



COMMUNITY • ENVIRONMENT • INDIGENOUS

Social Enterprise Finance Australia Limited
ABN 401 506 737 15

ANNUAL FINANCIAL REPORT
30 JUNE 2018

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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 2018 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)
Louise Sylvan (appointed 26 October 2011)
Nick Minogue (appointed 19 May 2014)
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)
Glen Saunders (appointed 23 May 2011, resigned 29 July 2017)

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; Australian Advisory Board - Impact Investing; 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

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. Other positions currently held: Chair, Energy Consumers Australia; Member, NSW Aboriginal Land Council Economic Development Advisory Council; Deputy Chair, Australian Advisory Board on Impact Investing; Director, Australian Risk Policy Institute.

Directors' Report (continued)

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 also 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 has invested in SEFA since its inception. Other positions currently held: 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 operating in a range of industry 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. Prior to developing a board portfolio, Jay was a CFO/ Finance Director in various sectors overseas and within Australia, and a National CEO of a NFP organisation. Jay is currently a director of Perpetual Super Ltd, Utilities of Australia, University College Ltd, and an Independent Member of the Commercial Passenger Vehicles Victoria Audit, Risk and Compliance Committee.

Belinda Drew

Belinda has over 20 years' experience in the community services industry having worked across the fields of disability, homelessness, child protection and housing. 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. Currently Belinda is currently a Director of BuyAssist Australia Pty Ltd and of the 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 also 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 an Executive Director, Literacy for Life Foundation and Interim Chair, National Aboriginal Environmental Trust.

Alastair McGibbon

Alastair was formerly a career banker with more than 20 years experience. He spent the last 10 years at National Australia Bank where he held the position of Head of Banks and ADIs in the Financial Institutions Group. He had oversight for managing all of NAB's relationships and transactions with bank and ADI counterparties including debt markets, securitisation, financial markets and transactional banking with responsibility for the credit exposure for all counterparty dealing. Alastair formerly worked at Commonwealth Bank of Australia and Bankers Trust Australia specialising in derivatives and debt capital markets. He previously worked in London where he was Head of Primary Markets, Europe with responsibility for working with financial, corporate, government and supranational bond issuers to develop the Australian Kangaroo bond market.

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 2018 was five, and the number of meetings attended by each director was:

	Meetings eligible to attend	Meetings Attended
Glen Saunders	0	0
Louise Sylvan	4	4
David Bennett	4	4
Nick Minogue	4	4
Jay Bonnington	4	4
Belinda Drew	4	4
Professor Jack Beetson	4	2
Andrew Cairns	0	0
Alastair McGibbon	4	4

The number of meetings of the Company's Audit and Risk Committee held during the financial year ended 30 June 2018 was four, and the number of meetings attended by each committee member was:

	Meetings eligible to attend	Meetings Attended
Louise Sylvan	4	4
Nick Minogue	4	4
Jay Bonnington	4	4

Principal Activities:

The principal activity of the Company during the financial year was the provision of loans to Australian mission-driven entities. Assisting organisations to deliver social impact remains the core focus of SEFA and 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 2017-18. The loan book continued to grow with 9 new loans disbursed and cumulative disbursements of more than \$26m achieved since SEFA began. The key impact areas that the loans will benefit include crisis accommodation, affordable housing, indigenous education, disability, faith and community. Revenue from operations (excluding government grants) increased 22% on prior year to \$1.059M. This indicates the overall strengthening of the underlying business operations. As at year end the business took a specific provision for bad debt against one of its loans that is currently in default. The business will continue to work to recover this outstanding loan and recoup this money.

SEFA continues to work closely with existing partners and develop new partnership opportunities, achieving strong outcomes in a number of blended financing transactions particularly with charitable foundations.

In addition to its lending activity, which includes significant capacity building working with potential clients, SEFA continued to be a very active contributor to broader sector development. This included speaking at conferences and running workshops. As a certified BCorp member SEFA continues to demonstrate 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.

Dividends:

The Company does not propose to declare a dividend for the year ended 30 June 2018.

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.

Directors' Report (continued)

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.

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.

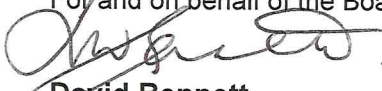
Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001:

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

This report is made in accordance with a resolution of the directors.

Dated at Sydney 15/10/2018

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

As lead auditor for the audit of Social Enterprise Finance Australia Limited for the financial year ended 30 June 2018, 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



Kester Brown
Partner
15 October 2018

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2018

		Year ended 30 June 2018	Year ended 30 June 2017
	Note	\$	\$
Interest income	2	948,164	831,268
Other income	2	111,140	5,890,630
Total operating income		1,059,304	6,721,898
Administrative expenses	2	(1,200,109)	(973,399)
Funding costs	2	(249,671)	(256,093)
Loan provision reserve		(456,574)	(71,335)
Total expenses		(1,906,354)	(1,300,827)
Profit/(Loss) before taxation		(847,050)	5,421,071
Income tax (expense) / benefit	3	-	-
Profit/(Loss) for the year		(847,050)	5,421,071
Comprehensive income		-	-
Total comprehensive income attributable to:			
Owners of Social Enterprise Finance Australia		(847,050)	5,421,071

The Consolidated Income Statement is to be read in conjunction with the notes to the financial statements set out on pages 10 to 18

Consolidated Balance Sheet

As at 30 June 2018

		Year ended 30 June 2018	Year ended 30 June 2017
	Note	\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents		4,618,424	7,947,752
Loans and advances to customers	5	4,095,133	3,274,243
Prepayment and other current assets	6	70,570	80,347
Total Current Assets		8,784,127	11,302,342
Non-Current Assets			
Loans and advances to customers	5	10,567,055	8,003,678
Total Non-Current Assets		10,567,055	8,003,678
TOTAL ASSETS		19,351,182	19,306,020
LIABILITIES			
Current Liabilities			
External Borrowings	8(a)	350,000	125,000
Other liabilities and accruals	7	210,948	150,903
Total Current Liabilities		560,948	275,903
Non-Current Liabilities			
External Borrowings	8(a)	9,709,182	9,102,015
Total Non-Current Liabilities		9,709,182	9,102,015
TOTAL LIABILITIES		10,270,130	9,377,918
NET ASSETS		9,081,052	9,928,102
EQUITY			
Issued share capital	9	2,240,000	2,240,000
Retained earnings		7,688,102	2,267,031
Current Earnings		(847,050)	5,421,071
TOTAL EQUITY		9,081,052	9,928,102

The Balance Sheet is to be read in conjunction with the notes to the financial statements set out on pages 10 to 18

Consolidated Statement of Changes in Equity

For the year ended 30 June 2018

		Issued share capital	Retained earnings	Total
	Note	\$	\$	\$
As at 1 July 2016		2,240,000	2,267,031	4,507,031
Profit after tax		-	5,421,071	5,421,071
Total comprehensive income for the period		-	5,421,071	5,421,071
Transactions with owners in their capacity as owners:				
Share capital issued		-	-	-
Dividends paid		-	-	-
As at 30 June 2017	9	2,240,000	7,688,102	9,928,102
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	9	2,240,000	6,841,052	9,081,052

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 18

Consolidated Statement of Cash Flows

For the year ended 30 June 2018

		2018	2017
	Note	\$	\$
Cash flows from operating activities			
Payments to suppliers and employees		(1,153,920)	(973,061)
Interest costs paid		(242,250)	(246,099)
Interest income received		987,361	827,195
Other income received		101,896	34,318
Net cash used by operating activities	14	(306,913)	(357,647)
Cash flows from investing activities			
Loan principal repayments received from customers		6,821,658	2,443,692
Loans advanced to customers		(10,676,240)	(5,297,098)
Net cash used by investing activities		(3,854,582)	(2,853,406)
Cash flows from financing activities			
External borrowing received		832,167	5,402,015
External borrowing repaid		-	(4,000,000)
Net cash from financing activities		832,167	1,402,015
Net increase/(decrease) in cash and cash equivalents		(3,329,328)	(1,809,038)
Cash and cash equivalents at beginning of period		7,947,752	9,756,790
Cash and cash equivalents at end of period		4,618,424	7,947,752

The Statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 10 to 18

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.

The financial statements were authorised for issue by the directors on the date the Directors' declaration was signed. The directors of the company have the power to amend and reissue the financial statements.

(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.

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.

(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 2018 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.

Notes to the consolidated financial statements (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

(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.

(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.

Notes to the consolidated financial statements (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

(i) Loans, advances and other receivables (continued)

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 of 2.5% of the principal loan balance 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) Employee benefits Provisions

(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.

Notes to the consolidated financial statements (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

(o) 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.

(p) 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.

(q) 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.

(r) 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.

(s) 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

	2018	2017
	\$	\$
Interest income		
Interest income on cash deposits	97,543	222,701
Interest income on loans and advances to customers	850,621	608,567
Total interest income	948,164	831,268
Interest expense - external	(249,671)	(256,093)
Total interest expense	(249,671)	(256,093)
Net interest income	698,493	575,175
Other income		
Other fee income	111,140	35,068
Income released from Deferred Revenue	8(b) -	5,855,562
Total other income	111,140	5,890,630
Staff costs		
- Salaries and contractor costs	774,662	687,305
- pension costs and other post retirement costs	66,782	58,428
- other	3,191	3,119
Building occupancy costs	32,521	37,548
Communications	4,378	3,003
Information technology expenses	23,420	19,075
Travel and accommodation	32,398	37,453
Other expenses	262,758	127,468
Total administrative expenses	1,200,109	973,399

Notes to the consolidated financial statements (continued)

3. Income Tax

	2018 \$	2017 \$
Operating profit/(loss) from ordinary activities before income tax	(847,050)	5,421,071
Prima facie income tax expense/(benefit) at 27.5% (2017: 30%)	(232,939)	1,626,322
Tax effect of non-deductible expenses/non-assessable income in determining taxable profit:		
Tax effect of non-assessable Department of Employment grant income	-	(1,756,670)
Current year tax losses not recognised as a deferred tax asset	232,939	130,348
	232,939	(1,626,322)
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

	2018 \$	2017 \$
Income tax provision	-	-
Deferred tax benefit	-	-
Deferred tax liabilities	-	-
Net position	-	-

The Group has a accumulated Australian tax losses of \$609,302 (2017: \$580,299) which have 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

	2018 \$	2017 \$
Gross loans and advances to customers before provisions	15,407,939	11,567,098
Provisions for loan impairment	(745,751)	(289,177)
Net loans and advances to customers	14,662,188	11,277,921
Classified as:		
Current	4,095,133	3,274,243
Non Current	10,567,055	8,003,678
	14,662,188	11,277,921

6. Prepayments and Other Assets

	2018 \$	2017 \$
Prepayments	9,025	6,031
Security Deposit	2,150	2,150
Accrued interest receivable	7,322	46,520
GST receivable	17,603	519
Other debtors	34,470	25,127
	70,570	80,347

Notes to the consolidated financial statements (continued)

7. Other liabilities and accruals

	2018 \$	2017 \$
Trade and sundry creditors	7,035	867
Accrued expenses	78,309	38,603
Accrued employee entitlements	57,786	51,036
Accrued interest payable	67,818	60,397
	210,948	150,903

8. (a) Maturities of Liabilities

	Current \$	2018 Non-current \$	Total \$	Current \$	2017 Non-current \$	Total \$
External Borrowings	350,000	9,709,182	10,059,182	125,000	9,102,015	9,227,015
Total liabilities	350,000	9,709,182	10,059,182	125,000	9,102,015	9,227,015

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 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 called for the SEFA Loan Fund to adhere to the terms of the funding agreement and by so doing was entitled to a full vesting of the grant funds at the expiration of the funding agreement.

The unreleased portion of the Grant is Nil at 30th June 2018 (2017: \$0) For the year ending June 2017, a total of \$5,855,562 was released from the Department of Employment grant. During the 2017 year the SEFA Loan Fund had fully met the conditions of the Grant and as such has fully vested the unreleased portion of the Grant. This income was not assessable for income tax.

8. (c) Loan facilities

NAB Facility B	\$4,000,000	Drawn:	\$ 3,384,182	Undrawn balance:	\$ 615,818
Lord Mayors Charitable Foundation	\$3,000,000	Drawn:	\$ 1,900,000	Undrawn balance:	\$ 1,100,000

There are no specific financial covenants in relation to these loan facilities, however they both require reporting on a regular basis. The NAB hold a general security agreement over the assets of the SEFA Loan Fund.

9. Issued Share Capital

Consolidated and Company	2018 Number	2018 \$	2017 Number	2017 \$
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, 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.

At the Annual General Meeting held on 10th November, 2017 the members voted for a selective reduction of Share Capital by cancelling the 1 golden share held by Stichting Triodos Holding. The members also passed a special resolution to amend the constitution and add a mission lock statement.

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

	2018 \$	2017 \$
Key management personnel compensation	320,608	279,914

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

Transactions with Key Management Personnel

At 30 June 2018, 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 (2017: \$300,000) on which interest was paid \$12,000 (2017: \$12,255) 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 \$200,000 (2017: \$200,000) on which interest was paid \$7,956 (2017: \$7,956) via an entity related to her. Louise Sylvan also purchased 100,000 ordinary shares (\$100,000) on 1 December 2017.
- David Bennett who is the Chairman purchased 70,000 ordinary shares (\$70,000) on 1 December 2017 and sold 35,000 ordinary shares (\$35,000) on 23 April 2018.
- Nick Minogue who is a Director purchased 70,000 ordinary shares (\$70,000) on 1 December 2017 and sold 35,000 ordinary shares (\$35,000) on 23 April 2018.

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).

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

	2018 \$	2017 \$
Current assets	85,097	44,840
Total assets	2,469,990	2,429,733
Current Liabilities	138,183	93,838
Total liabilities	138,183	93,838
NET ASSETS	2,331,807	2,335,895
Issued share capital	2,240,000	2,240,000
Retained earnings	95,894	84,031
Current Earnings	(4,087)	11,863
TOTAL EQUITY	2,331,807	2,335,895

Profit or loss of the Parent entity

(4,087) 11,863

(b) Key management personnel

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

12. Related Party Transactions (continued)

(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 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 2018, the parent entity had loans and advances to SEFA Loan Fund of \$2,384,893 (2017:\$2,384,893) from which interest was received and receivable amounted to \$95,394 (2017: \$96,442). The Management fees charged by the parent entity to SEFA Loan Fund was \$1,086,275 (2017: \$871,058).

(d) Loans to/from related parties

	2018	2017
	\$	\$
Loans to SEFA Loan Fund		
Balance at beginning of the year	2,384,893	2,384,893
Addition during the year	-	-
Interest charged	95,394	96,442
Interest received	(95,394)	(96,442)
Balance at end of the year	2,384,893	2,384,893

Loans from other related parties

	2018	2017
	\$	\$
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	(32,000)	(32,446)

(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.

13. Subsequent events

There have been no material post balance sheet events which would require disclosure or adjustment to the 30 June 2018 Financial statements.

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

	2018	2017
	\$	\$
Net profit/(loss) attributable to unitholders	(847,050)	5,421,071
Increase/(decrease) in loan provision reserve	456,574	71,335
Grant income utilised during the financial year	-	(5,855,562)
(Increase)/decrease in interest receivables	39,197	(4,073)
(Increase)/decrease in receivables	(23,101)	(6,179)
(Increase)/decrease in income tax provisions	-	-
Increase/(decrease) in interest payable	7,421	9,994
Increase/(decrease) in liabilities	60,046	5,767
Net cash used in operations	(306,913)	(357,647)

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 19, 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 2018 and of performance, for the year ended 30 June 2018; 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, 15/10 2018.

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to read 'David Bennett', is written over a horizontal line.

David Bennett
Chairman

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 2018, 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 2018 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 confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of Social Enterprise Finance Australia Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

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.

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 the 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



Kester Brown
Partner

Melbourne
15 October 2018