

# *Banksia* *Mortgage Fund*

ARSN 089 852 246

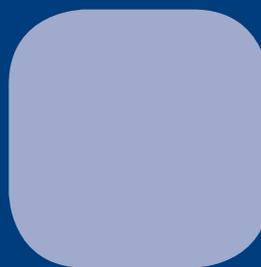
PRODUCT DISCLOSURE  
STATEMENT



THE  
**BANKSIA**  
FINANCIAL GROUP

[www.banksiagroup.com.au](http://www.banksiagroup.com.au)

# CONTENTS



<b>1. Directors</b>	2
<b>2. About the Fund Manager</b>	3
<b>3. Terms used in this Product Disclosure Statement</b>	4
<b>4. ASIC Benchmarks for Unlisted Mortgage Schemes</b>	5
<b>5. Investment Overview</b>	8
<b>6. Frequently asked questions</b>	9
6.1 What is a contributory mortgage investment?	9
6.2 How secure is a mortgage investment?	9
6.3 What return will I receive on my investment?	9
6.4 What fees will I be charged to invest in the Fund?	9
6.5 Who can invest in the Fund?	9
6.6 Are there any taxation issues?	10
6.7 How do I make an investment?	10
6.8 What information do I receive?	10
6.9 When does the investment commence?	10
6.10 What is the interest payment procedure?	10
6.11 Can I add to an existing investment?	10
6.12 Am I able to withdraw my investment early?	11
6.13 What if the borrower is late with payments?	11
6.14 What if the borrower repays the loan or makes a partial principal repayment before the loan Review Date?	11
6.15 What happens on expiry of the Investment Term?	11
<b>7. Fees and Other Costs</b>	12
<b>8. Risk Management</b>	14
8.1 Risk Management Program	14
8.2 Mortgage Loans Selection	14
8.3 Loan Assessment	14
8.4 Valuation Procedures	15
8.5 Loan Management	15
8.6 Capital Risk	15
8.7 Income Risk	15
8.8 Exposure Risk	16
8.9 Market Risk	16
8.10 Regulatory Risk	16
<b>9. Additional Information</b>	17
9.1 The Constitution	17
9.2 Compliance	17
9.3 Custodian	17
9.4 Consents	17
9.5 Privacy and Confidentiality	18
9.6 Labour Standards, Environmental, Social or Ethical Considerations	18
9.7 Complaints	19
9.8 Directors' Consent	19
<b>10. Corporate Directory</b>	20



The Banksia Financial Group is a member of the Investment and Financial Services Association of Australia (IFSA). IFSA member companies must comply with standards set by the Association which are primarily designed to inform and assist investors.

## IMPORTANT INFORMATION

Responsible Entity: Banksia Mortgages Limited ABN 36 087 342 238  
Australian Financial Services Licence Number: 227733

This Product Disclosure Statement (PDS) is dated 20 November 2008. It is a replacement PDS replacing an earlier PDS which was dated 1 June 2006. It may only be used by investors receiving it (electronically or otherwise) in Australia. If you receive this document electronically, we will provide you with a paper copy free of charge on request.

This document is the first part of a two part disclosure process which describes the features and operations of the Banksia Mortgage Fund (Fund). Investors who express an interest in an investment with the Fund after reading this document will be provided with a Part 2 Supplementary PDS detailing a specific mortgage investment for consideration.

The Australian Securities and Investments Commission (ASIC) has been notified that this PDS is "in use" in accordance with section 1015D (2) of the Corporations Act 2001. ASIC takes no responsibility for its contents.

As a disclosing entity, the Fund is subject to regular reporting and disclosure obligations. Copies of documents lodged with ASIC in relation to the Fund may be obtained from or inspected at an ASIC office.

Copies of the Annual Report most recently lodged with ASIC by the Fund, any half-year financial report lodged with ASIC prior to the date of this PDS and any continuous disclosure notices given by the Fund after the lodgment of the Annual Report and prior to the date of this PDS may be obtained on request to the Responsible Entity at its Administration Centre (see Corporate Directory at the back of this document).

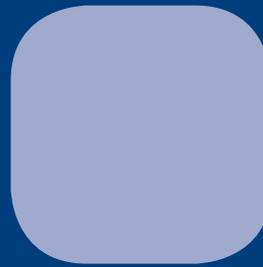
This PDS is an important document which should be read in its entirety. Before deciding to invest, you should consider whether investment in the Fund is a suitable investment for you.

The Banksia Financial Group recommends that you obtain financial product advice from an independent adviser who has a professional understanding of your personal financial needs and circumstances.

Our representatives are able to assist with factual information about investing in this product, however they are not authorised to advise on your personal investment decisions.

The Banksia Mortgage Fund offers investors an investment in a direct mortgage or sub scheme. It is not a bank deposit. If the direct property is sold for an amount less than the loan amount, then investors risk losing some or all of their principal investment.

# 1. Directors



**Ian W. Hankin** B. Comm., LL.B.  
Chairman

**Patrick J. Godfrey** Dip. ACC., A.M.I.A.A.  
Managing Director

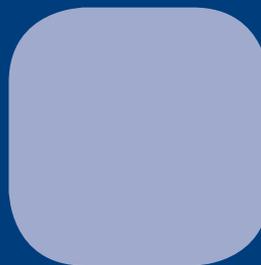
---

**Nicholas L. Carr** B.Ec., LL.B., M.B.A.  
Director

**Grenville Skewes** LL.B.  
Director

**Peter Keating** M.Mgt., F.Fin, Faim  
Director

## 2. About the Fund Manager



Banksia Mortgages Limited (BML) is a member of The Banksia Financial Group ('Banksia'), which was formed in 1999 through the amalgamation of a number of long established and successful Victorian based debenture companies and contributory mortgage funds.

Banksia operates a substantial business offering investments to the public, mortgage fund management and mortgage origination and servicing. Staff are employed in its offices in Melbourne, Adelaide and in a number of regional centres in Victoria and New South Wales. The Administration Centre for the group is located in Kyabram, Victoria.

BML, became the first commercial loan servicer in Australia to be assigned a servicer ranking by international ratings agency Standard and Poor's and included on their Global Select Servicer List following an extensive evaluation.

The ranking was recently affirmed as "Above Average" and within that assessment the area of management and organisation was uplifted to "strong".

A full copy of the report is available at [www.banksiagroup.com.au](http://www.banksiagroup.com.au).

\* Extract from Standard & Poor's Structured Finance Servicer Evaluation dated 18 April 2008.

### Opinion

#### Ranking: Above Average

"Standard & Poor's Ratings Services today affirmed the 'ABOVE AVERAGE' commercial loan servicer ranking and 'Stable' outlook assigned to Banksia Mortgages Ltd. (Banksia). Banksia remains on Standard and Poor's global select servicer list."

"Banksia was assigned an 'ABOVE AVERAGE' commercial loan servicer ranking in April 2006. The affirmation of the ranking recognizes Banksia's continued improvement in processes and technology to actively and efficiently manage its loan servicing portfolio that is led by an experienced management team."

"The 'Stable' outlook assigned to Banksia reflects Banksia's conservative lending policies and prudent underwriting standards. Banksia continues to focus on offering high quality loan servicer standards and improving performance levels to ensure investor support for existing funding programs"

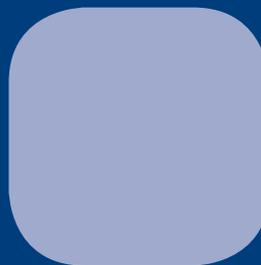
### Description of Ranking Method

The rankings referred to in this report are Standard & Poor's structured finance servicer evaluation definitions. The ranking categories from highest to lowest are STRONG, ABOVE AVERAGE, AVERAGE, BELOW AVERAGE and WEAK, except for Financial Position where the rankings are either SUFFICIENT or INSUFFICIENT.

The full report by Standard & Poor's may be obtained from any Banksia office or accessed via our website at [www.banksiagroup.com.au](http://www.banksiagroup.com.au) or Standard & Poor's website [www.standardandpoors.com.au](http://www.standardandpoors.com.au).

*A Standard & Poor's ranking is a statement of opinion and not a statement of fact or a recommendation to invest in this or in any other Banksia Group fund. The ranking may be changed, suspended or withdrawn as a result of changes in, or availability of financial information or may be based on other circumstances.*

### 3. *Terms used in this Product Disclosure Statement*



To assist you in reading this PDS, the following terms used are explained:

#### **Application Form**

A Supplementary Product Disclosure Statement (or SPDS).

#### **Authorised Representative**

A person appointed by the Fund Manager to provide specified financial services on its behalf within the terms of its Australian Financial Services Licence.

#### **Banksia**

The Banksia Financial Group.

#### **Commencement Date**

The date on which your completed and signed Application Form and payment are processed by BML.

#### **Fund**

The Banksia Mortgage Fund. ARSN 089 852 246.

#### **Fund Manager**

Banksia Mortgages Limited. ABN 36 087 342 238 (BML).

#### **Investment Term**

The date set out in the Application Form showing the term of your investment.

#### **LVR**

Loan-to-Valuation Ratio. The amount of the first mortgage loan as a percentage of the amount of the independent property valuation.

#### **PDS**

This Product Disclosure Statement, which provides detailed information about the Fund, how it operates and how investments are made and managed in the Fund.

#### **Renewal**

The approval by BML of a loan to continue after a Review Date to a new Review Date.

#### **Responsible Entity**

The licenced operator of a registered managed investment scheme within the terms of chapter 5c of the Corporations Act 2001. In this PDS the Responsible Entity is BML.

#### **Scheme**

The Banksia Mortgage Fund.

#### **Scheme Property**

Includes the security property mortgaged under each "Sub-Scheme".

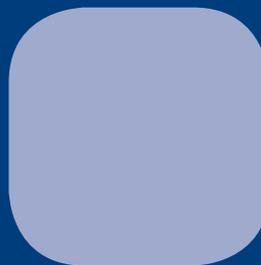
#### **SPDS**

A Supplementary Product Disclosure Statement which provides details of a specific mortgage investment, such as the property, the LVR, the interest rate and the term of the investment. An SPDS will be forwarded free of charge upon request to a person who expresses an interest in a particular investment.

#### **Sub-Scheme**

Each individual mortgage loan financed by the Fund becomes a "Sub-Scheme" in which investors may choose to invest.

## 4. ASIC Benchmarks for Unlisted Mortgage Schemes



ASIC has introduced eight benchmarks designed to help retail investors understand the risks, assess the rewards being offered and decide whether the investments offered are suitable to them.

BML as the Responsible Entity for the Fund is required to address these benchmarks on an 'if not, why not' basis. The benchmarks are not mandatory.

The following are the required disclosures by the company in response to ASIC regulatory guide No. 45. Because BML is styled as a contributory mortgage scheme, not all of the benchmarks apply to its operation.

### Benchmark 1 : Liquidity

ASIC states : *The responsible entity of an unlisted mortgage scheme (other than a contributory mortgage scheme) should*

- (a) *have cash flow estimates for the scheme for the next 3 months ; and*
- (b) *ensure at all times the scheme has cash or cash equivalents (but not including undrawn amounts under bank overdraft or lending facilities) sufficient to meet its projected cash needs over the next 3 months.*

### Statement by the Company

This benchmark does not apply to the responsible entity of a contributory mortgage scheme such as BMF.

Investors should be mindful that there is no entitlement to withdraw an investment before the investment term (see Section 6.12) . Also, if BML declines to renew a loan or the borrower indicates that the loan will be repaid, repayment of your capital investment may not be immediately available until the loan repayment is effected.

### Benchmark 2 : Scheme Borrowing

ASIC States : *If an unlisted mortgage scheme has borrowed funds (whether on or off balance sheet), the responsible entity should disclose:*

- (a) *for each borrowing that will mature in 5 years or less, the amount owing and the maturity profile increments of not more than 12 months;*
- (b) *for borrowings that mature in more than 5 years, the aggregate amount owing;*

- (c) *for each credit facility, the aggregate undrawn amount and the maturity profile in increments of no more than 12 months;*
- (d) *the fact that amounts owing to lenders and other creditors of the scheme rank before an investors' interest in the scheme and;*
- (e) *the purpose for which the funds have been borrowed, including whether they will be used to fund distributions or withdrawal amounts.*

### Statement by the Company

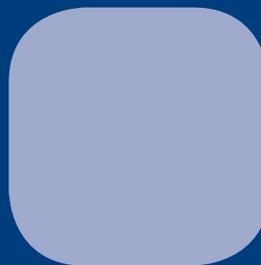
The company satisfies this benchmark. The BMF does not have any such borrowings as at the date of this PDS.

### Benchmark 3 : Portfolio Diversification

ASIC States : *A responsible entity of an unlisted mortgage scheme (other than a contributory mortgage scheme) should disclose the current nature of the mortgage scheme's investment, including :*

- (a) *by number and value, loans by class of activity (e.g. development projects, industrial, commercial, retail, residential, specialised property, reverse mortgages);*
- (b) *by number and value, loans by geographic region;*
- (c) *by number and value, what proportion of loans are in default or arrears;*
- (d) *by number and value of loans, what is the nature of the security for loans made by the scheme (e.g. first or second ranking);*
- (e) *what proportion of the total loan monies have been lent to the largest borrower and the 10 largest borrowers;*
- (f) *by the number and value, loans that have been approved but have funds that have yet to be advanced and the funding arrangements in place for any of these undrawn loan commitments;*
- (g) *by number and value, the maturity profile of all loans in increments not more than 12 months;*
- (h) *by number and value of loans, loan to valuation ratios for loans, in percentage ranges;*
- (i) *by number and value of loans, interest rates on loans, in percentage ranges;*
- (j) *by number and value, loans where interest has been capitalised;*
- (k) *the use of derivatives (if any); and*
- (l) *a clear description of the non loan assets of the scheme including the value of such assets.*

## 4. ASIC Benchmarks for Unlisted Mortgage Schemes *continued*



### Statement by the Company

This benchmark does not apply to the BMF as a responsible entity of a contributory mortgage scheme.

Investors are offered the opportunity to select an individual mortgage investment (sub scheme) from a broad range of income producing securities across residential, commercial, rural and industrial sectors, mostly situated throughout the eastern states of Australia (see section 6.1). As part of the investment process an investor in a sub scheme receives details of the specific property available as security to assist the investment decision. The specific and direct nature of an investment in a contributory mortgage scheme negates the need for portfolio diversification.

As a matter of policy, construction or sub-divisional development loans are excluded from the BMF.

### Benchmark 4 : Related Party Transactions

**ASIC States:** *A responsible entity of an unlisted mortgage scheme who transacts with related parties of the scheme, including lending or investing scheme funds with related parties should disclose their approach to these transactions including :*

- (a) *details of any loans, investments and transactions they have made to or with any related party;*
- (b) *their policy on related party transactions, including the assessment and approval process for related party lending and arrangements to manage conflicts of interest and*
- (c) *how processes and arrangements are monitored to ensure their policy is followed.*

### Statement by the Company

The company satisfies this benchmark. The responsible entity has not made any loans to related party entities.

The Fund does have an investment facility with Banksia Securities Limited (BSL) a related party which is a licensed debenture issuing company. From time to time an investor will have their investment in a sub scheme repaid. It is the responsible entity's practice to hold these funds in BSL in an at-call interest earning account, pending re-investment in another sub scheme or repayment of the investment to the investor.

### Benchmark 5 : Valuation Policy

**ASIC states :** *A responsible entity of an unlisted mortgage scheme should take the following approach to valuations of properties over which it has taken security :*

- (a) *properties (i.e. real estate) should be valued on an 'as is' and (for development property) also on an 'as if complete' basis;*
- (b) *the responsible entity should have a clear policy on how often they obtain valuations, including how recent a valuation has to be when they make a new loan; and*
- (c) *the responsible entity should establish a panel of valuers and ensure that no one valuer conducts more than 1/3rd of the responsible entities valuation work for the scheme (other than for contributory mortgage schemes).*

### Statement by the Company

The company satisfies this benchmark.

Properties accepted as suitable for BMF investors will have been valued on an 'as is' basis by a valuer selected from the approved panel. The Fund does not include construction or sub divisional development property hence it does not require valuations on a 'cost to complete' basis.

The company has a clear valuation policy see 8.4 of this PDS.

Valuations are required to be less than 3 months old at the time of approval of the loan. Typically, a loan is conditionally approved subject to a satisfactory valuation completed under BML instructions. When the valuation is received it is reviewed against a valuation check list to ensure it is satisfactory.

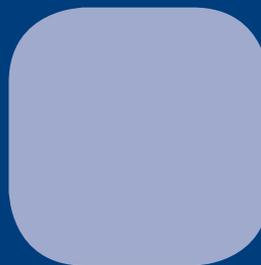
The Responsible Entity has established a panel of approved professional valuers. Criteria for admission to the approved panel include appropriate professional indemnity insurance cover, membership of a recognised professional body, expertise, proven experience and trustee consent.

### Benchmark 6 : Lending Principles - Loan-to-valuation Ratios

**ASIC states :** *A responsible entity of an unlisted mortgage scheme should maintain the following loan to value ratios for loans made by the scheme:*

- (a) *where the loan relates to property development, 70% on the basis of the latest 'as if complete' valuation; and*
- (b) *in all other cases, 80% on the basis of the latest market valuation.*

## 4. ASIC Benchmarks for Unlisted Mortgage Schemes *continued*



### Statement by the Company

The company satisfies this benchmark. The maximum loan to valuation ratio adopted by the company at the time of lending is 70% of the current 'as is' valuation.

As a matter of policy, construction or sub divisional development loans are excluded from the Fund.

### Benchmark 7 : Distribution Practices

**ASIC states:** *If an unlisted mortgage scheme is making or forecasts making distributions to members, the responsible entity should disclose:*

- (a) *the source of the current distribution (e.g. from income earned in the relevant distribution period, financing facility, application monies);*
- (b) *the source of any forecast distributions;*
- (c) *if the current or forecast distribution is not solely sourced from income received in the relevant distribution period; and*
- (d) *if the current distribution or forecast distribution is sourced other than from income, whether this is sustainable over the next 12 months.*

### Statement by the Company

The company satisfies this benchmark.

Income for each sub scheme is sourced from each respective borrower via interest repayments. The responsible entity acts as intermediary and collects the interest payments from each borrower and then pays the investors' interest entitlement. The name of the borrower and rate of interest to be paid to the investor is disclosed in the supplementary product disclosure statement.

BML underwrites the timely payment of your interest during the investment term, even if the borrower fails to make a payment on time. Should BML elect to cease underwriting of interest payments, 1/3rd of any subsequent default interest collected from the borrower will be passed on to the investor. Interest entitlements will continue to be accrued by BML at the prescribed fixed or variable investor sub scheme interest rate. When the interest default is remedied BML will distribute the outstanding accrued interest to the respective investors. If a property sale is effected and the amount received is less than the loan amount and outstanding interest and costs then the investor risks receiving a reduced interest entitlement.

### Benchmark 8 : Withdrawal Arrangements

**ASIC States:** *A responsible entity of an unlisted mortgage scheme should provide details of whether investors will be able to withdraw from a scheme. If investors are given the right to withdraw from a scheme, the responsible entity should clearly disclose:*

- (a) *the maximum withdrawal period allowed under the constitution for the scheme (this disclosure should be at least as prominent as any shorter withdrawal period promoted to investors);*
- (b) *any significant risk factors or limitations that may affect the ability of investors to withdraw from the scheme (including risk factors that may affect the ability of the responsible entity to meet a promoted withdrawal period);*
- (c) *the approach to rollovers, including whether the 'default' is that investments in the scheme are automatically rolled over; and*
- (d) *if withdrawals from the scheme are to be funded from an external liquidity facility, the material terms of this facility, including any rights the provider has to suspend or cancel the facility.*

### Statement by the Company

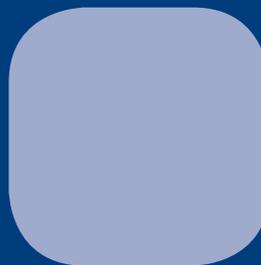
The company satisfies this benchmark.

Details of the withdrawal period, limitations affecting withdrawals, approach to rollovers and liquidity facility are explained in more detail in sections 6.12 and 6.15 of this PDS.

However the key points are as follows:-

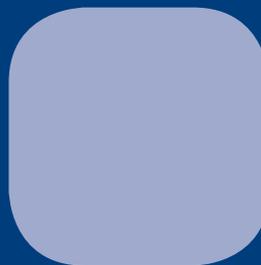
- There is no entitlement to withdraw your investment during the investment term. BML will consider requests for withdrawals in cases of unforeseen exceptional circumstances or hardship.
- BML practices an automated rollover process. Upon receipt of a renewal letter you have 14 days from that date to notify BML in writing of your intention to withdraw part or all of your investment. If no request is received BML will automatically renew your investment on the terms offered.

## 5. Investment Overview



First Mortgage Security:	The Fund is a registered managed investment scheme offering you the opportunity to invest directly into a specific loan secured by a first registered mortgage over real property in Australia. Details of available investments may be obtained by contacting BML or one of its Authorised Representatives (refer 6.7 How do I make an investment?).
Fixed or variable interest rate:	Interest rates may be fixed for the Investment Term, or variable, according to the specific Sub-Scheme investment selected.
Minimum investment amount:	\$10,000, however the minimum (and maximum) investment amount is subject to the discretion of the Fund Manager.
Investment Term:	Subject to the specific mortgage Sub-Scheme selected but usually for a maximum of 24 months.
Interest payment frequency:	Monthly or quarterly in accordance with the selected mortgage Sub-Scheme. (The majority of Sub-Schemes involve monthly interest payments).
Interest payment method:	Direct credit to a nominated account is the preferred and most secure form of payment.
Interest Underwritten:	BML underwrites the timely payment of interest to investors for the Investment Term. (refer FAQ 6.13 What happens if the borrower is late with repayments?).
Application and withdrawal fees:	Nil (refer Section 7 Fees and other Costs).

## 6. Frequently asked Questions (FAQ's)



*The answers to these FAQs are provided as a guide to investment in the Fund.*

*Should you have any further questions concerning the operations of the Fund after reading this PDS in its entirety, please contact Banksia on 1800 333 114.*

*Our representatives are able to assist you with factual information about investing in this product. They are not authorised to provide personal financial advice.*

*BML recommends that you obtain financial product advice from an independent financial adviser who has a professional understanding of your personal financial needs, circumstances and objectives.*

### 6.1 What is a contributory mortgage fund investment?

Specific mortgage loans from the BML loan portfolio are made available to investors, providing a fixed term investment secured by a first registered mortgage over real property in Australia.

Each individual loan constitutes what is referred to as a Sub-Scheme, which is distinct from any other Sub-Scheme in the Fund. A Sub-Scheme or loan may have more than one investor.

Entitlement to income or capital is based entirely on an investment in a chosen Sub-Scheme. There are no rights to the income or capital of the other Sub-Schemes which collectively make up the Fund.

There is no cooling-off period for applications and there is no right to withdraw from a Sub-Scheme after an application has been accepted by BML (refer 6.12).

### 6.2 How secure is a mortgage investment?

Return of capital invested in the Fund is not guaranteed. However the Fund's conservative investment strategy and BML's strong loan assessment and prudential standards are specifically designed to minimise capital risk.

Your investment is secured by a first registered mortgage over property which is the subject of an independent valuation obtained at the time of loan approval. The LVR for each Sub-Scheme is disclosed as part of the application process.

Loans for construction and sub-divisional development are expressly excluded from the Fund.

Factors you should consider in deciding to invest in the Fund include BML's competence in loan sourcing and servicing, the borrower's continued ability to service a loan, fluctuations in the property market, the influence of market interest rate movements and the state of the general economy.

Risks are discussed in more detail in Section 8 Risk Management.

### 6.3 What return will I receive on my investment?

The interest rate, which is agreed with you prior to commencement of the investment, may be either fixed for the term of the investment, or variable according to the terms of the particular Sub-Scheme investment selected. Variable rates are subject to adjustment throughout the term of the investment at the discretion of the Fund Manager, but generally in accordance with Official interest rate movements.

The interest rate offered may differ between individual investors in the same Sub-Scheme.

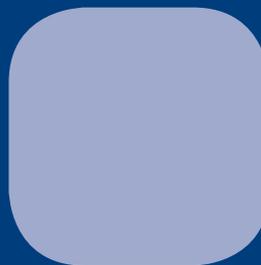
### 6.4 What fees will I be charged to invest in the Fund?

No application, withdrawal or on-going fees or charges are imposed on investors in the Fund, provided the investment is held to maturity (refer Section 7 Fees and other costs).

### 6.5 Who can invest in the Fund?

Investments are open to individuals, partnerships, trusts and incorporated bodies.

## 6. *Frequently asked Questions (FAQ's) continued*



### 6.6 Are there any taxation issues?

BML is not authorised to provide taxation advice. However, it is our understanding that all interest paid from the Fund becomes part of your assessable income in the financial year to which it relates. It is recommended that you consult your own tax adviser if you are unsure of your situation.

You do not have to provide a Tax File Number (TFN) with your application. However if a TFN is not provided or a valid exemption claimed, Banksia is compelled to deduct TFN Withholding Tax at the highest marginal tax rate, plus the Medicare Levy from your interest payments for remittance to the Australian Taxation Office.

Investors who are non-residents of Australia will have withholding tax deducted from their interest payments at the applicable rate, currently 10%.

### 6.7 How do I make an investment?

Details of available Sub-Scheme investments may be obtained by contacting BML or one of its Authorised Representatives at a Banksia branch, or freecall 1800 333 114 (refer section 10 Corporate Directory).

If a Sub-Scheme is selected by you, we will provide you with an Application Form setting out full details of the proposed investment.

### 6.8 What information do I receive?

The Application Form will provide the following information about a Sub-Scheme:

- details of the Sub-Scheme Property offered as security;
- the principal sum secured;
- the interest rate paid by the borrower;
- the LVR;
- the Investment Term;
- the investment interest rate and payment frequency;
- BML's management fee, applicable to the particular Sub-Scheme.

A copy of an independent valuer's report on the Sub-Scheme Property is also provided.

A detailed Certificate of Investment is issued following acceptance of an application by BML.

### 6.9 When does the investment commence?

The Investment Term will commence on the day the completed Application Form and the investment funds are processed by BML.

If the application is received after 4pm it may not be processed until the next business day.

### 6.10 What is the interest payment procedure?

In most cases interest is paid on the 20th day of each month. Some loans in the Fund have been negotiated with quarterly interest payments. Investors in these loans will receive interest on the 20th day of the month in which the loan interest payments are due.

The first interest payment is paid for the number of days from the Commencement Date to the first payment date. If the payment date falls on a weekend, interest is paid on the next business day in Victoria.

Apart from the first payment, monthly interest will be 1/12th of the annual interest amount and quarterly interest will be 1/4th of the annual interest amount.

BML's preferred method of payment is via direct credit to your nominated bank account.

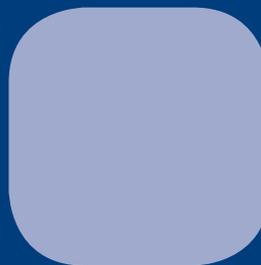
We will provide written confirmation of payment of interest, plus an end of financial year summary for taxation purposes.

### 6.11 Can I add to an existing investment?

You may add to an existing Sub-Scheme investment subject to availability and at BML's discretion. If accepted, the interest rate for the additional investment will be the same as the interest rate for the initial investment.

Completion of a new Application Form will be required for additional investments.

## 6. *Frequently asked Questions (FAQ's) continued*



### 6.12 Am I able to withdraw my investment early?

There is no entitlement to withdraw an investment during the investment term. The Fund Manager will give consideration to requests to withdraw the whole or part of an investment during the investment term in cases of unforeseen exceptional circumstances or hardship and where a replacement investor is available.

As such events create the need to find replacement investors for the Sub-Scheme, an Early Withdrawal Administration Fee and interest adjustment may apply. This is calculated on the basis explained in the Fees and Other Costs section on page 12.

### 6.13 What if the borrower is late with payments?

BML underwrites the timely payment of your interest during the Investment Term, even if the borrower fails to make a payment on time. Underwriting of interest payments may continue beyond the investment term if there is a delay in the return of your capital in situations where the borrower is arranging refinance or sale of the property to repay the loan.

Borrowers in default are generally charged interest at a higher rate, which is retained by BML. Should BML elect to cease underwriting of the interest payments after the investment term, any subsequent default interest collected from the borrower will be passed on to the investors in the Sub-Scheme on repayment of the loan. You will be notified if underwriting of interest payments is discontinued.

BML takes prompt action to protect investors interests where a borrower defaults on loan payments (refer Section 8.5 Loan Management).

### 6.14 What if a borrower repays the loan or makes a partial principal repayment before the loan Review Date?

Repayment of a loan by the borrower prior to the scheduled investment term may occur in situations which are often outside the control of the Fund Manager (eg. sale of a security property by the mortgagor).

Under the terms and conditions of the loan approval, early repayment of a fixed interest loan may attract an additional interest charge which will be passed on to all investors in the Sub-Scheme as recompense for early termination of their investment. The same does not apply to variable rate loans where early repayment is permitted by the loan agreement.

BML will only consent to the partial release of security when satisfied with the valuation of the remaining security and the LVR.

You will be informed of any such change to your Sub-Scheme investment and you will have the opportunity to withdraw your funds without attracting an Early Withdrawal Fee, or to select another mortgage investment. Otherwise, in the case of partial loan repayments, the principal returned will be distributed to the investors in a manner determined by the Fund Manager.

Pending receipt of your written instructions, your funds will be held in Banksia Securities Limited and will earn the Fund's cash management interest rate.

### 6.15 What happens on expiry of the Investment Term?

Approximately 21 days prior to expiry of the Investment Term, we will write to invite you to renew your investment in the Sub-Scheme, subject to satisfactory completion of the formal loan renewal process with the borrower. Our letter will quote an indicative interest rate for a further Investment Term.

Unless you have indicated your intention to withdraw your investment at the investment term, a Renewal letter detailing the new investment term date and interest rate will be forwarded on completion of the loan renewal process. Also a current PDS if one has not been already provided.

Upon receipt of a renewal letter you have 14 days from that date to notify BML in writing of your intention to withdraw part or all of your funds invested in the sub scheme. If no withdrawal request is received within that 14 days period BML will automatically renew your investment on the terms offered.

If BML declines to renew the loan or the borrower indicates that the loan will be repaid, repayment of your investment may not be immediately available until the loan repayment is effected. In this situation we will write to advise you of an estimated timeframe for repayment. Interest will continue to accrue on your investment beyond the investment term, until the loan is repaid.

We will contact you when your funds become available for either withdrawal, or reinvestment in another available Sub-Scheme investment. Pending receipt of written disbursement instructions from all signatories to the investment, your funds will be held in Banksia Securities Limited where they will earn the funds cash management interest rate.

# 7. Fees and Other Costs



## This section sets out the fees and other costs associated with an investment in the Fund.

The Consumer Advisory Warning shown below is required by Law in the form that it appears, to alert investors to the compounding impact of fees and costs on the value of their savings over time. The example shown in the warning is not intended to represent an investment in the Fund offered in this PDS.

### CONSUMER ADVISORY WARNING.

#### DID YOU KNOW?

Small differences in both investment performance and fees and costs can have a substantial impact on your long term returns.

For example, total annual fees and costs of 2% of your fund balance rather than 1% could reduce your final return by up to 20% over a 30 year period. (for example, reduce it from \$100,000 to \$80,000).

You should consider whether features such as superior investment performance or the provision of better member services justify higher fees and costs.

You may be able to negotiate to pay lower contribution fees and management costs where applicable. Ask your fund or financial adviser.

#### TO FIND OUT MORE

If you would like to find out more, or see the impact of fees based on your own circumstances, the Australian Securities and Investments Commission (ASIC) website, ([www.fido.asic.gov.au](http://www.fido.asic.gov.au)) has a managed investment fee calculator to help you check out different options.

Type of Fee or Cost	Amount	How and when paid
<b>Investment Establishment Fee:</b> The fee to set up your account in the Fund.	Nil	
<b>Contribution Fee:</b> The fee for the initial and any subsequent investment you make to the Fund.	Nil	
<b>Withdrawal Fee:</b> This is the fee charged for each withdrawal you make from the Fund.	Withdrawals at the completion of the Investment Term - Nil;  Early Withdrawal Fee <sup>1</sup> - for each withdrawal from a Sub-Scheme prior to the investment term (subject to the Fund Manager's approval) - 1% (eg. \$50 per \$5,000 withdrawn) plus additional interest resulting from any need for the Fund Manager to offer a higher interest rate to attract a substitute investor for the remaining investment term of the Sub-Scheme.	Any Early Withdrawal Fee will be deducted from the amount withdrawn.
<b>Termination Fee:</b> This is the fee when you close your account with the Fund.	Nil	
<b>Ongoing Fees:</b> This is the total of all on-going administration, investment management, expense recovery and other fees charged by the Fund <sup>2</sup> .	Not more than 2.90%pa of each individual Sub-Scheme loan amount.	This fee consists of the difference between the interest rate paid by the borrower to BML and the rate paid to the investor in the Sub-Scheme by the Fund.
<b>Service Fees.</b>	Nil	

# 7. Fees and Other Costs continued



## <sup>1</sup> Early Withdrawal Fee

Depending on movements in market interest rates after the date of the initial investment, the Fund may need to offer higher investment rates to attract a substitute investor if any request for early withdrawal of an investment is permitted. If the underlying mortgage loan interest rate is fixed for the term of the loan, any additional cost in funding the loan as a result of agreeing to an early withdrawal is covered by the Early Withdrawal Fee.

e.g: Early withdrawal in full after 10 months of a 24 month investment of \$50,000 @ 6.25%, where market interest rates have risen by 0.25% since the initial investment. In such a case and depending on market factors, it may be necessary for the Fund to offer 6.5% to attract a substitute investor for the remainder of the term.

The Early Withdrawal Fee in this situation would be calculated as follows:

\$50,000 @ 1%	=	\$500.00,
\$50,000 @ 0.25%pa x 14 months	=	<u>\$145.83</u>
Total		\$645.83

The above example is provided for illustrative purposes only.

## <sup>2</sup> Fund management costs not deducted directly from investors' accounts

Management costs are paid from the margin between the interest rate charged by BML to a borrower for an individual mortgage loan and the interest rate paid to investors in that mortgage. The interest rate charged to individual borrowers varies according to a number of factors. This margin pays for all administration, staff and general office expenses, marketing and advertising, government and bank charges, the cost of licensing, preparation of Product Disclosure Statements and compliance with regulatory requirements.

Borrowers may also pay additional interest to cover trailing commissions to their mortgage broker, the rate of which is negotiated between the broker and the borrower and which is collected and paid by BML to the broker during the term of the loan.

BML pays trailing commissions to some financial planners, external authorised representatives and licensed dealers for placing their client's investment funds into the Fund. These commissions are at a rate not exceeding 0.35%pa of the amount of the mortgage investment, plus GST (eg. \$175.00 per annum for a \$50,000 investment).

Members of IFSA and the Financial Planning Association (FPA) are required to comply with the IFSA/FPA Industry Code of Practice on Alternative Forms of Remuneration and maintain a publicly available register of all alternative forms of remuneration of material value either paid or received. "Material" is defined in the code as over \$300 in value. As a member of IFSA, Banksia complies with this Code.

In addition, BML may receive the following fees and costs from borrowers:

### Loan Renewal Fee.

This fee contributes to the cost of reviewing the performance of the borrower, obtaining up-to-date financial statements, assessment and credit processes, instructing valuers and solicitors and corresponding with investors about their investment. The Loan Renewal Fee will not exceed the greater of \$250 or 0.40%pa of the loan amount.

### Loan Default Interest.

BML may charge borrowers a higher interest rate on the loan balance if the loan is in default. The higher rate will not exceed the loan interest rate by more than 3%. This default interest reimburses BML for the cost of funding the investor interest payment on time throughout the Investment Term, regardless of any overdue borrower interest payments. It also provides for the cost of operating a default management department including staff, office expenses and, where necessary, the cost of managing a default and realisation of security property. Should a loan default situation arise and the recovery procedure extend beyond the term of the loan, investor interest underwriting (as described in section 6.13 on page 11) may no longer apply. In this event, BML will pass on 1/3rd of the loan default interest to the investors in the particular Sub-Scheme.

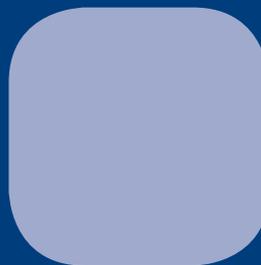
### Other Loan Expense Recovery.

BML charges borrowers fees for attending to dealings involving mortgaged security properties during the term of a loan, such as where it is necessary to produce a title to a property for dealings or to arrange for a partial discharge of a mortgage.

BFG Management Pty Limited (BFG), a related company, charges the borrower a Loan Establishment Fee according to the complexity and competitiveness of the loan, to a maximum of 1.5% of the loan amount. These fees, which may be shared with introducing brokers, pay for the cost of servicing the loan sourcing network, advertising, the loan application assessment and approval process, instructing valuers and solicitors and advancing the loan.

BFG may receive a 0.25% brokerage fee, which is paid by the borrower in addition to the loan interest rate where the loan is directly sourced by Banksia's lending staff.

# 8. Risk Management



## 8.1 Risk Management Program

A comprehensive risk management program is operated by Banksia. The standard set in AS/NZS 4360 is used as a guide for the program. Select committees are appointed from responsible personnel to develop risk management in areas such as regulatory requirements, insurances, lending, economic risk, environment and hazards, public liability, human resources, occupational health and safety, security, technology. Sources of risk are identified and strategies developed to counter risks. The action which results flows to policy and procedure adjustments throughout Banksia's operations.

In managing risk to investors, Banksia operates in accordance with practices and procedures which include:

- appropriate due diligence during the loan assessment and credit approval process;
- a registered Constitution and Compliance Plan;
- a Compliance Committee comprising a majority of external members;
- a Compliance Plan auditor;
- a Mortgage Fund auditor;
- a Board Credit Committee;
- a Board Audit Committee chaired by an external person;
- an Anti Money Laundering/Counter Terrorist Financing Program.

The program requires, as a minimum, quarterly meetings of all committees, continuous action and review of risks. It is central to Banksia's policy of continuous improvement. The Managing Director is involved in all facets of the program and reports to the Board twice yearly on the operation and detail of the program.

## 8.2 Mortgage Loans Selection

All mortgage loans in the Fund are assessed on prudent lending criteria and suitability of the security property (see 8.3 Loan Assessment).

Investors are offered the opportunity to select a mortgage loan investment from a broad range of securities across residential, commercial, rural and industrial sectors, mostly situated throughout the eastern states of Australia.

The Fund, as a matter of policy does not invest in construction or subdivisional development loans.

*As at 10th November, 2008 2 scheme loans with outstanding balances of \$4,740,000 were in arrears more than 60 days. Legal action has been commenced in both cases and BML expects to recover the full outstanding balances.*

## 8.3 Loan Assessment

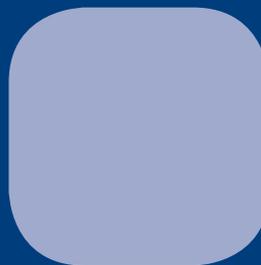
BML has a fully documented lending policy and loan assessment procedure, the development and implementation of which is overseen by a Board Credit Committee. Authority to approve loans is delegated in accordance with a tiered system of approval authorities granted to the Board Credit Committee, Loan Approval Committee and Senior Lending Managers.

All loans selected for inclusion in the Fund have met Banksia's requirements for the applicant to demonstrate capacity to service the loan. Credit checks are obtained. If the purpose of the loan is to refinance other lenders, evidence of satisfactory conduct of these loans is required.

LVR's are applied according to BML's formal lending policies. The category of loan and type of security property influences the setting of the LVRs which is disclosed to the investor in the SPDS.

# 8. Risk Management

## *continued*



### 8.4 Valuation Procedures

Property for mortgage security is required to be valued by a professional independent valuer who is appointed to the BML panel of valuers. This panel is subject to continuous review. Valuers appointed are required to hold membership of a recognised professional body and appropriate professional indemnity insurance.

Valuers are selected for their recognised expertise in particular property categories. They are required to adopt the professional standards set by the Australian Property Institute relevant to valuations for mortgage security purposes.

Instructions to valuers are specific to the property type and require particular criteria to be met. For example: there are no conflicts of interest involved; the valuer has been instructed independently of the property owner; the property provides suitable security for mortgage lending purposes; the valuation represents current market value.

Subject to prudential lending policy, current Municipal valuations in Victoria may be accepted where the LVR ratio does not exceed 50%.

### 8.5 Loan Management

BML has a professional and experienced team administering its mortgage loans. The operations are extensively computerised and collection of payments from borrowers and disbursement of investor interest utilises the Bulk Electronic Clearance System for efficiency. The renewal of a loan is effected having due regard for the borrowers credit history and the same prudential lending parameters as with new approvals.

BML operates a dedicated default management department. A Default Management Committee comprised of senior personnel meets weekly to review arrears. Discretion is applied in deciding the action to be taken and the timetable to apply to a default situation. Generally, legal proceedings to enforce the conditions of the mortgage and any collateral securities such as personal guarantees are commenced if the borrower is in arrears by more than 60 days.

BML also applies dedicated resources to the area of Sub-Scheme property insurance. At the time of funding of a loan, evidence of adequate replacement Fire and General insurance is obtained, with the mortgagee's interest noted.

There is daily monitoring of the expiry of policies. In the event that a borrower fails to provide evidence of renewal of an insurance policy, BML takes action on the borrower's behalf to ensure that a replacement policy is issued.

BML maintains a special insurance policy to support these procedures in the unlikely event of an omission in the renewal procedures.

### 8.6 Capital Risk

Investments in the Fund are not capital guaranteed. During the life of a mortgage loan, factors outside the control of BML such as economic cycles, property market conditions, government policy, inflation and general business confidence can affect property values and a borrower's ability to continue to service a loan.

If a security property is required to be sold to recover a debt, investors' capital may be diminished if the sale fails to realise sufficient funds to satisfy the loan balance and the capitalised interest and costs. Capital relating to mortgages held in other Sub-Schemes in the Fund is not available to make up any such loss.

Where a mortgage loan is not renewed, the return of investment capital may be delayed until the loan is either re-financed or repaid. Interest is charged to the time of repayment of the loan (see section 6.15).

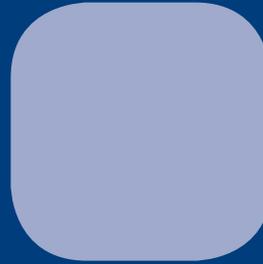
BML manages capital risk by applying its conservative lending policies, efficient collection and management systems and the Fund's compliance program. All mortgage loans and valuations are subject to periodic review.

### 8.7 Income Risk

Should a loan default situation arise and the recovery procedure extend beyond the term of the loan, interest underwriting by BML may no longer apply (see Section 6.13). In this event, all interest payments beyond the term of the loan may be dependant upon successful recovery of capital, interest and costs on the sale of the security property or refinancing of the loan.

# 8. Risk Management

## *continued*



### 8.8 Exposure Risk

Your entitlement to income or capital return is based entirely on your investment in a chosen Sub-Scheme. There are no rights to the income or capital of any other Sub-Schemes, which collectively make up the Fund.

Subject to the minimum investment of \$10,000 for each Sub-Scheme investment, many of Banksia's investors choose to spread their investments across a range of Sub-Schemes, with diversified securities (eg: residential, commercial, rural etc.)

### 8.9 Market Risk

This refers to a risk that negative movements in the overall real estate market may impact on the capacity to fully recover the amount owing on a mortgage in the event of a default situation.

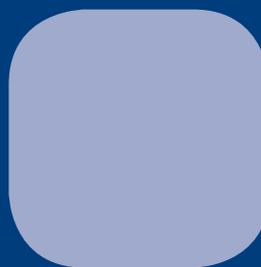
Market risk is managed via daily monitoring of market conditions and is a function of credit management within the loan approval process. These procedures determine the impact on Banksia's operations at the point of individual loan approvals.

Banksia monitors daily general economic conditions and receives regular reports on broad aspects of the Australian economy and the effect of market and other events on various categories of industries and properties.

### 8.10 Regulatory Risk

The Fund's operations may be negatively impacted by changes to government policies, regulations and taxation laws. Although unable to predict future policy changes, BML applies dedicated resources through its risk management and compliance programs to monitor and manage regulatory change.

# 9. Additional Information



## 9.1 The Constitution

The Fund's Constitution provides the framework for the operation of the Fund. It also sets out our relationship with you, the investor. We have listed some of the provisions of the Constitution to assist you to decide whether to ask us for a copy of the Constitution. If you ask us for a copy we will provide you with one free of charge whether you are a Fund member or not.

Some provisions have been discussed in other parts of this document and some other provisions include:

- our role as custodian of the Fund operation;
- BML's powers, obligations and rights as the Responsible Entity of the Fund;
- your rights as a member of the Fund eg: to amend the Constitution, to transfer your interest;
- the duration and winding up of the Fund;
- the complaints procedures for members;
- how the Constitution may be amended;
- the legal enforceability of the Constitution;
- a description of the Fund operation;
- the risk management features of the Fund's operation;
- the giving of notices;
- the provisions for retirement or replacement of the Responsible Entity.

Under The Corporations Act, the Fund's Constitution is required to be contained in a legally enforceable document and to be lodged with ASIC as part of the Fund's registered documents. The Constitution is the main source of BML's relationship with Fund members.

## 9.2 Compliance

The Fund has a Compliance Plan lodged with ASIC as part of the registered Scheme documents. This Plan describes the compliance structure of the Fund, the lines of responsibility and the duties of all personnel in ensuring the Fund is operated in accordance with the Corporations Act, the Constitution and BML's licence.

A Compliance Committee oversees the Fund's procedures and monitors the Responsible Entity's performance under the Compliance Plan. The Compliance Committee has a majority of its members external to BML.

The Compliance Plan and Fund compliance is also subject to audit by an approved registered company auditor who is required to prepare an audit report annually. The report is lodged at ASIC with BML's financial statements.

The Compliance Plan is reviewed annually and where amendments are approved by the Board of Directors, a consolidated plan is lodged at ASIC.

## 9.3 Custodian

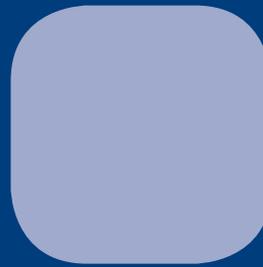
The custody of the Fund's property is the responsibility of BML approved as Fund property custodian. The duties of custodian are described in the Compliance Plan and are subject to monitoring by the Compliance Committee.

## 9.4 Consents

Standard & Poor's has given and not withdrawn its written consent to be named as the provider of a Servicer Evaluation Opinion on the mortgage portfolio manager, Banksia Mortgages Limited, for reference in this PDS as set out in Section 2 in the form and context in which it is included. Standard & Poor's has not been involved in the preparation of any other part of this PDS and has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of this PDS.

# 9. *Additional Information*

## *continued*



### 9.5 Privacy and Confidentiality

The information requested in the investment Application Form and supplied by you is collected and stored by Banksia and is used for the primary purpose of establishing and administering your investment. You may request access to the information held about you and your investment and you are asked to advise Banksia of any changes to such information you have provided.

Banksia may disclose your information (or parts of it) to government agencies who may lawfully request information from time to time, but only where we are required by law to do so. BML may also disclose your information to external parties on your behalf such as your financial adviser, unless you have instructed otherwise.

Banksia also discloses your personal information to its service providers to enable the printing, distribution and administration of documentation related to our product. BML and its related bodies corporate may use your information, on occasions, to inform you about their other services or products offered. You may elect to stop receiving such information at any time. BML may not be able to provide you with the investment products described in this document if you do not provide the personal information sought.

Further information about our privacy policy is made available on our website [www.banksiagroup.com.au](http://www.banksiagroup.com.au).

Please contact our legal department on (03) 9602 0000 if you wish to update or request access to your information or if you have any questions regarding our privacy policy.

### 9.6 Labour Standards, Environmental, Social or Ethical Considerations

BML has a specific policy addressing environmental risk in relation to its lending practices, which it applies through its loan approval controls. Our aim is to avoid taking a security interest in, or becoming the lessor, trustee or owner of property, assets or a business which pose or may pose a threat to health, the environment or the community. The policy requires our loan managers to assess applications and valuation reports for certain excluded activities that may cause environmental harm or breach environmental law.

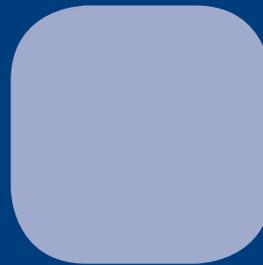
Property valuers are requested to comment in their reports on observable or known site contamination and to make appropriate enquiries of relevant statutory authorities as to the history or previous use of the site.

BML may seek legal advice should any breach, or potential breach of environmental legislation in relation to a property held as security for a loan come to its attention.

BML seeks to protect its reputation by ensuring that its lending practices incorporate social and ethical responsibility as part of its corporate governance framework.

Labour standards are not usual criteria when BML assesses a loan application. BML has no predetermined view about what it regards as a labour standard. However any issue that comes to its attention that may impact the financial viability of a proposal may be taken into consideration.

## 9. *Additional Information* *continued*



### 9.7 Complaints

BML operates an internal complaints procedure to which all customer complaints should be initially referred.

Complaints should be directed to the nearest Banksia branch or the Administration Manager at the Administration Centre of:

The Banksia Financial Group  
PO Box 888  
Kyabram VIC 3619  
Telephone (03) 5852 3344

If the outcome in the customer's view is not satisfactory, assistance can be sought from the Financial Ombudsman Service. This external service is established as an objective body to hear unresolved complaints. Banksia is a registered member of this service.

Details of requirements to access this service are available at Banksia branches or contact that body direct at GPO Box 3, Melbourne, Victoria 3001 (Telephone 1300 780 808).

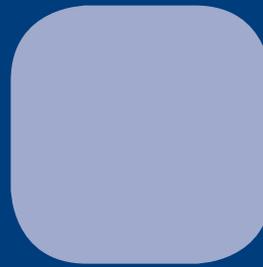
### 9.8 Directors' Consent

Signed on behalf of the directors of BML all of whom have consented to the issue of this Product Disclosure Statement.

Patrick J. Godfrey

Managing Director

# 10. Corporate Directory



## Head Office

The Banksia Financial Group  
Level 5, 415 Bourke Street  
Melbourne Vic 3000  
DX 30870, Stock Exchange  
Tel 03 9602 0000  
Fax 03 9640 0017

## Administration Centre and Registered Office

The Banksia Financial Group  
157 Fenaughty Street,  
Kyabram Vic 3620  
DX 62005, Kyabram  
Tel 03 5852 3344  
Freecall 1800 333 114  
Fax 03 5853 2882 or 03 5853 2277  
info@banksiagroup.com.au

## Other Principal Places of Business

The Banksia Financial Group  
Level 1, 237 Hutt Street,  
Adelaide SA 5000  
DX 277, Adelaide  
Tel 08 8227 1966  
Fax 08 8227 1964

The Banksia Financial Group  
Shop 2, 611 Dean Street,  
Albury NSW 2640  
DX 5808, Albury  
Tel 02 6021 7706  
Fax 02 6021 7701

The Banksia Financial Group  
334 Sturt Street, (Cnr. Sturt & Doveton Streets)  
Ballarat Vic 3350  
DX 35003, Ballarat  
Tel 03 5338 7333  
Fax 03 5338 7222

The Banksia Financial Group  
Level 4, Suite 246, 813 Pacific Highway  
Chatswood NSW 2067  
DX 29599, Chatswood  
Tel 02 9419 2388  
Fax 02 9419 8799

The Banksia Financial Group  
c/o Century 21  
128 Hare Street,  
Echuca Vic 3564  
DX 62502, Echuca  
Tel 03 5482 3433  
Fax 03 5482 6115

The Banksia Financial Group  
199 Moorabool Street,  
Geelong Vic 3220  
DX 22107, Geelong  
Tel 03 5221 7599  
Fax 03 5221 9451

The Banksia Financial Group  
284 Wyndham Street,  
Shepparton Vic 3630  
DX 63030, Shepparton  
Tel 03 5831 8881  
Fax 03 5831 5311

The Banksia Financial Group  
Shop 2, 161 Koroit Street,  
Warrnambool Vic 3280  
DX 28035, Warrnambool  
Tel 03 5560 5818  
Freecall 1800 648 785  
Fax 03 5560 5622

## Auditors and Independent Accountants

MB+M Business Solutions  
23 Nixon Street  
SHEPPARTON VIC 3630

Richmond Sinnott & Delahunty  
172 McIvor Road  
BENDIGO VIC 3550

## Solicitors to the Company

Morrison & Sawers  
157 Fenaughty Street  
Kyabram Vic 3620

Harwood Andrews Lawyers  
70 Gheringhap Street  
Geelong Vic 3220

Heinz & Partners Lawyers  
6 Dawson Street North  
Ballarat Vic 3350

Maddens Lawyers  
1a Liebig Street  
Warrnambool Vic 3280