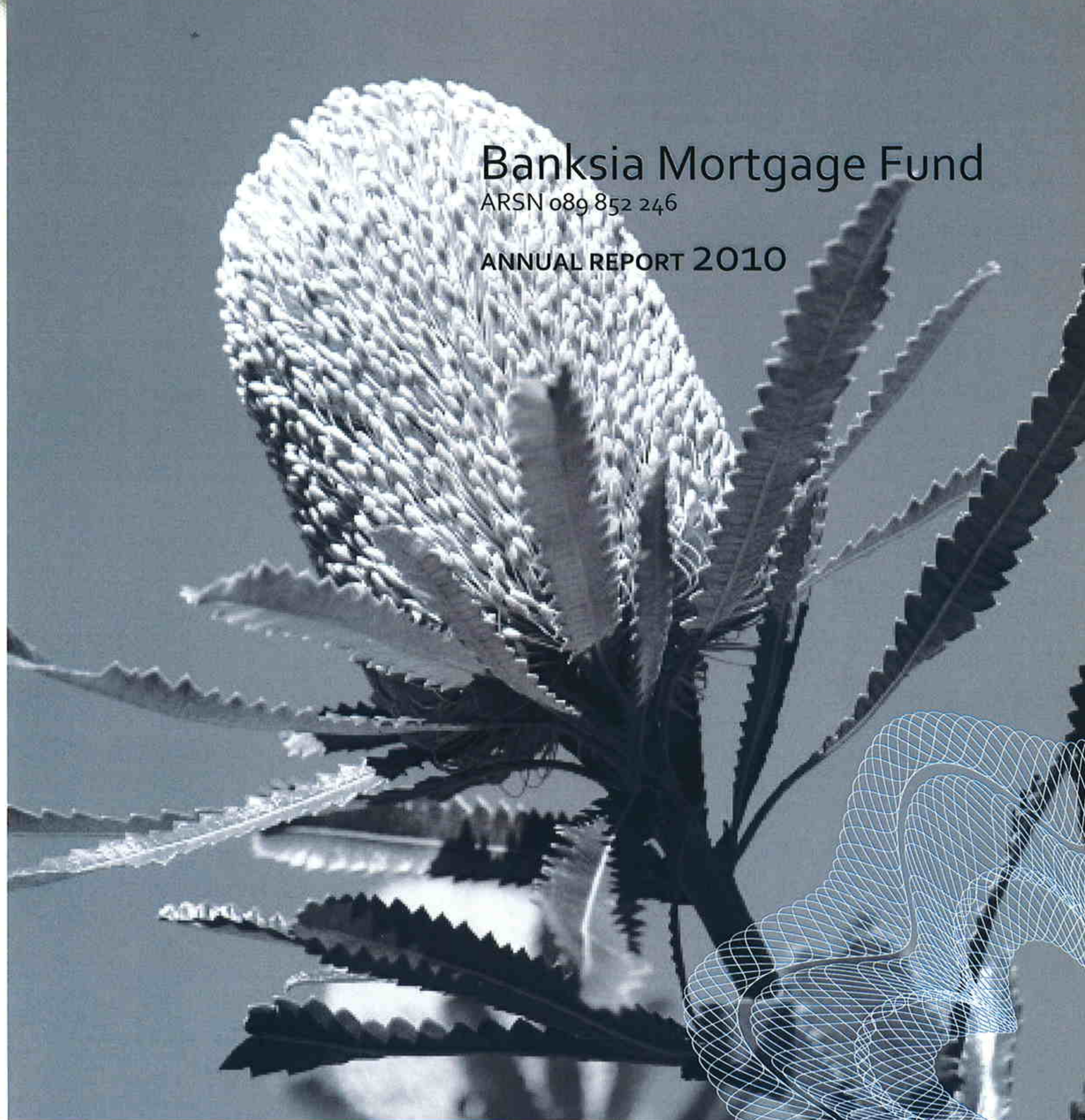
Banksia Mortgage Fund

ARSN 089 852 246

ANNUAL REPORT 2010



THE BANKSIA FINANCIAL GROUP

www.banksiagroup.com.au

Contents

The directors of the responsible entity, Banksia Mortgages Limited, present their report on the registered scheme for the financial year ended 30 June 2010.

DIRECTORS
The names of the directors in office at any time during or since the end of the year are:

Peter W. Keating M.Mgt, SF Fin, Faim.
Patrick J. Godfrey Dip.ACC., A.M.I.A.A.
Nicholas L. Carr B.Ec., LL.B., M.B.A.
Geoffrey S. A. Lipshut LL.B., B.Comm, Dip Mortgage Lending.
G. Grenville Skewes LL.B.

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

PRINCIPAL ACTIVITIES
The principal activities of the Banksia Mortgage Fund are to operate as a registered scheme that provides opportunities to investors to invest on the security of registered mortgages over legal interests in property situated in Australia.

OPERATING RESULTS
The operating profit of the registered scheme after providing for income tax amounted to $10,733,571.

DISTRIBUTIONS
Distributions paid or payable since the start of the financial year amounted to $10,733,571.

REVIEW OF OPERATIONS
Members' funds for the year increased by $6.42 million.

The operating profit before income tax amounted to $10,733,571, as compared to a profit of $11,299,072 for the prior year.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS
No significant change in the state of affairs of the registered scheme occurred during the year.

AFTER BALANCE DATE EVENTS
No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the registered scheme, the results of those operations, or the state of affairs of the registered scheme in future financial years.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES
Likely developments, future prospects and business strategies of the operations of the registered scheme and the expected results of those operations have not been included in this report as the directors believe, on reasonable grounds, that the inclusion of such information would be likely to result in unreasonable prejudice to the registered scheme.

ENVIRONMENTAL ISSUES
The registered scheme's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

The responsible entity has adopted an Environmental Risk Policy as part of its Mortgage Lending Policy.

INDEMNIFYING OFFICERS OR AUDITORS
During the year ended 30 June 2010 the ultimate holding company of the responsible entity, Securities Holdco Limited, paid a premium of $85,958 to insure the directors and officers of the responsible entity against liabilities for costs and expenses incurred by them in defending any legal proceedings arising from their conduct while acting in their capacity as officers of the responsible entity.

No indemnities have been given or insurance premiums paid, during or since the end of the year, for any person who is or has been an auditor of the registered scheme.

RESPONSIBLE ENTITY FEES
Fees amounting to $2,924,374 were paid or are payable to the responsible entity, Banksia Mortgages Limited, for the year ended 30 June 2010.

REGISTERED SCHEME DETAILS
No interests in the registered scheme were held by the responsible entity as at the end of the year.

As at the end of the year registered scheme assets based on cost were $154,757,551.

There were 5,642 interests in the registered scheme at the end of the year.

AUDITOR'S INDEPENDENCE DECLARATION
In relation to our audit of the financial statements of Banksia Mortgage Fund for the year ended 30 June 2010, to the best of our knowledge and belief, during the year ended 30 June 2010 there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Richmond Sinnott & Delahunty
Chartered Accountants
172 McIvor Road
Bendigo Vic 3550

Warren Sinnott
Partner

30 September 2010

Signed in accordance with a resolution of the Board of Directors.

P.W. Keating
Chairman - Director

P. J. Godfrey
Managing Director

30 September 2010

Statement of comprehensive income for the year ended 30 June 2010

	Note	2010 $	2009 $
Revenue	2	13,827,192	13,828,270
Finance costs	3 (a)	(169,247)	(256,696)
Other expenses	3 (b)	(2,924,374)	(2,272,502)
Profit before income tax		10,733,571	11,299,072
Income tax expense	1 (a)	-	-
Profit for the year		10,733,571	11,299,072
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		10,733,571	11,299,072
Profit attributable to members of the registered scheme		10,733,571	11,299,072
Total comprehensive income attributable to members of the registered scheme		10,733,571	11,299,072

The accompanying notes form part of these financial statements.

Statement of financial position as at 30 June 2010

	Note	2010 $	2009 $
ASSETS			
Cash and cash equivalents	5	5,821,600	3,841,994
Trade and other receivables	6	148,935,951	144,550,482
TOTAL ASSETS		154,757,551	148,392,476
LIABILITIES			
Trade and other payables	7	429,401	481,132
TOTAL LIABILITIES		429,401	481,132
NET ASSETS		154,328,150	147,911,344
EQUITY			
Members' funds		154,328,150	147,911,344
TOTAL EQUITY		154,328,150	147,911,344

The accompanying notes form part of these financial statements.

Statement of changes in equity for the year ended 30 June 2010

	Members' funds $	Retained earnings $	Total $
Balance at 1 July 2008	152,452,970	-	152,452,970
Profit attributable to members of the registered scheme	-	11,299,072	11,299,072
Net movement in members' funds - interests & withdrawals	(4,541,626)	-	(4,541,626)
Funds distributed or to be distributed to members	-	(11,299,072)	(11,299,072)
Balance at 30 June 2009	147,911,344	-	147,911,344
Balance at 1 July 2009	147,911,344	-	147,911,344
Profit attributable to members of the registered scheme	-	10,733,571	10,733,571
Net movement in members' funds - interests & withdrawals	6,416,806	-	6,416,806
Funds distributed or to be distributed to members	-	(10,733,571)	(10,733,571)
Balance at 30 June 2010	154,328,150	-	154,328,150

Members' (investors') funds are placed into an approved investment loan. Each approved investment is distinct from any other investment and constitutes what is sometimes referred to as a sub-scheme. Accordingly, an investor's entitlement to income or capital is based entirely on the investment comprised in the relevant sub-scheme. The investor has no rights to income or capital relating to other investments in other sub-schemes. The interest rate offered for investments will vary from time to time due to changes in market interest rates. Once an investment application for a particular scheme is accepted the interest rate for that investment is fixed for the investment term. Interest is paid either monthly or quarterly in accordance with the particular mortgage scheme.

The accompanying notes form part of these financial statements.

Statement of cash flows for the year ended 30 June 2010

	Note	2010 $	2009 $
Cash flows from operating activities			
Interest received		10,954,549	11,660,807
Other revenue		2,924,374	2,272,502
Interest paid and other costs of finance		(165,505)	(326,684)
Payments to suppliers and employees		(2,924,374)	(2,272,502)
Net cash provided by operating activities	10	10,789,044	11,334,123
Cash flows from investing activities			
Net (increase) decrease in mortgage investments		(4,437,200)	2,838,450
Net cash provided by (used in) investing activities		(4,437,200)	2,838,450
Cash flows from financing activities			
Net increase (decrease) in members' funds		6,416,806	(4,541,626)
Funds distributed to members		(10,789,044)	(11,334,123)
Net cash used in financing activities		(4,372,238)	(15,875,749)
Net increase (decrease) in cash and cash equivalents held		1,979,606	(1,703,176)
Cash and cash equivalents at the beginning of the financial year		3,841,994	5,545,170
Cash and cash equivalents at the end of the financial year	5	5,821,600	3,841,994

The accompanying notes form part of these financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements cover the registered scheme of Banksia Mortgage Fund ("registered scheme"). Banksia Mortgage Fund is a registered scheme, registered and domiciled in Australia.

Basis of preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

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

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

(a) Income tax

In prior years, the registered scheme has been classified as not being subject to income tax on the basis that it was not a separate legal entity for taxation purposes. The reporting requirements to the Australian Taxation Office for investment body purposes were carried out by the responsible entity.

The ATO is auditing the registered scheme and the responsible entity for GST purposes. The audit has not been concluded at the time of signing the financial statements. Any GST impact will be borne by the responsible entity.

(b) Financial instruments

Initial recognition and measurement

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

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

Classification and subsequent measurement

Finance instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

a. the amount at which the financial asset or financial liability is measured at initial recognition;
b. less principal repayments;
c. plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and
d. less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(b) Financial instruments continued

Classification and subsequent measurement continued

(i) Financial assets at fair value through profit or loss

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

(ii) Loans and receivables

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

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the registered scheme's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

(v) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the registered scheme assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

(c) Revenue

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

All revenue is stated net of the amount of goods and services tax (GST).

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(d) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

(e) Cash and cash equivalents

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

(f) Impairment of assets

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

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

(g) Critical accounting estimates and judgements

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

Key estimates

Impairment

The registered scheme assesses impairment at each reporting period by evaluating conditions and events specific to the registered scheme that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

Key judgements

Judgements that management have made in the process of applying the registered scheme's accounting policies included the consideration of materiality. There is no judgement that has had a significant effect on the amounts recognised in the financial report.

(h) Adoption of new and revised Accounting Standards

During the current year the registered scheme adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact the adoption of these standards and interpretations has had on the financial statements of Banksia Mortgage Fund.

AASB 8: Operating Segments
AASB 8 replaced AASB 114 Segment Reporting and requires identification of operating segments on the basis of internal reports that are regularly reviewed by the responsible entity's Board for the purposes of decision making. The amendments did not have any impact on the registered scheme's financial report.