

FIRST MORTGAGE INVESTMENTS

ARSN 089 600 920

INTERIM FINANCIAL REPORT

31 DECEMBER 2018


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This is Annexure A of 16 pages referred to in Form 7051 "Half-Yearly Reports",



Director

14/3/19

Date

FIRST MORTGAGE INVESTMENTS
ARSN 089 600 920

DIRECTORS' REPORT

The directors of First Mortgage Managed Investments Limited (the 'Responsible Entity'), the Responsible Entity of First Mortgage Investments ('the Scheme'), present their report together with the financial report of the Scheme, for the six months ended 31 December 2018 and the review report thereon.

Responsible entity

The registered office and principal place of business of the Responsible Entity and the Scheme is 11 West Street, Burleigh Heads, Queensland.

First Mortgage Managed Investments Limited (ABN 39 089 507 899) has been the Responsible Entity of the Scheme since registration on 15 September 1999.

The directors of First Mortgage Managed Investments Limited during or since the end of the interim financial period are:

Name	Period of directorship
Mr Michael Henry Boyce	Appointed 15 September 1999
Ms Karen Joan Scott	Appointed 15 September 1999
Ms Megan Kay Boyce	Appointed 3 March 2014

Review of operations

The Scheme continued its principal activity of investing funds in registered first mortgages in accordance with the investment policy of the Scheme as outlined in the current product disclosure statement. The Scheme is a contributory mortgage investment scheme investing in first mortgages over freehold property in Australia.

There have been no significant changes in the nature of those activities during the period.

Results

Operating result

The Scheme's net income from operations before financing costs for the six months ended 31 December 2018 was \$2,885,084 (net income for the six months ended 31 December 2017: \$2,497,716).

The directors performed an impairment assessment in relation to the recoverable amount of mortgage loans; inclusive of interest outstanding at 31 December 2018. No impairment expense was recognised for the six month period ended 31 December 2018 as a result of this assessment.

The Manager has previously undertaken to reduce its management fee by the amount of any impairment loss so that there is no reduction in investor funds.

**FIRST MORTGAGE INVESTMENTS
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DIRECTORS' REPORT


Distribution return

Scheme distributions paid or payable for the six months ended 31 December 2018 were \$2,885,084 (six months ended 31 December 2017: \$2,497,716).

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 3 and forms part of the directors' report for the six months ended 31 December 2018.

This report is made with a resolution of the directors of First Mortgage Managed Investments Limited.


M Boyce
Director

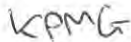
Dated at Gold Coast this 14th day of March 2019

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

To the Directors of First Mortgage Managed Investments Limited

I declare that, to the best of my knowledge and belief, in relation to the review of First Mortgage Investments for the half-year ended 31 December 2018 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.



KPMG



JJ Frazer
Partner

Gold Coast

14 March 2019

FIRST MORTGAGE INVESTMENTS
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CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	31 December 2018 \$	30 June 2018 \$
Assets			
Cash and cash equivalents		1,787,407	1,562,616
Loans and receivables:			
Interest receivable	5	1,627,318	2,159,290
Mortgage loans	5	78,884,366	70,424,366
Total assets		82,299,091	74,146,272
Liabilities			
Financial liabilities at amortised cost:			
Distributions payable		229,309	198,798
Mortgage bonds and other payables		1,045,451	1,212,654
Interest received in advance		613,717	445,368
Manager fees payable		824,360	1,393,982
Total liabilities (excluding net assets attributable to investors)		2,712,837	3,250,802
Net assets attributable to investors – Liability	3	79,586,254	70,895,470
Net assets		-	-
Equity		-	-

The condensed notes are an integral part of these interim financial statements.

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**CONDENSED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

	Note	31 December 2018 \$	31 December 2017 \$
Revenue			
Interest income – mortgage loans		4,241,327	3,624,004
Interest income – other		1,157	1,093
Net investment income		<u>4,242,484</u>	<u>3,625,097</u>
 Expenses			
Management fees	6	(1,091,470)	(1,125,686)
Other expenses		(265,930)	(1,695)
Impairment (loss) or reversal	6	<u>-</u>	<u>-</u>
Operating expenses before finance costs		<u>(1,357,401)</u>	<u>(1,127,381)</u>
 Profit/(loss) from operating activities		<u>2,885,084</u>	<u>2,497,716</u>
 Finance costs			
Distribution expense to investors	4	<u>(2,885,084)</u>	<u>(2,497,716)</u>
 Change in net assets attributable to investors/Total comprehensive income		<u>-</u>	<u>-</u>

The condensed notes are an integral part of these interim financial statements.

**FIRST MORTGAGE INVESTMENTS
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**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 DECEMBER 2018**

The Scheme's net assets are attributable to investors as a liability under AASB 132 *Financial Instruments: Presentation*. As such, the Scheme has no equity, and no items of changes in equity have been presented for the current or comparative period.

The condensed notes are an integral part of these interim financial statements.

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CONDENSED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

	31 December 2018 \$	31 December 2017 \$
Cash flows from operating activities		
Interest received	4,775,602	2,843,290
Operating expenses paid	(265,930)	(1,694)
Management fee paid	(1,661,092)	(908,242)
Distributions paid	(2,854,573)	(2,464,813)
Net cash flows from/(used in) operating activities	(5,993)	(531,459)
Cash flows from investing activities		
Mortgage loans made	(21,312,000)	(20,255,000)
Mortgage loans repaid	12,852,000	13,090,500
Net cash used in investing activities	(8,460,000)	(7,164,500)
Cash flows from financing activities		
Proceeds from receipt of investor applications	15,114,084	12,762,854
Payments on redemption of investor funds	(6,423,300)	(5,512,000)
Cash advance from manager	-	-
Net cash flows from financing activities	8,690,784	7,250,854
Net increase/(decrease) in cash and cash equivalents	224,791	(445,105)
Cash and cash equivalents at 1 July	1,562,616	1,786,025
Cash and cash equivalents at 31 December	<u>1,787,407</u>	<u>1,340,920</u>

The condensed notes are an integral part of these interim financial statements.

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

1. Reporting entity

First Mortgage Investments (the 'Scheme') is a registered managed investment scheme under the *Corporations Act 2001*. The interim financial report of the Scheme is for the six months ended 31 December 2018.

2. Basis of preparation

(a) Statement of compliance

The condensed interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The condensed interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the annual financial report of the Scheme as at and for the year ended 30 June 2018.

The condensed interim financial report was authorised for issue by the directors of the Responsible Entity on 14 March 2019.

(b) Significant accounting policies

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Scheme's financial statements for the year ended 30 June 2018.

The Scheme has adopted AASB 15 *Revenue from Contracts with Customers* and AASB 9 *Financial Instruments* from 1 July 2018. Neither have had a material impact for the interim period.

(c) Use of estimates and judgements

The preparation of the condensed interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Except as described below, in preparing this condensed interim financial report, the significant judgements made by management in applying the Scheme's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial report as at and for the year ended 30 June 2018.

During the half year ended 31 December 2018 management reassessed its estimates in respect of:

- Note 5 – Mortgage loans and interest receivable (impairment)

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

3. Net assets attributable to investors - Liability

	31 December 2018	30 June 2018
	\$	\$
Opening balance	70,895,470	61,179,227
Applications	15,114,084	23,388,000
Redemptions	(6,423,300)	(13,671,757)
Closing balance	<u>79,586,254</u>	<u>70,895,470</u>

The Scheme considers its capital to be Investor Funds. The Scheme manages its net assets attributable to investors as capital, notwithstanding net assets attributable to investors are classified as a liability.

All units in the Scheme are of the same class and carry equal rights.

As the Scheme is a contributory mortgage scheme, the liability to investors by the Scheme is limited to the extent of their interest in specific mortgage loans and receivables, which have been included as assets of the Scheme.

4. Distributions paid and payable

	31 December 2018	31 December 2017
	\$	\$
Distributions paid	2,655,775	2,288,079
Distributions payable	229,309	209,637
	<u>2,885,084</u>	<u>2,497,716</u>

As investors are presently entitled to the distribution income of the Scheme, no income tax is payable by the Scheme.

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

5. Mortgage loans and interest receivable

	31 December 2018 \$	30 June 2018 \$
Interest receivable		
Interest receivable	1,627,318	2,159,290
Provision for impairment losses (1)	-	-
	<u>1,627,318</u>	<u>2,159,290</u>
 Mortgage loans		
With contractual terms:		
Maturing < 1 year	66,127,000	53,920,000
Maturing > 1 year	13,402,000	17,149,000
	<u>79,529,000</u>	<u>71,069,000</u>
Mortgage loans before provision for impairment loss	79,529,000	71,069,000
Less: Provision for impairment losses *	(644,634)	(644,634)
Mortgage loans after provision for impairment loss	<u>78,884,366</u>	<u>70,424,366</u>

(1) Prior to 31 December 2018 the Scheme entered into an arrangement which assigns certain interest receivable from current and prior periods to an entity related to the manager. For further information refer to Note 9.

* Refer Note 6 for management fee adjustment.

The Scheme's mortgage investments are secured by a registered first mortgage over real property. The recoverability of mortgage loans is based on independent valuations of security properties with loan to valuation ratios generally not exceeding 80% (2017: 80%).

At 31 December 2018, the Responsible Entity reviewed the carrying value of interest receivable and mortgage loans of the Scheme in order to identify whether any loans or interest may be impaired.

In assessing whether mortgage loans or interest receivable were impaired, the Responsible Entity had considerations included but were not limited to:

- Valuations of security properties completed by registered valuers;
- Appraisals of security properties completed by real estate agents;
- Actual sales prices realised on completed projects;
- Collateral security; and
- Estimated time to realise mortgage loans.

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

5. Mortgage loans and interest receivable (cont.)

Impairment

As a result of this review, the Responsible Entity has identified no impairment losses for the six month period ended 31 December 2018 (31 December 2017: nil). As set out in Note 6, the Manager has previously undertaken to reduce its management fee by the amount of any impairment loss so that there is no reduction in investor funds. The unrealised impairment loss represents estimates of losses that may be incurred based on a number of assumptions including amounts that will be received upon repayment or sale of the security property and the period until funds are returned. There is uncertainty as to the amount that could be realised on the sale of security properties, and the time it may take to achieve a sale. Accordingly, actual impairment losses incurred may differ significantly from these estimates.

There were 51 loans (30 June 2018: 46) that have past their maturity date and are past due at 31 December 2018, with a total principal of \$20,957,000 (30 June 2018: \$20,827,000) outstanding. There are an additional loans, with a total principal of \$1,150,000 (30 June 2018: 2,211,000) that are considered past due, being that their interest payments have not been met when they were contractually due.

Interest payments on selected loans have been made by a related party of the Responsible Entity under the Income Protection Plan. The Responsible Entity has entered a deed of assignment for certain interest payments that are outstanding at 31 December 2018. Refer to Note 9.

6. Management Fee

	31 December 2018 \$	31 December 2017 \$
Management fees paid and payable	1,091,470	1,125,686
	<u>1,091,470</u>	<u>1,125,686</u>

The Manager, First Mortgage Investments Pty Ltd, has undertaken to reduce its management fee by the amount of any impairment loss so that there is no reduction in investor funds. In the event that the impairment loss is more or less than the estimate at 31 December 2018 of \$nil (31 December 2017: \$nil), the Manager's fee will be varied accordingly at the time the loss is realised. The Scheme entered into an arrangement prior to 31 December 2018, which assigns certain interest receivable from current and prior periods to an entity related to the Manager. Refer to Note 9.

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**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2018**

7. Financial Risk Management

The Scheme's financial risk management objectives and policies are consistent with that disclosed in the annual financial report as at and for the year ended 30 June 2018.

Carrying amounts versus fair values

At 31 December 2018, the Directors consider that the carrying value of the financial assets and financial liabilities approximate their fair values.

8. Liquidity Risk

Liquidity risk is the risk that the Scheme may not be able to meet its obligations in relation to investment activities or funding unit holder redemptions. The liquidity risk associated with the need to satisfy investor's requests for redemptions is mitigated by offering only fixed term investments with terms that match the term of the underlying mortgage, and by maintaining a cash reserve.

9. Related Parties

Except for as disclosed below, there have been no significant changes to the related party transactions disclosed in the last annual report.

The Scheme entered into an arrangement on 1 July 2009, which was formalised by a Deed of Assignment dated 18 October 2010. The arrangement assigns certain interest receivable from current and prior periods to First Mortgage Investments Pty Ltd. During the period ended 31 December 2018 a total amount of \$67,562 (2017: \$93,338) was assigned to First Mortgage Investments Pty Ltd and the total interest assigned at 31 December 2018 for loans outstanding at that date was \$2,548,184 (2017: \$2,571,695).

If the Scheme had not entered into this arrangement, total impairment losses at 31 December 2018 of \$2,548,184 in relation to the assigned interest receivable on mortgage loans would have been incurred by the Scheme to date on loans outstanding at 31 December 2018 (2017: \$2,571,695).

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**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2018**

10. Subsequent Events

There has not arisen in the interval between the end of the interim period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Responsible Entity, to affect significantly the operations of the Scheme, the results of those operations, or the state of affairs of the Scheme, in future financial years.

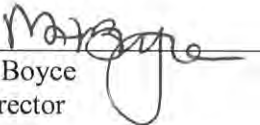
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DIRECTOR'S DECLARATION

In the opinion of the directors of First Mortgage Managed Investments Limited, the Responsible Entity of First Mortgage Investments ('the Scheme'):

1. the interim financial statements and notes set out on pages 4 to 13 are in accordance with the *Corporations Act 2001*, including:
 - (a) giving a true and fair view of the Scheme's financial position as at 31 December 2018 and of its performance, for the six month period ended on that date; and
 - (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*;
2. there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors of First Mortgage Managed Investments Limited:


M Boyce
Director

Dated at Gold Coast this 14th day of March 2019



Independent Auditor's Review Report

To the unitholders of First Mortgage Investments

Conclusion

We have reviewed the accompanying **Half-year Financial Report** of First Mortgage Investments (the Scheme).

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Half-year Financial Report of First Mortgage Investments is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Scheme's financial position as at 31 December 2018 and of its performance for the Half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Half-year Financial Report** comprises:

- Condensed Statement of financial position as at 31 December 2018;
- Condensed Statement of profit or loss and other comprehensive income for the Half-year ended on that date;
- Condensed Statement of changes in equity; and
- Condensed Statement of cash flows for the Half-year ended on that date;
- Notes 1 to 10 comprising a summary of significant accounting policies and other explanatory information;
- The Directors' Declaration.

The **Half-year** is the 6 months ended on 31 December 2018.

Responsibilities of the Directors for the Half-year Financial Report

The Directors of the Scheme are responsible for:

- the preparation of the Half-year Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- for such internal control as the Directors determine is necessary to enable the preparation of the Half-year Financial Report that is free from material misstatement, whether due to fraud or error.

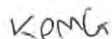
Auditor's responsibility for the review of the Half-year Financial Report

Our responsibility is to express a conclusion on the Half-year Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Half-year Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Scheme's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of First Mortgage Investments, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a Half-year Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



KPMG



Jeff Frazer

Partner

Gold Coast

14 March 2019