

Premium Income Fund

NSX Release: 13 March 2009



Fund Insurance Update

The former responsible entity of the Premium Income Fund (Octaviar Investment Management Limited) arranged insurance through Lloyd's Underwriters to cover certain commercial loans in the mortgage portfolio of the Premium Income Fund. The responsible entity was of the view that not all loan facilities required insurance cover for example, vacant land loan facilities.

The insurance policy only covers the circumstance where the Fund becomes mortgagee in possession, exercises the mortgagee's power of sale and a loss against the insured loan principal is sustained. The insurance policy does not cover loans where a loss is sustained by the Fund because of refinancing or a change in the terms of the loan agreement between the Fund and the borrower.

Claims can be made under this policy until 11 April 2009. The policy has been unable to be altered since April 2008 and cannot be renewed.

The following table outlines realisations conducted by the Fund since 2 May 2008:

Property	Insured value	Eligible to claim	Possible claim on policy
Sylvania, NSW	Nil	No, not insured.	Nil
Hastings Point, NSW	\$13.084 million	No, refinance of borrower.	Nil
Brooklyn West, VIC	\$0.802 million	No, refinance of borrower.	Nil
Narrabeen, NSW	\$1.893 million	Yes, loss of \$393,000 suffered by Fund after mortgagee in possession sale of secured property supporting loan.	\$393,000
Blacktown, NSW	\$2.32 million	Yes, loss of \$52,000 suffered by Fund after mortgagee in possession sale of secured property supporting loan.	\$52,000
St Leonards, NSW	\$8.115 million	No, legal settlement with borrower.	Nil
Seddon, VIC	\$7.875 million	No, sold at premium of \$625,000 over insured value	Nil
Total possible claim on Lloyds insurance policy:			\$445,000

The Fund could possibly make a total claim for the loss of \$445,000 under the Lloyds policy. In order to make this claim, the Fund would have to pay \$1,233,258 in premiums.

Wellington has decided that it is in the best interests of the Fund to make no claim under the policy.

For further information please contact:

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