ANNUAL FINANCIAL REPORT

30 JUNE 2019

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Social Enterprise Finance Australia Limited
ABN 401 506 737 15

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Directors' Report

Social Enterprise Finance Australia Limited ("SEFA" or the "Company") is a Company limited by shares, incorporated and domiciled in Australia. The address of the Company's registered office is Level 1, 1-3 Smail Street, Ultimo NSW 2007.

The directors present their report together with the consolidated financial report of the Company, being the Company and its controlled entities – SEFA Investments Limited and the SEFA Loan Fund, or collectively the "Group", for the 30 June 2019 financial year, and the auditor's report thereon.

Directors:

The following persons were directors of Social Enterprise Finance Australia Limited during the financial year and up to the date of this report:

David Bennett (appointed 1 October 2013, resigned 7 September 2019)
Louise Sylvan (appointed 26 October 2011)
Nick Minogue (appointed 19 May 2014, resigned 23 November 2018)
Jay Bonnington (appointed 12 September 2016)
Belinda Drew (appointed 1 January 2017)
Professor Jack Beetson (appointed 1 January 2017)
Alastair McGibbon (appointed 1 February 2017)
Andrew Cairns (appointed 14 March 2018)

Biographies of Directors:

David Bennett

David retired from Macquarie Group in August 2013 after 35 years in investment banking. He was an Executive Director and held the role of Group Treasurer before he retired. Prior to this David was Global Head Debt Capital Markets. Prior to Macquarie Group's acquisition of Bankers Trust Australia in 1999, David worked for more than 21 years in Bankers Trust's accounting, funds management and in fixed income businesses. David has extensive experience in advising, arranging and underwriting a range of financial instruments in both Australian and overseas.

David is currently: Board Member of Centre for Social Impact; Board Member of Macquarie Group Foundation; Member of Investment Committee and Macquarie Infrastructure Debt Investment Solutions Fund; Member of Australian Advisory Board on Impact Investing; Chairman of Challenger Retirement Investment Services Limited; Investment Committee Member of Palisade Investment Partners; and Non-Executive Director of AquaSure.

Louise Sylvan

Louise was previously CEO of the Australian National Preventive Health Agency (ANPHA), a Commissioner of the Productivity Commission, and Deputy Chair of the Australian Competition and Consumer Commission. She has also been Chief Executive of the CHOICE - Australian Consumers' Association, President of Consumers International, Deputy President of the Council of the Medical Foundation of the University of Sydney, a non-executive Director of the UNSW Diplomacy Training Program, and has chaired the OECD's work on Economics for Consumer Policy. Other roles include six years on the Australian Prime Minister's Economic Planning Advisory Council, 11 years on the Australian Statistics Advisory Council to the Australian Bureau of Statistics and memberships of the Expert Group on Electronic Commerce and the Self Regulation Task Force.

Louise is currently: Chair of Energy Consumers Australia; Member of NSW Aboriginal Land Council Economic Development Advisory Council; Deputy Chair of Australian Advisory Board on Impact Investing; and Director of Australian Risk Policy Institute.

Andrew Cairns

Andrew Cairns joined Community Sector Banking as CEO in March 2016 having previously been with the Bendigo & Adelaide Bank Group for over 15 years. His prior roles include CEO of Community Telco Australia, and senior positions in the engineering, mining and pay TV industries where he gained a reputation for growing start-ups and fostering innovation.

Andrew is currently: actively engaged in his community and the not-for-profit sector as chair of Western Water and a Director of Haven; Home, Safe

Nick Minogue

Nick has 30 years' experience in international banking and has worked in London, Hong Kong and Sydney. Until his retirement in 2009, Nick was Head of Macquarie Group's Risk Management Group and served on its Executive Committee. He has an MBA from leading international business school Insead, and a Masters in History. Nick invested in SEFA since its inception.

Nick is currently: Chairman, Morphic Asset Management; President, Kangaroo Valley Arts Festival; President of the Shoalhaven Youth Orchestra.

Jay Bonnington

Jay has over 20 years' experience as a non-executive director on public and private companies, as well as government and advisory boards. Jay has experience in a range of sectors including construction, engineering, energy, manufacturing, utilities, financial services, superannuation and health. She also has experience as a CEO and senior executive in international organisations. From a chartered accounting background, with over thirty years' experience in various sectors, she has deep operational corporate finance experience.

Jay is currently: Director of Perpetual Super Ltd (PSL) and Chair of PSL Audit and Risk Committee; Director and Treasurer of University College Ltd; Independent Member of the Commercial Passenger Vehicles Victoria (CPVV) Audit Committee; Chair of Australian Institute Company Directors (AICD) Nexus programme; and Independent Chair of Philanthropy Australia Finance, Risk and Compliance Committee.

Belinda Drew

Belinda has over 20 years' experience in the community services industry having worked across disability, homelessness, child protection and housing. Belinda was appointed Chair of Social Enterprise Finance Australia Ltd on 7th September 2019.

During the most recent decade of her career, Belinda was focused on building the social investment market in Australia in her role as the CEO of Foresters Community Finance. Most recently Belinda joined the Community Services Industry Alliance as inaugural CEO of a company focused on representing the value of the community services industry to government and the business sectors. Belinda has a passion for the community services industry and contributing to the task of building a strong, sustainable and contemporary sector across Australia.

Belinda is currently: Director of BuyAssist Australia and Director of Moreton Bay College Foundation.

Professor Jack Beetson

Jack is a Ngemba Aboriginal man, from western NSW, who has played an active role in Aboriginal affairs in NSW, nationally and internationally for the last thirty years. He is a qualified adult educator, with a Diploma of Aboriginal and Community Adult Education and a Bachelor of Adult Education from UTS. He has completed the Certificate course run by the Australian Institute of Company Directors (AICD), recognised as the definitive program for company directors in Australia. In 2008, he was appointed an Honorary Adjunct Professor at the University of New England.

Jack is currently: Executive Director of the Literacy for Life Foundation and Interim Chair of National Aboriginal Environment Trust.

Directors' Report (continued)

Alastair McGibbon

Alastair was previously a career banker, including 10 years at National Australia Bank as Head of Banks. He also helped develop the Australian Kangaroo Bond market in London. At SEFA, Alastair enables relationships to achieve financial security, growth and social impact. In 2011 he spent six months in the Northern Territory, visiting remote Indigenous communities and producing the documentary 'Northern Lights: A season with NT Thunder'. He volunteers with disadvantaged groups, with a particular focus on the homeless.

Meetings of Directors:

The number of meetings of the Company's board of directors held during the financial year ended 30 June 2019 was seven, and the number of meetings attended by each director was:

	Meetings eligible to attend	Meetings Attended
Louise Sylvan	7	6
David Bennett	7	7
Nick Minogue	4	4
Jay Bonnington	7	7
Belinda Drew	7	6
Professor Jack Beetson	7	5
Andrew Cairns	7	5
Alastair McGibbon	7	7

The number of meetings of the Company's Audit and Risk Committee held during the financial year ended 30 June 2019 was five, and the number of meetings attended by each committee member was:

	Meetings eligible to attend	Meetings Attended
Louise Sylvan	5	3
Nick Minogue	5	5
Jay Bonnington	5	5
Andrew Cairns	1	1

Directors' Report (continued)

Principal Activities:
The principal activity of the Company during the 2019 financial year was the provision of loans to Australian purpose-driven organisations. Assisting organisations to deliver social impact remains the core focus of SEFA and there were no significant changes during this financial period.

Review of operations:
SEFA continued to make good progress in 2018-19. Revenue from operations increased 20% on prior year to $1.27M. This also reflects the strategy to diversify our revenue further and focus on increasing SEFA's fee income. This has resulted in an improved financial performance with the operating loss (before provisions) improving by $153,717 when compared with the prior year. This indicates the overall strengthening of the underlying business operations.

The loan book continued to grow with five new loans disbursed and cumulative disbursements of more than $30 million achieved since SEFA began. This year SEFA continued to support a broad range of purpose driven organisations in acquiring finance to deliver social impact. Much of our focus has been on organisations providing crisis accommodation including general homelessness, women and children escaping domestic violence, and people exiting incarceration. We have also been active with organisations developing disability accommodation under the SDA payment regime, the disadvantaged education sector and a range of community-based initiatives.

In addition to executing some solid blended financing outcomes, SEFA is securing mandates for its investment readiness and due diligence services. This includes being awarded a grant in conjunction with Lismore Jarjum Indigenous pre-school under the Impact Investment Ready Growth Grants, to assist our client raise capital. The grants fall under the Commonwealth's DSS $7m program being administered by Impact Investing Australia (IIA).

SEFA continued to be an active contributor to broader sector development. This included speaking at conferences and running workshops. Hanna Ebeling, CIO, gave presentations as part of Philanthropy Australia's Philanthropic Learning Program, as well as a webinar for Responsible Investment Association Australasia's Impact Investment Forum. The SEFA team attended the 2019 NCOSS Investing for Good conference, with CEO Alastair McGibbon facilitating a panel on attracting impact finance and negotiating with government. SEFA sponsored the conference drinks which featured a performance from our new client, Shopfront Arts Co-op.

As a certified BCorp member, SEFA continues to prove its commitment to high standards of social and environmental performance, transparency and accountability. SEFA continues to invest in its people, as well as its own infrastructure. In 2019, SEFA brought on a Marketing and Communications Manager and invested in a new brand and website.

Directors' Report (continued)

Dividends:
The Company does not propose to declare a dividend for the year ended 30 June 2019.

State of Affairs:
In the opinion of the directors there were no significant changes in the state of affairs of the company that occurred during the year under review not otherwise disclosed in this report.

Significant Events After Balance Sheet Date:
There has not arisen in the interval between the end of the financial year and the date of this report any item, any other transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent years.

Future Developments:
Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

Insurance and Indemnity of Directors and Officers:
During the financial year, the officers of the Company, including the directors as named earlier in this report, general managers, company secretaries and other executive officers were covered by insurance obtained by SEFA. This insurance indemnifies Directors and Officers against allegations of wrongdoing (other than intentional wrongdoing).

Indemnity of auditors
The Company has entered into an agreement to indemnify Ernst and Young, the auditor of the Group and its staff, against any liability (including legal costs) that Ernst and Young or its staff may incur in connection with any claim by a third party arising from the Group's breach of the terms and conditions of their engagement letter. No insurance premiums are paid out of the Group's assets in relation to insurance cover for the auditors of the Group.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001: The Lead Auditor's Independence Declaration, as required under Section 307C of the Corporations Act 2001, is set out on page 5.

This report has been made in accordance with a resolution of the Directors.

Dated at Sydney 22/10/2019

B Drew

For and on behalf of the Board of Directors.

Belinda Drew
Chair of the Board

Building a better
working world

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Auditor's Independence Declaration to the Directors of Social Enterprise Finance Australia Limited

As lead auditor for the audit of Social Enterprise Finance Australia Limited for the financial year ended 30 June 2019, I declare 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.

This declaration is in respect of Social Enterprise Finance Australia Limited and the entities it controlled during the financial year.

Ernst & Young

Ernst & Young

K Brown

Kester Brown
Partner
22 October 2019

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Consolidated Statement of Comprehensive Income

For the year ended 30 June 2019

	Note	Year ended 30 June 2019 $	Year ended 30 June 2018 $
Interest income	2	1,092,143	948,164
Other income	2	181,458	111,140
Total operating income		**1,273,601**	**1,059,304**
Administrative expenses	2	(1,185,065)	(1,200,109)
Funding costs	2	(262,250)	(249,671)
Loan provision reserve		(31,459)	(456,574)
Total expenses		**(1,478,774)**	**(1,906,354)**
Profit/(Loss) before taxation		**(205,173)**	**(847,050)**
Income tax (expense) / benefit	3	-	-
Profit/(Loss) for the year		**(205,173)**	**(847,050)**
Comprehensive income		-	-
Total comprehensive income attributable to:			
Owners of Social Enterprise Finance Australia		**(205,173)**	**(847,050)**

The Consolidated Statement of Comprehensive Income is to be read in conjunction with the notes to the financial statements set out on pages 12 to 21

Consolidated Balance Sheet

As at 30 June 2019

	Note	Year ended 30 June 2019 $	Year ended 30 June 2018 $
ASSETS			
Current Assets			
Cash and cash equivalents		**4,014,117**	4,618,424
Loans and advances to customers	**5**	**3,214,050**	4,095,133
Prepayment and other current assets	**6**	**88,900**	70,570
Total Current Assets		**7,317,067**	8,784,127
Non-Current Assets			
Fixed assets	**7**	**1,326**	0
Loans and advances to customers	**5**	**12,236,802**	10,567,055
Total Non-Current Assets		**12,238,128**	10,567,055
TOTAL ASSETS		**19,555,195**	19,351,182
LIABILITIES			
Current Liabilities			
External Borrowings	**9(a)**	**2,350,000**	350,000
Other liabilities and accruals	**8**	**240,206**	210,948
Total Current Liabilities		**2,590,206**	560,948
Non-Current Liabilities			
External Borrowings	**9(a)**	**8,089,110**	9,709,182
Total Non-Current Liabilities		**8,089,110**	9,709,182
TOTAL LIABILITIES		**10,679,316**	10,270,130
NET ASSETS		**8,875,879**	9,081,052
EQUITY			
Issued share capital	**10**	**2,240,000**	2,240,000
Retained earnings		**6,841,052**	7,688,102
Current Earnings		**(205,173)**	(847,050)
TOTAL EQUITY		**8,875,879**	9,081,052

The Consolidated Balance Sheet is to be read in conjunction with the notes to the financial statements set out on pages 12 to 21

Consolidated Statement of Changes in Equity

For the year ended 30 June 2019

	Note	Issued share capital $	Retained earnings $	Total $
As at 1 July 2017		**2,240,000**	**7,688,102**	**9,928,102**
(Loss) after tax		-	**(847,050)**	**(847,050)**
Total comprehensive income for the period		-	**(847,050)**	**(847,050)**
Transactions with owners in their capacity as owners:				
Share capital issued		-	-	-
Dividends paid		-	-	-
As at 30 June 2018	**10**	**2,240,000**	**6,841,052**	**9,081,052**
As at 1 July 2018		**2,240,000**	**6,841,052**	**9,081,052**
(Loss) after tax		**-**	**(205,173)**	**(205,173)**
Total comprehensive income for the period		**-**	**(205,173)**	**(205,173)**
Transactions with owners in their capacity as owners:				
Share capital issued		**-**	**-**	**-**
Dividends paid		**-**	**-**	**-**
As at 30 June 2019	**10**	**2,240,000**	**6,635,879**	**8,875,879**

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out on pages 12 to 21

Consolidated Statement of Cash Flows

For the year ended 30 June 2019

	Note	2019 $	2018 $
Cash flows from operating activities			
Payments to suppliers and employees		**(1,141,327)**	(1,153,920)
Interest costs paid		**(265,415)**	(242,250)
Interest income received		**1,090,954**	987,361
Other income received		**144,703**	101,896
Net cash used by operating activities	15	**(171,085)**	(306,913)
Cash flows from investing activities			
Loan principal repayments received from customers		**3,376,955**	6,821,658
Loans advanced to customers		**(4,190,105)**	(10,676,240)
Net cash used by investing activities		**(813,150)**	(3,854,582)
Cash flows from financing activities			
External borrowing received		**379,928**	832,167
Net cash from financing activities		**379,928**	832,167
Net increase/(decrease) in cash and cash equivalents		**(604,307)**	(3,329,328)
Cash and cash equivalents at beginning of period		**4,618,424**	7,947,752
Cash and cash equivalents at end of period		**4,014,117**	4,618,424

The Consolidated Statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 12 to 21

Notes to the consolidated financial statements

1. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied unless otherwise stated. The financial statements are for the consolidated entity consisting of Social Enterprise Finance Australia Limited and its subsidiaries. The Company is a for profit company limited by shares and incorporated in Australia.

(a) Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards - Reduced Disclosure Requirements, other authoritative pronouncements of the Australian Accounting Standards Board, and the Corporations Act 2001.

The Group has adopted AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements. The adoption of AASB1053 and AASB 2010-2 has allowed the Company to remove a number of disclosures, in particular the disclosures around Financial risk management objectives and policies.

SEFA has adopted AASB 9 Financial Instruments which is effective for periods beginning on or after 1 January 2018. The impact of applying the new standard on SEFA's financial statements has not been material from the adoption date of 1 July 2018. The standard was adopted without restating comparative information. AASB 9 makes changes to the classification and measurement of financial instruments, introduces a new expected loss model when recognising expected credit losses (ECL) on financial assets, and also introduces general hedge accounting requirements. SEFA has performed an assessment on the expected credit loss on the financial assets and the impact of applying the new standard on SEFA's financial statements has not been material from the adoption date of 1 July 2018.

SEFA has adopted AASB 15 Revenue from Contracts with Customers which is effective for periods beginning on or after 1 January 2018. The impact of applying the new standard on SEFA's financial statements has not been material from the adoption date of 1 July 2018. The standard was adopted without restating comparative information. AASB 15 introduces a 5 step approach to revenue recognition. For SEFA AASB 15 applies primarily to the interest income and SEFA recognises interest income on an accrual basis which is at the time of identified performance obligations are satisfied.

SEFA has not early adopted any new standards, amendments to standards and interpretations that are not yet effective. None of these are expected to have a significant effect on the financial statements of SEFA other than as set out below.

AASB 16 Leases
The key features of AASB 16 are as follows:
- Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.
- A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities.
- Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.
- AASB 16 contains disclosure requirements for lessees.

AASB 16 supersedes:
(a) AASB 117 *Leases*
(b) Interpretation 4 Determining whether an Arrangement contains a Lease
(c) SIC-15 *Operating Leases-Incentives*
(d) SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*

AASB 16 is effective for annual periods beginning on or after 1 January 2019 however under AASB 16, SEFA has chosen to elected to not recognise assets and liabilities as they are eligible for the short term lease exemption as the remaining term of the Lease is less than 12 months.

Historical cost convention

These financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 1(s) below.

(b) Foreign currency translation

Functional and Presentation currency

The Group's financial statements are presented in Australian dollars, which is Social Enterprise Finance Australia's and its subsidiaries functional and presentation currency.

(c) Revenue Recognition

Revenue recognition is in accordance with AASB15. Assessment is carried out to identify the contract with customer, performance obligations under the contract and transaction price. Transaction price is allocated to each performance obligation and revenue is recognised when a specific performance obligation has been satisfied.

Interest income

Interest income is recognised using the effective interest method, with interest accrued over the relevant period using the effective interest rate, which is the rate that exactly discounts the estimated future cash flows over the expected life of the financial asset to the net carrying amount of the financial asset.

Other income

Revenue is recognised when performance obligations are met - once the service as been provided to the customer.

Notes to the consolidated financial statements (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

(d) Property, Plant and Equipments

(i) Recognition and measurement

SEFA capitalised computer equipments during the financial year, which is carried at cost less, where applicable, any accumulated depreciation and impairment losses. Cost includes any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

(ii) Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

(iii) Carrying amount

The carrying amount of computer equipments is reviewed to ensure that it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets' employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

(iv) Depreciation

The depreciable amount of computer equipments, is depreciated on a straight line basis over the asset's useful life commencing from the time the asset is held ready for use. The useful life SEFA used for current computer equipments is 2 years

(e) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Social Enterprise Finance Australia Limited ('Company') as at 30 June 2019 and the results of all subsidiaries for the year then ended. The Company and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity. Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

(f) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

(g) Taxation

Income tax on the profit or loss for the period comprises of current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates at the balance sheet date.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Notes to the consolidated financial statements (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

(h) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

For statements of cash flows presentation purposes, cash and cash equivalents consists of the cash and cash equivalent as defined above.

Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(i) Leases

Leases of property, plant and equipment in which a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

(j) Loans, advances and other receivables

Loans and advances are initially recognised at cost. Loans and advances are held at cost less provision for impairment. Loans, advances and other receivables are presented as current assets unless collection is not generally expected for more than 12 months after the reporting date. Individual impairment is identified at a counterparty specific level following objective evidence that a financial asset is impaired. This may be after an interest or principal payment is missed or when a banking covenant is breached. The present value of estimated cash flows recoverable is determined after taking into account any security held. The amount of any impairment is calculated by comparing the present value of the cash flows discounted at the loan's original effective interest rate with the balance sheet carrying value. If impaired, the carrying value is adjusted and the difference charged to the income statement.

A write-off is made when all or part of a claim is deemed uncollectible or forgiven. Write-offs are charged against previously established provisions for impairment or directly to the income statement. In circumstances where an asset has been individually assessed for impairment and no objective evidence of impairment exists, then it will be subject to a collective assessment. Collective impairment is identified for classes of assets that share similar risk characteristics.

The loan provision reserve is currently based on a general provision following the application of IFRS9 as at year end and a specific provision which is in relation to one loan that is considered impaired at year end. All efforts will be made to recover this impaired loan. To date there have been no bad debts written off on the loan portfolio.

Applying IFRS9, credit risk assessment has been performed on SEFA portfolio, and apart from one loan which is categorised as Stage 3 (Credit Impaired) all others are assessed as Stage 1 (Peforming). 12 month expected credit losses are then calculated based on following parameters: actual interest rate of each individual loan, 2.6% probability of default and 90% expected loss given default. As there is one loan represents Stage 3 (Credit Impaired) 100% of it's current value is allowed under this scenario.

(k) Impairment of assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and valu in use. For the purposes of assessing impairment, assets are stated at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or classes of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(l) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid and are stated at cost. The amounts are unsecured and are usually paid within 90 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(m) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or finance cost.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(n) Non-Loan Provisions

A non-loan provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Notes to the consolidated financial statements (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

(o) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(p) Issued share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, for example as a result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(q) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

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 taxation authority is included with other receivables or payables in the balance sheet.

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 taxation authority, are presented as operating cash flows.

(r) Offsetting

Financial assets and liabilities are offset and the net amount presented in the balance sheet where there is a legal right of offset and there is an intention and ability to settle on a net basis. The Group nets loans, deposits and derivative transactions where it enters into master agreements with counterparties where there is an intention and ability to settle net.

(s) Accounting Estimates and Judgements

The preparation of the financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

Specific areas of accounting estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

Impairment losses on loans and advances

The Group regularly reviews its loan portfolios carried at cost to assess for impairment. This review is conducted across all asset types and impairment provisions are established to recognise the risk of losses within the loan portfolios. As explained in the company's accounting policy on Loans, advances and other receivables, impairment loss calculations involve the estimation of future cash flows of loans and advances based on observable data at the balance sheet date, historical loss experience for assets with similar credit risk characteristics and other factors including, inter alia, future prospects of the customers, value of collateral held and reliability of information.

The actual amount of the future cash flows and their timing may differ significantly from the assumptions made for the purposes of determining the impairment provisions given the range of asset types, number of customers and current economic conditions. Consequently, these allowances can be subject to variation.

(t) Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less impairment in the financial statements of Social Enterprise Finance Australia Limited.

The subsidiary is SEFA Investments Limited which is a sole beneficiary of SEFA Loan Fund, a unit trust.

Notes to the consolidated financial statements (continued)

2. Profit Before Income Tax

	2019	2018
	$	$
Interest income		
Interest income on cash deposits	**79,592**	97,543
Interest income on loans and advances to customers	**1,012,551**	850,621
Total interest income	**1,092,143**	948,164
Interest expense - external	**(262,250)**	(249,671)
Total interest expense	**(262,250)**	(249,671)
Net interest income	**829,893**	698,493
Other income		
Other fee income	**181,458**	111,140
Total other income	**181,458**	111,140
Staff costs		
- Salaries and contractor costs	**801,893**	774,662
- pension costs and other post retirement costs	**70,556**	66,782
- other	**1,978**	3,191
Building occupancy costs	**36,519**	32,521
Communications	**3,907**	4,378
Information technology expenses	**8,540**	23,420
Travel and accommodation	**28,291**	32,398
Other expenses	**233,381**	262,758
Total administrative expenses	**1,185,065**	1,200,110

3. Income Tax

	2019	2018
	$	$
Operating loss from ordinary activities before income tax	**(205,173)**	(847,050)
Prima facie income tax benefit at 27.5% (2018: 27.5%)	**(56,423)**	(232,939)
Tax effect of non-deductible expenses/non-assessable income in determining		
Current year tax losses not recognised as a deferred tax asset	**56,423**	232,939
	56,423	232,939
Total Income tax benefit from continuing operations	**-**	**-**
Recognised in the income statements		
Total income tax benefit in Statement of Comprehensive Income	**-**	-

4. Deferred Tax Benefit

	2019	2018
	$	$
Income tax provision	**-**	-
Deferred tax benefit	**-**	-
Deferred tax liabilities	**-**	-
Net position	**-**	-

The Group has a tax benefit of $665,760 (2018: $609,302) as a result of the accumulated tax losses incurred which have not been recognised in the balance sheet as a deferred tax asset. This deferred tax asset is available for offsetting against future profits subject to continuing to meet relevant statutory tests.

5. Loans and Advances to customers

	2019	2018
	$	$
Gross loans and advances to customers before provisions	**16,228,062**	15,407,939
Provisions for loan impairment	**(777,210)**	(745,751)
Net loans and advances to customers	**15,450,852**	14,662,188
Classified as:		
Current	**3,214,050**	4,095,133
Non-current	**12,236,802**	10,567,055
	15,450,852	14,662,188

6. Prepayments and Other Assets

	2019	2018
	$	$
Prepayments	**13,040**	9,025
Security Deposit	**-**	2,150
Accrued interest receivable	**8,511**	7,322
GST receivable	**2,861**	17,603
Other debtors	**64,488**	34,470
	88,900	70,570

Notes to the consolidated financial statements (continued)

7. Property, plant and equipment

	Computer & Telecom $	Total $
At 30 June 2018		
Cost	-	-
Accumulated depreciation	-	-
Net carrying amount	**-**	-
Movements in carrying amounts		
Opening net carrying amount	2,136	-
Disposals	-	-
Depreciation charge for the year	(811)	-
Closing net carrying amount	**1,326**	-
At 30 June 2019		
Cost	2,136	-
Accumulated depreciation	(811)	-
Net carrying amount	**1,326**	-

8. Other liabilities and accruals

	2019 $	2018 $
Trade and sundry creditors	**1,341**	7,035
Accrued expenses	**76,961**	78,309
Accrued employee entitlements	**97,250**	57,786
Accrued interest payable	**64,654**	67,818
	240,206	210,948

9. (a) Maturities of Liabilities

	2019			2018		
	Current $	**Non-current $**	**Total $**	Current $	Non-current $	Total $
External Borrowings	**2,350,000**	**8,089,110**	**10,439,110**	350,000	9,709,182	10,059,182
Total liabilities	**2,350,000**	**8,089,110**	**10,439,110**	350,000	9,709,182	10,059,182

The Non-current External Borrowings are for fixed terms of more than 12 months and are subject to roll over with agreement of the lenders. The average fixed term is 5 years with an average interest rate of the RBA cash rate plus 2.5%.

9. (b) Loan facilities

NAB Facility B	$4,000,000	Drawn:	$ 3,764,110	Undrawn balance:	$ 235,890
Lord Mayors Charitable Foundation	$3,000,000	Drawn:	$ 1,900,000	Undrawn balance:	$ 1,100,000

10. Issued Share Capital

Consolidated and Company	2019 Number	2019 $	2018 Number	2018 $
Ordinary shares each fully paid				
Opening balance	**2,240,000**	**2,240,000**	2,240,000	2,240,000
Share capital issued	**-**	**-**	-	-
Closing balance	**2,240,000**	**2,240,000**	2,240,000	2,240,000

Shareholders:

The Company has issued 2,240,000 fully paid shares to its shareholders at A$1 per share. The Company does not have authorised capital or par value in respect of its issued shares.

Ordinary shares

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder's meetings. In the event of winding up of the Company, ordinary shareholders rank after all creditors and are fully entitled to any proceeds of liquidation.

11. Interests in Company Undertakings

Shares in controlled entities

Social Enterprise Finance Australia Limited holds shares in its wholly owned subsidiary SEFA Investments Limited (10 shares at $ 1.00 each) and acts as a trustee of SEFA Loan Fund. SEFA Investments Limited is the sole beneficiary of the SEFA Loan Fund.

12. Key Management Personnel Disclosures

Key Management Personnel constitute those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the entity.

Key Management Personnel (KMP) compensation

	2019 $	2018 $
Key management personnel compensation	**313,991**	320,608

All KMPs are employed by the parent entity, Social Enterprise Finance Australia Limited.

Transactions with Key Management Personnel

At 30 June 2019, key management persons who had loans from or deposits with the parent entity or any of its controlled entities were:

- David Rickards who is a shareholder and an executive of the parent entity has a long term loan to Social Enterprise Finance Australia Loan Fund of $300,000 (2018: $300,000) on which interest was paid $11,945 (2018: $12,000) via his family trust of which David is a beneficiary.

- Louise Sylvan who is a shareholder and a director of the parent entity has a long term loan to Social Enterprise Finance Australia Loan Fund of $200,000 (2018: $200,000) on which interest was paid $7,963 (2018: $7,956) via an entity related to her.

13. Related Party Transactions

(a) Parent entities
The parent entity within the Group is Social Enterprise Finance Australia Limited.

Information related to Social Enterprise Finance Australia Limited (the parent entity).

Information relating to Social Enterprise Finance Australia Limited (the Parent)

	2019	2018
	$	$
Current assets	**124,169**	85,097
Total assets	**2,510,388**	2,469,990
Current Liabilities	**180,282**	138,183
Total liabilities	**180,282**	138,183
NET ASSETS	**2,330,106**	2,331,807
Issued share capital	**2,240,000**	2,240,000
Retained earnings	**91,807**	95,894
Current Earnings	**(1,702)**	(4,087)
TOTAL EQUITY	**2,330,105**	2,331,807
Profit or loss of the Parent entity	**(1,702)**	(4,087)

(b) Key management personnel
Disclosures relating to key management personnel are set out in note 12.

(c) Transactions with related parties
Transactions between the parent entity and various related parties during the year consisted of:

SEFA Ltd provides a range of services to SEFA Loan Fund as per the management agreement signed 14th August 2015 and backdated to the commencement of the SEFA Loan Fund.

These services include:

(i) maintenance of the trust and statutory records of the Fund;
(ii) liaison with ASIC with respect to compliance with the Australian Financial Services License;
(iii) liaison with the Commonwealth of Australia and the meeting of the duties and obligations within the Funding Agreement;
(iv) support for the maintenance and seeking of funds under management; and
(v) the provision of information necessary for the accounts of the Fund to be accurately maintained; and
(vi) governance.

These transactions were made on normal commercial terms and conditions.

As at 30 June 2019, the parent entity had loans and advances to SEFA Loan Fund of $2,384,893 (2018:$2,384,893) from which interest was received and receivable amounted to $94,873 (2018: $95,394). The Management fee charged by the parent entity to SEFA Loan Fund was $1,015,909 (2018: $1,086,275).

Notes to the consolidated financial statements (continued)

13. Related Party Transactions (continued)

(d) Loans to/from related parties

Loans to SEFA Loan Fund	**2019 $**	2018 $
Balance at beginning of the year	**2,384,893**	2,384,893
Addition during the year	**-**	-
Interest charged	**94,873**	95,394
Interest received	**(94,873)**	(95,394)
Balance at end of the year	**2,384,893**	2,384,893

Loans from other related parties

	2019 $	2018 $
Loans payable		
BRC Padua Pty Limited	**200,000**	200,000
Carrawa Pty Ltd	**300,000**	300,000
Regal Foundation	**300,000**	300,000
Interest paid	**(31,852)**	(32,000)

(e) Terms and conditions

Transactions relating to dividends, calls on partly paid shares and subscriptions for new ordinary shares were on the same terms and conditions that applied to other shareholders.

All other transactions were made on normal commercial terms and conditions and at market rates. Loans are fixed for 5 years at commercial interest rates. Outstanding balances are unsecured and are repayable in cash.

14. Subsequent events

There have been no material post balance sheet events which would require disclosure or adjustment to the 30 June 2019 Financial statements.

15. Reconciliation of profit / (loss) for the period to net cash inflow from operating activities

	2019 $	2018 $
Net profit/(loss) attributable to unitholders	**(205,173)**	(847,050)
Increase/(decrease) in loan provision reserve	**31,459**	456,574
(Increase)/decrease in interest receivables	**(1,189)**	39,197
(Increase)/decrease in receivables	**(22,276)**	(23,101)
(Increase)/decrease in interest payable	**(3,165)**	7,421
Increase/(decrease) in liabilities	**29,259**	60,046
Net cash used in operations	**(171,085)**	(306,913)

Directors' Declaration

The Directors resolved:

In the opinion of the directors of Social Enterprise Finance Australia Limited ("the Company"): the financial statements and notes set out on pages 6 to 19, are in accordance with the Corporations Act 2001, including:

- giving a true and fair view of the financial position of the Group as at 30 June 2019 and of performance for the year ended 30 June 2019; and
- complying with Australian Accounting Standard requirements- Reduced disclosure requirements, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Dated at Brisbane, 22nd Oct 2019.

Signed in accordance with a resolution of the directors.

Belinda Drew

Chairman

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Independent Auditor's Report to the Members of Social Enterprise Finance Australia Limited

Opinion

We have audited the financial report of Social Enterprise Finance Australia Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, 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 Group is in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2019 and of its consolidated financial performance for the year ended on that date; and

(b) complying with Australian Accounting Standards – Reduced Disclosure Requirements 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 Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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

The directors are responsible for the other information. The other information is the directors' report accompanying the financial report.

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.

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Responsibilities of the Directors for the 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 – Reduced Disclosure Requirements 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 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 are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group 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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young

Ernst & Young

K Brown

Kester Brown
Partner

Melbourne
22 October 2019

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