

18 February 2013



BANKSIA
Mortgages Limited

Dear Investor

Banksia Mortgage Fund (ARSN 089 852 246)

Responsible Entity: Banksia Mortgages Limited

In our previous letter to investors of 14 December 2012, we confirmed to you that Receivers and Managers had been appointed over the assets of two companies in The Banksia Financial Group, namely Banksia Securities Limited (**BSL**) and Cherry Fund Limited (**CFL**).

The Banksia Mortgage Fund (**BMF**), and its responsible entity, Banksia Mortgages Limited (**BML**), were not, and remain not, in any form of external administration. As such, BML continues to operate BMF and to manage its underlying mortgage investments.

In our December 2012 letter we also confirmed that, in view of BMF's restricted capacity to generate new investments for investors, BML was considering various options and strategies to regenerate BMF. The purpose of this letter is to keep you updated on BML's activities in this regard.

The directors of the companies in The Banksia Financial Group (other than BSL and CFL) have recently resolved to pursue an orderly process aimed at achieving a solvent winding up of the affairs of each company in the Group (including BML). To help achieve this outcome, certain principles of co-operation have been agreed with the Receivers and Managers of BSL and CFL.

Consistent with this approach, BML is continuing to consider the best way forward for BMF so that it can continue to offer investment opportunities to BMF investors. As part of the process, BML and its parent company, Securities Holdco Limited, have appointed Melbourne-based corporate advisory firm Flagstaff Partners to investigate opportunities to transfer the operation of BMF to an organisation with the ability to regenerate the fund so as to preserve and maintain investment opportunities for BMF investors. This process is under-way and we expect that the outcome of this process will be known by the end of March 2013.

All procedures relating to maturing loans described in our December 2012 letter continue to apply until further notice.

BML will keep BMF investors informed of any significant developments as they occur, including via The Banksia Financial Group website www.banksiagroup.com.au

Please contact our investment department on (03) 5852 3344 should you have any queries.

Yours faithfully

Warren Shaw
Chief Executive Officer

Administration Centre and
Registered Office
157 Fenaughty Street
Kyabram Vic 3620
PO Box 888 Kyabram Vic 3619
DX 62005 Kyabram
Tel 03 5852 3344
Freecall 1800 333 114
Fax 03 5853 2277
info@banksiagroup.com.au

Banksia Mortgages Limited
ABN 36 087 342 238
AFSL 227733

www.banksiagroup.com.au