



Benchmark Report for ASIC Regulatory Guide 45

ASIC has issued Regulatory Guide 45 – *Mortgage schemes – improving disclosure for retail investors (RG 45)* setting out benchmarks for unlisted mortgage schemes, against which the responsible entity of the scheme must report, as from 30 November 2008, on an “if not, why not” basis. Compliance with the benchmarks is not mandatory. There are 8 benchmarks that apply to the Fund. These reflect the information that ASIC considers is key to enable retail investors to analyse the risks of investing and continuing to hold interests in unlisted pooled mortgage schemes, such as the Kingsway Premium Income Fund.

The following table describes each of these benchmarks and explains how and to what extent Kingsway Group Limited (Kingsway), as Responsible Entity of the Kingsway Premium Income Fund ARSN 099 747 663 (Fund), satisfies them. This Report should be read in conjunction with the information in the PDS. A reference in this Report to the PDS is a reference to the product disclosure statement dated 28 November 2008 as supplemented by the supplementary product disclosure statements (SPDSs) dated 27 April 2009 and 23 June 2009. This PDS and the SPDSs were withdrawn effective 15 March 2010.

This disclosure is given as at 28 October 2009 and has not been updated to take account of any asset reviews since that date. Kingsway will provide updated information in the course of the proposed termination of the Fund.

IMPORTANT NOTE: In preparing the information contained in this Benchmark Report Kingsway has not taken into account your particular investment objectives, financial situation or needs. The Fund is no longer open for investment.

ASIC BENCHMARK – AND WHAT IT MEANS	COMPLIANCE	HOW KINGSWAY MEETS THIS BENCHMARK
------------------------------------	------------	-----------------------------------

Benchmark 1 – Liquidity

Kingsway must:

- have cash flow estimates for the Fund for the next 3 months
- ensure that at all times the Fund has cash or cash equivalents sufficient to meet its projected cash needs over the next 3 months.

Satisfied

Kingsway undertakes regular, and at least monthly, estimates of the cash flows of the Fund, including for the next 3 months. It takes into account historic and projected cash flows of repayments of loans and cash investments and loan advances, as well as historic and actual levels of requests for redemptions. It does not take into account historical or anticipated inflows of new applications in ensuring that the Fund has, at all times, sufficient cash to meet its projected needs, including for the next 3 months. As it does not have any current bank overdraft or lending facilities, it does not factor this into its assessment of its cash flows.

As a result of this periodic review, Kingsway determined on 16 April 2009 that as from that date the Fund had ceased to be a liquid scheme and therefore withdrawals from the Fund could only be made in accordance with a withdrawal offer made in accordance with the requirements of the Corporations Act and the Constitution that apply when the Fund is non-liquid. Further information is given in Benchmark 8 - Withdrawal Arrangements (below) and in the PDS.

Kingsway should also disclose the policy of the Fund on balancing the maturity of its assets and its liabilities, including any policy of ensuring that sufficient assets are held in readily realisable investments in order to meet future withdrawal requests.

Kingsway's policy is that in assessing the term of any new loan that it may make, it must take into account the impact that the duration of the loan may have on the liquidity of the Fund to meet anticipated withdrawals by Investors and the projected liabilities of the Fund, such as management fees and expenses, and that it will at all times seek to ensure that there is sufficient cash available to meet these outgoings in each quarter period.

Benchmark 2 – Scheme Borrowing

If the Fund expects to borrow funds or has borrowed funds, Kingsway should disclose a number of matters including those relating to the amounts owing, maturity profile, undrawn amounts of any credit facility the purpose of the borrowing and the ranking of the borrowing against the interests of the Investors.

Satisfied

While the Fund has the power to borrow, Kingsway:

- has never exercised this power to borrow
- has no intention to exercise this power to borrow.

Benchmark 3 – Portfolio Diversification

Kingsway should disclose the current nature of the loan portfolio of the Fund. The information to be provided includes:

- by number and value, matters such as the type of loans, geographic regions, ranking of security, interest rates, LVRs, level of defaults and arrears, undrawn loan commitments and maturity profile
- the proportion of loan monies lent to the largest borrower and the ten largest borrowers .

Satisfied

Portfolio information required under this benchmark as at 30 September 2009 is given in Annexure A.

ASIC BENCHMARK – AND WHAT IT MEANS	COMPLIANCE	HOW KINGSWAY MEETS THIS BENCHMARK
<p>Benchmark 3 – Portfolio Diversification (cont) Kingsway should also disclose its policy in respect of these matters as well as its general lending policy as to, for example:</p> <ul style="list-style-type: none"> • the maximum loan amount for any one borrower • the method of assessing borrowers' capacity to service loans • the revaluing of security properties when a loan is rolled over • the nature of securities that must be provided. 		<p>Kingsway describes its lending policy in the PDS for the Fund. Particular reference is made to the policy as to each of the matters referred to in the benchmark.</p>
<p>Benchmark 4 – Related Party Transactions If Kingsway transacts with persons who are related parties of the Fund including making a loan to them, it should disclose its approach to such related party transactions, including:</p> <ul style="list-style-type: none"> • the number and value of such loans, investments and transactions • its policy on these transactions including the approval process and the arrangements to manage conflicts of risk • how these processes and arrangements are monitored to ensure that the policy is followed. 	<p>Satisfied</p>	<p>The Fund has not made any loan to any related party of the Fund. The Fund may, in the future, make an investment through the Kingsway Select Mortgage Fund, of which Kingsway is the responsible entity. There are no such investments as at the date of this Report. As part of its management of conflicts of interest policy, Kingsway has never lent to and does not intend at any future time to lend to any person associated with Kingsway. This includes the Directors and shareholders of Kingsway, or any associated entity of any of them. From time to time persons who are related parties of Kingsway may invest in the Fund. Details of such investments as at 30 September 2009 are given in Annexure A to this Report.</p> <p>The policy of Kingsway as to how it manages any potential conflict of interest that may arise, should it do so, is described in the PDS.</p>
<p>Benchmark 5 – Valuation Policy Kingsway should take the following approach to valuations of properties over which it takes security:</p> <ul style="list-style-type: none"> • properties should be valued on an "as is" and (for development property) also on an "as if complete" basis • have a clear policy as to how often it obtains a valuation, including how recent a valuation has to be before a new loan is made • establish a panel of valuers and ensure that no one valuer conducts more than one-third of Kingsway's valuation work for the Fund. 	<p>Not fully satisfied</p>	<p>The Lending Policy adopted by Kingsway requires, among other matters, Kingsway to:</p> <ul style="list-style-type: none"> • obtain a valuation of all properties that are taken as security, on an "as is" basis from a panel valuer (other than where the loan is for an amount of 40% or less of the property value, as described in the PDS) as at a date not earlier than 6 months before the loan is made • obtain a revaluation of the property whenever a loan is renewed which must not be as at a date earlier than 6 months before the loan is renewed • have a panel of independent valuers and ensure that no one valuer conducts more than three consecutive valuations other than for a construction loan or undertakes valuations for more than one third of all valuations made for the Fund. <p>Kingsway is of the opinion that not requiring a valuation in certain circumstances is reasonable given the 40% loan to valuation ratio. As at the date of this report, there are no such loans approved on this basis. Further information is described within the PDS (page 35).</p> <p>As at the date of this report, Kingsway does have an exposure to one valuer for greater than one third (48.3%) of all valuations by value. The loans where valuations have been completed by this valuer represent 48.21% of the total loan book by value and 25% by number. It is the intention of Kingsway to reduce this exposure at the earliest opportunity.</p>

ASIC BENCHMARK – AND WHAT IT MEANS	COMPLIANCE	HOW KINGSWAY MEETS THIS BENCHMARK
<p>Benchmark 5 – Valuation Policy (cont) It should also include information about the valuation of a particular property where a loan secured against the property accounts for 5% or more of the total value of the loan portfolio.</p> <p>Valuers used by Kingsway should:</p> <ul style="list-style-type: none"> • be registered valuers, where possible • include a statement in their report on whether the valuation complies with all relevant industry standards and codes. 		<p>As at 30 September 2009 there were a number of loans that account for more than 5% of the total value of the loan portfolio. These are disclosed in Annexure A.</p> <p>All valuers must:</p> <ul style="list-style-type: none"> • be registered in the State in which the property is situated, where possible • include a statement in their report on whether the valuation complies with all relevant industry standards and codes • have current and adequate professional indemnity insurance.
<p>Benchmark 6 – Loan to Valuation Ratios Kingsway should maintain the following loan to valuation ratios (LVRs) for loans made by the Fund:</p> <ul style="list-style-type: none"> • for property development loans – 70% of the latest “as if complete” valuation. • in all other cases – 80% on the basis of the latest market valuation. <p>Kingsway should ensure that the Fund only provides funds to developers in stages, based on external evidence of the progress of the development.</p>	<p>Satisfied</p>	<p>Kingsway complies with the various approaches to valuations and discloses the following information:</p> <ul style="list-style-type: none"> • for construction and development loans, Kingsway only lends up to 66.6% of the “as if complete” valuation and obtains an initial valuation that discloses: <ul style="list-style-type: none"> • the value “as is” before development • a feasibility analysis including development costs • gross realisation value based on comparable sales of the completed development • for all other cases, the LVR must not exceed 66.6% [except for a residential (completed dwelling) loan where the LVR must not exceed 75.0%]. <p>For development and construction loans Kingsway requires that sufficient funds are retained at all times within the loan facility to complete the project. Kingsway relies on reports provided by a quantity surveyor, valuer or suitably qualified specialist in undertaking this assessment.</p>
<p>Benchmark 7 – Distribution Practices The Fund makes distributions to Investors from the Fund, on a quarterly basis. Kingsway should therefore disclose:</p> <ul style="list-style-type: none"> • the expected source for such distributions • whether the source changes over time • if it is expected that a distribution may not be solely sourced from income received in the relevant quarter, the reason for making the distributions • whether distributions sourced other than from income are sustainable. 	<p>Satisfied</p>	<p>Historically, all distributions of quarterly returns have been made from the income received from borrowers from the Fund and from interest received from cash deposits held by the Fund. Kingsway does not anticipate that this will change in the future.</p> <p>If the aggregate income received from these sources is insufficient in any quarterly period to enable a distribution to be made, then no distribution will be made to Investors for that period. Kingsway has no present intention to borrow or otherwise obtain funds from which it will make income distributions to Investors.</p>
<p>Benchmark 8 – Withdrawal Arrangements Kingsway must provide details of whether Investors have the ability to withdraw from the Fund and if so, disclose:</p> <ul style="list-style-type: none"> • the maximum period allowed under the Constitution • any significant risk factors or limitations that may impact on the ability of Investors to withdraw. 	<p>Satisfied</p>	<p>The PDS:</p> <ul style="list-style-type: none"> • states that as the Fund is not a liquid scheme, then in accordance with the Corporations Act and the Constitution for the Fund no withdrawal from the Fund is permitted other than by way of a withdrawal offer made by Kingsway from time to time.

Benchmark 8 – Withdrawal Arrangements (cont)

As the redemption price of a unit in the Fund is fixed, at \$1, Kingsway should disclose details of any circumstances in which a lower amount may be payable.

- states that if the Fund were a liquid scheme, then although withdrawal requests would normally be met within 180 days, the maximum period provided in the Constitution within which Kingsway is to meet withdrawal requests is 400 days.
- alerts Investors to the liquidity risk of an investment in the Fund and the limitations on their right to withdraw and the time within which withdrawal funds may be available.

As at the date of this Report, Investors are only able to withdraw from the Fund if we make a withdrawal offer. We made withdrawal offers during April and August 2009.

We have no obligation to make further withdrawal offers and give no guarantee that we will do so. However, it is currently anticipated that we will make a further offer in early November 2009.

The PDS also describes the circumstances in which Kingsway may compulsorily redeem units if the value of a unit is less than \$1. Accordingly, while the amount paid on withdrawal is \$1 for each unit, the number of units held by an Investor may have been reduced.

Benchmark 3 – Portfolio Diversification as at 30 September 2009

Introduction

No. of Loans	24
No. of Borrowers	23
Average Loan to Borrowers	\$3,683,211

RG 45.53

(a) Mortgage Investment – Class of Activity

Industry Sector	No. of Loans	\$ Value	% of No.	% of Loan Book
Residential Existing Dwelling	8	17,016,259	33.33	19.25
Residential Construction	4	19,248,079	16.67	21.77
Commercial	7	38,409,134	29.17	43.45
Vacant Land	5	13,723,585	20.83	15.52
Total	24	88,397,057	100.00	100.00

(b) Mortgage Investment – Geographical Spread

Zones	No. of Loans	\$ Value	% of No.	% of Loan Book
NSW Country	3	12,776,102	12.50	14.45
NSW Regional Centre	10	48,339,236	41.67	54.68
Sydney Metropolitan	10	26,632,331	41.67	30.13
Brisbane Metropolitan	1	649,388	4.17	0.73
Total	24	88,397,057	100.00	100.00

(c) By number and value, proportion of loans in default or arrears

Loans for which principal is overdue for 90 days or more

Days Overdue	No.	% of No.	\$ Value	% of Loan Book
90-119	1	4.17	2,296,688	2.60
120-149	0	0.00	-	0.00
150-179	2	8.33	8,989,630	10.17
180+	12	50.00	56,127,187	63.49
Total	15	62.50	67,413,505	76.26

Loans for which interest is in arrears for 60 days or more (all of these loans are included in the above table)

Days Overdue	No.	% of No.	\$ Value	% of Loan Book
60-89	0	0.00	-	0.00
90-119	1	4.17	2,296,688	2.60
120-149	0	0.00	-	0.00
150-179	1	4.17	4,272,519	4.83
180+	7	29.17	34,727,232	39.29
Total	9	37.50	41,296,439	46.72

In applying its default management procedures for the 15 loans for which principal is overdue for 90 days or more:

- One loan for \$2.077m will be repaid from the sale of the primary security property (contract exchanged);
- Kingsway has commenced proceedings and is in possession of properties for four loans totalling \$7.611m with properties listed for sale;
- Arrangements satisfactory to Kingsway (payment of interest on agreed terms) have been made for five loans totalling \$15.674m pending repayment from the sale of security properties;
- For one loan for \$10.443m, exchanged contracts on 8 lots should result in approx \$1.260m being repaid upon settlement of these contracts;
- Kingsway is funding the cost to complete for a residential unit development for one loan for \$2.297m. Upon completion of the project the properties will be marketed for sale;
- Kingsway has commenced proceedings on one loan for \$4.273m; and
- Kingsway is in possession of properties for two loans (Kiama development) totalling \$25.039m. Exchanged contracts in respect of the sale of 10 lots should result in approx \$9.3m being repaid upon settlement of these contracts.

As at the date of this Report the Directors of Kingsway believe that none of the above loans will result in a capital loss to investors.

(d) By number and value, the nature of the security for loans made by the scheme (e.g. first or second ranking)

All loans are secured by 1st ranking mortgages over Australian property.

(e) Proportion of the total loan monies lent to the largest borrower and 10 largest borrowers

	Borrower Amount	% of Loan Book
1	24,977,516	28.26
2	10,443,207	11.81
3	7,132,074	8.07
4	6,741,261	7.63
5	4,660,159	5.27
6	4,272,519	4.83
7	3,715,642	4.20
8	3,329,000	3.77
9	3,078,057	3.48
10	2,791,347	3.16
Loans Under Management	88,397,057	

(f) By 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

Of the total loans made by the Fund, there were four in respect of which there were undrawn loan commitments, totalling \$610k.

Kingsway actively manages its liquidity levels and undrawn loan commitments by updating and reviewing Fund cash flow projections on a regular basis. The above undrawn loan commitments will be met from scheme cash resources in the ordinary course of business.

(g) By number and value, the maturity profile of all loans in increments of not more than 12 months

Maturity	No. of Loans	\$ Value	% of No.	% of Loan Book
0-3 mths	*20	78,019,646	83.33	88.26
3-12 mths	1	7,132,074	4.17	8.07
1-2 years	2	2,819,097	8.33	3.19
2-3 years	1	426,240	4.17	0.48
Total	24	88,397,057	100.00	100.00

* Of these, 16 loans are currently past the due date for repayment.

(h) By number and value, the loan to valuation ratios of all loans in percentage ranges

Loan to Value Ratios	No. of Loans	\$ Value	% of No.	% of Loan Book
Less than 50.0%	2	6,769,011	8.33%	7.66%
50.0% to 60.0%	1	2,545,646	4.17%	2.88%
60.1% to 66.6%	8	19,121,056	33.33%	21.63%
66.7% to 70.0%	1	772,285	4.17%	0.87%
70.1% to 75.0%	1	2,296,688	4.17%	2.60%
Greater than 75.0%	*11	56,892,373	45.83%	64.36%
Total	24	88,397,057	100.00%	100.00%

* The security properties for these loans have been revalued since the date of the loan. At that time they were within the loan to valuation ratios adopted by Kingsway for the Fund.

(i) By number and value of loans, interest rates on loans, in percentage ranges

Interest Rate	No. of Loans	\$ Value	% of No.	% of Loan Book
Less than 10.0%	5	27,977,152	20.83	31.65
10.0% to 10.99%	11	29,024,536	45.83	32.83
11.0% to 11.99%	8	31,395,369	33.33	35.52
Greater than 12.0%	0	0	0.00	0.00
Total	24	88,397,057	100.00	100.00

(j) By number and value, loans where interest has been capitalised

Kingsway does not lend to Borrowers on the basis that interest is capitalised during the term of the loan.

(k) The use of derivatives (if any)

The Fund does not use any derivatives in relation to or in support of any loans that the Fund makes to the Borrowers.

(I) A clear description of the non-loan assets of the scheme including the value of such assets

Non-loan Asset	\$ Value	% of Scheme
Mortgage Investments	88,397,057	95.17
Term Deposit	200,000	0.22
Securities	1,000	0.00
Cash	4,286,860	4.62
Total Scheme Assets	92,884,917	100.00

Benchmark 4 – Related Party Transactions as at 30 September 2009**RG 45.61****(a) Details of investments and transactions that they have made to or with any related party**

No. of Related Parties	No. of \$1 Units Held	% of Scheme
15	754,332	0.81

Note: the above represent investments in the Scheme by related parties – not loans made to related parties. Kingsway does not make any such loans.

Benchmark 5 – Valuation Policy as at 30 September 2009**RG 45.65**

The responsible entity should include information about the valuation of a particular property where a loan secured against the property accounts for 5% or more of the total value of the scheme's loan book.

General Description	Valuation	Debt Outstanding	% of Loan Book
Completed mixed commercial and serviced apartment development situated in Kiama on the NSW South Coast. The security consists of 7 serviced apartments, 51 tourist accommodation suites, licensed tavern, brassiere, heritage function centre, basement conference centre and hotel management.	\$29,690,000 CMV	\$24,977,516	28.26%
Land subdivision situated at Coffs Harbour containing 45 completed lots of approximately 700 m2 per lot. A further 12.90 hectares of additional land having DA approval for subdivision into 75 lots.	\$10,443,207 CMV	\$10,443,207	11.81%
Staged community title development situated in St Georges Basin NSW. Stage 1 has been completed being the Civil works for stages 2, 3 & 4. Stage 2 involves the construction of 23 dwellings of which 9 have been constructed to date. Stage 3 yet to be commenced consists of 16 dwellings. Stage 4 yet to be commenced consists of 12 dwellings. Cost to complete dwellings to stage 2, 3 and 4 is \$4,180,000. Stages 5 and 6 being cleared land with DA approval for a community title subdivision of a further 62 lots and dwellings.	\$17,800,000 GRV	\$6,741,260	7.63%
Construction of 31 residential units situated in Bankstown. (1 x 1, 11 x 2 and 19 x 3 Bedroom Apartments) Construction works are approximately 96% complete, costs of works to complete \$165,000 with all works expected to be completed by Mid October 2009.	\$11,235,000 GRV	\$7,132,074	8.07%
Development site situated within Newcastle CBD. DA approval for 76 residential apartments and commercial suites.	\$4,660,159 CMV	\$4,660,159	5.27%

CMV: Current Market Value

GRV: Gross Realisation Valuation (or on-completion valuation)