

BALANCED SECURITIES LIMITED

A.B.N. 54 083 514 685

**FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2011**

DIRECTORS' REPORT

Your directors present their report on the company for the financial year ended 30 June 2011.

Directors

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

David Morton Geer
Leon Gorr
Anthony Henry May

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

Principal Activities

The principal activities of the company during the financial year were issuing Unsecured Notes and lending the money raised on mortgages over freehold and leasehold property in Australia.

No significant changes in the nature of the company's activities occurred during the financial year.

Operating Results

The loss of the company after providing for income tax amounted to \$14,216,318.

Dividends Paid or Recommended

Fully franked dividends of \$259,745 were declared and paid to shareholders during the financial year ended 30 June 2011.

Review of Operations

During the year the company continued issuing Unsecured Notes to the public and lending the money raised on first mortgages over real estate security Australia wide. At balance date, the company had a total of \$103,313,759 of debentures and unsecured notes on issue.

At balance date, the company had 36 current loans totalling \$153,671,009 together with cash holdings of \$11,224,824.

Loss before income tax was \$16,975,898 and loss after provision for income tax was \$14,216,318.

Significant Changes in State of Affairs

No significant changes in the company's state of affairs occurred during the year.

After Balance Date Events

Other than the change to the Income Support Agreements which took effect on 1 July 2011 and which inter alia resulted in \$2,000,000 of additional equity being subscribed into the Company on that date (refer Note 16 in the Accounts) no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

DIRECTORS' REPORT

Future Developments

The company expects to maintain the present status and level of operations and hence there are no likely developments in the company's operations.

Environmental Issues

The company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.

Options

No options over issued shares or interests in the company were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

Information on Directors

David Morton Geer - Managing Director

Qualifications - LLB (Hons)

Experience - Is a lawyer who has been in practice for over 35 years both with Herbert Geer and now David Geer Lawyer. He specialises in the law relating to securities and real estate investments. He has been an active participant in the mortgage investment and funds management industry and with the Law Institute of Victoria.

Leon Gorr - Director

Qualifications - BJuris LLB M.Admin

Experience - As a partner in the law firm HWL Ebsworth Lawyers and previously as a senior partner in the law firm Herbert Geer he has specialised in corporate and revenue law for over 30 years. He has advised clients who have become involved in mortgage lending and has been an active participant in the mortgage investment and management industry for many years.

Anthony Henry May - Director

Qualifications - BEc, LLB

Experience - Is a senior partner in the law firm Herbert Geer specialising in taxation law for over 25 years. He has advised clients and corporations in relation to public fund raising and other commercial ventures and has been an active participant in the mortgage investment and management industry for many years.

DIRECTORS' REPORT

Meetings of Directors

During the financial year, 12 meetings of directors were held. Attendances by each director were as follows:

Name	Number eligible to attend	Number attended
David Morton Geer	12	12
Leon Gorr	12	12
Anthony Henry May	12	12

Interest Arrears Management & Income Support Arrangements

Corporate entities associated with the directors ("the Underwriters") have agreed to provide financial support to the Company and during the reporting period the major aspects of this was:-

- (a) the Underwriters paid the income support to the Company each 30 days;
- (b) instead of the payment of interest at the Borrowers contracted interest rate, the payment made to the Company by the Underwriters was calculated at the Company's cost of funds plus a margin of 1.0%; and,
- (c) in consideration of the payment in (b) above, the Company assigned all of the interest arrears on those loans to the Underwriters.

The Company confirms that all payments required to be made by the Underwriters have been paid to the Company in accordance with the various agreements referred to above.

Directors Benefits

Other than as disclosed in Note 12 to the Accounts, no director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the company with a director, a firm of which a director is a member or an entity in which a director has a substantial financial interest.

Indemnifying Officers or Auditor

The company has not, during or since the end of the financial year, in respect of any person who is or has been an officer or auditor of the company or a related body corporate:

- indemnified or made any relevant agreement for indemnifying against any liability incurred as an officer, including costs and expenses in successfully defending legal proceedings; or
- paid or agreed to pay a premium in respect of a contract insuring against a liability for the costs or expense to defend legal proceedings.

DIRECTORS' REPORT

Proceedings on Behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30 June 2011 has been received and can be found on page 5 of the directors' report.

Signed in accordance with a resolution of the Board of Directors

Director: David Morton Geer

Dated this 3rd day of October 2011

AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF BALANCED SECURITIES LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2011 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.

MDHC Audit Assurance Pty Ltd

Graeme A Marriott
Director

Hawthorn
3rd October 2011

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 \$	2010 \$
Revenue	2(a)	18,606,406	29,681,921
Finance and interest underwriting costs	2(b)	(11,228,628)	(15,939,649)
Impairment loss	2(b)	(23,002,642)	(2,130,000)
Other expenses	2(b)	(1,351,034)	(1,099,514)
		<hr/>	
Profit (loss) before income tax		(16,975,898)	10,512,758
Income tax revenue (expense)	3	<u>2,759,580</u>	<u>(2,509,652)</u>
Profit (loss) for the year		<u>(14,216,318)</u>	<u>8,003,106</u>
Total comprehensive income for the year		<u>(14,216,318)</u>	<u>8,003,106</u>

The accompanying notes form part of these financial statements.

BALANCED SECURITIES LIMITED
A.B.N. 54 083 514 685

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2011

	Note	2011 \$	2010 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	5	11,224,824	11,907,858
Mortgage loans and other receivables	6	153,671,009	161,294,558
TOTAL CURRENT ASSETS		<u>164,895,833</u>	<u>173,202,416</u>
NON-CURRENT ASSETS			
Mortgage loans	6	-	4,835,212
Deferred tax assets		4,705,007	1,315,007
Goodwill	7	22,225,000	30,000,000
TOTAL NON-CURRENT ASSETS		<u>26,930,007</u>	<u>36,150,219</u>
TOTAL ASSETS		<u>191,825,840</u>	<u>209,352,635</u>
LIABILITIES			
CURRENT LIABILITIES			
Interest-bearing liabilities	8	83,410,860	86,621,350
Debenture interest accrued		1,469,225	1,731,634
Mortgage interest received in advance		6,334,703	5,165,321
Income tax payable		-	1,452,032
Other current liabilities	9	213,295	139,802
TOTAL CURRENT LIABILITIES		<u>91,428,083</u>	<u>95,110,139</u>
NON-CURRENT LIABILITIES			
Interest-bearing liabilities	8	19,902,899	19,465,694
Debenture interest accrued		397,215	203,096
Provision for employee benefits		58,497	58,497
TOTAL NON-CURRENT LIABILITIES		<u>20,358,611</u>	<u>19,727,287</u>
TOTAL LIABILITIES		<u>111,786,694</u>	<u>114,837,426</u>
NET ASSETS		<u>80,039,146</u>	<u>94,515,209</u>
EQUITY			
Share capital	10	32,215,200	32,215,200
Retained earnings		47,823,946	62,300,009
TOTAL EQUITY		<u>80,039,146</u>	<u>94,515,209</u>

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2011

	Note	Share Capital Ordinary Shares	A Class Shares \$	Retained Earnings \$	Total \$
Balance at 1 July 2009		2,215,200	2,215,200	59,196,903	91,412,103
Profit attributable to members of the company		-	-	8,003,106	8,003,106
Dividends paid or provided for	4	-	-	(4,900,000)	(4,900,000)
Balance at 30 June 2010		2,215,200	2,215,200	62,300,009	94,515,209
Loss attributable to members of the company		-	-	(14,216,318)	(14,216,318)
Dividends paid or provided for	4	-	-	(259,745)	(259,745)
Balance at 30 June 2011		2,215,200	2,215,200	47,823,946	80,039,146

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 \$	2010 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		18,417,010	26,717,625
Fees and other income received		1,513,223	2,049,944
Interest and underwriting costs paid		(11,296,918)	(16,134,646)
Income tax paid		(2,229,462)	(3,322,475)
Payments to suppliers and employees		<u>(1,277,541)</u>	<u>(1,099,512)</u>
Net cash provided by operating activities	13	<u>5,126,312</u>	<u>8,210,936</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipt from (payment of) mortgage investments		<u>(2,776,316)</u>	1,621,899
Net cash provided by (used in) investing activities		<u>(2,776,316)</u>	1,621,899
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of debentures and unsecured notes		(2,773,285)	(4,803,075)
Dividends paid		<u>(259,745)</u>	<u>(4,900,000)</u>
Net cash used in financing activities		<u>(3,033,030)</u>	<u>(9,703,075)</u>
Net increase (decrease) in cash held		(683,034)	129,760
Cash and cash equivalents at the beginning of the financial year		<u>11,907,858</u>	<u>11,778,098</u>
Cash and cash equivalents at the end of the financial year	5	<u>11,224,824</u>	<u>11,907,858</u>

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Note 1: Summary of Significant Accounting Policies

The financial report covers Balanced Securities Limited as an individual entity, incorporated and domiciled in Australia. Balanced Securities Limited is a company limited by shares.

Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

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

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

(a) Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Note 1: Summary of Significant Accounting Policies (Cont'd)

(b) Income Tax (Cont'd)

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Note 1: Summary of Significant Accounting Policies (Cont'd)

(c) Mortgage Loans

Mortgage loans are recognised and carried at their recoverable amounts, after assessing required provisions for impairment. Impairment of a mortgage loan is recognised when there is reasonable doubt that not all the principal and interest can be collected in accordance with the terms of the mortgage loan agreement. Impairment is assessed by specific identification in relation to individual loans.

Most of the mortgage loans are short-term loans. In respect to loans in default, they are repayable on demand and therefore classified as current assets, along with the short-term mortgage loans.

(d) Financial Instruments

Recognition

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either purchase or sell the asset (ie trade date accounting is adopted). Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss' in which case transaction costs are expensed to profit or loss immediately.

Loans and receivables

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

Impairment

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

(e) Goodwill

Goodwill is recorded at the amount by which the purchase price for the business assets used under licence exceeds the fair value attributed to its net assets at date of acquisition. Goodwill is tested annually for impairment and carried at cost less any accumulated impairment losses.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Note 1: Summary of Significant Accounting Policies (Cont'd)

(f) Impairment of Assets

At each reporting date, the company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

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

(g) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cashflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cashflows.

(h) Provisions

Provisions are recognised when the company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at balance date.

(i) Cash and Cash Equivalents

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

(j) Revenue

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

Fees and commissions are recognised upon the delivery of the service to the customers.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Note 1: Summary of Significant Accounting Policies (Cont'd)

(k) Comparative Figures

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

(l) Critical Accounting Estimates and Judgments

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

Key Estimates – Impairment

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

As a result of current market and economic conditions a provision for impaired assets of \$15.58m of the total mortgage loans was raised based on the directors' best estimate of the non-recoverable amounts included in the mortgage loans.

Impairment has been recognised in respect of goodwill at the end of the reporting period based on an independent assessment of the value of goodwill as at 30 June 2011.

(m) New Accounting Standards for Application in Future Periods

The AASB has issued new, revised and amended Standards and Interpretations that have mandatory application dates for future reporting periods. The company does not anticipate early adoption of these standards and does not expect them to have any material effect on the company's financial statements.

The financial report was authorised for issue on 3rd October 2011 by the Board of Directors.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011 \$	2010 \$
Note 2: Profit (Loss) before Income Tax			
(a) Revenue:			
Interest revenue		17,247,628	31,049,096
Other revenue		1,358,778	2,728,119
		<u>18,606,406</u>	<u>29,681,921</u>
(b) Expenses:			
Interest expense		8,455,180	8,300,688
Interest underwriting costs		2,773,448	7,638,961
Bad Debt Loan Write Off		3,927,642	
Reversal - General Provision of mortgage loans		(2,280,000)	2,130,000
Specific Impairment of mortgage loans		13,580,000	
Impairment of goodwill	7	7,775,000	-
Remuneration of the auditor for:			
- auditing or reviewing the financial report		42,000	43,000
- other audit related services		4,000	3,000
Employee benefits expense		798,062	605,826
Other expenses		506,972	447,688
		<u>35,582,304</u>	<u>19,169,163</u>

Note 3: Income Tax Expense

(a) The components of tax expense comprise:

Current tax	630,420	3,793,652
Deferred tax	(3,390,000)	(1,284,000)
	<u>(2,759,580)</u>	<u>2,509,652</u>

(b) The prima facie tax on profit before income tax reconciled to income tax expense as follows:

Prima facie tax payable on profit before income tax at 30% (2010: 30%)	(5,092,770)	3,153,827
Add tax effect of:		
- non-allowable items	690	825
- asset impairment item	2,332,500	(645,000)
	<u>(2,759,580)</u>	<u>2,509,652</u>
Income tax expense	(2,759,580)	2,509,652
The applicable weighted average effective tax rates are as follows:	(16%)	24%

The weighted average effective tax rate for 2011 is a result of the tax effect of non-allowable and non-deductible items in this year and recognition of prior year deferred tax.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011	2010
		\$	\$
Note 4: Dividends Paid			
Declared fully franked ordinary dividends of 16.03364 cents per ordinary share (2010: fully franked ordinary dividends of 15.4965 cents per share) franked at the rate of 30% (2010: 30%)		259,745	4,900,000
The amount of franking credits available for the subsequent reporting period are:			
- franking account balance as at the reporting date at 30%		29,709,478	27,791,756
- franking credits that will arise from the payment of income tax		630,420	1,452,032
		<u>30,339,898</u>	<u>25,037,023</u>
Note 5: Cash and Cash Equivalents			
Cash at bank		7,924,824	7,507,858
Deposits at call		3,300,000	4,400,000
		<u>11,224,824</u>	<u>11,907,858</u>
Note 6: Mortgage Loans and Other Receivables			
Current			
Mortgage loans		167,877,660	164,193,774
Provision for asset impairment		(15,580,000)	(4,280,000)
Sundry debtors	(a)	1,373,349	1,380,784
		<u>153,671,009</u>	<u>161,294,558</u>
(a) An unsecured loan amount of \$1,215,200 was outstanding as at 30 June 2011 being granted under the selected employee long-term incentive share purchase plan for the purchase of the company's shares (2010: \$1,215,200).			
Non-Current			
Mortgage loans		-	4,835,212
Mortgage Loan Maturity Analysis			
- not later than one year		152,297,660	159,913,774
- later than one but no later than three years		-	4,835,212
		<u>152,297,660</u>	<u>164,748,986</u>
Total Mortgage Loans		<u>152,297,660</u>	<u>164,748,986</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

	2011	2010
	\$	\$
Note 7: Goodwill		
Goodwill – at cost	30,000,000	30,000,000
Less accumulated impairment losses	<u>(7,775,000)</u>	<u>-</u>
Net carrying value	<u>22,225,000</u>	<u>30,000,000</u>

The recoverable amount of goodwill is determined based on value-in-use calculations. Value-in use is calculated based on the present value of the estimated future maintainable earnings over a 10-year period.

Note 8: Interest-Bearing Liabilities

Debentures and Unsecured Notes – current	83,410,860	86,621,350
Debentures and Unsecured Notes – non-current	<u>19,902,899</u>	<u>19,465,694</u>
	<u>103,313,759</u>	<u>106,087,044</u>

Debenture & Unsecured Note Maturity Analysis

- not later than one year	83,410,860	86,621,350
- later than one but no later than two years	10,779,506	11,103,509
- later than two but no later than five years	<u>9,123,393</u>	<u>8,362,185</u>
	<u>103,313,759</u>	<u>106,087,044</u>

Note 9: Other Current Liabilities

Sundry creditors	<u>213,295</u>	<u>139,802</u>
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

	Note	2011	2010
		\$	\$
Note 10: Share Capital			
1,000,000 ordinary shares of \$1 each fully paid		1,000,000	1,000,000
620,000 ordinary shares of \$1.96 each fully paid	(a)	1,215,200	1,215,200
30,000,000 A class shares of \$1 each fully paid		<u>30,000,000</u>	<u>30,000,000</u>
		<u>32,215,200</u>	<u>32,215,200</u>

(a) Selected key employees may be granted long-term incentive (LTI) deferred shares which vest to the employee up to 6 years from the date of grant. Ordinary shares granted under this LTI plan may be held in trust beyond the deferred period. Unvested LTI deferred shares are forfeited on resignation. In the event of death or total and permanent disablement, all shares will be released to the employee in full. As at 30 June 2011, there were 620,000 deferred shares with a grant price of \$1.96 granted under the LTI deferred share plan (2010: 620,000). The employee receives all dividends on deferred shares while held in trust.

Note 11: Key Management Personnel Compensation

Key management personnel:

Directors

David Morton Geer

Leon Gorr

Anthony Henry May

Other than superannuation and directors fees of \$153,000 paid during the financial year, no director has received or become entitled to receive, during or since the financial year, a benefit.

Note 12: Related Party Transactions

- David Geer is a Director and is a sole practitioner solicitor operating as David Geer Lawyer. Tom May is a Director and is a Partner in the legal firm of Herbert Geer. Leon Gorr is a Director and is a Partner in the legal firm of HWL Ebsworth. Each of David Geer, Herbert Geer and HWL Ebsworth may:-
 - act as a solicitor to the Company and will be entitled to receive legal fees for doing so;
 - receive legal fees paid by Borrowers of the Company for the preparation of security documents in relation to loans made by the Company.
- Tom May is a director and a Partner in the legal Firm of Herbert Geer. Herbert Geer may charge the Company for the provision of office space and facilities at ordinary commercial rates.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Note 12: Related Party Transactions (cont)

3. David Geer is a director of Balanced Applications Pty Ltd which receives fees payable by Borrowers in relation to loans made by the Company.
4. Entities associated with some or all of the Directors may purchase mortgages from the Company or sell mortgages to the Company. All such transactions are undertaken at full face value.
5. Entities associated with the Directors have entered into formal Income Support Arrangements with the Company. These entities can vary but include in the main:-
 - (a) Mortgage Income Management Pty Ltd of which David Geer is a Director;
 - (b) H G & R Management Pty Ltd of which David Geer, Tom May and Leon Gorr are directors.

	2011	2010
	\$	\$

Note 13: Cash Flow Information

Reconciliation of Cash Flows from Operations with Profit (Loss) for the Year after Income Tax

Profit (loss) for the year after income tax	(14,216,318)	8,003,106
Add non-cash items:		
Impairment loss	23,002,642	2,130,000
Changes in assets and liabilities:		
Decrease (increase) in sundry debtors	7,435	(155,509)
Increase in deferred tax assets	(3,390,000)	(1,284,000)
Decrease in debenture interest accrued	(68,290)	(194,998)
Increase in mortgage interest received in advance	1,169,382	483,499
Increase (decrease) in income tax payable	(1,452,032)	471,178
Increase (decrease) in other current liabilities	73,493	(1,242,340)
Cash flows from operations	<u>5,126,312</u>	<u>8,210,936</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Note 14: Financial Risk Management

(a) Accounting Policies and Interest Rate Risk

The company's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity, both recognised and unrecognised at the balance date, including the company's interest rate risk exposure are as follows:

Recognised Financial Instruments	Accounting Policies And Financial Instrument Profile	Terms and Conditions Including Interest Rate Risk Profile
(i) Financial Assets		
Cash and cash equivalents	Cash and cash equivalents are carried at its principal amount and lodged on bank deposits at call. Interest is recognised as income as it accrues.	Cash and cash equivalents are on call. The interest rate is repriced daily at the prevailing market rate for cash deposits.
Mortgage loans and other receivables	Mortgage loans are recorded at their recoverable amounts with the term to maturity reflective of analysis provided at Note 6 in the notes to financial statements. Interest is recognised as income as it accrues.	Mortgage loans are issued for varying maturities with variable rates of interest applying to each mortgage loan. The applicable variable interest rate on these mortgage loans ranges between 13.76% and 22.75%. (2010: 13.71% and 21.96%)
(ii) Financial Liabilities		
Interest bearing liabilities	Debentures / Unsecured Notes are recorded at their principal amounts with the term to maturity reflective of analysis provided at Note 8 in the notes to financial statements. Interest is recognised as an expense as it accrues.	Debentures / Unsecured Notes are issued for varying lengths of time at fixed rates of interest for the term to maturity. The applicable interest rate on these debentures / unsecured notes varies between 6.25% and 10.25%. (2010: 6.25% and 10.25%).
Debenture interest accrued and other current liabilities	Debenture / Unsecured Note interest accrued is carried at its nominal amount.	Interest on debentures / Unsecured Notes is payable monthly or on maturity.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Note 14: Financial Risk Management (Cont'd)

(b) Market and Interest Rate Risk Management

The company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates, is mitigated by:

- the maintenance of a pool of mortgages whose weighted average lending rates are comfortably in excess of the investment borrowing rates;
- the issue of short and long dated Unsecured Notes for periods of 12 months through to 5 years while lending against mortgages on predominately shorter terms of 6-12 months;
- by maintaining a fixed interest rate regime for debentures / Unsecured Notes which may be repriced on maturity and independently of any increases in the mortgage lending rate, while redemptions incorporate a mechanism to recoup any upward movement in interest rates;
- by maintaining a variable interest rate regime for mortgages which incorporate an interest rate floor which allows for upward interest rate movements only and as such, a change in interest rates will not adversely impact on the company's lending margins, profitability and cash flows; and
- by adopting conservative lending policies and loan to value ratios to mitigate against the potential risk of a borrower default adversely impacting on the company's lending margins and cash flows.

(c) Sensitivity Analysis - Interest Rate Risk

Interest rate analysis is based on balances of financial liabilities outstanding at financial period end not exceeding 1 year, which are all at fixed rates.

Interest rate analysis is based on balances of financial assets outstanding at financial period end not exceeding 1 year, which are all variable rates which allow for upward interest rate movements only with interest rates set according to the assessed credit risk of the borrower.

Minimum and maximum exposures for financial liabilities and assets are calculated at reasonably possible shifts of 25 (2010: 25) basis points and 100 (2010: 100) basis points respectively.

The table below details the company's minimal sensitivity to interest rate shifts and reflects the limited potential for interest rate changes to adversely impact on the company's profitability.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Note 14: Financial Risk Management (Cont'd)

(c) Sensitivity Analysis - Interest Rate Risk (Cont'd)

SENSITIVITY ANALYSIS - INTEREST RATE RISK

Increase in Interest Rates

Annual Risk by Type

	Minimum		Average		Maximum	
	2011	2010	2011	2010	2011	2010
	\$m	\$m	\$m	\$m	\$m	\$m
Financial assets:						
Cash and cash equivalents	0.033	0.030	0.083	0.074	0.132	0.119
Loans and receivables	0.419	0.423	1.048	1.056	1.677	1.690
Financial liabilities:						
Debentures / Unsecured Notes	-	-	-	-	-	-
Net positive impact on profit and equity	0.452	0.452	1.131	1.13	1.809	1.809

SENSITIVITY ANALYSIS – INTEREST RATE RISK

Decrease in Interest Rates

Annual Risk by Type

	Minimum		Average		Maximum	
	2011	2010	2011	2010	2011	2010
	\$m	\$m	\$m	\$m	\$m	\$m
Financial assets:						
Cash and cash equivalents	(0.033)	(0.030)	(0.083)	(0.074)	(0.132)	(0.119)
Loans and receivables	-	-	-	-	-	-
Financial liabilities:						
Debentures / Unsecured Notes	-	-	-	-	-	-
Net negative impact on profit and equity	(0.033)	(0.030)	(0.083)	(0.074)	(0.132)	(0.119)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010

Note 14: Financial Risk Management (Cont'd)

(d) Liquidity Risk

The company manages liquidity risk by monitoring forecast cash flows and ensuring that adequate cash and cash equivalents are maintained. Ultimate responsibility for liquidity risk management rests with the directors, who have built an appropriate liquidity risk management framework for the company's short, medium and long term funding and liquidity management.

The company under its AFS Licence no. 241382 and as set out in Policy Statement 166.25(c) is required to maintain and comply with the Table 2, Option 1 test for establishing a reasonable estimate projection plus cash contingency test. The test requires the company to produce 3 monthly cashflow projections and hold cash or cash equivalents based on the amount equal to 20% of the cash outflow for the projected 3 month period(s). As at 30 June 2011 the company complies with this requirement with adequate reserves of cash or cash equivalents totalling \$ 11,224,823.

The company has a policy and procedure in place to estimate cash flow projections taking into consideration estimated rollovers of maturing debentures / unsecured notes, payment of loan instalments or loan repayments and cash outflows from operational activities. Reference is made to the probability of non-rollover of debenture maturities, the risk and maturity profile of the mortgage loan portfolio. The estimated retention rate for debenture rollovers approximates 95% of the debenture portfolio which together with directors and managements' reasonable expectation for future business and operational trends including those impacting on the legislative and economic environment allows the company to estimate its future cash flow requirements with a reasonable degree of certainty.

The company's portfolio management policy reflects a position of funding short-term first mortgage loans with a mix of short, medium and longer term investment funds as well as being supported by the retained earnings and paid up capital.

Liquidity Risk Management Maturity Profile

2010	No later than 1 year \$	Between 1 and 2 years \$	Between 2 and 5 years \$
Financial Liabilities:			
Debentures / Unsecured Notes	86,621,350	11,103,509	8,362,185
Financial Assets:			
Cash and cash equivalents	11,907,858	-	-
Loans and receivables	161,294,558	4,835,212	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Note 14: Financial Risk Management (Cont'd)

(d) Liquidity Risk (Cont'd)

Liquidity Risk Management Maturity Profile

2011	No later than 1 year \$	Between 1 and 2 years \$	Between 2 and 5 years \$
Financial Liabilities:			
Debtentures / Unsecured Notes	83,410,860	10,779,500	9,123,399
Financial Assets:			
Cash and cash equivalents	11,224,824	-	-
Loans and receivables	153,671,009	-	-

(e) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

The company does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the company.

The company has in place established credit risk management policies and procedures to mitigate the risk of non-payment of principal or interest on first mortgage loans advanced by the company. The principal mitigating factors are summarised as follows:

- Maximum loan to value ratios at time of drawdown not exceeding 67%.
- Initial advances for terms not greater than 3 years.
- Independent valuations of security property not more than 6 months old at date of advance.
- Loans approved at director and executive management level within approved discretions.
- Independent expert monitoring of drawdowns under construction loan advance.
- Potential for settlement risk on construction loans mitigated by incorporating where appropriate pre-sales of finished product at price levels supported by independent valuations.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Note 14: Financial Risk Management (Cont'd)

(e) Credit Risk (Cont'd)

- All loans advanced are interest only at variable interest rates which allow for upward interest rate movements only with interest rates set according to the assessed credit risk of the borrower.
- Internal procedures include minimum monthly monitoring of default of any borrower in payment of principal and/or interest.
- The loan portfolio is regularly reviewed by the directors to determine if there is a requirement for the creation of specific doubtful debt provisions. As at 30 June 2011 the Directors determined that there was a need to provide for bad or doubtful debts and:-
 - a specific provision for impairment of mortgage loans of \$13,580,000 was raised;
 - the existing general provision for impairment of mortgage loans of \$4,280,000 was reduced to \$2,000,000.

Maximum Exposure to Credit Risk

	Carrying Amount	
	2011	2010
	\$	\$
Loans and receivables	153,671,009	166,129,770
Cash and cash equivalents	11,224,824	11,907,858

To provide enhanced liquidity to the Company, during the reporting period the Company had an Interest Income Agreement in place under which entities associated with the Directors undertook to make a monthly payment to the company on all loans in arrears for 30 days with such payment equal to the Company's cost of funds on those loans plus a margin of 1.0%. All payments required under these arrangements were received by the Company.

As at 30 June 2011, an amount of \$15,580,000 is shown as a provision for loans assessed by the directors as being impaired comprising:-

- \$13,580,000 being a specific provision for mortgage loan impairments raised in this reporting period; and,
- \$2,000,000 being a general provision for mortgage loan impairments raised in prior reporting periods.

Other than as disclosed, no other of the company's loans and receivables was impaired or past due. During the financial year to 30 June 2011 there were 22 loans (2010 - 29 loans) totalling \$ 134.8m (2010 - \$140.3m) where interest was in arrears for periods in excess of 30 days resulting in the amount of current interest arrears which have been fully underwritten and acquired by the corporate entities associated with the directors being \$12,649,354 (2010 - \$15,264,215).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Note 14: Financial Risk Management (Cont'd)

(f) Net Fair Values

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are comparable to the amounts disclosed in the statement of financial position and notes to the financial statements.

(g) Capital Management

As at 30 June 2011, the company's equity was \$80,039,146 (2010 - \$94,515,209) of which paid up capital and retained earnings represented \$50,039,146 (2010 - \$64,515,209). This can be expressed as a financial ratio by dividing the sum of the paid up capital and retained earnings by the total of the debt plus the paid up capital and retained earnings of the company. As at 30 June 2011 the ratio as a percentage was 31% (2010 – 36%).

Note 15: Segment Reporting

The company is involved in the issuing of unsecured notes and lending money raised on mortgages over freehold and leasehold property in Australia.

Note 16: Events after the Balance Sheet Date

Previous income support arrangements referred to above have been replaced with a new Income Support Agreement ("the 2011 Income Support Agreement") which came into operation on 1 July 2011.

The purpose of the 2011 Income Support Agreement was to:-

- (a) more closely align the provision of income support received by the Company to its obligation to pay interest to the holders of its Unsecured Notes (including Debentures issued before the current Prospectus) as and when such interest falls due;
- (b) provide additional immediate equity to the Company in order to strengthen its Balance Sheet; and,
- (c) provide Balanced with the ability to achieve greater profitability in the future thus increasing its intrinsic value and enhance its financial ability to continue to meet its obligations on its Unsecured Notes.

On 1 July 2011, the Underwriters subscribed \$2,000,000 for Preference Shares in the Company. These Preference Shares add to the equity capital of Balanced

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Note 16: Events after the Balance Sheet Date (Cont'd)

The terms of the Preference Shares provide that the:-

- (i) preference Shares will be issued at a price of \$1.00 per share;
- (ii) holders of the Preference Shares will be entitled to receive a dividend of 12.00% per annum based on the issue price paid annually in arrears;
- (iii) entitlement to receive a dividend on the Preference Shares continues if, for any reason, the Company does not pay the dividend on the Preference Shares as and when it falls due; and,
- (iv) the right to the payment of a dividend (but not the continued accrual of the dividend) on the Preference Shares is automatically suspended in the event that the Company has failed to meet any payment obligation to the holders of its Debentures or Unsecured Notes and will remain suspended until any payment breach by the Company has been remedied.

In addition, under the 2011 Income Support Agreement, the Company has also negotiated:-

1. an obligation for the Underwriters (or parties procured by them) to subscribe for additional Preference Shares in the company if the Company's Adjusted Net Profit After Tax was not sufficient to cover the interest obligations it owes to the holders of Unsecured Notes and Debentures.. This is tested twice a year based on the financial statements of the Company as at 30 June and 31 December. The initial subscription of \$2,000,000 made on 1 July 2011 is in effect a payment in advance towards the future financial obligations of the Underwriters (if those obligations arise); and,
2. the following changes which remove or alter the following features of the 2010 Income Support Agreement and benefit the Company going forward. These changes are:-
 - (i) the removal of the entitlement for the Underwriters to receive 40% of the before tax net profit of the Company; and,
 - (ii) ensuring the Company retains the full entitlement to receive all interest accruing on its loans after 1 July 2011.

As such, the Underwriters will have an obligation to subscribe for further Preference Shares under the formula, to be determined 6-monthly, which they can meet or procure another party to meet. Future issues of Preference Shares under the obligations contained in the 2011 Income Support Agreement would also be on the above terms.

The Company is of the opinion that:-

- the 2011 Income Support Agreement contains improved financial arrangements that will assist it to ensure it is able to continue to meet all interest commitments to the holders of Unsecured Notes and Debentures in accordance with the terms of the Unsecured Notes and Debentures that the Company has on issue;

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

Note 16: Events after the Balance Sheet Date (Cont'd)

- the Underwriters have the financial resources to be able to comply with their financial obligations under the 2011 Income Support Agreement;
- the 2011 Income Support Agreement will be beneficial to the long term financial success of the Company and provides a substantive commitment of the directors (via the Underwriters, which include parties controlled by the directors) to support the Company through additional subscriptions for Preference Shares, should that be necessary, upon the terms of the agreement.

On 1 July 2011, the company issued 2,000,000 fully paid redeemable preference shares at \$1 each to the corporate entities associated with the directors.

Note 17: Company Details

The registered office and principal place of business of the company is:
Balanced Securities Limited
Level 23
385 Bourke Street
Melbourne Victoria 3000

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 6 to 28, are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and
 - (b) give a true and fair view of the financial position as at 30 June 2011 and of the performance for the year ended on that date of the company.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Director: David Morton Geer

Dated this 3rd day of October 2011

INDEPENDENT AUDITOR'S REPORT

To the Members of Balanced Securities Limited

Report on the Financial Report

We have audited the accompanying financial report of Balanced Securities Limited, which comprises the statement of financial position as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with 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 misstatements, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards (IFRS).

Auditor's Responsibility

Our responsibility is to express an opinion on the 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 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 judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal control. 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 financial report.

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

INDEPENDENT AUDITOR'S REPORT

To the Members of Balanced Securities Limited

Independence

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

Opinion

In our opinion:

- a. the financial report of Balanced Securities Limited is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2011 and of its 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.

MDHC Audit Assurance Pty Ltd

Graeme A Marriott
Director

Hawthorn
3rd October 2011