Australian Securities Income Fund

Annual Report 2020

[ARSN 092 514 488]

Australian Securities Income Fund

Annual Report 2020

AUSTRALIAN® SECURITIES

Contents

Directors Report

The Directors of Australian Securities Limited | the Responsible Entity | present their report together with the financial statements of the Australian Securities Income Fund | the Scheme | for the year ended 30 June 2020 the auditor's report thereon. This financial report has been prepared in accordance with Australian Accounting Standards. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

Directors

The names of the Directors of the Responsible Entity in office during or since the end of the year are:

Non-executive Directors

Peter Bolitho (Chair)
Judi Grant (Audit Chair)

Susan Allen (appointed 13 February 2020)
Andrew Post (appointed 13 February 2020/ resigned 24 July 2020)

Executive Directors

Michael Clarebrough (CEO)

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

Service providers

The service providers during or since the end of the financial year are:

- Responsible Entity & Custodian: Australian Securities Limited
- Auditor: Pitcher Partners, Melbourne

Principal activities

The Scheme is a registered managed investment scheme domiciled in Australia.

The principal activity of the Scheme is to invest funds in accordance with the investment policy of the Scheme as outlined in the current Product Disclosure Statement | the PDS | of the Scheme, and in accordance with the provisions of the Constitution of the Scheme. The Constitution authorises investment in mortgages.

There has been no significant change in the activities of the Scheme during the financial year.

The Scheme did not have any employees during the year.

Value of assets

The value of the Scheme's gross assets at 30 June 2020 was $160,405,415 (2019: $222,743,127). The value of the Scheme's assets is derived using the basis set out in Note 1 to the financial statements.

Interests in the Scheme

The Scheme commenced the year with 254 interests in the Scheme (2019: 259). During the year 9 applications were accepted (2019: 49) and 62 withdrawals discharged (2019: 54) closing at 201 interests in the Scheme at the reporting date (2019: 254).

Fees paid to and interests held by the Responsible Entity

The Responsible Entity of the Scheme is Australian Securities Limited (ACN: 005 428 231)| ASL |, which also acts as manager and custodian of the Scheme.

ASL also acts as Responsible Entity, Manager and Custodian to Australian Securities Property Fund | ASPF | and Australian Securities Term Fund | ASTF |. ASL holds an Australian Financial Services Licence to enable it to be the Responsible Entity and Custodian to the Scheme as well as ASPF and ASTF. ASL also holds an Australian Credit Licence to be an authorised Credit Provider.

Transactions with related parties have taken place at arm's length and in the ordinary course of business.

Investment management fees of $1,172,466 (2019: $1,158,601), calculated up to 0.81% per annum (2019: 0.55% or 0.66%) of the amount invested in each mortgage security, were paid or remain payable at year end to the Responsible Entity.

Compliance fees of $1,219,642 (2019: $1,151,660), calculated at 0.59% per annum (2019: 0.48% or 0.73%) on the amount of the loan, were paid or remain payable at year end to the Responsible Entity.

As at 30 June 2020, loans from ASIF to ASPF totalled $11,561,000 (2019: $9,176,000) for the purchase of property by various sub-schemes.

As at 30 June 2020, ASIF had investments in ASTF totalling $5,886,033 (2019: $8,272,813) which were amounts invested on behalf of borrowers. The investment is included as part of cash and cash equivalents in the Statement of Financial Position.

A number of the Directors have invested in the Scheme via the Responsible Entity or via related entities, on terms and conditions no more favourable than those offered to any arm's length investor.

As at 30 June 2020, ASTF had $12,634,514 (2019: $24,792,485) invested in the Scheme, and other related parties had $4,446,670 (2019: $2,997,074) invested in the Scheme.

The Scheme operates an "interest advance facility" whereby the Responsible Entity may agree to advance to the Scheme for on-payment to Tier 1 investors, an amount required to pay interest on any mortgages in which a borrower has failed to pay interest on an interest payment date. The Tier 1 interest is subsequently collected from the borrower and paid to the Responsible Entity, along with additional higher rate interest at the default rate set out in the loan agreement with the borrower.

During the financial year, the Responsible Entity advanced up to $385,582 (2019: $101,878) to the Scheme to cover unpaid interest from borrowers. Interest totalling $146,359 (2019: $83,182) was earned by the Responsible Entity for this service in accordance with the terms of loan agreements with borrowers and the PDS. At the end of the financial year $52,326 (2019: $144,173) remains payable by the Scheme to the Responsible Entity in relation to the amount advanced and interest outstanding.

As at 30 June 2020, other amounts totalling $nil (2019: $3,118) were payable to the Responsible Entity.

Review of operations and financial results

The Scheme recorded a net result of $nil during the year (2019: $nil), after distributing 100% of profit before interest paid to investors (2019: 100%). Interest paid and payable to investors in the Scheme for the period was $10,652,503 (2019: $13,539,350), net of management fees.

Significant changes in state of affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Scheme during the financial year.

Future developments

The Scheme will continue to operate in accordance with its investment policy as detailed in the Scheme's PDS.

In the opinion of the Directors, aside from the unknown impact of the Coronavirus Pandemic there are no other likely developments that will influence the operations or the expected results of the Scheme. The Scheme will continue to actively monitor the impact of the Coronavirus Pandemic (COVID-19).

Environmental regulation

The Scheme's operations are not subject to any significant environmental regulations under Commonwealth, State or Territory Legislation.

Indemnification and insurance of officers and auditors

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

The Directors of the Responsible Entity are covered against all liabilities to another person (other than the company, the Scheme or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith.

Subsequent events

No other matters or circumstances have arisen since the end of the year which significantly affect the operations of the Scheme, the results of those operations, or the state of affairs of the Scheme, in future financial years.

Rounding of amounts to the nearest dollar

In accordance with ASIC Corporations (Rounding in Financial/Director's report) Instrument 2016/191, the amounts in the Directors' Report and in the financial report have been rounded to the nearest dollar.

Auditor's independence declaration

An independence declaration has been received by the Directors and is attached to the Directors' Report.

The report is made in accordance with a resolution of the Directors.

On behalf of the Directors

Michael John Clarebrough (CEO)

Melbourne
24 September 2020

Peter Bolitho (Chair)

Melbourne
24 September 2020

Statement of Profit or Loss and other Comprehensive Income

For the year ended 30 June 2020

	Notes	Year ended 30 June 2020 $	Year ended 30 June 2019 $
Investment revenue and other income			
Interest		11,824,970	14,697,951
Compliance fees		1,219,642	1,151,660
Recovery of impairments	6	924,915	652,634
Total investment revenue and other income		**13,969,527**	**16,502,245**
Operating Expenses			
Management fees		(1,172,466)	(1,158,601)
Compliance fees		(1,219,642)	(1,151,660)
Interest		(10,652,504)	(13,539,350)
Impairment losses	7	(924,915)	(652,634)
Total operating expenses		**(13,969,527)**	**(16,502,244)**
Profit for the year		-	-
Other comprehensive income		-	-
Total comprehensive income		-	-

The above statement should be read in conjunction with the accompanying notes

Statement of Financial Position

For the year ended 30 June 2020

	Notes	Year ended 30 June 2020	Year ended 30 June 2019
Current assets			
Investments			
Cash and cash equivalents	8	9,883,854	15,256,505
Mortgages repayable within 12 months	9	117,297,925	144,736,381
Less: Allowance for credit loss of mortgages	9	(290,824)	(596,174)
Total investments		**126,890,955**	**159,396,712**
Other assets			
Receivables	11	876,016	1,189,358
Total other assets		**876,016**	**1,189,358**
Total current assets		**127,766,971**	**160,586,070**
Non-current assets			
Mortgages repayable after 12 months	9	32,638,444	62,157,057
Total non-current assets		**32,638,444**	**62,157,057**
Total assets		**160,405,415**	**222,743,127**
Current Liabilities			
Payables	12	(1,142,741)	(1,405,705)
Members' funds	13	(126,915,054)	(159,776,539)
Less: Allowance for credit loss	13	290,824	596,174
Total current liabilities		**(127,766,971)**	**(160,586,070)**
Non-current liabilities			
Members' funds	13	(32,638,444)	(62,157,057)
Total non-current liabilities		**(32,638,444)**	**(62,157,057)**
Total liabilities		**(160,405,415)**	**(222,743,127)**
Net assets		-	-

The above statement should be read in conjunction with the accompanying notes

Statement of Changes in Members' Funds

For the year ended 30 June 2020

	Notes	Total members' funds $
Balance as at 1 July 2018		239,076,248
Applications		158,174,660
Withdrawals		(175,317,312)
less Allowance for credit loss		(596,174)
Change in net assets attributable to members		**(17,738,826)**
Balance as at 30 June 2019	13	**221,337,422**
Balance as at 1 July 2019		221,337,422
Applications		98,699,411
Withdrawals		(160,483,335)
less Allowance for credit loss		(290,824)
Change in net assets attributable to members		**(62,074,748)**
Balance as at 30 June 2020	13	**159,262,674**

Members' funds are classified as a financial liability.

Applications and withdrawals comprise an aggregation of the movements within each of the items which make up the balance of the members' funds as per Note 13, including the individual sub-schemes and cash accounts held on trust.

The above statement should be read in conjunction with the accompanying notes

Statement of Cash Flows

For the year ended 30 June 2020

	Notes	Year ended 30 June 2020 $	Year ended 30 June 2019 $
Cash flows from operating activities			
Interest received		11,206,368	14,060,007
Compliance fees received		1,181,432	1,140,860
Interest paid		(9,956,991)	(12,857,379)
Management fees paid		(1,163,301)	(1,159,028)
Compliance fees paid		(1,178,570)	(1,140,860)
Other proceeds received / (paid)		(38,561)	37,252
Net cash provided by operating activities	14 (b)	**50,377**	**80,851**
Cash flows from investing activities			
Invested in mortgages		(82,662,473)	(89,137,298)
Discharges of mortgages		139,314,192	95,215,878
Net cash provided by investing activities		**56,651,719**	**6,078,580**
Cash flows from financing activities			
Received from members		98,408,587	157,834,660
Paid to members		(160,483,335)	(175,317,312)
Net cash used in financing activities		**(62,074,748)**	**(17,482,652)**
Net decrease in cash and cash equivalents		**(5,372,652)**	**(11,323,221)**
Cash and cash equivalents at the beginning of the year		15,256,505	26,579,726
Cash and cash equivalents at the end of the year	14 (a)	**9,883,853**	**15,256,505**

The above statement should be read in conjunction with the accompanying notes

Notes to the Financial Statements

For the year ended 30 June 2020

Note 1: Statement Of Significant Accounting Policies

The Australian Securities Income Fund | the Scheme | is a registered managed investment scheme domiciled in Australia. The Responsible Entity to the Scheme is Australian Securities Limited | ASL | and its registered office and principal place of business is Level 29, 140 William Street, Melbourne, Victoria, 3000. The principal activity of the Scheme is disclosed in the Directors' Report.

The following is a summary of significant accounting policies adopted by the Scheme in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Basis of preparation of the financial report

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

This financial report has been prepared for the Scheme as an individual entity. The Scheme is a for-profit scheme for the purpose of preparing the financial statements. The financial report represents an aggregation of the individual sub-schemes' assets and liabilities that make up the Scheme.

The financial report is presented in Australian dollars.

The financial report was authorised for issue by the Directors of the Responsible Entity as at the date of the Directors' Report.

Compliance with International Financial Reporting Standards

The financial report of the Scheme complies with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

Historical cost convention

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets as described in the accounting policies.

Coronavirus (COVID-19)

Since the declaration by the World Health Organisation on 11 March 2020, of COVID-19 as a pandemic, there has been a significant impact on local and world economies. It is unknown at this stage what impact (if any) the pandemic may have on the financial position and financial performance of the scheme in the future.

(b) New and revised accounting standards effective at 30 June 2020

The Company has applied all new and revised Australian Accounting Standards that apply to annual reporting periods beginning on or after 1 July 2019. None of the new standards effective on or after 1 July 2019 had a material impact on the financial statements.

(c) Financial instruments

Financial assets and liabilities are recognised on the date the Scheme becomes party (for a specific sub-scheme) to the contractual agreement, usually the settlement date.

The carrying amounts of mortgages, members' funds, current receivables and current payables are considered to be a reasonable approximation of their fair value.

Financial assets

(i) Mortgages and other receivables

Financial instruments are initially measured at fair value adjusted for transaction costs, except where the instrument is classified as fair value through profit or loss (FVtPL), in which case transaction costs are immediately recognised as expenses in profit or loss.

Financial assets are classified as subsequently measured at amortised cost when both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial liabilities

Financial liabilities include members' funds, trade payables, other creditors, loans from third parties and loans or other amounts due to Director related entities.

Financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation. Financial liabilities are classified as current liabilities unless the aggregated entity has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Impairment of assets

The Scheme has chosen to apply the general approach under AASB 9 Financial Instruments to measuring impairment provisions for mortgages and other receivables. Under the AASB 9 general approach, the Scheme determines the impairment provision for receivables on the basis of default events possible within 12 months after reporting date and lifetime expected credit losses of the receivable. Lifetime expected credit losses represent the expected credit losses that are expected to result from default events over the expected life of the receivable.

For all other financial assets subject to impairment testing, when there has been a significant increase in credit risk since the initial recognition of the financial asset, the allowance for credit losses is recognised on the basis of the lifetime expected credit losses. When there has not been an increase in credit risk since initial recognition, the allowance for credit losses is recognised on the basis of 12-month expected credit losses. '12-month expected credit losses' is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

The Scheme considers a range of information when assessing whether the credit risk has increased significantly since initial recognition. The Scheme recognises an impairment loss (or, in the case of the reversal of a previous impairment loss, a gain) in profit or loss for all financial assets with a corresponding adjustment to a loss allowance account. The Scheme directly reduces the gross carrying amount (writes off) of a financial asset, even when the financial asset is still subject to enforcement action, when the debtor is in severe financial difficulty and there is no realistic prospect of recovery, which would be evidenced by:

- the debtor being placed into liquidation or voluntarily entering into bankruptcy arrangements; or
- the financial asset is more than 60 days past a default event and the Scheme has received no satisfactory response from the debtor regarding the past due feature of the financial asset; or
- significant drop in value.

(d) Cash and cash equivalents

Cash and cash equivalents includes cash on hand and at banks, short-term deposits held with an original maturity of six months or less. Cash is held at call with reputable banks or financial institutions which the Responsible Entity uses in its day to day management of the Scheme's cash requirements. Cash and cash equivalents also includes cash held in trust on behalf of investors and borrowers.

(e) Revenue

Management and compliance fees

Management and compliance fees are recognised as revenue on a monthly basis for services provided to investors and borrowers. Satisfaction of the performance obligations are determined at the point at which management services have been performed by the Responsible Manager.

Interest

Interest revenue is measured in accordance with the effective interest method.

(f) Distributions and taxation

Under current income tax legislation, the Scheme is not liable to pay income tax as the net income of the Scheme is assessable in the hands of the members who are 'presently entitled' to the income of the Scheme. There is no income of the Scheme to which members are not presently entitled and additionally, the Scheme Constitution requires the distribution of the full net amount of the net income of the Scheme to members each period.

(g) Goods and services tax | GST |

The Scheme is not currently registered for GST, and as such revenues and expenses are recognised gross of the any amount of GST. Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities is classified as operating cash flows.

(h) Comparative information

Where necessary comparative information has been reclassified and repositioned for consistency with current year disclosures.

(i) Rounding of amounts to nearest dollars

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, the amounts in the Directors' Report and in the financial report have been rounded to the nearest dollar.

(j) Functional and presentation currency

The Scheme's financial statements are measured and presented in Australian dollars, being the currency of the primary economic environment in which the Scheme operates.

(k) Accounting standards issued but not yet effective at 30 June 2020

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Scheme. The Scheme has decided not to early adopt any of these new and amended pronouncements.

The Scheme has assessed that none of these standards will have a material impact on the Scheme's financial statements in the period of initial application.

The Scheme's assessment of the new and amended pronouncements that are relevant to the Scheme but applicable in future reporting periods is set out below.

AASB 2018-7: Amendments to Australian Accounting Standards - Definition of Material

AASB 2018-7 principally amends AASB 101: Presentation of Financial Statements and AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors. The amendments refine the definition of material in AASB 101. The amendments clarify the definition of material and its application by improving the wording and aligning the definition across AASB Standards and other publications. The amendment also includes some supporting requirements in AASB 101 in the definition to give it more prominence and clarifies the explanation accompanying the definition of material.

AASB 2018-7 mandatorily applies to annual reporting periods commencing on or after 1 January 2020 and will be first applied by the Scheme in the financial year commencing 1 July 2020.

This accounting standard is not expected to have a material impact on the financial statements of the Scheme.

Note 2: Significant Accounting Estimates and Judgements

The preparation of the financial report requires the use of certain estimates and judgements in applying the Scheme's accounting policies. Those estimates and judgements significant to the financial report are disclosed in Note 1(c).

Note 3: Segment Information

The Scheme operates in the mortgage industry providing investors the opportunity to invest in one or more sub-schemes which invest in mortgages, predominantly in Victoria, Australia. Investors have recognised ownership benefits which are unique to this Scheme and are alternative investment opportunities compared to traditional financial institutions.

Note 4: Financial Risk Management

The Scheme's activities expose it to a variety of financial risks, including liquidity risk, credit risk, interest rate risk and market risk. The Scheme's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Scheme.

The Directors of the Responsible Entity have the overall responsibility for identifying and managing operational and financial risks and provide guidance and principles for the Scheme in relation to the overall risk management.

The Scheme holds the following financial instruments, all of which are carried at amortised cost:

	Notes	30 June 2020 $	30 June 2019 $
Financial assets			
Cash and cash equivalents	8	9,883,854	15,256,505
Mortgages	9	149,645,545	206,297,264
Receivables	11	876,016	1,189,358
		160,405,415	222,743,127
Financial liabilities			
Payables	12	1,142,741	1,405,705
Members' funds	13	159,262,674	221,337,422
		160,405,415	222,743,127

The Scheme is exposed to a variety of financial risks comprising:

(a) Liquidity risk
(b) Credit risk
(c) Market price risk
(d) Interest rate risk

(a) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities and arises when the Scheme is unable to meet its financial obligations as they fall due.

In regard to the Scheme's risk exposure to default, the ultimate risk of default is borne by the members in the individual sub-scheme.

Where mortgages go into default, the Scheme may use the services of the Responsible Entity, to stand in the place of the mortgagor for Tier 1 investments. The Responsible Entity pays the ongoing interest that the mortgagor would otherwise have paid until either the mortgagor brings the mortgage out of default or a decision is made to recover the mortgage by sale of the underlying property.

The Scheme's overall exposure to liquidity risk is deemed insignificant based on prior periods' data and current assessment of risk. Maximum exposure to liquidity risk is the carrying amounts of financial liabilities.

Maturity analysis

The table below represents the undiscounted contractual settlement terms for financial instruments and managements expectation for settlement of undiscounted maturities.

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(a) Liquidity risk

Year ended 30 June 2020	< 6 Months	6-12 Months	1-5 years	Total contractual cash flows	Carrying amount
	$	$	$	$	$
Cash and cash equivalents	9,883,854	-	-	9,883,854	9,883,854
Mortgages	65,885,776	51,121,325	32,638,444	149,645,545	149,645,545
Receivables	876,016	-	-	876,016	876,016
Members' funds	(75,502,905)	(51,121,325)	(32,638,444)	(159,262,674)	(159,262,674)
Payables	(1,142,741)	-	-	(1,142,741)	(1,142,741)
Net maturities	-	-	-	-	-

Year ended 30 June 2019	< 6 Months	6-12 Months	1-5 years	Total contractual cash flows	Carrying amount
	$	$	$	$	$
Cash and cash equivalents	15,256,505	-	-	15,256,505	15,256,505
Mortgages	108,314,618	35,825,590	62,157,057	206,297,264	206,297,264
Receivables	1,189,358	-	-	1,189,358	1,189,358
Members' funds	(123,354,776)	(35,825,590)	(62,157,057)	(221,337,422)	(221,337,422)
Payables	(1,405,705)	-	-	(1,405,705)	(1,405,705)
Net maturities	-	-	-	-	-

(b) Credit risk

Credit risk refers to the risk that a borrower will default on contractual obligations resulting in financial loss to the Scheme. The Scheme has adopted the policy of lending no more than 66.66% of the assessed market value of the underlying property. Furthermore, the ultimate risk of default is borne by the investors in the sub-scheme holding the individual mortgage and not by the Scheme. The Scheme measures credit risk on a fair value basis.

The Scheme does not have any significant credit risk exposure to any single borrower or any group of borrowers having similar characteristics. As at the reporting date, the Scheme did have exposure to mortgage loans that were in default and normal procedures to recover mortgage loans, such as foreclosure on the underlying property that was security to the mortgage, are in process. A provision for impairment of mortgage has been recognised during the year for one particular mortgage, as described in Note 6.

Where formal applications for mortgage loans are made to the Scheme, a credit risk committee decides the merit of the loan based on the purpose and objectives of the applicant, a credit risk analysis of the applicant, an assessment by a credit reporting agency and financial information supplied by the applicant. The applicant is required to satisfy criteria which includes, but is not limited to, the purpose of the loan, objective of the loan, credit worthiness of the applicant, good character, capacity and willingness to pay of the applicant and the collateral for the loan (based on underlying asset valuation) is adequate for the loan.

All applicants are interviewed by a finance manager of the Responsible Entity to verify the information submitted with the loan application and to establish purpose and objectives of the loan accord with responsible lending requirements.

The credit risk committee, which comprises the Legal Counsel, Operations Manager, Senior Finance Manager and Senior Investment Manager (or their deputies), each approve and certify the loan as a suitable investment for the Scheme. An executive Director reviews and approves the application before loan documentation is prepared and before approaching members to consider such investment in a sub-scheme which shall hold the mortgage security.

Over the course of a loan certain trigger points such as missed or late payments may occur which highlight the potential for the loan to go into default. Upon these occurring action is taken by our Finance Team to understand why these trigger points have occurred and to implement a remediation plan to bring the loan back to performing status.

The carrying amount of financial assets, net of any allowances for credit losses, recorded in the financial statements represents the Scheme's maximum exposure to credit risk without taking into account the value of any collateral or other security obtained in relation to those assets.

The Scheme's credit risk rating grades are outlined in the following table:

Credit risk rating grade	Criteria applied by the group	Basis of recognising allowance for credit losses
Low risk (performing)	LVR covenants met No trigger points referred to Note 1 (b) are crossed	Life-time expected credit loss (for receivables from contracts with customers and contract assets) 12-month expected credit losses (for other financial assets subject to impairment testing)
High risk- in default (non-performing)	Breach of LVR covenant Trigger points referred to in Note 1(b) are raised	Life-time expected credit losses (credit impaired)

Maximum exposure to credit risk	30 June 2020		30 June 2019	
	No. of Mortgages	**$**	**No. of Mortgages**	**$**
Performing mortgages	198	148,500,599	251	204,708,438
Specific mortgages that are in default and where the:				
Collateral provided by the mortgaged property should be adequate to fully recover the loan.	3	1,435,770	0	-
Collateral provided by the mortgaged property is assessed to be inadequate to fully recover the loan.	0	-	3	2,185,000
Shortfall anticipated on settlement in accordance with expected credit loss		(290,824)	-	(596,174)
Total mortgages	**201**	**149,645,545**	**254**	**206,297,265**
Average mortgage value		744,505	-	812,194
Valuation of properties where mortgages are in default		2,940,000	-	2,185,000
Average default mortgages value		478,590	-	728,333
Mortgages in default over $1 million	-	-	1	1,065,000
Average value of mortgages over $1 million in default		-	-	1,065,000
Valuation of properties over $1 million in default		-	-	1,100,000
Principal loss recognised on mortgages discharged during the period		-	-	-
Percentage of mortgage properties in default	1.5%	1.0%	1.2%	1.1%

This table includes non-performing mortgages that have not been remedied within 60 days

(c) Market price risk

The Scheme's exposure to market price risk arises from its operations within financial markets to borrow and lend money at interest. Both the borrowings and loans (mortgages) are made at contracted fixed interest rates. Interest rates contracted are entered into recognising the current status of financial markets. The Scheme is vigilant in ensuring that fair and reasonable rates are negotiated allowing for the prevailing status of financial markets.

The Scheme is also exposed to market price risk in relation to property prices. Mortgage loans are contracted for amounts that do not exceed 66.66% of property valuations obtained from qualified, reputable property valuers. Furthermore, as stated above under credit risk, the ultimate risk of default is borne by the investor in the individual mortgage and not by the Scheme.

Impaired valuations

A provision for impairment of a mortgage in two sub-schemes has been provided for as at year end, as detailed in Note 6. This provision has been offset by positively adjusting last year's provision as new information became available. There are no other non-performing loans with collateral mortgage security assessed as inadequate to fully recover the loan amount, default interest and charges.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of fluctuation in market interest rates. The Scheme has minimal exposure to interest rate risk. Mortgages are invested at fixed interest rates that approximate and recognise current market conditions.

The Scheme's exposure to interest rate risks in relation to future cash flows and the effective weighted average interest rates on classes of financial assets and liabilities at the reporting date are as follows

Financial instruments	Interest bearing	Non interest bearing	Total carrying amount	Weighted average effective interest rate
	$	$	$	%
30 June 2020				
(i) Financial assets				
Cash and cash equivalents	-	9,883,854	9,883,854	
Loans and receivables	149,645,545	876,016	150,521,561	6.26
Total financial assets	**149,645,545**	**10,759,870**	**160,405,415**	
(ii) Financial liabilities				
Other financial liabilities	(149,645,545)	(10,759,870)	(160,405,415)	5.45- 6.26
Total financial liabilities	**(149,645,545)**	**(10,759,870)**	**(160,405,415)**	
Net financial assets	-	-	-	

Financial instruments	Interest bearing	Non interest bearing	Total carrying amount	Weighted average effective interest rate
	$	$	$	%
30 June 2019				
(i) Financial assets				
Cash and cash equivalents	-	15,256,505	15,256,505	
Loans and receivables	206,297,264	1,189,358	207,486,622	6.65
Total financial assets	**206,297,264**	**16,445,863**	**222,743,127**	
(ii) Financial liabilities				
Other financial liabilities	(206,297,264)	(16,445,863)	(222,743,127)	5.99- 6.65
Total financial liabilities	**(206,297,264)**	**(16,445,863)**	**(222,743,127)**	
Net financial assets	**-**	**-**	**-**	

Sensitivity

As the interest rates on the financial assets and liabilities held by the Scheme are fixed, there would not be an impact on the profit for the year or equity were interest rates to increase/decrease by 100 basis points.

	Year ended 30 June 2020 $	Year ended 30 June 2019 $
Note 6: Recovery of Impairments		
Allowance for recovery of:		
Provision for Principal loss from investors	(305,349)	256,174
Amounts unpaid:	672,285	396,460
Principal loss from Investors	507,438	
Interest unpaid to the investors and Responsible Entity	50,541	-
Compliance fees unpaid to the Responsible Entity		
	924,915	**652,634**
Note 7: Impairments		
Provision for:		
Mortgage impairment	305,349	(256,174)
Amounts not recoverable:	(672,285)	(396,460)
Mortgage impairment incurred	(507,438)	
Interest not recovered from borrowers	(50,541)	-
Compliance fees not recovered from borrowers		
	(924,915)	**(652,634)**

A provision for credit loss totalling $290,824 has been provided for as at 30 June 2020 (2019: $596,174). The provision relates to a potential claim on the Tier 1 capital invested amount relating to the Hampton property identified above in addition to the responsible entities' assessment of credit risk.

During the period mortgage impairments incurred totalled $672,285. These amounts relate to capital losses on various mortgage securities, which are summarised as follows:

- Strata titled retail / Office space in Hampton, Victoria ($245,000)
- Strata titled retail / office space in Perth, Western Australia ($211,596)
- Residential Units in Perth, Western Australia ($29,044)
- Strata titled retail / office space in West Perth, Western Australia ($186,645)

Additionally, in relation to those loans identified above the responsible entity was unable to recover interest and compliance fees which total $557,979.

	Year ended 30 June 2020 $	Year ended 30 June 2019 $

Note 8: Cash and Cash Equivalents

	Year ended 30 June 2020 $	Year ended 30 June 2019 $
Cash at bank	2,666,724	4,307,146
Cash held on trust	7,217,130	10,949,359
	9,883,854	**15,256,505**

Note 9: Mortgages

	Year ended 30 June 2020 $	Year ended 30 June 2019 $
Mortgages repayable within 12 months	117,297,925	144,736,381
Mortgages repayable after 12 months	32,638,444	62,157,057
	149,936,369	206,893,438
Allowance for credit loss of mortgages	(290,824)	(596,174)
	149,645,545	**206,297,264**

Note 10: Interest in Mortgages

	Year ended 30 June 2020	Year ended 30 June 2019
No. of mortgages at start of period	254	259
No. of mortgages invested during the period	9	49
No. of mortgages discharged during the period	(62)	(54)
No. of mortgages at end of period	201	254

Note 11: Receivables

	Year ended 30 June 2020 $	Year ended 30 June 2019 $
Accrued interest receivable	664,971	895,430
Default interest receivable	149,641	224,496
Accrued compliance fee receivable	49,656	61,987
Other receivables	11,748	7,445
	876,016	1,189,358

	Year ended 30 June 2020 $	Year ended 30 June 2019 $
Note 12: Payables		
Default interest payable to lenders	87,723	163,550
Default interest payable to related party	23,663	64,727
Assurance funding payable to related party	28,663	79,446
Other payables	342,137	143,807
Accrued interest payable	552,628	801,880
Accrued compliance fee payable	52,518	61,987
Accrued establishment fee payable	-	40,946
Accrued management fee payable	55,409	46,244
Amounts payable to ASL	-	3,118
	1,142,740	**1,405,705**

Note 13: Members' Funds

Current		
Cash at bank	2,400,000	4,090,799
Cash held on trust relating to members	7,217,129	10,949,359
Invested in mortgages	117,297,925	144,736,381
	126,915,054	159,776,539
Allowance for credit loss	(290,824)	(596,174)
	126,624,230	159,180,365
Non-current		
Invested in mortgages	32,638,444	62,157,057
	32,638,444	62,157,057
Total members' funds	**159,262,674**	**221,337,422**

Applications and withdrawals as shown in the Statement of Changes of Members' Funds comprise an aggregation of the movements within each of the items as shown above which make up the total of the members' funds of the Scheme, including the individual sub-schemes and cash accounts held on trust.

Note 14: Notes to the Statement of Cash Flows

(a) Reconciliation of cash

For the purpose of the Statement of Cash Flows, cash includes cash on hand and at bank, short-term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	Year ended 30 June 2020	Year ended 30 June 2019
	$	$
Cash at bank	2,666,724	4,307,146
Cash held on trust	7,217,129	10,949,359
Total cash and cash equivalents	**9,883,853**	**15,256,505**

(b) Reconciliation of net cash used in operating activities to net operating profit

Net profit	-	-
Add back non-cash movements:		
Provision for mortgage impairment	(924,915)	(652,634)
Interest loss distributed, previously written off	-	-
Allowance for recovery of principal loss from investors	924,915	652,634
Changes in assets and liabilities during the financial year:		
Decrease in receivables	313,279	118,866
Decrease in payables	(262,902)	(38,015)
Net cash provided by operating activities	50,377	80,851

Note 15: Related Party Disclosures

The Responsible Entity of the Scheme is Australian Securities Limited (ACN: 005 428 231) | ASL |, which also acts as manager and custodian of the Scheme.

ASL also acts as responsible entity, manager and custodian to Australian Securities Property Fund | ASPF | and Australian Securities Term Fund | ASTF |. ASL holds an Australian Financial Services Licence to enable it to be the responsible entity and custodian to the Scheme as well as ASPF and ASTF. ASL also holds an Australian Credit Licence to be an authorised Credit Provider.

Transactions with related parties have taken place at arm's length and in the ordinary course of business.

Investment management fees of $1,172,466 (2019: $1,158,601), calculated up to 0.81% per annum (2019: 0.55% or 0.66%) of the amount invested in each mortgage security, were paid or remain payable at year end to the Responsible Entity. Management fees payable to the Responsible Entity at 30 June 2020 totalled $55,409 (2019: $46,244).

Compliance fees of $1,219,642 (2019: $1,151,660), calculated at 0.59% per annum (2019: 0.48% or 0.73%) on the amount of the loan, were paid or remain payable at year end to the Responsible Entity. Compliance fees payable to the Responsible Entity at 30 June 2020 totalled $52,518 (2019: $61,987).

Other fees payable to the Responsible Entity including establishment fees at 30 June 2020 totalled $NIL (2019: $44,064).

As at 30 June 2020, ASIF had investments in ASTF totalling $5,886,033 (2019: $8,272,813) which were amounts invested on behalf of borrowers. The investment is included as part of cash and cash equivalents in the Statement of Financial Position.

As at 30 June 2020, loans from ASIF to ASPF totalled $11,561,000 (2019: $9,176,000) for the purchase of property by various sub-schemes.

As at 30 June 2020, ASTF had $12,634,514 (2019: $24,792,485) invested in the Scheme. Interest income of $1,205,956 (2019: $1,293,380) was paid or remained payable at year end to ASTF. Interest payable to ASTF at 30 June 2020 totalled $21,054 (2019: $53,789).

A number of the Directors have invested in the Scheme via the Responsible Entity or via related entities, on terms and conditions no more favourable than those offered to any arm's length investor. Other related parties had $4,446,670 (2019: $2,997,074) invested in the Scheme.

The Scheme operates an "interest advance facility" whereby the Responsible Entity may agree to advance to the Scheme for on-payment to Tier 1 investors, an amount required to pay interest on any mortgages in which a borrower fails to pay interest on an interest payment date. The facility is only used if a mortgage default exists and the interest subsequently collected from the borrower and paid to the Responsible Entity is at the default rate set out in the loan agreement with the borrower.

During the financial year, the Responsible Entity advanced up to $385,582 (2019: $101,878) to the Scheme to cover unpaid interest from borrowers. Interest totalling $146,359 (2019: $83,182) was earned by the Responsible Entity for this service in accordance with the terms of loan agreements with borrowers and the PDS. At the end of the financial year $52,326 (2019: $144,173) remains payable by the Scheme to the Responsible Entity.

Compensation of key management personnel of the Responsible Entity

Key management personnel of the Responsible Entity for the financial year, unless otherwise stated, were:

Non-executive Directors

Peter Bolitho (Chair)

Judi Grant (Audit Chair)

Andrew Post (appointed 13 February 2020/ resigned 24 July 2020)

Susan Allen (appointed 13 February 2020)

Executive Directors

Michael Clarebrough (CEO)

Management Team

Natalie Bode (Operations / Alternate CEO)

John DeGaris (Snr Finance Manager)

David Sell (Financial Controller – resigned 24/2/20)

Maryanne Hanlon (Senior Investment Manager)

Melanie Mirabella (acting Financial Controller – April 2020)

Nicole Wain Financial Controller – July 2020)

Remuneration of Directors is paid directly by the Responsible Entity. The Directors are not provided with any remuneration by the Scheme itself. Directors are not entitled to any equity interests in the Scheme, or any rights to or options for equity interests in the Scheme, as a result of the remuneration provided by the Responsible Entity.

The Directors of the Responsible Entity do not consider there is any direct correlation between the level of remuneration provided to Directors of the Responsible Entity and the management fees paid by the Scheme to the Responsible Entity in accordance with the Scheme's Constitution and PDS.

Note 16: Auditor's Remuneration

Amounts paid and payable to Pitcher Partners, Melbourne for:

	Year ended 30 June 2020 $	Year ended 30 June 2019 $
Audit and other assurance services		
Audit or review of financial report	28,500	28,500
Audit of compliance plan	1,833	1,833
	30,333	30,333
Other non-audit services		
Taxation services	3,000	3,000
	3,000	3,000
Total remuneration of Pitcher Partners, Melbourne	33,333	33,333

Costs associated with auditing the Scheme's financial statements were paid by the Responsible Entity for the years ended 30 June 2020, and 30 June 2019. The above audit and related services are for the entire Scheme.

Note 17: Commitments and Contingencies

There are no material commitments or contingent liabilities as at 30 June 2020.

Note 18: Subsequent Events

There has been no matter or circumstance, which has arisen since 30 June 2020 which has significantly affected or which may significantly affect the operations of the Scheme, the results of those operations, or the state of affairs of the Scheme, in future financial years.

Note 19: Responsible Entity Details

The registered office and principal place of business of the Responsible Entity is:

Level 29, 140 William Street
MELBOURNE, VIC, 3000

Declaration of the Directors of the Responsible Entity

In the opinion of the Directors of Australian Securities Limited, the Responsible Entity of Australian Securities Income Fund:

1. The financial statements and notes as set out on pages 5 to 25 are in accordance with the Corporations Act 2001 and:

   (a) Comply with Accounting Standards in Australia and the Corporations Regulations 2001;

   (b) As stated in Note 1(a) the financial statements also comply with International Financial Reporting Standards; and

   (c) Give a true and fair view of the financial position of the Scheme as at 30 June 2020 and of its performance, as represented by the results of its operations and its cash flows for the financial year ended on that date.

2. In the directors' opinion there are reasonable grounds to believe the Scheme will be able to pay its debts as and when they become due and payable.

This Declaration has been made in accordance with a Resolution of the Directors of the Responsible Entity, Australian Securities Limited.

Michael John Clarebrough (CEO)

Melbourne
24 September 2020

Peter Bolitho (Chair)

Melbourne
24 September 2020

Independent Auditor’s Report to the Directors of the Responsible Entity of Australian Securities Income Fund

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Australian Securities Income Fund, “the Scheme”, which comprises the Statement of Financial Position as at 30 June 2020, the Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Members’ Funds and Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors’ declaration.

In our opinion, the accompanying financial report of Australian Securities Income Fund, is in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the Scheme’s financial position as at 30 June 2020 and of its financial performance for the year then ended; and

(b) complying with Australian Accounting Standards 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 Scheme 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 the Scheme, would be in the same terms if given to the directors of the Responsible Entity 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.

Emphasis of Matter

We draw attention to Note 5 of the financial report, which describes the restatement of the comparative figures due to the recognition of investments held in trust. Our opinion is not modified in respect of this matter.

Other Information

The directors of the Responsible Entity are responsible for the other information. The other information comprises the information included in the Scheme’s directors’ report for the year ended 30 June 2020 but does not include the financial report and our auditor’s report thereon.

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 of the Responsible Entity for the Financial Report

The directors of the Responsible Entity of the Scheme are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards 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 of the Responsible Entity are responsible for assessing the Scheme’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Scheme 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 Scheme's internal control.

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

- 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 Scheme'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 Scheme 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.

We communicate with the directors of the Responsible Entity 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.

We also provide the directors of the Responsible Entity with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

N Bull
Pitcher Partners
Partner
Melbourne
24 September 2020

PITCHER PARTNERS
ACCOUNTANTS • AUDITORS • ADVISORS

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