

Australian Ethical Balanced Trust (AEBT)
ARSN 089 919 255

Consolidated Annual Financial Report for the year ended 30 June 2013

Australian Ethical Balanced Trust (AEBT)

Annual Financial Report for the year ended 30 June 2013

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Directors' Report
For the year ended 30 June 2013

Australian Ethical Investment Limited, the "Responsible Entity" of the Australian Ethical Balanced Trust ("AEBT" or "the Scheme") presents its directors' report together with the audited financial statements of the Scheme and its controlled entity for the year ended 30 June 2013 and the accompanying independent auditor's report.

Responsible Entity

Australian Ethical Investment Limited serves as the Responsible Entity for the Scheme. The registered office and principal place of business for the Responsible Entity is:

Registered office:

Trevor Pearcey House (Block E)
Traeger Court, 34 Thynne Street
Bruce ACT 2617

Principal place of business:

Level 8,130 Pitt St
Sydney,
NSW 2000

The following persons were directors of Australian Ethical Investment Limited during the whole of the financial year and up to the date of this report unless otherwise indicated:

Justine Hickey (resigned 26 April 2013)
André Morony
Phillip Vernon
Stephen Newnham (resigned 26 July 2013)
Kate Greenhill (appointed 22 February 2013)
Louise Herron (resigned 25 July 2012)
Stephen Gibbs (appointed 25 July 2012)
Mara Bun (appointed 4 February 2013)
Tony Cole (appointed 4 February 2013)

Principal activities and state of affairs

The principal activity of the Scheme is to pool investors' savings to invest in a diversified portfolio of securities, in accordance with its respective investment objectives and guidelines as set out in the current Product Disclosure Statement and within the provisions of the Scheme's constitution. The constitution of the Scheme authorises investments in a range of assets, which may include properties, capital stable interest bearing securities and equity investments, both domestic and international. Investments are sought to pursue the goal of a just and sustainable society and the protection of the natural environment as well as providing unitholders (the Scheme investors) with a competitive financial return.

There were no significant changes in the nature of the Scheme's principal activities during the year and there were no significant changes in the Scheme's state of affairs.

Review of operations

Overview

The underlying fundamentals of the Scheme are consistent with those set out in the Scheme's Product Disclosure Statement dated 22 June 2012.

Results

Total return is the percentage change of a unitholder's financial interest in the Scheme assuming all distributions are reinvested in the Scheme. These returns are calculated in accordance with FSC Standard 6 Product Performance-Calculation of Return. The Scheme achieved a total return of 14.3% (2012: 0.2%) for the financial year.

Distributions paid and/or payable

Distributions paid and/or payable by the Scheme during the year are shown in the accompanying Statement of Profit or Loss and Other Comprehensive Income.

The Scheme paid distributions of 3.28 cents per unit over the year (2012 2.87 cents per unit).

Directors' Report

For the year ended 30 June 2013

Net Assets

The value of the Scheme's net assets attributable to unitholders as at 30 June 2013 was \$253,795,867 (30 June 2012: \$226,841,915).

Likely developments

The Responsible Entity continually reviews the Scheme and depending on that review may, during the course of the financial year, make decisions to change the offerings of products to investors.

Other information relating to likely developments has not been disclosed because it may cause unreasonable prejudice to those activities.

Events occurring after the reporting date

During the period between the end of the financial year and the date of this report, there were no items, transactions or events 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.

Indemnities and insurance premiums for the Responsible Entity and auditors

No insurance premiums are paid out of the assets of the Scheme for insurance cover provided to the Responsible Entity, its officers or auditor of the Scheme. Where the Responsible Entity acts in accordance with the Scheme's constitution and the law, it is generally entitled to an indemnity out of the assets of the Scheme against losses incurred while acting on behalf of the Scheme. The auditor of the Scheme is not indemnified out of the assets of the Scheme.

Interest of the Responsible Entity

Fees paid to the Responsible Entity and its associates out of Scheme property and interests held in the Scheme is shown in note 17 of the attached financial statements.

Environmental regulation

The operations of the Scheme are subject to environment regulations under both Commonwealth and State legislation in relation to property developments. Approvals for commercial property developments are required by state planning authorities and environmental protection agencies. The license requirements relate to air, noise, water and waste disposal. The Scheme is responsible for compliance and reporting under the government legislation.

The Scheme is not aware of any material non-compliance in relation to these licenses during the year.

The Scheme has determined that it is not required to register to report under the National Greenhouse and Energy Reporting Act 2007, which is Commonwealth environmental legislation that imposes reporting obligations on entities that reach reporting thresholds during the year.

The properties held in the Scheme are required to have a minimum of a 5 Green star rating or be in respect to social infrastructure.

Auditor's declaration

The auditor's independence declaration is included on page 25 of the annual report and forms part of the Directors report for the financial year ended 30 June 2013.

Signed in accordance with a resolution of the Board of Directors of Australian Ethical Investment Limited.



Phillip Vernon
Managing Director
Australian Ethical Investment Limited
30 September 2013

Australian Ethical Balanced Trust

Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2013

	Australian Ethical Balanced Trust Consolidated		Australian Ethical Balanced Trust		
Note	2013 \$	2012 \$	2013 \$	2012 \$	
Investment income					
Interest income	4	5,079,449	4,920,714	1,428,217	4,822,197
Dividend and distribution income	5	2,060,886	3,836,572	4,437,408	3,912,674
Net change in fair value of financial assets	6	28,272,737	(5,915,465)	28,729,957	(5,915,465)
Other income		1,045,034	629,087	1,040,034	629,087
Net investment income		36,458,106	3,470,908	35,635,616	3,448,493
Operating expenses					
Management fees	17	2,008,170	2,912,105	2,008,170	2,912,105
Administration costs		612,515	706,266	425,027	704,949
Investment property management fees		200,136	131,053	200,136	131,053
Operating expenses before finance costs		2,820,821	3,749,424	2,633,333	3,748,107
Profit/(loss) from operating activities		33,637,285	(278,516)	33,002,283	(299,614)
Finance costs					
Distributions paid and payable to unitholders of the Scheme	14	(8,061,439)	(6,536,890)	(7,362,164)	(6,460,788)
Change in amounts payable to external unitholders of the Scheme		64,273	(21,098)	-	-
Changes in net assets attributable to unitholders (total comprehensive income)		25,640,119	(6,836,504)	25,640,119	(6,760,402)

The accompanying notes form part of these financial statements.

Australian Ethical Balanced Trust

Statements of Financial Position as at 30 June 2013

		Australian Ethical Balanced Trust Consolidated		Australian Ethical Balanced Trust	
	Note	2013 \$	2012 \$	2013 \$	2012 \$
Assets					
Cash and cash equivalents	7	4,936,116	6,599,919	3,955,671	1,538,640
Trade and other receivables	8	1,857,675	1,663,332	2,843,877	1,410,206
Financial assets held at fair value through profit and loss	9	256,096,802	218,856,056	238,275,788	212,430,044
Loans and receivables held at amortised cost	10	5,884,518	9,261,984	5,884,518	9,261,984
Investment property held at fair value	11	5,600,000	6,385,000	5,600,000	6,385,000
Other assets	12	243,927	503,362	128,423	503,362
Total assets		274,619,038	243,269,653	256,688,276	231,529,236
Liabilities					
Trade and other payables	13	224,328	319,435	210,875	319,435
Distribution payable	14	3,160,778	4,443,988	2,681,534	4,367,886
Amounts payable to external unitholders of the Scheme		17,438,065	11,664,315	-	-
Total liabilities excluding net assets attributable to unitholders		20,823,171	16,427,738	2,892,409	4,687,321
Net assets attributable to unitholders	3	253,795,867	226,841,915	253,795,867	226,841,915
Represented by:					
Net assets attributable to unitholders at redemption price		258,006,270	231,925,651	257,292,244	231,849,550
Amounts payable to unitholders of the scheme		(3,160,778)	(4,443,988)	(2,681,534)	(4,367,886)
Adjustments arising from different unit pricing and accounting valuation		(1,049,625)	(639,748)	(814,843)	(639,748)
Total net assets attributable to unitholders	3	253,795,867	226,841,915	253,795,867	226,841,916

The accompanying notes form part of these financial statements.

Australian Ethical Balanced Trust

Statement of Changes in Equity for the year ended 30 June 2013

The Scheme's net assets attributable to unitholders are classified as a liability under AASB 132 Financial Instruments: Presentation. As such the Scheme has no equity and no items of changes in equity at the start and end of the year.

Australian Ethical Balanced Trust

Statements of Cash Flows for the year ended 30 June 2013

	Australian Ethical Balanced Trust Consolidated		Australian Ethical Balanced Trust	
Note	2013 \$	2012 \$	2013 \$	2012 \$
Cash flows from operating activities				
Interest received	4,797,143	5,203,732	1,698,581	5,177,401
Dividends received	605,336	3,016,587	105,688	3,016,587
Distributions received	2,619,487	794,320	2,619,487	1,128,780
Other income received	1,049,871	1,714,723	1,048,009	1,714,723
Expenses paid	(2,811,065)	(4,386,391)	(2,684,825)	(4,385,074)
Net cash provided by operating activities	16 <u>6,260,772</u>	<u>6,342,971</u>	<u>2,786,940</u>	<u>6,652,417</u>
Cash flows from investing activities				
Proceeds from the sale of investments	93,438,168	161,906,593	44,643,678	161,835,168
Payment for other assets	(163,299)	(87,338)	-	(87,338)
Sale proceeds from capital projects	318,095	-	318,095	-
Loans held at amortised cost repaid	825,895	-	825,895	-
Loans held at amortised cost granted	(300,000)	(1,044,000)	(300,000)	(1,044,000)
Purchase of investments	(99,855,309)	(170,081,906)	(38,127,562)	(165,573,057)
Net cash provided used in investing activities	<u>(5,736,450)</u>	<u>(9,306,651)</u>	<u>7,360,106</u>	<u>(4,869,227)</u>
Cash flows from financing activities				
Proceeds from issue of units	22,443,439	25,608,804	14,706,439	12,372,144
Payment of redemption of units	(23,399,783)	(24,286,828)	(21,209,783)	(20,523,857)
Distributions paid to unitholders	(1,231,782)	(544,970)	(1,226,672)	(879,430)
Net cash provided by/(used in) financing activities	<u>(2,188,125)</u>	<u>777,006</u>	<u>(7,730,015)</u>	<u>(9,031,143)</u>
Net increase/(decrease) in cash and cash equivalents	<u>(1,663,803)</u>	<u>(2,186,674)</u>	<u>2,417,031</u>	<u>(7,247,953)</u>
Cash at 1 July	6,599,919	8,786,593	1,538,640	8,786,593
Cash at 30 June	7 <u>4,936,116</u>	<u>6,599,919</u>	<u>3,955,671</u>	<u>1,538,640</u>

The accompanying notes form part of these financial statements.

Notes to the Financial Statements for the year ended 30 June 2013

Note 1 - Statement of significant accounting policies

These financial statements cover Australian Ethical Balanced Trust ("AEBT" or the "Scheme") as an individual entity and the Consolidated entity consisting of the Scheme and its subsidiaries. AEBT is a registered managed investment scheme under the Corporations Act 2001. For the purposes of preparing the financial statements, the Consolidated Entity consists of for-profit unit trusts. The financial statements of the Scheme are for the year ended 30 June 2013.

Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial statements of the Scheme comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors of the Responsible Entity on 30 September 2013.

Basis of preparation

These financial statements are presented in Australian dollars and are prepared on the historical cost basis with the exception of financial assets designated at fair value through profit and loss and derivatives which are measured at fair value, and receivables and payables which are measured at amortised cost.

The preparation of financial statements in conformity with AASBs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses and the disclosure of contingent assets and liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been applied consistently.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of AEBT (the "parent entity") as at 30 June 2013 and the results of all subsidiaries for the year ended. The parent entity and its subsidiaries together are referred to in these financial statements as the Consolidated Entity.

Subsidiaries are all those investments in schemes over which AEBT has the power to govern the financial and operating policies, generally accompanying a unitholding of more than one half of the units on issue. The existence and effect of potential vesting rights that are currently exercisable or convertible are considered when assessing whether the Scheme controls another entity.

Subsidiaries are fully consolidated from the date on which control is obtained by the Scheme. They are de-consolidated from the date that control ceases.

All transactions (including gains and losses) and balances between entities in the consolidated group are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Scheme.

Accounting policies

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with financial institutions or highly liquid investments of original maturity of three months or less.

Notes to the Financial Statements for the year ended 30 June 2013

Note 1 - Statement of significant accounting policies - continued

(b) Financial instruments

Financial instruments comprise of investments held at fair value through profit or loss, loans held at amortised cost, trade and other receivables, cash and cash equivalents and other payables.

Recognition and initial measurement

A financial instrument is recognised when the Scheme becomes a party to the contractual provisions of the instrument. Regular way purchase and sales of financial assets are accounted for at trade date (i.e. the date the Scheme commits itself to purchase or sell the asset).

Financial assets and liabilities at fair value through profit or loss are recognised initially at fair value, with transaction costs recognised in the Statement of Profit or Loss and Other Comprehensive Income. Financial assets and liabilities not at fair value through profit or loss are initially recognised at fair value plus any directly attributable transaction costs.

Derecognition

The Scheme derecognises financial assets when the contractual rights to the cash flows from the financial assets expire or it transfers the financial assets and the transfer qualifies for derecognition in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Classification

Financial assets and financial liabilities held at fair value through profit or loss are classified as either held for trading or are designated at fair value through profit or loss. Financial assets and liabilities held for trading include derivative financial instruments. Financial assets and liabilities designated at fair value through profit or loss include equity securities, investments in unit trusts and fixed interest securities.

Measurement

Subsequent to initial recognition, all instruments classified at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Statement of Profit or Loss and Other Comprehensive Income. All other financial instruments are carried at amortised cost using the effective interest rate method less any recognised impairment.

Financial liabilities arising from redeemable units issued by the Scheme are carried at the redemption amount representing the unitholders' rights to the residual interest in the Scheme's assets, effectively the fair value at the reporting date.

Fair value measurement principles

The Scheme can invest into a variety of assets, including cash, equities, fixed and floating rate interest securities, unit trusts and derivative contracts. Generally, valuation information is obtained from third party industry standard service providers to ensure that the most recent security prices are obtained. The prices used to value investments include, but are not limited to:

- independent prices obtained for each security;
- quoted 'bid' prices on long securities and quoted 'ask' prices on securities sold short;
- redemption prices published by the relevant Responsible Entity, for investments into unlisted unit trusts.

For certain investments, prices cannot be obtained from the above sources. In these instances, valuations obtained from service providers are estimated through the use of valuation models which are consistent with accepted industry practice and incorporate the best available information regarding assumptions that market participants would use when pricing the assets or liabilities. Irrespective of the method used by third party industry standard service providers to obtain valuations, prices achieved in actual transactions may be different.

Impairment of financial assets held at amortised cost

Financial assets other than those at fair value through profit or loss are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that the estimated future cash flows are less than the carrying amount.

Notes to the Financial Statements for the year ended 30 June 2013

Note 1 - Statement of significant accounting policies - continued

(b) Financial instruments - continued

Offsetting

Financial assets and liabilities are offset and the net amount reported in the Statements of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Derivative financial instruments

In accordance with the Investment Mandate, the Scheme may invest in derivative financial instruments to gain or hedge exposure to equities, interest rates or foreign currencies. Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the Statement of Profit or Loss and Other Comprehensive Income.

(c) Trade and other receivables

Receivables are carried at amortised cost and may include accrued income and other receivables such as Reduced Input Tax Credits (RITC).

(d) Payables

Payables are carried at amortised cost and may include amounts for unsettled purchases, accrued expenses and other payables such as GST and redemption monies owing by the Scheme. Unsettled purchases are amounts due to brokers for securities purchased that has not been paid at reporting date. Trades are recorded on trade date and normally settle within three business days.

Accrued expenses include management fees payable.

(e) Distributions paid and payable

In accordance with the Constitution, the Scheme fully distributes its net income to unitholders. The distributions are determined by reference to the net taxable income of the Scheme. Distributable income includes capital gains arising from the disposal of investments. Unrealised gains and losses are transferred to net assets attributable to unitholders and are not assessable or distributable until realised. Realised capital losses are not distributed to unitholders but are retained to be offset against any future realised capital gains. Distributions paid and payable to unitholders are recognised in the Statement of Comprehensive Income as 'Finance costs'. Distributions paid are included in the Statement of Cash Flows as 'Net cash flows (used in)/ provided by financing activities'.

(f) Change in net assets attributable to unitholders

Change in net assets attributable to unitholders may consist of realised net capital losses and unrealised increments and decrements arising from fluctuation in value of investments. They are included in the determination of distributable income when assessable for taxation purposes.

(g) Revenue

Interest income

Interest income is recognised in the Statement of Profit or Loss and Other Comprehensive Income as it accrues. Interest income is recognised on a gross basis, including withholding tax, if any.

Dividend income

Dividend income relating to exchange-traded equity investments is recognised in the Statement of Profit or Loss and Other Comprehensive Income on the ex-dividend date. Income distributions from other managed investment schemes are recognised in the Statement of Comprehensive Income as dividend income on a present entitlement basis.

In some cases, the Scheme may receive or choose to receive dividends in the form of additional shares rather than cash. In such cases the Scheme recognises the dividend income for the amount of the dividend alternative with the corresponding debit treated as an additional investment.

Notes to the Financial Statements for the year ended 30 June 2013

Note 1 - Statement of significant accounting policies - continued

(h) Goods and services tax (GST)

The Scheme qualifies for reduced input tax credits (RITC's) at a rate of between 55% to 75% depending on the service.

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 Tax Office (ATO). 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. The net amount of GST recoverable from the ATO is included in receivables in the Statement of Financial Position.

Cash flows are presented in the Statement of Cash Flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(i) Income tax

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 beneficiaries (the unitholders) who are 'presently entitled' to the income of the Scheme. There is no income of the Scheme to which the unitholders are not presently entitled and additionally, the Scheme's Constitution requires the distribution of the full amount of the net income of the Scheme to the unitholders each period.

As a result, deferred taxes have not been recognised in the financial statements in relation to differences between the carrying amounts of assets and liabilities and their respective tax bases, including taxes on capital gains which could arise in the event of a sale of investments for the amount at which they are stated in the financial statements. In the event that taxable gains are realised by the Scheme, these gains would be included in the taxable income that is assessable in the hands of the unitholders as noted above.

Realised capital losses are not distributed to unitholders but are retained within the Scheme to be offset against any realised capital gains. The benefit of any carried forward capital losses are also not recognised in the financial statements. If in any period realised capital gains exceed realised capital losses, including those carried forward from earlier periods and eligible for offset, the excess is included in taxable income that is assessable in the hands of unitholders in that period and is distributed to unitholders in accordance with the requirements of the Scheme's Constitution.

(j) Net assets attributable to unitholders

In accordance with AASB 132, unitholders' funds are classified as a financial liability and disclosed as such in the Statement of Financial Position, being referred to as 'Net assets attributable to unitholders'. The units can be put back to the Scheme at any time for cash equal to the proportionate share of the Scheme's net asset values. The value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the Statement of Financial Position date if unitholders exercised their right to put the units back to the Scheme. Changes in the value of this financial liability are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

(k) Expenses

All expenses, including management fees, are recognised in the profit or loss on an accrual basis.

(l) Foreign currency transactions and balances

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the date of the transactions. Assets and liabilities denominated in foreign currency, are translated at the rates of exchange ruling at the reporting date. Unrealised foreign exchange gains or losses, arising on translation of assets and liabilities denominated in foreign currency at reporting date, are recognised as part of the 'Net change in fair value of investments' in the Statement of Comprehensive Income. Realised gains and losses on amounts denominated in foreign currencies are also brought to account as part of 'Net change in fair value of investments' in the Statement of Profit or Loss and Other Comprehensive Income and as part of 'Other income received' in the Statement of Cash Flows.

Notes to the Financial Statements for the year ended 30 June 2013

Note 1 - Statement of significant accounting policies - continued

(m) Capitalised software

The amortisable amount of all fixed assets are amortised over their estimated useful lives to the entity commencing from the time the asset is held ready for use.

A straight line basis of amortisation has been adopted for capitalised software. The amortisation rates used for each class of assets are:

Software	3 - 5 years
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The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the Statement of Profit or Loss and Other Comprehensive Income. When re-valued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(n) Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(o) Standards affecting presentation and disclosure

Amendments to AASB 101 'Presentation of Financial Statements':

The amendments to AASB 101 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to AASB 101 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

(p) Standards and interpretations affecting the reported results or financial position

There are no new and revised Standards and Interpretations adopted in these financial statements affecting the reporting results or financial position.

(q) Standards and Interpretations in issue not yet adopted

There are no new and revised Standards and Interpretations adopted in these financial statements affecting the reporting results or financial position.

Australian Ethical Balanced Trust

Notes to the financial statements for the year ended 30 June 2013

Note 1 - Statement of significant accounting policies - continued

(q) Standards and Interpretations in issue not yet adopted - continued

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective. The Responsible Entity has not elected to early adopt any of these new standards or amendments in this Financial report. The impact on the financial position or performance of the Scheme of these new standards and amendments is currently being assessed by management.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2015	30 June 2016
AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards	1 January 2013	30 June 2014
AASB 128 'Investments in Associates and Joint Ventures' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangement standards'	1 January 2013	30 June 2014
AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13.	1 January 2013	30 June 2014
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	1 July 2013	30 June 2014
AASB 2012-2 'Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities	1 January 2013	30 June 2014
AASB 2012-3 'Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities	1 January 2014	30 June 2015
AASB 2013-5 'Amendments to Australian Accounting Standards - Investment Entities'	1 January 2014	30 June 2015
AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle'	1 January 2013	30 June 2014

Notes to the financial statements for the year ended 30 June 2013

Note 2 - Issued Units

Each unit represents a right to an individual share in the Scheme per the Constitution.

	Australian Ethical Balanced Trust	
	2013 Units	2012 Units
On issue at beginning of year	224,187,883	227,797,843
Issued	21,105,658	16,222,912
Redeemed	(19,700,865)	(19,832,872)
On issue at year end	<u>225,592,677</u>	<u>224,187,883</u>

Note 3 - Net assets attributable to unitholders

The Scheme manages its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unit holders are classified as a liability.

The objective of the Scheme is to provide unitholders with returns in accordance with the Investment Memorandum. The Scheme aims to deliver income and capital appreciation through investing in property. The Scheme is not subject to any externally imposed capital requirements.

	Australian Ethical Balanced Trust Consolidated		Australian Ethical Balanced Trust	
	2013 \$	2012 \$	2013 \$	2012 \$
Opening balance	226,841,915	237,134,118	226,841,915	237,134,118
Issued	14,706,439	12,060,285	14,706,439	12,372,144
Distributions reinvested	7,817,177	4,696,015	7,817,177	4,619,913
Redeemed	(21,209,783)	(20,211,999)	(21,209,783)	(20,523,857)
Change in net assets attributable to unitholders	25,640,119	(6,836,504)	25,640,119	(6,760,402)
Total net assets attributable to unitholders	<u>253,795,867</u>	<u>226,841,915</u>	<u>253,795,867</u>	<u>226,841,915</u>

Note 4 - Interest income

Interest income from securities designated at fair value through profit and loss	4,610,419	4,375,205	1,028,722	4,276,688
Interest income from financial assets carried at amortised cost:				
Cash and cash equivalents	140,261	157,631	70,726	157,631
Loans and receivables	328,769	387,877	328,769	387,877
	<u>5,079,449</u>	<u>4,920,714</u>	<u>1,428,217</u>	<u>4,822,197</u>

Note 5 - Dividend and distribution income

Dividend and distribution income from securities designated at FVTPL	2,060,886	3,836,572	4,437,408	3,912,674
	<u>2,060,886</u>	<u>3,836,572</u>	<u>4,437,408</u>	<u>3,912,674</u>

Note 6 - Gains/(losses) on investments

Unrealised gain/(loss) arising on financial assets designated as at FVTPL				
Equity investments and unit trusts	29,661,687	1,556,125	29,584,575	1,556,125
Fixed interest securities	(4,360,293)	2,439,189	(3,327,348)	2,439,189
Change in fair value of investment properties	(785,000)	-	(785,000)	-
	<u>24,516,394</u>	<u>3,995,314</u>	<u>25,472,227</u>	<u>3,995,314</u>
Gain/(loss) on the disposal of investments	3,756,343	(9,910,779)	3,257,730	(9,910,779)
	<u>3,756,343</u>	<u>(9,910,779)</u>	<u>3,257,730</u>	<u>(9,910,779)</u>
	<u>28,272,737</u>	<u>(5,915,465)</u>	<u>28,729,957</u>	<u>(5,915,465)</u>

Note 7 - Cash and cash equivalents

Cash at bank	4,936,116	6,571,742	3,955,671	1,510,463
Cash on Deposit - Property Manager	-	28,177	-	28,177
	<u>4,936,116</u>	<u>6,599,919</u>	<u>3,955,671</u>	<u>1,538,640</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates. For the purposes of the Statement of Cash Flows, cash includes cash at bank and cash on deposit.

Australian Ethical Balanced Trust

Notes to the financial statements for the year ended 30 June 2013

	Australian Ethical Balanced Trust Consolidated		Australian Ethical Balanced Trust	
	2013	2012	2013	2012
	\$	\$	\$	\$
Note 8 - Trade and other receivables				
Interest receivable	956,380	674,073	74,482	344,845
Investment sales	-	-	-	-
Rent and other income receivable	21,530	29,416	18,392	29,416
Dividends and distributions receivable	828,768	911,671	2,700,006	987,773
Other debtors	50,997	48,172	50,997	48,172
	1,857,675	1,663,332	2,843,877	1,410,206

Note 9 - Financial assets at fair value through profit or loss Designated at fair value through profit or loss

	Australian Ethical Balanced Trust Consolidated		Australian Ethical Balanced Trust	
	2013	2012	2013	2012
	\$	\$	\$	\$
Equities				
Australian listed	5,800,305	8,030,600	1,618,373	1,875,677
	5,800,305	8,030,600	1,618,373	1,875,677
Unit trusts				
Unlisted	163,012,684	129,621,499	231,533,028	171,928,574
	163,012,684	129,621,499	231,533,028	171,928,574
Interest bearing securities				
Government securities	45,997,348	13,537,118	4,912,480	4,021,218
Notes/debt instruments secured	-	762,068	-	762,068
Notes/debt instruments unsecured	41,286,465	66,904,771	211,907	33,842,507
	87,283,813	81,203,957	5,124,387	38,625,793
	256,096,802	218,856,056	238,275,788	212,430,044

The accounting policy on fair value measurements is discussed in note 1(b).

Note 10 - Loans and receivables held at amortised cost

	Australian Ethical Balanced Trust Consolidated		Australian Ethical Balanced Trust	
	2013	2012	2013	2012
	\$	\$	\$	\$
Loans to other entities - secured (i)	4,134,518	4,660,413	4,134,518	4,660,413
Term deposits	1,750,000	4,601,571	1,750,000	4,601,571
	5,884,518	9,261,984	5,884,518	9,261,984

(i) The Scheme holds loans to external parties secured by first mortgages. The weighted average interest rate on these loans is 7.98% per annum (2012: 7.86% per annum). The loans have maturity dates ranging between 1 and 14 years from the end of the reporting period.

Note 11 - Investment properties

	Australian Ethical Balanced Trust Consolidated		Australian Ethical Balanced Trust	
	2013	2012	2013	2012
	\$	\$	\$	\$
Commercial property at fair value	5,600,000	6,385,000	5,600,000	6,385,000

At Fair Value

	Australian Ethical Balanced Trust Consolidated		Australian Ethical Balanced Trust	
	2013	2012	2013	2012
	\$	\$	\$	\$
Opening balance at 1 July	6,385,000	6,500,000	6,385,000	6,500,000
Net loss on property revaluation	(785,000)	(115,000)	(785,000)	(115,000)
Closing balance at 30 June	5,600,000	6,385,000	5,600,000	6,385,000

(a) Amounts recognised in profit and loss for investment property

	Australian Ethical Balanced Trust Consolidated		Australian Ethical Balanced Trust	
	2013	2012	2013	2012
	\$	\$	\$	\$
Rental income	644,001	623,444	644,001	623,444
Direct operating expenses from property that generate rental income	(200,136)	(131,053)	(200,136)	(131,053)
	443,865	492,391	443,865	492,391

Notes to the financial statements for the year ended 30 June 2013

Note 11 - Investment properties - continued

(b) Valuation basis

Property investments are investments in properties which are held either to earn rental income or for capital appreciation or for both. Property investments are carried at fair value. An external valuation company, having an appropriately recognised professional qualification and recent experience in the location and category of property being valued, values the investment properties annually. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller, in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Both investment properties have been independently valued during the period by CBRE and Jones Lang LaSalle (the "valuers") (2012: CBRE and Jones Lang LaSalle), independent valuers not related to the Group, and the directors are of the view that these valuation reflect the fair value of the properties at 30 June 2013. The valuations conducted by CBRE and Jones Lang LaSalle have been made on the basis of fair value, using the capitalised rate and a blended valuation method. The capitalisation rate utilised for the 30 June 2013 valuations was 8.75% to 9.00% (30 June 2012: 8.50%). Valuers CBRE and Jones Lang LaSalle are both members of the Institute of Valuers of Australia. Valuations reflect, where appropriate, the type of tenants, future rent reviews and market conditions. Any change in any of these factors could have a significant impact on the value of the Scheme's property investments. Any gain or loss from a change in fair value is recognised in the Statement of Profit or Loss and Other Comprehensive Income. All property acquisition costs in respect of properties acquired are capitalised into the value of the property investments at the time of purchase to reflect the total acquisition cost in the Statement of Financial Position. Additions and other expenditure on property investments which are capital in nature are capitalised as incurred.

(c) Leasing arrangements

Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:

	Australian Ethical Balanced Trust Consolidated		Australian Ethical Balanced Trust	
	2013	2012	2013	2012
	\$	\$	\$	\$
Within one year	653,710	644,001	653,710	644,001
Later than one year but not later than 5 years	1,651,214	2,304,924	1,651,214	2,304,924
Later than 5 years	-	-	-	-
	2,304,924	2,948,925	2,304,924	2,948,925

Operating leases relate to the investment property owned by the Scheme with lease terms of between 3 to 5 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

Note 12 - Other assets

Capitalised project costs	243,927	503,362	128,423	503,362
	243,927	503,362	128,423	503,362

Capitalised project costs

<i>At cost</i>				
Balance as at 1 July	663,274	575,936	663,274	575,936
Additions	163,299	87,338	-	87,338
Disposals	(318,095)	-	(318,095)	-
Balance as at 30 June	508,478	663,274	345,179	663,274

Accumulated amortisation and impairment

Balance as at 1 July	159,912	20,943	159,912	20,943
Amortisation	104,639	138,969	56,845	138,969
Balance as at 30 June	264,551	159,912	216,756	159,912

Note 13 - Trade and other payables

Trade payables and sundry creditors	224,328	319,435	210,875	319,435
	224,328	319,435	210,875	319,435

Note 14 - Distributions paid and payable

Distributions paid during the year	4,900,662	2,092,902	4,680,630	2,092,902
Distributions payable	3,160,778	4,443,988	2,681,534	4,367,886
	8,061,439	6,536,890	7,362,164	6,460,788

Note 15 - Auditors' remuneration

Audit fees in relation to the Scheme are paid directly by the Responsible Entity. During the year the following fees were paid or payable by the Responsible Entity for services in relation to the audit of the Scheme. In the 2012 year audit fees were paid directly by the Scheme.

Auditing the financial statements	30,000	41,800	25,000	41,800
Compliance plan audit	2,375	1,334	2,375	1,334
	32,375	43,134	27,375	43,134

The auditor of the Scheme is KPMG (2012: Thomas Davis and Co).

Australian Ethical Balanced Trust

Notes to the financial statements for the year ended 30 June 2013

	Australian Ethical Balanced Trust Consolidated		Australian Ethical Balanced Trust	
	2013	2012	2013	2012
	\$	\$	\$	\$
Note 16 - Reconciliation of profit for the period to net cash provided by operating activities				
Net profit/(loss) from operating activities	33,637,285	(278,516)	33,002,283	(299,614)
Adjustments for:				
Net (gains)/losses on disposal of investments	(3,756,343)	9,910,779	(3,257,730)	9,910,779
Net (gains)/losses on revaluation of investments	(24,516,394)	(3,995,314)	(25,472,227)	(3,995,314)
Amortisation of project costs	104,639	138,969	56,845	138,969
Changes in assets and liabilities:				
(Increase)/decrease in trade and other receivables	886,691	914,052	(1,433,671)	1,244,596
Increase/(decrease) in trade and other payables	(95,107)	(346,999)	(108,560)	(346,999)
Net cash provided by /(used in) operating activities	<u>6,260,772</u>	<u>6,342,971</u>	<u>2,786,940</u>	<u>6,652,417</u>

Non-cash financing and investing activities

During the year income distributions totaling \$7,821,861 (2012: \$4,619,913) were reinvested by unitholders for additional units in the Scheme.

Note 17 - Related party disclosures

Australian Ethical Investment Limited (AEIL), as Responsible Entity of the Scheme, provides investment services for the Scheme in accordance with Scheme's constitution. Transactions with the Responsible Entity are undertaken on commercial terms and conditions.

Interests in subsidiaries are set out in Note 19.

During the year the following amounts were paid to the Responsible Entity in accordance with the Scheme's Constitution:

Management fees	2,008,170	2,912,105	2,008,170	2,912,105
Accounting fees (reimbursable)	344,328	246,470	232,394	246,470
Reimbursable expenses	2,499	19,732	2,499	19,732
	<u>2,354,997</u>	<u>3,178,307</u>	<u>2,243,063</u>	<u>3,178,307</u>

Transactions between Australian Ethical Investment Ltd and the Schemes during the financial year were:

Australian Ethical Retail Superannuation Fund purchase of units	17,959,497	12,471,098	17,959,497	12,471,098
Australian Ethical Retail Superannuation Fund sale of units	8,469,000	7,385,947	8,469,000	7,385,947
Value of units held by Australian Ethical Retail Superannuation Fund	179,012,377	151,811,683	179,012,377	151,811,683
Distribution payments to Australian Ethical Retail Superannuation Fund	3,469,352	1,360,928	3,249,321	1,360,928
Distribution payable to Australian Ethical Retail Superannuation Fund	2,370,616	2,923,176	1,891,372	2,923,176

Transactions between the schemes during the financial year were:

	2013	2012	2013	2012
	Units	Units	Units	Units
Number of units purchased in Australian Ethical Fixed Interest Trust	-	-	26,925,421	42,213,488
Number of units sold in Australian Ethical Fixed Interest Trust	-	-	2,438,311	-
Number of units purchased in Australian Ethical International Equities Trust	16,518,843	12,157,281	16,518,843	12,157,281
Number of units sold in Australian Ethical International Equities Trust	-	35,180,299	-	35,180,299
Number of units purchased in Australian Ethical Larger Companies Trust	-	55,329,846	-	55,329,846
Number of units purchased in Australian Ethical Smaller Companies Trust	-	4,398,366	-	4,398,366
Number of units sold in Australian Ethical Smaller Companies Trust	2,368,360	-	2,368,360	-
	2013	2012	2013	2012
	\$	\$	\$	\$
Value of units purchased in Australian Ethical Fixed Interest Trust	-	-	27,541,854	42,220,378
Value of units sold in Australian Ethical Fixed Interest Trust	-	-	2,500,000	-
Value of units held in Australian Ethical Fixed Interest Trust	-	-	68,520,343	42,307,075
Value of units purchased in Australian Ethical International Equities Trust	9,500,000	6,500,000	9,500,000	6,500,000
Value of units sold in Australian Ethical International Equities Trust	-	20,000,000	-	20,000,000
Value of units held in Australian Ethical International Equities Trust	35,057,756	17,649,508	35,057,756	17,649,508
Value of units purchased in Australian Ethical Larger Companies Trust	-	72,742,148	-	72,742,148
Value of units held in Australian Ethical Larger Companies Trust	87,981,758	-	87,981,758	69,389,644
Value of units purchased in Australian Ethical Smaller Companies Trust	-	7,000,000	-	7,000,000
Value of units held in Australian Ethical Smaller Companies Trust	4,000,000	-	4,000,000	-
Value of units held in Australian Ethical Smaller Companies Trust	23,851,085	23,402,719	23,851,085	23,402,719
Value of units held in Australian Ethical Property Trust	16,122,085	17,743,471	16,122,085	17,743,471
Distribution payments from Australian Ethical Fixed Interest Trust	-	-	1,004,932	-
Distributions payable from Australian Ethical Fixed Interest Trust	-	-	1,871,238	76,102
Distribution payments from Australian Ethical Larger Companies Trust	459,191	-	459,191	-
Distributions payable from Australian Ethical Larger Companies Trust	483,722	609,901	483,722	609,901
Distribution payments from Australian Ethical Smaller Companies Trust	167,574	142,265	167,574	142,265
Distributions payable from Australian Ethical Smaller Companies Trust	345,046	301,787	345,046	301,787

Notes to the financial statements for the year ended 30 June 2013

Note 18 - Financial risk management and financial instruments

The Scheme is exposed to a variety of financial risks from investments in financial instruments, including market risk, credit risk and liquidity risk.

This note presents information about the Scheme's exposure to each of the above risks, the Scheme's objectives, policies and processes for measuring and managing risks and the management of unitholder funds.

	Australian Ethical Balanced Trust Consolidated		Australian Ethical Balanced Trust	
	2013	2012	2013	2012
	\$	\$	\$	\$
a) Categories of financial instruments				
Financial assets				
Fair value through profit or loss (FVTPL)				
Designated at FVTPL	256,096,802	218,856,056	238,275,788	212,430,044
Cash and cash equivalents	4,936,116	6,599,919	3,955,671	1,538,640
Loans and receivables held at amortised cost	5,884,518	9,261,984	5,884,518	9,261,984
Trade and other receivables	1,857,675	1,663,332	2,843,877	1,410,206
	268,775,111	236,381,291	250,959,853	224,640,874
Financial liabilities				
Other financial liabilities				
Trade and other payables	224,328	319,435	210,875	319,435
Distributions payable	3,160,778	4,443,988	2,681,534	4,367,886
Amounts payable to unitholders	253,795,867	226,841,915	253,795,867	226,841,915
Amounts payable to external unitholders	17,438,065	11,664,315	-	-
	274,619,038	243,269,653	256,688,276	231,529,236

b) Financial risk management objectives

The Scheme and Consolidated Entity is exposed to a number of risks due to the nature of its activities and a further set out in its Product Disclosure Statement. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk, and liquidity risk. The Scheme's objective in managing these risks is the protection and enhancement of unitholder value.

The Scheme's risk management policies are approved by the Responsible Entity and seek to minimise the potential adverse effects of these risks on the Scheme's financial performance. The risk management system is an ongoing process of identification, measurement, monitoring and controlling risk.

The Scheme and Consolidated Entity does not enter into or trade derivative financial instruments for speculative purposes. The use of financial derivatives is governed by the Scheme's investment policies, which provide written principles on the use of financial derivatives. These principles permit the use of derivatives to change the Scheme's exposure to particular assets. Derivatives are not used to gear the Scheme and the Scheme's effective market exposure will not exceed its market value. Compliance with policies and exposure limits is reviewed by the Responsible Entity on a continuous basis.

The Investment Committee's Charter requires it to oversight the processes which govern the investment of money of the Scheme for which Australian Ethical Investment Limited is the Responsible Entity. The Investment Committee bears primary responsibility for the oversight of processes for the management of the above financial risks. It meets on a regular basis to analyse financial risk exposure and to evaluate management strategies in the context of the most recent economic conditions and forecasts.

c)(i) Market risk

Market risk is the risk that the fair value of future cash flows or a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange (currency risk), market interest rates (interest rate risk) and market prices (price risk). The Investment Manager manages the financial risks relating to the operations of the Scheme in accordance with an investment mandate set out in accordance with the Scheme's constitution and Product Disclosure Statement. The constitution of the Scheme authorises investments in a range of assets, which may include properties, capital stable interest bearing securities and equity investments, both domestic and international. There has been no change to the Scheme's exposure to market risks or the manner in which it manages and measures the risk.

Notes to the financial statements for the year ended 30 June 2013

Note 18 - Financial risk management and financial instruments - continued

c)(ii) Interest rate risk management

Interest rate risk represents the risk that the Scheme and Consolidated Entity's financial performance will be adversely affected by fluctuations in interest rates.

The Scheme's and Consolidated Entity's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Management has performed a sensitivity analysis relating to the Scheme's exposure to interest rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and net assets attributable to unitholders which could result from a change in interest rates by 100 basis points. In the analysis it is assumed that the amount of financial assets exposed to fluctuations in interest rates as at balance date is representative of balances held throughout the financial year. No other flow on effects of fluctuations in interest rates have been taken into account.

At 30 June 2013, the effect on net assets attributable to unit holders and the change in net assets attributable to unitholders as a result of changes in interest rates with all other variables remaining constant would be as follows:

	Australian Ethical Balanced Trust Consolidated		Australian Ethical Balanced Trust	
	2013 \$	2012 \$	2013 \$	2012 \$
Increase in interest rate by 1%	981,044	1,842,168	149,646	389,165
Decrease in interest rate by 1%	(981,044)	(1,842,168)	(149,646)	(389,165)

c)(iii) Price risk

Other market risk is the risk that the total value of investments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. The Scheme and Consolidated Entity has investments in equity instruments, unlisted trusts and derivative financial instruments, which exposes it to price risk. The investment manager manages the Scheme's market risk on a daily basis in accordance with the Scheme's investment objectives and policies, as detailed in the Product Disclosure Statement.

As the majority of the Scheme's financial instruments are carried at fair value with changes in fair value recognised in the income statement, all changes in market conditions will directly affect investment income.

Management has performed a sensitivity analysis relating to the Scheme's exposure to price risk at the balance sheet date. This sensitivity analysis demonstrates the effect on current year results and net assets attributable to unit holders which could result from a change in market prices of 10%. In the analysis it is assumed that the amount of financial assets exposed to fluctuations in market prices as at the balance sheet date is representative of balances held throughout the financial year. No other flow on effects or fluctuations in fair value have been taken into account.

At 30 June 2013, the effect on net assets attributable to unitholders and the change in net assets attributable to unit holders as a result of changes in market prices with all other variables remaining constant would be as follows:

	Australian Ethical Balanced Trust Consolidated		Australian Ethical Balanced Trust	
	2013 \$	2012 \$	2013 \$	2012 \$
Increase by 10%	25,609,680	21,885,606	23,827,579	21,243,004
Decrease by 10%	(25,609,680)	(21,885,606)	(23,827,579)	(21,243,004)

The methods and assumptions used to prepare the sensitivity analysis remain unchanged from the prior year.

Notes to the financial statements for the year ended 30 June 2013

Note 18 - Financial risk management and financial instruments - continued

(d)(i) Management and exposure to credit risk

Credit risk is the risk of financial loss from a counterparty failing to meet its contractual commitments. The Consolidated Entity and the Scheme are predominately exposed to credit risk through its deposits at banks and trade and other receivables.

The Scheme's policy over credit risk is to minimise its exposure to counterparties, holding cash and cash equivalents at financial institutions with a credit rating of 'A' or higher and settling trade and other receivables on a monthly basis.

At the balance sheet date, all cash was held with National Australia Bank, which carries a Standard & Poor's rating of AA- at 30 June 2013 (2012: AA-).

No financial assets carried at amortised cost were impaired at 30 June 2013 (2012: nil). One loan is past due with a face value of \$395,000.

The maximum credit risk exposure (without taking into account collateral and other credit enhancements) is represented by the respective carrying amounts of the relevant financial asset in the Statement of Financial Position.

The table below details the maximum exposure to credit risk for the assets held by the Scheme and the Consolidated Entity.

	Australian Ethical Balanced Trust Consolidated		Australian Ethical Balanced Trust	
	2013 \$	2012 \$	2013 \$	2012 \$
Cash and cash equivalents	4,936,116	6,599,919	3,955,671	1,538,640
Trade and other receivables	1,857,675	1,663,332	2,843,877	1,410,206
Loans and receivables at amortised cost	5,884,518	9,261,984	5,884,518	9,261,984
Interest bearing securities	87,283,813	81,203,957	5,124,387	38,625,793
Total	99,962,122	98,729,192	17,808,453	50,836,623

(d)(ii) Investments in debt securities

As at 30 June the Scheme was invested in debt securities with the following credit quality ratings:

Rating	2013 %	2012 %	2013 %	2012 %
AAA/ AA	72%	67%	2%	8%
A	14%	8%	0%	1%
BBB	13%	23%	0%	9%
Not-rated	1%	2%	98%	82%
	100%	100%	100%	100%

(e) Liquidity risk management

Liquidity risk is the risk that the Scheme will encounter difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments.

The Scheme's approach to managing liquidity is for the Scheme to invest a significant portion of their funds in financial instruments which under normal market conditions are readily convertible into cash (for example, the Scheme's listed securities). As a result, there is a risk that the Scheme may not be able to liquidate all of these investments at their fair value in order to meet its liquidity requirements. In the event of significant redemptions, the Scheme has the ability to suspend redemptions until it can realise investments to meet the redemptions.

All payables of the Scheme are classed as normal operating obligations and are to be paid within six months of balance date.

Australian Ethical Balanced Trust

Notes to the financial statements for the year ended 30 June 2013

Note 18 - Financial risk management and financial instruments - continued

(e) Liquidity risk management - continued

Australian Ethical Balanced Trust Consolidated						
2013						
	Weighted average interest rate %	1-3 months	3 months to 1 year	1 to 5 years	5+ years	Total
		\$	\$	\$	\$	\$
Interest-bearing assets						
Cash and cash equivalents	2.90	4,936,116	-	-	-	4,936,116
Financial assets	5.75	-	2,788,792	49,535,001	34,960,020	87,283,813
Loans and receivables	7.25	395,000	1,036,034	1,519,285	2,934,199	5,884,518
Other non-interest bearing						
Financial assets	N/A	168,812,989	-	-	-	168,812,989
Trade and other receivables	N/A	1,857,675	-	-	-	1,857,675
Total financial assets		176,001,780	3,824,826	51,054,286	37,894,219	268,775,111
Non-interest bearing						
Trade and other payables	N/A	224,328	-	-	-	224,328
Distribution payable	N/A	3,160,778	-	-	-	3,160,778
Amounts payable to unitholders	N/A	253,795,867	-	-	-	253,795,867
Amounts payable to external unitholders	N/A	17,438,065	-	-	-	17,438,065
Total financial liabilities		274,619,038	-	-	-	274,619,038

2012						
	Weighted average interest rate %	1-3 months	3 months to 1 year	1 to 5 years	5+ years	Total
		\$	\$	\$	\$	\$
Interest-bearing assets						
Cash and cash equivalents	3.90	6,599,919	-	-	-	6,599,919
Financial assets	5.71	35,617,428	8,708,392	26,574,556	10,303,581	81,203,957
Loans and receivables	6.79	2,518,077	2,118,177	1,096,762	3,528,968	9,261,984
Other non-interest bearing						
Financial assets	N/A	137,652,099	-	-	-	137,652,099
Trade and other receivables	N/A	1,663,332	-	-	-	1,663,332
Total financial assets		184,050,855	10,826,569	27,671,318	13,832,549	236,381,291
Non-interest bearing						
Trade and other payables	N/A	319,435	-	-	-	319,435
Distribution payable	N/A	4,443,988	-	-	-	4,443,988
Amounts payable to unitholders	N/A	226,841,915	-	-	-	226,841,915
Amounts payable to external unitholders	N/A	11,664,315	-	-	-	11,664,315
Total financial liabilities		243,269,653	-	-	-	243,269,653

Australian Ethical Balanced Trust

Notes to the financial statements for the year ended 30 June 2013

Note 18 - Financial risk management and financial instruments - continued

e) Liquidity risk management - continued

Australian Ethical Balanced Trust						
2013						
	Weighted average interest rate %	1-3 months \$	3 months to 1 year \$	1 to 5 years \$	5+ years \$	Total \$
Interest-bearing assets						
Cash and cash equivalents	2.90	3,955,671	-	-	-	3,955,671
Financial assets	5.75	-	-	211,907	4,912,480	5,124,387
Loans and receivables	7.25	395,000	1,036,034	1,519,285	2,934,199	5,884,518
Other non-interest bearing						
Financial assets	N/A	233,151,401	-	-	-	233,151,401
Trade and other receivables	N/A	2,843,877	-	-	-	2,843,877
Total financial assets		240,345,949	1,036,034	1,731,192	7,846,679	250,959,853
Non-interest bearing						
Trade and other payables	N/A	210,875	-	-	-	210,875
Distribution payable	N/A	2,681,534	-	-	-	2,681,534
Amounts payable to unitholders	N/A	253,795,867	-	-	-	253,795,867
Total financial liabilities		256,688,276	-	-	-	256,688,276

Australian Ethical Balanced Trust						
2012						
	Weighted average interest rate %	1-3 months \$	3 months to 1 year \$	1 to 5 years \$	5+ years \$	Total \$
Interest-bearing assets						
Cash and cash equivalents	4.22	1,538,640	-	-	-	1,538,640
Financial assets	5.71	33,912,900	4,712,893	-	-	38,625,793
Loans and receivables	6.79	2,518,077	2,118,177	1,096,762	3,528,968	9,261,984
Other non-interest bearing						
Financial assets	N/A	173,804,251	-	-	-	173,804,251
Trade and other receivables	N/A	1,410,206	-	-	-	1,410,206
Total financial assets		213,184,074	6,831,070	1,096,762	3,528,968	224,640,874
Non-interest bearing						
Trade and other payables	N/A	319,435	-	-	-	319,435
Distribution payable	N/A	4,367,886	-	-	-	4,367,886
Amounts payable to unitholders	N/A	226,841,915	-	-	-	226,841,915
Total financial liabilities		231,529,236	-	-	-	231,529,236

Australian Ethical Balanced Trust

Notes to the financial statements for the year ended 30 June 2013

Note 18 - Financial risk management and financial instruments - continued

(f) Fair values - continued

Australian Ethical Balanced Trust				
2013				
	Level 1	Level 2	Level 3	TOTAL
	\$	\$	\$	\$
Financial assets at fair value through profit or loss				
Designated at fair value through profit or loss				
Australian listed	1,618,373	-	-	1,618,373
Unit trusts				
Unlisted	-	231,533,028	-	231,533,028
Interest bearing securities				
Government Securities	4,912,480	-	-	4,912,480
Notes/debt instruments unsecured	-	211,907	-	211,907
TOTAL	6,530,853	231,744,935	-	238,275,788

Australian Ethical Balanced Trust				
2012				
	Level 1	Level 2	Level 3	TOTAL
	\$	\$	\$	\$
Financial assets at fair value through profit or loss				
Designated at fair value through profit or loss				
Equities				
Australian listed	1,875,677	-	-	1,875,677
Unit trusts				
Unlisted	-	171,928,574	-	171,928,574
Interest bearing securities				
Government Securities	4,021,218	-	-	4,021,218
Notes/debt instruments secured	-	762,068	-	762,068
Notes/debt instruments unsecured	-	33,842,507	-	33,842,507
TOTAL	5,896,895	206,533,149	-	212,430,044

Note 19 - Investments in Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1.

Name of entity	Country of Domicile	Units Held	
		30 June 2013 %	30 June 2012 %
Australian Ethical Fixed Interest Trust	Australia	80	78

Note 20 - Events subsequent to the reporting date

There has not arisen in the interval between the end of the financial year 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.

Note 21 - Contingencies

There are no contingent liabilities or contingent assets as at 30 June 2013 and 30 June 2012.

Australian Ethical Balanced Trust

Directors' Declaration

In the opinion of the Directors of Australian Ethical Investment Limited, the responsible entity of the Australian Ethical Balanced Trust (the Scheme):

- (a) The financial statements and notes that are set out on pages 3 to 23 are in accordance with the Corporations Act 2001, including:
 - i. Giving a true and fair view of the Scheme's financial position as at 30 June 2013 and of its performance for the financial year ended on that date; and
 - ii. Complying with Australian Accounting Standards and Corporations Regulations 2001; and
- (b) There are reasonable grounds to believe that the Scheme will be able to pay its debts when they become due and payable.

The Directors draw attention to Note 1 of the financial report which contains a statement of compliance with International Financial Reporting Standards.

This declaration is made in accordance with a resolution of the Board of Directors of Australian Ethical Investment Limited.



Phillip Vernon
Managing Director
Australian Ethical Investment Limited
30 September 2013



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

To: the directors of Australian Ethical Investment Limited, the Responsible Entity for the Australian Ethical Balanced Trust:

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2013 there have been:

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

KPMG

Karen Hopkins
Partner

Sydney
30 September 2013



Independent auditor's report to the unitholders of the Australian Ethical Balanced Trust

Report on the financial report

We have audited the accompanying consolidated financial report of the Australian Ethical Balanced Trust (the "Scheme"), which comprises of the statement of financial position as at 30 June 2013, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 21 comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Scheme and the Group, comprising the Scheme and the entity that it controlled at 30 June 2013 and from time to time during the financial year.

Directors' responsibility for the financial report

The directors of Australian Ethical Investment Limited ('the Responsible Entity') 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 is free from material misstatement, whether due to fraud or error. In note 1, the directors of the Responsible Entity also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

We performed the procedures to assess whether in all material respects the consolidated financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting



Standards, a true and fair view which is consistent with our understanding of the Scheme's and the Group's financial position, and of their performance.

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

Independence

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

Auditor's opinion

In our opinion:

- (a) the consolidated financial report of the Australian Ethical Balanced Trust is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Scheme's and the Group's financial position as at 30 June 2013 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

KPMG

Karen Hopkins
Partner

Sydney

30 September 2013