

Premium Income Fund

NSX Release: 27 June 2012



Financial Statements for the Premium Income Fund for the year ended 30 June 2012

The Annual Report and Financial Statements for the Premium Income Fund for the year ended 30 June 2012 will be available and released to the market by 13 September 2012. The Auditor of the Premium Income Fund for the period ending 30 June 2012 is PricewaterhouseCoopers.

The Premium Income Fund assets, as has been the case in prior periods, are categorised as follows:

Category	
Mortgage Loans	Fixed interest investments
Asset Backed investments	Cash/Liquids
Property managed investments	

Methodology for determining carrying value of the Premium Income Fund's assets

For the year ended 30 June 2012, the Directors of Wellington Capital Limited as responsible entity of the Premium Income Fund will review the assets of the Premium Income Fund based on the following principles. These principles reflect the same basis as carrying values have been determined in recent prior periods. At each half year reporting period, the Directors of Wellington Capital Limited as the responsible entity of the Premium Income Fund have reviewed the carrying value of the scheme assets.

Financial Instruments - Classification

The Fund's investments are classified as follows:

Financial instruments

Financial Instruments are designated at fair value through profit and loss upon initial recognition. These include financial assets that are held for trading purposes and which may be sold. These are investments and fixed interest securities, equity instruments and units in management investments schemes. Financial assets and financial liabilities designated at fair value through profit and loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the responsible entity to evaluate the information about these financial assets on a fair value basis together with other related financial information.

Mortgage Loans and Other Financial Instruments

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Fund provides money, goods or services directly to a debtor with no intention of selling the receivables.

Recognition/derecognition

The Fund recognises financial assets and financial liabilities on the date the Fund becomes party to the contractual agreement and recognises changes in fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cash flows from the investments has expired or the Fund has transferred substantially all risks and rewards of ownership. Investments are initially recognised at fair value plus transaction costs for all assets not carried at fair value through profit and loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value and transactions costs are expensed in the Consolidated Statement of Comprehensive Income.



Measurement

Financial instruments are held at fair value through profit or loss.

Mortgage loans

Loan assets are measured initially at fair value plus transaction costs and subsequently amortised using the effective interest rate method, less impairment losses if any. These assets are reviewed at each balance date to determine whether there is objective evidence of impairment. If evidence of impairment exists, an impairment loss is recognised in the Consolidated Statement of Comprehensive Income as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the Statement of Comprehensive Income.

Other financial assets

Included in 'Other financial assets' are asset backed investments which are measured initially at fair value (plus transaction costs directly attributable to the acquisition) and subsequently at amortised cost using the effective interest rate method, less impairment losses if any. These assets are reviewed at each Balance Sheet date to determine whether there is objective evidence of impairment. If any such indication of impairment exists, an impairment loss is recognised in the Statement of Comprehensive Income as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the Statement of Comprehensive Income.

Fair value in an active market

Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

Fair value in an inactive or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Property Valuations of underlying security assets

For the period ended 30 June 2012, the Directors of Wellington Capital Limited as responsible entity for the Premium Income Fund have instructed valuers in accordance with API's 'Professional Practice' Guidance Notes with particular reference to both the practice standards and guidance notes for 'Valuations for Mortgage and Loan Security Purposes', to value each of the properties over which the Fund holds a first mortgage as security for funds advanced in the Mortgage Loan category, other than where there is more reliable evidence of the value of the security property such as a contract for sale.



Valuers have been selected from the following panel based on their expertise in the particular real estate category:

Panel Valuers	
CBRE	Herron Todd White
Colliers	Knight Frank
JD Dodds Property Valuers	Landmark White
M3 Property Valuers	

All valuations are expected to be completed by no later than mid August 2012. The valuation of the primary security in relation to relevant Mortgage Loans will inform the assessment of the recoverable value and any consequential need for recognition of impairment to the relevant Mortgage Loans.

The assets of the Premium Income Fund are held by the Fund's custodian, Perpetual Nominees Limited. All assets in the Mortgage Loan category are now in default.

Perpetual Nominees Limited as custodian has issued default notices in accordance with the relevant legislation in each State and has become mortgagee in possession of the primary security, being real property over which it holds a first mortgage under the loan arrangements.

Perpetual Nominees Limited has also enforced, where appropriate, other security held by it. Other security variously includes guarantees and charges over companies.

The carrying value for each Mortgage Loan is, as required by the Accounting Standards, the '*present value of estimated future cash flows, discounted at the original effective interest rate*'.

This is the cash flow from all potential sources, namely sale of security property by the Fund's custodian as mortgagee in possession, recovery under other securities, which vary from loan to loan but variously include personal guarantees, corporate guarantees, charges over borrowers and associated companies of the borrower, second mortgages over other real property which is collateral to the primary security which, in relation to each of the mortgage loans, is a first ranking mortgage over real property.

Whilst permitted by the Constitution, the Premium Income Fund currently has no direct property assets. All direct real property assets were sold by the Premium Income Fund prior to Wellington Capital Limited becoming responsible entity in 2008.

For further information please contact:

Jenny Hutson
Managing Director
Wellington Capital Limited
as responsible entity of the Premium Income Fund
ACN 114 248 458 AFSL 291 562

Phone: 1300 854 885
Email: investorrelations@newpif.com.au

