,322)	41,883
Cash and cash equivalents at the beginning of the financial year		99,390	57,507
Cash and cash equivalents at the end of the financial year	6	92,068	99,390

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 2021

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 2021.

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 2020:

The following standards and amendments became effective for the first time for the annual reporting period commencing 1 July 2020:

Conceptual Framework for Financial Reporting (Conceptual Framework)

The Trust has adopted the revised Conceptual Framework from 1 July 2020. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards, but it has not had a material impact on the Trust's financial statements

(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.

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Notes to the financial statements
For the year ended 30 June 2021

2 Basis of preparation (continued)

(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.

(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

(i) Responsible Entity fees

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

(ii) Other operating expenses

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

(c) Taxation

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

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

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Notes to the financial statements

For the year ended 30 June 2021

(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.

(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.

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Notes to the financial statements

For the year ended 30 June 2021

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 recognises lifetime expected credit losses (ECL) for mortgage loans and other receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Trust's historical credit loss experience, adjusted for factors that are specific to the financial assets, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Trust compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Trust considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward looking information considered includes the future prospects of the industries in which the Trust's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Trust's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant decrease in overall real estate market
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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3 Significant accounting policies (continued)

(f) Financial instruments (continued)

Impairment of Financial assets (continued)

However, the Trust assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the mortgage loan or other receivable is determined to have low credit risk at the reporting date. A mortgage loan or other receivable is determined to have low credit risk if:

- 1) the mortgage loan is secured against a substantial sum of collateral and in case of default, the Trust has first mortgage charge over the collateral held against that mortgage loan;
- 2) the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and
- 3) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Classification and measurement of financial liabilities

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.

(g) 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.

(h) Unit prices

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

(i) 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.

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4 Interest income

	30 June 2021	30 June 2020
	\$'000	\$'000
Cash at bank	91	443
Mortgage loans	67,091	53,296
	<u>67,182</u>	<u>53,739</u>

5 Auditor's remuneration

	30 June 2021	30 June 2020
	\$	\$
Audit services:		
Audit and review of the financial report:		
Grant Thornton Audit Pty Limited	204,500	179,750
Non-audit services:		
Tax return preparation and lodgement:		
Grant Thornton Australia Ltd	7,000	6,200
	<u>211,500</u>	<u>186,570</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 2021	30 June 2020
	\$'000	\$'000
Cash at bank	92,068	99,390
	<u>92,068</u>	<u>99,390</u>

7 Mortgage loans

	30 June 2021	30 June 2020
	\$'000	\$'000
Financial assets at amortised cost		
Current mortgage loans	676,118	515,293
Non-current mortgage loans	111,693	135,708
Total mortgage loans	<u>787,811</u>	<u>651,001</u>

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8 Payables

Financial liabilities at amortised cost -	30 June 2021	30 June 2020
Current	\$'000	\$'000
Fees payable to the Responsible Entity	3,612	3,595
Prepaid interest	21,884	19,371
Other payables (receivable)	(7,323)	314
	<u>18,173</u>	<u>23,280</u>

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

Financial liabilities at amortised cost –	30 June 2021	30 June 2020
Non-current	\$'000	\$'000
Prepaid interest	4,063	9,573
	<u>4,063</u>	<u>9,573</u>

9 Distributions

	30 June 2021	30 June 2020
	\$'000	\$'000
The distributions were paid/payable as follows:		
Distribution paid – Cash units	96	325
Distribution payable – Cash units	4	12
Distribution paid – Loan units	52,171	40,891
Distribution payable – Loan units	4,667	4,252
	<u>56,938</u>	<u>45,480</u>

The final distribution was paid on 14 July 2021.

Distribution paid includes distribution reinvestment amount of \$8,727,599 (2020: \$6,388,541) for cash units and loan units.

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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 2021		30 June 2020	
	No. of units '000	\$'000	No. of units '000	\$'000
Cash units	65,377	65,377	63,192	63,192
Loan units	787,661	787,661	650,082	650,082
Closing balance	853,038	853,038	713,274	713,274

Cash unit class

	30 June 2021		30 June 2020	
	No. of units '000	\$'000	No. of units '000	\$'000
Opening balance	63,192	63,192	32,946	32,946
Applications from investors	338,932	338,932	349,719	349,719
Applications from loan unit conversions	544,348	544,348	479,009	479,009
Redemptions to investors	(731,079)	(731,079)	(148,687)	(148,687)
Redemptions to loan unit conversions	(150,016)	(150,016)	(649,795)	(649,795)
Closing balance	65,377	65,377	63,192	63,192

Loan unit class

	No. of units				30 June 2021	
	Class B '000	Class L '000	Class N '000	Class T '000	Total No. of units '000	\$'000
Opening balance	99,164	494,744	-	56,174	650,082	650,082
Applications – underwriter units	817,495	-	-	-	817,495	817,495
Applications from cash units	-	731,079	-	-	731,079	731,079
Applications from Class N	-	-	5,000	-	5,000	5,000
Applications – Class T units	-	-	-	174,730	174,730	174,730
Redemptions to cash units	-	(544,347)	-	-	(544,347)	(544,347)
Redemptions – underwriter units	(840,502)	-	-	-	(840,502)	(840,502)
Redemptions – Class T units	-	-	-	(203,823)	(203,823)	(203,823)
Redemptions – Class N units	-	-	(2,053)	-	(2,053)	(2,053)
Closing balance	76,157	681,476	2,947	27,081	787,661	787,661

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10 Net assets attributable to unitholders (continued)

Loan unit class

	Class B	No. of units		Class T	30 June 2020	
	'000	Class L	Class N	'000	Total No. of	\$'000
		'000	'000		units	
					'000	
Opening balance	100,202	323,958	7,219	22,885	454,264	454,264
Applications – underwriter units	696,409	-	-	-	696,409	696,409
Applications from cash units	-	649,795	-	-	649,795	649,795
Applications from Class N	-	-	-	-	-	-
Applications – Class T units	-	-	-	242,238	242,238	242,238
Redemptions to cash units	-	(479,009)	-	-	(479,009)	(479,009)
Redemptions – underwriter units	(697,447)	-	-	-	(697,447)	(697,447)
Redemptions – Class T units	-	-	-	(208,949)	(208,949)	(208,949)
Redemptions – Class N units	-	-	(7,219)	-	(7,219)	(7,219)
Closing balance	<u>99,164</u>	<u>494,744</u>	<u>-</u>	<u>56,174</u>	<u>650,082</u>	<u>650,082</u>

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 2021

11 Notes to the statement of cash flows

(a) Reconciliation of cash flows from operating activities

	2021	2020
	\$'000	\$'000
Operating profit before finance costs	56,938	45,480
Change in assets and liabilities during the financial period:		
(Increase) in mortgage loans	(160,825)	(196,566)
Increase/(Decrease) in payables	13,398	10,951
Net cash inflow in operating activities	<u>90,489</u>	<u>140,135</u>

Non-cash operating and financing activities

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

	30 June 2021	30 June 2021	30 June 2020	30 June 2020
	No. of units		No. of units	
	'000	\$'000	'000	\$'000
Units created in the Trust under the distribution paid reinvestment plan	<u>8,727</u>	<u>8,727</u>	<u>6,389</u>	<u>6,389</u>

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:

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12 Related party disclosures (continued)

<i>Name</i>	<i>Appointed</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 (Resigned – 16 September 2020)
Brendan Howell (Director)	6 November 2020

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:

	30 June 2021	30 June 2020
	\$	\$
Management fees	8,724,354	6,812,885
Performance fees	106,229	672,891
Other reimbursable fees	294,247	214,737
Total	<u>9,124,830</u>	<u>7,700,513</u>
The following amounts are included in payables as management fees at reporting date	<u>2,821,989</u>	<u>3,595,278</u>

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 2021, 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.

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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.

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Notes to the financial statements
For the year ended 30 June 2021

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:

	Ratings	30 June 2021	30 June 2020
		\$'000	\$'000
Variable rate instruments			
Cash and cash equivalents	AA	92,068	99,390
Mortgage loans (current)	n/a	676,118	515,293
Mortgage loans (non current)	n/a	111,693	135,708
		<u>879,879</u>	<u>750,391</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.

	30 June 2021		30 June 2020	
	Profit or loss		Profit or loss	
	100bp	100bp	100bp	100bp
	increase	increase	increase	decrease
Variable rate instruments				
Cash and cash equivalents	921	(921)	994	(994)
Mortgage loans (current)	6,761	(6,761)	5,153	(5,153)
Mortgage loans (non-current)	1,117	(1,117)	1,357	(1,357)
Cash flow sensitivity (net)	<u>8,799</u>	<u>(8,799)</u>	<u>7,504</u>	<u>(7,504)</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
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Notes to the financial statements
For the year ended 30 June 2021

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:

	Credit rating	30 June 2021 \$'000	30 June 2020 \$'000
Cash and cash equivalents	AA	92,068	99,390
Mortgage loans (Current assets)	n/a	676,118	515,293
Mortgage loans (Non-current assets)	n/a	111,693	135,708
		<u>879,879</u>	<u>750,391</u>

Credit quality

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

	30 June 2021		30 June 2020	
	Gross \$'000	Impairment \$'000	Gross \$'000	Impairment \$'000
Not past due	734,210	-	606,200	-
Past due 0-30 days	43,124	-	32,554	-
Past due 31-60 days	2,385	-	7,508	-
Past due 61-150 days	3,405	-	2,700	-
Past due more than 150 days	4,687	-	2,039	-
	<u>787,811</u>	<u>-</u>	<u>651,001</u>	<u>-</u>

Included in past due 0-30 days are 5 loans amounting to \$41,052,259 with an average LVR of 58% which were overdue by 0 days at the year-end and were due to mature on 30 June 2021. Out of these loans, \$8,365,259 had their date of maturity extended and 32,687,000 were fully repaid post year-end.

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 2021, the highest loan to value ratio of any discrete loan was 88% at acceptance (2020: 76%).

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 \$1,453 million (2020: \$1,221 million).

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13 Financial instruments (continued)

Should the situation deteriorate, there is a potential for provision for Expected Credit Losses on Loans and Receivables in the Balance Sheet and the associated impairment charges recognised in the Income Statement. The extent of the impact of COVID-19 on the Trust will depend on future measures put in place to contain the spread and the wider macro-economic conditions as a whole, which is currently uncertain and cannot be predicted. Consequently, the Trust is unable to quantify the related financial impact on the Trust's financial position or operating results. Due to the underlying collateral notwithstanding, the particular attributes, location, quality or the real property assets COVID-19 is not currently expected to have a material impact on the Trust's financial position or operating results. The Manager of the Trust will continue to evaluate the situation for any change that may impact the Trust.

LVR Profile	30 June 2021			30 June 2020		
	Total no. of loans	Total % portfolio	Outstanding loans	Total no. of loans	Total % portfolio	Outstanding loans
< 40.00%	15	9.50%	74,878	13	3.15%	20,481
40.01% - 50.00%	17	12.61%	99,359	30	28.56%	185,950
50.01% -60.00%	44	48.92%	385,411	52	42.15%	274,412
60.01% - 70.00%	44	27.53%	216,913	28	26.14%	170,158
70.01% - 75.00%	1	1.44%	11,250	-	-	-
	121	100%	787,811	123	100%	651,001

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.

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Notes to the financial statements
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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 2021		Carrying amount	Contractual cash flows	At call	0-6months	>6months
	Note	\$'000	\$'000	\$'000	\$'000	\$'000
Financial liabilities						
Payables	8	22,236	22,236	-	18,173	4,063
Distributions payable	9	4,605	4,605	-	4,605	-
Net asset attributable to unit holders		853,038	853,038	63,377	-	787,661
		750,391	750,391	63,192	27,544	659,655

30 June 2020		Carrying amount	Contractual cash flows	At call	0-6months	>6months
	Note	\$'000	\$'000	\$'000	\$'000	\$'000
Financial liabilities						
Payables	8	32,853	32,853	-	23,280	9,573
Distributions payable	9	4,264	4,264	-	4,264	-
Net asset attributable to unit holders		713,274	713,274	63,192	-	650,082
		750,391	750,391	63,192	27,544	659,655

14 Contingencies

There are no contingent liabilities as at 30 June 2021 (2020: Nil).

15 Events subsequent to the reporting date

Beginning in January 2020, global financial markets have experienced and may continue to experience significant volatility resulting from the spread of a novel coronavirus known as COVID-19, resulting in a pandemic declared by the World Health Organisation in March 2020. Australia's experience in dealing and containing the spread the COVID-19 has fared considerably better than other countries around the world until post year end. The flow on effect has resulted in volatility across the entire economy and various sub-markets or industries given the imposed restrictions. While difficult to predict the impact of the current situation on the future performance of the various markets and industries, the Manager of the Trust continues to monitor the current situation to assess the potential implications of COVID-19 on the Trust's operational and financial performance. The assessment of the Obligors will include monitoring the ability and capacity to make loan repayments and any market value decline of underlying real property collateral due to changes in demand of purchase, significant changes in core property fundamentals and various rental markets, and the associated impact on the Trust's financial performance. The Manager of the Trust is actively monitoring the situation in accordance with guidance provided by ASIC in dealing with hardship requests.

Balmain Discrete Mortgage Income Trusts
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Notes to the financial statements
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15 Events subsequent to the reporting date (continued)

Subsequent to the end of the financial year, the pandemic and its impact has continued to evolve with further outbreaks resulting in lockdown restrictions in NSW, Victoria and elsewhere in Australia, additional border closures between states, new stimulus measures and many other items. It is therefore not practical to estimate the potential impact, positive or negative, after reporting date. Other than the aforementioned, 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 2021.

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.

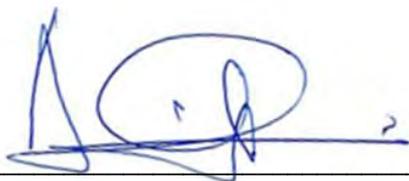
Balmain Discrete Mortgage Income Trusts Directors' declaration

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 2021 and of its performance for the year ended 30 June 2021; 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 24th day of September 2021

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 audit of the financial report

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 2021, 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 2021 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 (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Information other than the financial report and auditor's report thereon

The directors of the Responsible Entity are responsible for the other information. The other information comprises the information included in the Trust's annual report for the year ended 30 June 2021, 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 are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*. The directors of the Responsible Entity's responsibility also includes such internal control as the directors of the Responsible Entity determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



M A Adam-Smith
Partner - Audit & Assurance

Sydney, 24 September 2021