Golden Wattle Financial

(Receivers and managers appointed)

Nat Trustworthy
Chief Executive Officer
TrustUs

Dear Nat

This letter confirms our recent conversation and contains some summarised data to enable you to form your own view on the sale of GWF's performing loans.

At the time we assumed the Receivership of GWF we have estimated that the balance sheet was as follows:

GWF Balance Sheet	$Million
Cash	145
Loan portfolio (before provisions)	518
Property plant and equipment	8
Other assets	22
Total Assets	693
Debenture loans	664
Other Liabilities	4
Total Liabilities	668
Net Assets	25

As you are aware the Cash on the Balance Sheet allowed us to make an early distribution to Debenture holders of 20 cents in the dollar. But of course realising the Loan portfolio is more problematic because many of the loans are impaired or non-performing so the realisation will be significantly lower than the face value of the outstanding loans plus accrued interest of $518 million.

There were about 23000 Debenture holders most of whom invested in 1 year or 2 year fixed rate debentures but some loans were "at call" as shown in the table below. Most of the Debenture holders are located in the region in which GWF operated.

Debenture Holders	$ Million
At call debentures	36
12 month fixed rate	421
24 month fixed rate	207
Total	664

The average interest rate for the Debenture holders is 7.0% p.a.

The mortgage loan assets of GWF have the following features:

- The loans are predominantly originated through mortgage brokers. The loans are mostly to individuals and small businesses / farmers secured by properties located nationally
- Many of the loans did not meet the lending requirements of the large banks because of the credit quality of the borrower or the quality of the property
- To accommodate the higher risk profile, GWF charged higher than usual interest rates, averaging 9% p.a. across the loan portfolio
- Mortgage loans were typically 25 year principal and interest loans or two year fixed rate loans (see below).

The principal and interest loans have a long average outstanding duration but in practice these loans are repaid early by borrowers. The average duration of the current loans is 5.5 years.

The two year fixed rate loans appear to have a short average outstanding duration but in practice GWF has routinely rolled-over these loans for a further period because borrowers are not yet ready to repay their loans. The average duration of the current loans is 4.5 years.

We have received a number of offers to purchase the performing loans in the portfolio. Performing loans are those where interest is not overdue more than 5 days. Performing loans also exclude loans where the interest is being capitalised and added to the loan balance.

A successful sale would allow us to make another distribution to Debenture holders so we are conducting a formal tender process for the sale of the performing loan assets, which we expect to be completed in the near future. At this point we will provide you with a report that compares the best offer against the alternative of retaining the future cash flows from the portfolio. TrustUs will need to make its own assessment of this and we would like you to start thinking about it now, so that you can make a timely decision on your preferred course of action.

The performing loan portfolio comprises the following:

Performing Loans	Number of loans	Average interest rate	Outstanding balance ($M)
25 year principal and interest	425	8.1%	157
2 year fixed rate	110	10.5%	82
Total	535		239

Market practice suggests that the highest offer for these loans will be at a discount to the Outstanding Balances of the loans to allow for credit risk, illiquidity and a risk return to the purchaser. The trade-off for this discount is an earlier return to the Debenture holders. So we have to consider, on balance, whether it is in the interests of the Debenture holders to sell the loan portfolio or to retain the rights to repayments of principal and interest from the mortgages.

Kim Floggitt
Partner
Gather Floggitt and Billhard