



Social Enterprise Finance Australia Limited
ABN 401 506 737 15

ANNUAL FINANCIAL REPORT
30 JUNE 2016

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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 3, 9-19 Elizabeth Street, Sydney NSW 2000.

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 2016 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:

Glen Saunders (appointed 23 May 2011)
Louise Sylvan (appointed 26 October 2011)
Julie White (appointed 4 May 2012, resigned November 2015)
Greg Peel (appointed 16 November 2012)
David Bennett (appointed 1 October 2013)
Ben Gales (appointed 25 November 2013, resigned 15 October 2016)
Nick Minogue (appointed 19 May 2014)
Malcolm Davis (appointed 15 September 2014)

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 international bank debt and capital markets. Other positions currently held: Board member - Centre for Social Impact ; Board member - Macquarie Group Foundation ; Member - Investment Committee, Macquarie Infrastructure Debt Investment Solutions Fund ;Member - Capital Growth Working Group, Impact Investment Australia; Member - Investment Committee, Palisade Investment Partners ; Chairman - Challenger Retirement Investment Services Limited ;Non-Executive Director - AquaSure ; Chairman - The Manjeri School Project.

Glen Saunders

Glen has more than 30 years experience in social banking and finance, responsible investment, project development, strategic planning, and business valuation and assessment. He advises foundations, trusts, government agencies and the private sector. Glen has been a main Board Director of Triodos Bank, a Trustee of the New Economics Foundation, a Board member of Greenpeace New Zealand, and a Director of New Zealand Superannuation Fund. For seven years he was the Acting Chair of the United Nation's Principles of Responsible Investment. Other positions currently held include: Chair, Sustainalytics ; Trustee, Sustainable Investment Funding Trust, New Zealand ; Director, Steiner Education Development Trust ; Senior adviser to the Executive Board, Triodos Bank.

Louise Sylvan

She 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. Other positions currently held: Chair, Energy Consumers Australia ; President and Chair, Bush Heritage Australia ; Adjunct Professor, University of Sydney School of Public Health, School of Medicine ; Member, NSW Aboriginal Land Council Economic Development Advisory Council.

Ben Gales

Ben has been the CEO of SEFA since April 2013. He has a wealth of experience in social finance. He was involved in the early sector development work in the UK in the late 1990s, and more recently he led the development of the initial Social Benefit Bonds (Social Impact Bonds) in Australia. He is a member of the Prime Minister's Community Business Partnership. Prior to joining SEFA, Ben was a Director at the NSW Department of Family and Community Services, which he joined from NSW Treasury. During his time in NSW Government he was heavily involved in the scoping, development, and implementation of the first two Social Impact Bonds in Australia. He worked in the UK Treasury in the 1990s on a range of social and economic policy developments. This included the establishment of the Phoenix Fund, which supported social enterprises in disadvantaged communities and helped establish Community Development Finance Institutions (social finance providers) in the UK. He moved to Australia in 2008 from the US, where he had been a venture capitalist in Silicon Valley.

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 has invested in SEFA since its inception. Other positions currently held: Deputy Chair, Export Finance and Insurance Corporation ; Chairman, Morpheic Asset Management; Member, Economic Development Advisory Committee - NSW Aboriginal Land Council ; President , Kangaroo Valley Arts Festival ; President of the Shoalhaven Youth Orchestra.

Greg Peel

Greg has been creating innovative financial solutions for Australian and International corporations for over 30 years, having held senior positions within banks in Australia and London, including Chief Manager of Strategic Markets with Bendigo and Adelaide Bank. For the last decade he held the position of Chief Executive Officer and Managing Director, of Community Sector Banking and has been instrumental in growing Community Sector Banking into the not-for-profit specialist in banking solutions and one of Australia's leading social enterprises. Currently Greg is Director of Business Development with the NSW Aboriginal Land Council, focusing on enterprise development.

Malcolm Davis

Malcolm (Cal) is a Dugutti man and has lived in Worimi Country (the Great Lakes) since his early childhood. He is experienced in Senior Management and Councillor roles associated with the Aboriginal Land Council system, and worked with the Forster Local Aboriginal Land Council. He was integral to the development of the highly successful Aboriginal art group Tobwabba Art. He is currently heading up the operational division of NSWALC and is overseeing the Policy Program, Commercial and Land Rights area along with the NSWALC's 5 Zone Offices and the Corporate Services area of the organisation. Other positions currently held: Deputy CEO, New South Wales Aboriginal Land Council.

Directors' Report (continued)

Meetings of Directors:

The number of meetings of the Company's board of directors held during the financial year ended 30 June 2016 was eleven, and the number of meetings attended by each director was:

David Bennett	11
Louise Sylvan	10
Greg Peel	11
Glen Saunders	8
Ben Gales	10
Nick Minogue	11
Malcolm Davis	11

The number of meetings of the Company's Audit and Risk Committee held during the financial year ended 30 June 2016 was five, and the number of meetings attended by each committee member was:

Louise Sylvan	5
Nick Minogue	5
Malcolm Davis (appointed 18 November 2015)	1

Principal Activities:

The principal activity of the Company during the financial year was the provision of social enterprise loans to Australia entities. There were no significant changes in the nature of this activity during the financial period.

Review of operations:

SEFA continued to make good progress in 2015-16. The loan book more than doubled over the year, with the milestone reached of cumulative disbursements of more than \$10m achieved. To take into account the larger portfolio, SEFA increased its general loan provision reserve, which has had an impact on the overall profitability of the organisation when compared to previous years. Most importantly was that SEFA was able to support a number of inspirational social entrepreneurs and impactful organisations. In addition to its lending activity, which includes significant capacity building through working through due diligence with potential clients, SEFA continued to be a very active contributor to broader sector development. This included speaking at conferences and running workshops. Another encouraging aspect of the year was the level of support received from its investors and backers. Most notably, SEFA has put in place a \$4m working capital facility, which will allow it to expand beyond its original \$20m capital. SEFA continues to invest in its people as well as its own infrastructure, such as loan management software, to position itself well to scale.

The profit of the Company and its controlled entities for the period ended 30 June 2016 was \$383,805 (2015 \$418,781).

Dividends:

The Company does not propose to declare a dividend for the year ended 30 June 2016.

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.

Events since the End of the Financial Period:

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, apart from the vesting of the Grant from the Department of Employment, disclosed in the note 13 to this financial report.

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.

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.

Directors' Report (continued)

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 is made in accordance with a resolution of the directors.

Dated at Sydney ^{24/10} / 2016

For and on behalf of the Board of Directors.



David Bennett

Chairman

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

In relation to our audit of the financial report of Social Enterprise Finance Australia Limited for the financial year ended 30 June 2016, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



Ernst & Young



Kester Brown
Partner

Melbourne
24 October 2016

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2016

		Year ended 30 June 2016	Year ended 30 June 2015
	Note	\$	\$
Interest income	2	767,355	781,275
Other income	2	999,839	963,503
Total operating income		1,767,194	1,744,778
Administrative expenses	2	(937,398)	(929,480)
Funding costs	2	(320,600)	(347,312)
Loan provision reserve		(125,391)	(49,205)
Total expenses		(1,383,389)	(1,325,997)
Profit before taxation		383,805	418,781
Income tax (expense) / benefit	3	-	-
Profit for the year		383,805	418,781
Comprehensive income		-	-
Total comprehensive income attributable to:			
Owners of Social Enterprise Finance Australia		383,805	418,781

The Consolidated Income Statement is to be read in conjunction with the notes to the financial statements set out on pages 10 to 19

Balance Sheet

As at 30 June 2016

	Note	2016 \$	2015 \$
ASSETS			
Current Assets			
Cash and cash equivalents		9,756,790	15,185,181
Loans and advances to customers	5	1,346,344	582,875
Prepayment and other current assets	6	70,094	155,399
Total Current Assets		11,173,228	15,923,455
Non-Current Assets			
Loans and advances to customers	5	7,149,507	3,022,730
Total Non-Current Assets		7,149,507	3,022,730
TOTAL ASSETS		18,322,735	18,946,185
LIABILITIES			
Current Liabilities			
External Borrowings	8(a)	700,000	-
Deferred Revenue - Government Funding - Department of Employment	8(b)	5,855,562	-
Other liabilities and accruals	7	135,142	77,999
Total Current Liabilities		6,690,704	77,999
Non-Current Liabilities			
External Borrowings	8(a)	7,125,000	7,952,000
Deferred Revenue - Government Funding - Department of Employment	8(b)	-	6,792,960
Total Non-Current Liabilities		7,125,000	14,744,960
TOTAL LIABILITIES		13,815,704	14,822,959
NET ASSETS		4,507,031	4,123,226
EQUITY			
Issued share capital	9	2,240,000	2,240,000
Retained earnings		1,883,226	1,464,445
Current Earnings		383,805	418,781
TOTAL EQUITY		4,507,031	4,123,226

The Balance Sheet is to be read in conjunction with the notes to the financial statements set out on pages 10 to 19

Statement of Changes in Equity

For the year ended 30 June 2016

		Issued share capital	Retained earnings	Total
	Note	\$	\$	\$
As at 1 July 2014		2,140,000	1,464,445	3,604,445
Profit after tax		-	418,781	418,781
Total comprehensive income for the period		-	1,883,226	4,023,226
Transactions with owners in their capacity as owners:				
Share capital issued		100,000	-	-
Dividends paid		-	-	-
As at 30 June 2015	9	2,240,000	1,883,226	4,123,226
As at 1 July 2015		2,240,000	1,883,226	4,123,226
Profit after tax		-	383,805	383,805
Total comprehensive income for the period		-	2,267,031	4,507,031
Transactions with owners in their capacity as owners:				
Share capital issued		-	-	-
Dividends paid		-	-	-
As at 30 June 2016	9	2,240,000	2,267,031	4,507,031

The Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out on pages 10 to 19

Statement of Cash Flows
For the year ended 30 June 2016

	Note	2016 \$	2015 \$
Cash flows from operating activities			
Payments to suppliers and employees		(931,565)	(923,122)
Interest costs paid		(281,008)	(336,501)
Income tax paid		-	2,786
Interest income received		864,377	831,521
Other income received		62,441	34,023
Net cash used by operating activities	14	(285,755)	(391,293)
Cash flows from investing activities			
Loan principal repayments received from customers		1,050,483	767,011
Loans advanced to customers		(6,066,119)	(2,271,541)
Net cash used by investing activities		(5,015,636)	(1,504,530)
Cash flows from financing activities			
External borrowing received		5,200,000	1,650,000
External borrowing repaid		(5,327,000)	(1,918,675)
Share capital payment received		-	100,000
Net cash used by financing activities		(127,000)	(168,675)
Net increase/(decrease) in cash and cash equivalents		(5,428,391)	(2,064,499)
Cash and cash equivalents at beginning of period		15,185,181	17,249,680
Cash and cash equivalents at end of period		9,756,790	15,185,181

The Statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 10 to 19

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 Foundation to remove a number of disclosures, in particular the disclosures around Financial risk management objectives and policies.

Early adoption of standards

The Company has not elected to apply any pronouncements before their operative date in the annual reporting period.

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 is recognised when the amount can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the activities described below.

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.

Government grants

Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Grant received from the Department of Employment is the subject of a Funding Agreement for 5 years and is recognised in the accounts as expended - see note 8(b).

(d) 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 2016 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.

(e) 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.

Notes to the consolidated financial statements (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

(f) 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.

(g) 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.

(h) Leases - "The Group as Lessees"

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.

(i) 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 based on 2.5% of the principal loan balance as at year end and is a general provision. To date there have been no bad debts incurred on the loan portfolio.

(j) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Subsequent costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The depreciation rates for each major class of asset are as follows:

- Furniture and fittings
- Software

Property, plant and equipment are assessed for impairment where there is an indication of impairment. Where impairment exists, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss recognised in the income statement. The depreciation charge for the asset is then adjusted to reflect the asset's revised carrying amount. The company does not have any property, plant and equipment currently.

Notes to the consolidated financial statements (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

(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 value 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.

(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) Contributed equity

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.

Notes to the consolidated financial statements (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

(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		
	2016	2015
	\$	\$
Interest income		
Interest income on cash deposits	358,911	562,716
Interest income on loans and advances to customers	408,444	218,559
Total interest income	767,355	781,275
Interest expense - external	(320,600)	(347,312)
Total interest expense	(320,600)	(347,312)
Net interest income	446,755	433,963
Other income		
Other fee income	62,441	34,023
Income released from Department of Employment (formerly DEEWR) grant	8(b), 14 937,398	929,480
Total other income	999,839	963,503
Staff costs		
- Salaries and contractor costs	653,207	623,568
- pension costs and other post retirement costs	54,591	51,698
- other	2,439	6,747
Building occupancy costs	51,912	52,611
Communications	3,977	5,060
Information technology expenses	6,140	5,281
Travel and accommodation	27,940	35,676
Other expenses	137,192	148,838
Total administrative expenses	937,398	929,480

Notes to the consolidated financial statements (continued)

3. Income Tax

	2016	2015
	\$	\$
Operating profit from ordinary activities before income tax	383,805	418,781
Prima facie income tax at 30%	(115,141)	(125,634)
Tax effect of non-deductible expenses/non-assessable income in determining taxable profit:		
Tax effect of non-assessable Department of Employment grant income	281,219	278,844
Adjustment for current year income tax of previous years deferred tax benefit	-	-
Current year tax losses not recognised as a deferred tax asset	(166,078)	(153,210)
	115,141	125,634
Total Income tax (expense) / benefit from continuing operations	-	-
Recognised in the income statements		
Total income tax (expense) / benefit in Statement of Comprehensive Income	-	-

4. Deferred Tax Benefit

	2016	2015
	\$	\$
Income tax provision	-	-
Deferred tax benefit	-	-
Deferred tax liabilities	-	-
Net position	-	-

The Group has accumulated Australian tax losses of \$474,544 (2015: \$391,159) for which no deferred tax asset has been recognised in the Balance Sheet. These are available for offsetting against future profits subject to continuing to meet relevant statutory tests.

5. Loans and Advances to customers

	2016	2015
	\$	\$
Gross loans and advances to customers before provisions	8,713,693	3,698,056
Provisions for loan impairment	(217,842)	(92,451)
Net loans and advances to customers	8,495,851	3,605,605
Classified as:		
Current	1,346,344	582,875
Non Current	7,149,507	3,022,730
	8,495,851	3,605,605

6. Prepayments and Other Assets

	2016	2015
	\$	\$
Prepayments	11,758	4,453
Accrued interest receivable	42,446	139,469
GST receivable	9,640	11,477
Other debtors	6,250	-
	70,094	155,399

Notes to the consolidated financial statements (continued)

7. Other liabilities and accruals

	2016	2015
	\$	\$
Trade and sundry creditors	2,329	4,983
Accrued expenses	38,174	30,858
Accrued employee entitlements	44,236	31,347
Accrued interest payable	50,403	10,811
	135,142	77,999

8. (a) Maturities of Liabilities

	Current	2016 Non-current	Total	Current	2015 Non-current	Total
	\$	\$	\$	\$	\$	\$
External Borrowings	700,000	7,125,000	7,825,000	-	7,952,000	7,952,000
Total liabilities	700,000	7,125,000	7,825,000	-	7,952,000	7,952,000

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%.

8. (b) Department of Employment

The SEFA Loan Fund has received a Grant of \$10,000,000 from the Department of Employment (Formerly Department of Education Employment and Workplace Relations) under a funding agreement with a term of 5 years for the provision of services to the Social Enterprise sector in Australia. The funding agreement calls for the SEFA Loan Fund to adhere to the terms of the funding agreement and in so doing will be entitled to a full vesting of the grant funds at the expiration of the funding agreement. However, if the SEFA Loan Fund was to default in its obligations under the funding agreement then the grant funds may be refundable in full or part to the Commonwealth. The Agreement has been extended to expire on 27 July, 2016 and therefore classified as current liability.

The unreleased portion of the Grant is \$5,855,562 at 30th June 2016 (2015: \$6,792,960) For the year ending June 2016, a total of \$937,398 (2015: \$929,480) was released from the Department of Employment grant. This sum represents the allowable operating expenses for the years ending June 2016 that could be offset against the grant. This income is not assessable for income tax. Subsequent to year end the SEFA Loan Fund has fully met the conditions of the Grant and as such will fully vest the unreleased portion of the Grant in the 2016/2017 year.

8. (c) Loan facilities

NAB Facility A \$ 4,000,000:	Drawn:	\$ 3,700,000	Undrawn balance:	\$ 300,000
NAB Facility B \$4,000,000	Drawn:	-	Undrawn balance:	\$ 4,000,000

9. Issued Share Capital

Consolidated and Company

	2016 Number	2016 \$	2015 Number	2015 \$
Ordinary shares each fully paid				
Opening balance	2,240,000	2,240,000	2,140,000	2,140,000
Share capital issued	-	-	100,000	100,000
Closing balance	2,240,000	2,240,000	2,240,000	2,240,000

Shareholders:

- NSW Aboriginal Land Council
- David Rickards
- David Bennett
- Nicholas Minogue
- Triodos Bank NV
- Jecala Pty Ltd
- Community Sector Banking Pty Ltd
- The Regal Foundation

The Company has issued 2,240,000 fully paid shares to its shareholders at A\$1 per share, plus 1 golden share to Stichting Triodos Holding. The holder of the Golden Share has the same rights as the holders of ordinary shares but has additional powers in relation to voting on Special Resolutions. 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.

10. 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.

Notes to the consolidated financial statements (continued)

11. 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

	2016 \$	2015 \$
Key management personnel compensation	289,823	307,033

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

Transactions with Key Management Personnel

At 30 June 2016, 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 (2015: \$300,000) of which was paid \$13,898 (2015: \$13,860) interest via his family trust of which David is a beneficiary.
- Louise Sylvan who is a director of the parent entity has a long term loan to Social Enterprise Finance Australia Loan Fund of \$100,000 (2015: \$100,000) of which was paid \$4,633 (2015: \$4,620) interest via an entity related to her.

12. 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).

Balance Sheet

As at 30 June 2016

	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	3,325	978
Prepayment and other current assets	12,775	15,004
Total Current Assets	16,100	15,982
Non-Current Assets		
SEFA Loan Fund	2,384,893	2,384,893
Total Non-Current Assets	2,384,893	2,384,893
TOTAL ASSETS	2,400,993	2,400,876
LIABILITIES		
Current Liabilities		
Other liabilities and accruals	76,962	66,630
Total Current Liabilities	76,962	66,630
TOTAL LIABILITIES	76,962	66,630
NET ASSETS	2,324,031	2,334,245
EQUITY		
Issued share capital	2,240,000	2,240,000
Retained earnings	94,244	115,539
Current Earnings	(10,213)	(21,294)
TOTAL EQUITY	2,324,031	2,334,245

Statement of Comprehensive Income

	2016 \$	2015 \$
Interest income	2	13
Interest income from SEFA Loan Fund	108,509	107,893
Management fees from SEFA Loan Fund	765,491	772,907
Other income	8,151	1,654
Total operating income	882,153	882,466
Administrative expenses	892,366	903,760
Total expenses	892,366	903,760
Profit/(loss) before taxation	(10,213)	(21,294)
Income tax (expense) / benefit	-	-
Profit/ (Loss) for the year	(10,213)	(21,294)

Notes to the consolidated financial statements (continued)

(b) Subsidiaries

Interests in subsidiaries are set out in note 11.

Information related to SEFA Loan Fund (a controlled entity by the Parent entity).

Balance Sheet

As at 30 June 2016

	2016	2015
	\$	\$
ASSETS		
Current Assets		
Cash and cash equivalents	9,753,465	15,184,203
Loans and advances to customers	1,346,344	582,875
Prepayment and other current assets	57,320	140,395
Total Current Assets	11,157,129	15,907,473
Non-Current Assets		
Loans and advances to customers	7,149,507	3,022,730
Total Non-Current Assets	7,149,507	3,022,730
TOTAL ASSETS	18,306,636	18,930,202
LIABILITIES		
Current Liabilities		
External Borrowings	700,000	-
Deferred Revenue - Government Funding		
- Department of Employment	5,855,562	-
Other liabilities and accruals	58,181	11,367
Total Current Liabilities	6,613,743	11,367
Non-Current Liabilities		
External Borrowings	7,125,000	7,952,000
SEFA Ltd	2,384,893	2,384,893
Deferred Revenue - Government Funding	-	6,792,960
- Department of Employment		
Total Non-Current Liabilities	9,509,893	17,129,854
TOTAL LIABILITIES	16,123,636	17,141,220
NET ASSETS	2,183,000	1,788,982
EQUITY		
Issued share capital		
Retained earnings	1,788,982	1,348,907
Current Earnings	394,018	440,075
TOTAL EQUITY	2,183,000	1,788,982

Statement of Comprehensive Income

	2016	2015
	\$	\$
Interest income	767,352	781,263
Other income	991,689	961,849
Total operating income	1,759,041	1,743,112
Administrative expenses	45,032	25,720
Funding costs	320,600	347,312
Funding costs to SEFA Ltd	108,509	107,893
Management fees to SEFA Ltd	765,491	772,907
Loan provision reserve	125,391	49,205
Total expenses	1,365,023	1,303,037
Profit before taxation	394,018	440,075
Income tax (expense) / benefit	-	-
Profit for the year	394,018	440,075

Statement of Cash Flows

	2016	2015
Note	\$	\$
Cash flows from operating activities		
Payments to suppliers	(51,760)	(32,748)
Interest costs paid	(281,008)	(336,501)
Payments to SEFA Ltd	(874,000)	(880,800)
Interest income received	864,375	831,508
Other income received	54,291	32,369
Net cash used by operating activities	(288,102)	(386,172)
Cash flows from investing activities		
Loan principal repayments received from customers	1,050,483	767,011
Loans advanced to customers	(6,066,119)	(2,271,541)
Net cash used by investing activities	(5,015,636)	(1,504,530)
Cash flows from financing activities		
External borrowing received	5,200,000	1,650,000
Funding received from SEFA Ltd	-	100,000
External borrowing repaid	(5,327,000)	(1,918,675)
Net cash used by financing activities	(127,000)	(168,675)
Net increase/(decrease) in cash and cash equivalents	(5,430,738)	(2,059,378)
Cash and cash equivalents at beginning of period	15,184,203	17,243,581
Cash and cash equivalents at end of period	9,753,465	15,184,203

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 11.

Notes to the consolidated financial statements (continued)

12. Related Party Transactions (continued)

(d) 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 date of the Fund's formation. 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 2016, the parent entity had loans and advances to SEFA Loan Fund of \$2,384,893 (2015:\$2,384,893) from which interest was received and receivable amounted to \$108,509 (2015 \$107,893). The Management fees charged by the parent entity to SEFA Loan Fund was \$765,491 (2015: \$772,907).

(e) Loans to/from related parties

	2016	2015
	\$	\$
Loans to SEFA Loan Fund		
Balance at beginning of the year	2,384,893	2,384,893
Addition during the year	-	
Interest charged	108,509	
Interest received	(108,509)	
Balance at end of the year	2,384,893	2,384,893

Loans from other related parties

	2016	2015
	\$	\$
Loans payable		
Regal Foundation	300,000	300,000
BRC Padua Pty Limited	100,000	100,000
Petsalodge Pty Ltd	300,000	300,000
Triodos Bank NV	-	677,000
Community Sector Banking Pty Ltd	-	4,650,000
Interest charged	201,625	271,314
Interest paid	(204,373)	(260,503)

(f) 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.

13. Subsequent events

Subsequent to year end the SEFA Loan Fund has fully met the conditions of the Grant from the Department of Employment, and as such will fully vest the unreleased portion of the Grant, which is \$5,855,562, in the 2016/2017 year. There have been no other material post balance sheet events which would require disclosure or adjustment to the 30 June 2016 financial statements.

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

	2016	2015
	\$	\$
Net profit/(loss) attributable to unitholders	383,805	418,781
Increase/(decrease) in loan provision reserve	125,391	49,205
Grant income utilised during the financial year	(937,398)	(929,480)
(Increase)/decrease in interest receivables	97,023	50,245
(Increase)/decrease in receivables	(11,718)	(724)
(Increase)/decrease in income tax provisions		2,786
Increase/(decrease) in interest payable	39,592	10,811
Increase/(decrease) in liabilities	17,550	7,083
Net cash used in operations	(285,755)	(391,293)

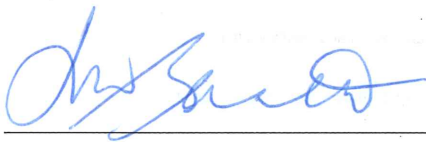
Directors' Declaration

In the opinion of the directors of Social Enterprise Finance Australia Limited ("the Company"):

- (a) the financial statements and notes set out on pages 6 to 24, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of the Group as at 30 June 2016 and of performance, for the year ended 30 June 2016; and
 - (ii) complying with Australian Accounting Standard requirements- Reduced disclosure requirements, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- (b) 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 Sydney, 24/10 / 2016.

Signed in accordance with a resolution of the directors.



Chairman

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

Report on the Financial Report

We have audited the accompanying financial report of Social Enterprise Finance Australia Limited, which comprises the consolidated balance sheet as at 30 June 2016, and the consolidated statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at year end or from time to time during the financial year.

Directors' Responsibility 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 the Australian Accounting Standards-Reduced Disclosure Requirements and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Auditor's Opinion

In our opinion the financial report of Social Enterprise Finance Australia Limited is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the financial position of the consolidated entity at 30 June 2016 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards-Reduced Disclosure Requirements and the *Corporations Regulations 2001*;



Ernst & Young



Kester Brown
Partner

Melbourne
24 October 2016