

14 December 2012

Dear Investor

Banksia Mortgage Fund (ARSN 089 852 246)
Responsible Entity: Banksia Mortgages Limited

As you may be aware, Receivers and Managers were recently appointed over the assets of two companies in The Banksia Financial Group, namely Banksia Securities Limited (**BSL**) and Cherry Fund Limited (**CFL**).

Other parts of The Banksia Financial Group, including the Banksia Mortgage Fund (**BMF**) in which you have invested, and the responsible entity of BMF, Banksia Mortgages Limited (**BML**), are not currently in any form of external administration. As such, BML continues to operate BMF and to manage BMF's underlying mortgage investments. However, the current circumstances affecting other parts of The Banksia Financial Group have restricted BMF's capacity to generate new investments for our investors.

BML is committed to preserving value for BMF investors, and is currently considering various options and strategies to regenerate BMF so that it can continue to offer investment opportunities for BMF investors. Until then, there will be some changes to the automated rollover process described in the BMF Product Disclosure Statement (**PDS**). The purpose of this letter is to inform you of those changes.

Until further notice, the following procedures relating to maturing loans will apply:

1. As an investor in BMF, you have an interest in one or more specific mortgage loans.
2. Net interest payments on current loans will continue to be paid to you on a monthly or quarterly basis. In accordance with the BMF PDS, BML will continue to underwrite the payment of your interest during your investment term, should the borrower fail to make a payment on time. In those circumstances, BML will continue to retain any default interest collected from the borrower.

Head Office

Level 14, 461 Bourke Street
Melbourne Vic 3000
GPO Box 5314
Melbourne Vic 3001
DX 30870
Melbourne Stock Exchange
Tel 03 9602 0000
Fax 03 9640 0017
melbcity@banksiagroup.com.au

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

3. The automated rollover process described in the BMF PDS will no longer apply. Instead, any loan in which you are invested will not be renewed upon its maturity.
4. The borrower will be required to repay the loan upon its maturity. In the event the loan is not repaid by its maturity date, provided the borrower continues to make interest payments, your entitlement to interest continues until repayment of the loan is completed.
5. In the event the loan is not repaid by its maturity date and the borrower fails to make interest payments on time, your monthly or quarterly interest will not be paid. In those circumstances, BML has no obligation to, and will not, underwrite interest payments to investors, and any default interest collected from the borrower will be passed on to the investors on repayment of the loan.
6. Interest entitlements will continue to accrue until the loan is repaid. If sufficient funds are recovered upon repayment of the loan (or, if necessary, upon enforcement of the loan), you will be entitled to receive your share of the interest recovered (as well as your share of the principal).

The procedures described above are intended to minimise any disruption that may otherwise be caused by the appointment of Receivers and Managers to other parts of The Banksia Financial Group, pending the implementation of a strategy to regenerate BMF.

BML is continuing to work with the Receivers and Managers in relation to certain transitional issues affecting BMF, which have arisen as a consequence of the BSL receivership. For example, as noted in the PDS, BMF has an at-call debenture facility with BSL, in which it holds repayment proceeds and interest payments pending reinvestment or repayment to the investor. Because of the appointment of Receivers and Managers to BSL on 25 October 2012, any such funds that were held in the BSL facility as at 25 October 2012 have not been able to be accessed by BML.

On 7 December 2012, the Receivers and Managers of BSL made their first distribution to BSL debenture holders (including BML), representing 20 cents in the dollar on debenture holders' investments, and estimated a total repayment to BSL debenture holders of between 50 and 65 cents in the dollar. Net amounts received by BML from the BSL debenture account will be passed on to the relevant investors.

Funds paid into the BSL facility since 25 October 2012 are not subject to these restrictions. This means that any loan repayments and interest payments from borrowers into the BSL facility since 25 October 2012 can be accessed by BML to pass on to the relevant investors.

BML will keep BMF investors updated of any significant developments as they occur, including via The Banksia Financial Group website which can be accessed at www.banksiagroup.com.au

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

Yours faithfully,

A handwritten signature in black ink, appearing to read "WJ Shaw".

Warren Shaw

Chief Executive Officer