Richmond Mortgage Fund
ARSN 097 151 883

31 DECEMBER 2011 BENCHMARKS

ASIC Regulation

In September 2008 ASIC introduced Regulatory Guide 45: Mortgage schemes – improving disclosure for retail Investors. The regulatory guide sets out a benchmark to help retail Investors understand the risks, assess the rewards being offered and decide whether the investment is suitable for them.

A paper copy of any updated information will be given to you, without charge, on request by calling our Investor Services Team on 02 66 866 055.

ASIC Benchmark 1 : Liquidity

This benchmark addresses a mortgage fund's liquidity; i.e. the ability to meet withdrawal requests. Liquidity of a mortgage fund may be a risk as the underlying assets of such a fund (being mortgages over real property) may not be easily realised within the required period of time and there can be a mismatch between such a fund's cash flows and the amount and size of withdrawal requests received from Investors.

Description

Has the Benchmark been met? – Yes

The Responsible Entity prepares six month cashflow estimates for the Fund. These cashflow estimates assist the Responsible Entity in determining the projected cashflow requirements of the Fund and anticipating withdrawals from the Fund. These forecasts have been undertaken based on:

- the historical financial performance of the Fund;
- anticipated expenses;
- anticipated withdrawal requests (based on historical performance and adjusted for anticipated withdrawals); and
- scheduled loan interest and principle payments.

It has been the policy of the Responsible Entity to use the above information and forecasts to balance the maturity of loan investments with anticipated withdrawals and liabilities.

The Fund is currently operating as a non-liquid managed investment scheme. This means an investor's ability to withdraw money from the Fund is limited to periodic withdrawal offers made by the Responsible Entity to Richmond Income investors.

ASIC Benchmark 2 : Scheme Borrowing

This benchmark addresses a mortgage fund's policy on borrowings, including details of any borrowing facilities in place and for what purposes any borrowings would be used. Mortgage funds with high levels of borrowing face the risk that Distributions will not be paid or withdrawals may be suspended so the fund can pay back the borrowings. Generally, any amounts owing to lenders will rank ahead of Investors' interests.

Description

Has the Benchmark been met? – Yes

Neither the Responsible Entity nor the Fund has any borrowings.

All distributions from the Fund are generated by income and principal repayments received by the Fund from borrowers. Whilst the Responsible Entity has no current intention of undertaking borrowings secured by the Fund's Assets, if this does occur this benchmark disclosure will be updated.

ASIC Benchmark 3 : Portfolio diversification

This benchmark addresses a mortgage fund's criteria for determining what loans to make and provides details of the diversification of the mortgage portfolio.

Description

Has the Benchmark been met? – Yes

Information in relation to the Fund's loan portfolio is updated on our website "www.richmondinfo.com.au" (please refer "Benchmarks - Portfolio Diversification").

Details of our Lending Policies are detailed on page 6 of the Product Disclosure Statement (PDS).

Maximum loan to any one Borrower

The maximum loan to any one Borrower is 15% of Fund Assets at time of approval.

Serviceability Policy

Serviceability of loans with the Fund are assessed as follows:

Borrower Services from Own Resources

Approved loans will generally achieve a minimum interest cover ratio of 1.5x gross interest costs (EBIT/Interest). Borrowers are required to provide adequate financial information at time of approval to establish serviceability.

Loans with Capitalising Interest

Interest liability is generally calculated at time of approval with an allowance made for interest rate fluctuations. This amount is deducted from loans funds made available to the Borrower.

Loans with capitalising interest are reviewed prior to maturity to determine ongoing requirements. If continuation is requested, the Borrower is required to provide adequate data (which can include financials, updated valuation, statement of position etc) in order to allow us to consider the request.

Irrespective of loan term or serviceability arrangements, all loans are reviewed annually and any adverse findings must be reported via the Credit Committee to the Board of Directors.

Revaluation Policy

Property valuations are updated prior to any increase in loan amount.

As part of our annual review, valuations are revisited and updated where considered appropriate by the Credit Committee or Board of Directors.

Approach to Taking Security in Relation to Lending by Other Schemes.

The Fund does not lend to other mortgage schemes.

Investing in Unlisted Mortgage Schemes

The Fund does not invest in unlisted mortgage schemes. All cash is invested in deposit products with Australian banks.

ASIC Benchmark 4 : Related party transactions

This benchmark addresses any related party transactions in place and outlines any risks associated with these transactions.

Description

Has the Benchmark been met? – Yes

The Responsible Entity has a formal Related Parties/Conflict of Interests Policy (**Policy**). This Policy is reviewed annually.

The aim of the Policy is to maintain and encourage a culture of integrity that includes an ethical approach to conflicts of interest and related party transactions.

As part of this Policy there is a commitment that:

- the Fund will not lend to Directors or their associates; and
- investments in the Fund made by Directors and their associates are made on the same terms and conditions as available to an arms length investor.

Disclosure of any related party/conflict of interest is a formal part of all Board and Compliance Committee meetings. Where a related party interest is noted, it is recorded in the minutes and addressed in accordance with the Policy.

How do we record related parties transaction or conflict of interest?

Conflicts of interest/related party transactions are recorded by the Compliance Officer, reported to the Board and monitored/reviewed by the Compliance Committee.

This process is reviewed by the Funds' external auditors. Any related party agreements are reviewed annually to ensure they are and remain on arms length terms.

ASIC Benchmark 5 : Valuation policy

This benchmark requires responsible entities to develop a clear policy on how often valuations of secured property are to be obtained and disclose this policy.

Description

Has the Benchmark been met? – Yes

A valuation, by independent valuer from our panel of valuers, are required for every:

- new loan application; and
- increase in existing loan, where the valuation is more than 3 months old.

Existing valuations are reviewed annually and updated valuations obtained where considered appropriate by the Credit Committee or Board of Directors.

Valuation methodology requires:

- valuations must be completed exclusive of GST;
- valuations with completed improvements must be valued on an 'as is' basis;
- valuations for subdivision/development projects must be completed on an 'as is' and 'on completion' basis;
- for specialised properties, an "alternative use" valuation is also to be provided, along with comment on properties marketability;
- owner occupied properties are valued on a vacant possession basis; and
- vacant land is valued based on current zoning, and may take into account any current development approvals in place.

Valuations must be conducted by independent registered valuers with appropriate experience and qualifications to value the secured property who confirm their valuation report complies with all relevant industry standards and codes. No one valuer conducts more than one-third of the Fund's valuation work.

Borrowers representing more than 5% of the Mortgage Portfolio

Refer to www.richmondinfo.com.au" Benchmarks, Portfolio Diversification" for up to date information.

ASIC Benchmark 6 : Lending principles

Funds are required to maintain the following loan to value ratios:

- for loans where the loan relates to property development the loan must not be more than 70% of the market valuation of the property at time of approval; and
- in all other cases the loan must not be more than 80% of the market valuation of the property at time of approval.

Description

Has the Benchmark been met? – Yes

Security Type	Maximum Lending Value Ratio
Residential	80% of registered panel valuation
Commercial/Industrial	70% of registered panel valuation
Predevelopment	70% of registered panel valuation
Subdivision/development	65% of registered panel valuation
Rural	60% of registered panel valuation
Going concern (hotel/motel)	60% of registered panel valuation

In the case of new property purchases, the LVR is calculated on the lower of purchase price or valuation.

Prior to advancing construction funding the Responsible Entity generally provides all plans, specifications and building contracts to a quantity surveyor who approximates the cost to complete the development. This ensures the Borrower has allowed appropriate development costs. Funds are then advanced progressively on a 'cost to complete' basis. The quantity surveyor appointed by the Responsible Entity inspects the development at set stages of construction prior to further loan advances and certifies to the Responsible Entity the cost of completing the development at each stage in writing.

The Responsible Entity withholds the amount of loan funds necessary to complete the development in accordance with the advice received from the quantity surveyor. If the Borrower becomes unable to complete the development, the Responsible Entity based on the advice of the quantity surveyor should have sufficient funds to complete the development.

ASIC Benchmark 7 : Distribution practices

Funds are required to disclose the expected source for distributions, as well as details of circumstances in which a lower return may be payable, together with details of how that lower return will be determined.

Description

Has the Benchmark been met? – Yes

Distributions are sourced from income generated from Fund Assets. The amount of income can be impacted by non payment of interest by Borrowers and/or bad debts.

Distributions are calculated daily on the number of units and the class of units in the Fund at the close of business. The Fund does not borrow to pay distributions. Distribution reinvestment is available.

ASIC Benchmark 8 : Withdrawal arrangements

Funds are required to disclose details of whether Investors have the ability to withdraw from the Fund.

Description

Has the Benchmark been met? – Yes

When the Fund is operating as a “liquid” managed investment scheme, the Responsible Entity is required to process and pay valid withdrawal requests within 180 days.

The Fund is currently operating as a “non-liquid” managed investment scheme.

Whilst the Fund remains “non-liquid”, the Responsible Entity intends to make periodic withdrawal offers or capital distributions to all investors subject to the availability of surplus funds.

Ballina Mortgage Management Limited
(Responsible Entity)
ACN 092 594 477