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Continuous disclosure document

Benchmarks – ASIC Regulatory Guide 69

This document provides updated information in respect of the benchmarks contained in Section 1 of the Company's Prospectus No.16 dated 7 December 2015.

Issued – 16 March 2016

1. BENCHMARK INFORMATION

ASIC Regulatory Guide 69 "Debentures and Unsecured Notes – Improving disclosure for retail investors" (RG69) sets out eight benchmarks that debenture issuers need to address in a prospectus. The benchmarks are designed to assist investors to better understand the rewards and risks of investing with a debenture issuer. Debenture issuers are required to disclose if the benchmarks are satisfied and if not, then why not.

Commentary is set out below in regard to the eight benchmarks and the Company's performance in regard to them.

Benchmark 1 – Equity Capital

Paid-up capital or equity is the money invested by the owners of the issuer (plus any profits retained by the issuer). It provides a 'buffer' to the issuer in the event of financial difficulties. If an issuer has less equity capital invested in the business, there might be no safety margin to tide things over if the business runs into financial difficulties. It could also mean that the issuer has less incentive to operate the business prudently and responsibly because less of its own money is at risk.

All issuers should maintain a minimum equity ratio, calculated as equity/(total liabilities + equity), of 8% where only a minor part (e.g. 10%) of its activity (e.g. as a proportion of notes on issue) is property development or lending funds directly or indirectly for property development.

The Company satisfies this benchmark.

Loans for property development represented $14,692,302 or 8.68% of Notes on issue as at 31 December 2015. As at 31 December 2015 the equity ratio was 9.02%.

Comparative equity ratios are as follows:-

31 December 2015	30 June 2015	30 June 2014
9.02%	8.67%	9.48%

Benchmark 2 – Liquidity

Liquidity is an important measure of the short-term financial health of an issuer or business. If the issuer has insufficient cash or liquid assets, it might be unable to meet its short-term obligations (e.g. to run the business properly, pay interest, or pay investors their money back at the end of the term).

All issuers should have cash flow estimates for the next three months and ensure that at all times that they have on hand cash or cash equivalents sufficient to meet their projected needs over the next three months.

The Company satisfies this benchmark. The Company prepares three monthly and twelve monthly cash flow projections as part of its overall liquidity strategy.

The Company has at all times on hand cash or cash equivalents sufficient to meet its projected cash needs over the next three months.

There is a mismatch between the maturity profiles of the Company's assets and the maturity profiles of the Company's liabilities. The risk in such a mismatch is that the Company may not have adequate liquidity to meet its obligations as they fall due - principally, the need to meet the right of Noteholders to redeem their funds as required. The Company's Liquidity Risk Management Policy establishes practices to manage this mismatch under a range of market conditions. A summary of this policy is set out in Section 6.4.

Incoming cash flows come largely from borrower repayments and these are estimated from the maturity profile of the Company's loan portfolio.

Outgoing cash flows for maturing Notes are determined by the terms of the Notes and take into account an allowance for redemptions based on the twelve month historical rolling average of Note redemptions. The historical rolling average of Note redemptions is used to forecast cash outflows in the preparation of the monthly cash flow estimates. During the six month period from July to December 2015, the rollover rate for Notes was 86%. Rollover rates for the years ended 30 June 2015 and 30 June 2014 were 87% and 82% respectively.

The Company models liquidity scenarios over a rolling 12 month timeframe including stress testing of rollover rates of Noteholders. The objective of this modelling is to determine the Company's capacity for asset growth whilst meeting all repayment obligations over the next 12 months. The stress testing includes scenarios significantly more severe than any conditions that have prevailed since the establishment of the business more than 50 years ago. If the percentage of Notes that were rolled over or retained during the next three months were 20% less than the percentage that were rolled over from July to December 2015, the Company would still have cash on hand or cash equivalents sufficient to meet projected cash needs.

1. BENCHMARK INFORMATION (CONTINUED)

Benchmark 3 – Rollovers

All issuers should clearly disclose their approach to rollovers including what process is followed at the end of the investment term and how they inform those rolling over or making further investments of any current prospectus and continuous disclosure announcements.

The Company satisfies this benchmark. On the maturity date, Noteholders may choose to have their Notes repaid or rolled over. The Company contacts all Noteholders by phone or letter at least 3 days prior to the end of the Note term, setting out options and seeking instructions.

If a Noteholder does not provide redemption instructions by the maturity date, the Notes are automatically rolled over for the same term as the maturing investment at the then prevailing interest rate for that term.

The Company updates its website, www.westlawn.com.au with current disclosure documents including any new prospectus. These disclosure documents are also available at any of the Company's offices.

Benchmark 4 – Debt Maturity

All issuers should disclose an analysis of the maturity profile of interest bearing liabilities including any notes on issue by term and value and the interest rates, or average interest rates, applicable to their debts.

The Company satisfies this benchmark. An analysis of the required information as at 31 December 2015 is listed below.

Average interest rate	At call $	0 to 3 months $	3 to 12 months $	1 to 5 years $	Total $
3.50%	10,062,018	42,987,392	89,543,116	26,594,022	169,186,548

Benchmark 5 – Loan Portfolio

If an issuer's loan portfolio is heavily concentrated in a small number of loans, or loans to a small number of borrowers, there is a higher risk that a single negative event affecting one loan will put the overall portfolio (and investors' money) at risk.

Issuers who directly on-lend funds or indirectly on-lend funds through a Related Party should disclose the current nature of their (or Related Parties) loan portfolio.

The Company satisfies this benchmark by disclosing the following details which are relevant to the loan book as at 31 December 2015. Loan funds are lent to a wide variety of business and consumer customers through a network of offices in northern New South Wales.

The Company takes security for loans in accordance with its Lending Policy & Procedures Manual which is summarised in Section 5.3. A summary of the security types taken are listed below. The Company lends to a large number of customers in varying industries. By doing so, the Company has reduced its exposure to the credit risk associated with particular customers and industries.

NUMBER & VALUE OF LOANS

Loans by amount ($)	128,892,981
Number of loans	3,583

MATURITY PROFILE OF LOAN PORTFOLIO & AVERAGE INTEREST RATES

Average interest rate	0 to 3 months $	3 to 12 months $	1 to 5 years $	Over 5 years $	Total $
8.71%	31,497,935	41,373,819	55,940,402	80,825	128,892,981

1. BENCHMARK INFORMATION (CONTINUED)

NUMBER AND VALUE OF LOANS BY CLASS OF ACTIVITY

	Business	Consumer	Total
Loans by amount ($)	111,943,535	16,949,446	128,892,981
Loans by number	2,336	1,247	3,583

NUMBER AND VALUE OF LOANS BY GEOGRAPHIC REGION

	No.	% of loan portfolio	$
NSW - Northern Region (Area North of Grafton)	1,240	37.02	47,715,473
NSW - Grafton Area	697	16.98	21,880,91
NSW - Other Regions	1,071	30.19	38,909,587
Queensland	402	9.03	11,637,124
Victoria	110	4.24	5,458,863
Western Australia	32	1.72	2,220,142
South Australia	22	0.63	817,445
Tasmania	5	0.13	169,488
Northern Territory	4	0.07	84,768
TOTAL	**3,583**	**100**	**128,892,981**

ANALYSIS OF LOANS MORE THAN 30 DAYS IN ARREARS

	Number of loans in arrears	% of loan portfolio	Arrears of principal & interest loan repayments Amount ($) (Note 1)	% of loan portfolio	($) Value of loans in arrears (Note 2)	% of loan portfolio
More than 30 Days in arrears	25	**0.70**	46,002	0.04	226,850	0.18
More than 60 Days in arrears	5	**0.14**	14,741	0.01	157,534	0.12
More than 90 Days in arrears	83	**2.32**	4,447,622	3.45	13,563,921	10.52
TOTAL	**113**	**3.16**	**4,508,365**	**3.50**	**13,948,305**	**10.82**

Note 1 – These amounts represent the arrears portion of each loan that is in arrears.

Note 2 – These amounts represent the full amount owing for each loan that is in arrears (ie; it includes both the arrears and non-arrears principal and interest).

A summary of the Company's policy in respect to the management of loans in arrears is set out in Section 5.3.

FURTHER ANALYSIS OF LOANS IN ARREARS

	No.	Value of loans Amount ($)	% of loan portfolio
Arrears loans subject to mortgagee in possession	22	13,011,138	10.10
Arrears loans subject to legal proceedings	32	106,836	0.08
Arrears loans not subject to legal proceedings (and classified as non-accrual)	11	81,086	0.06
Arrears loans not subject to legal proceedings (and not classified as non-accrual)	48	749,244	0.58
TOTAL	**113**	**13,948,304**	**10.82**

Non-accrual loans are categorised as loans that are non-interest bearing, as the likely recovery of full principal and interest is deemed doubtful.

1. BENCHMARK INFORMATION (CONTINUED)

LOAN IMPAIRMENT PROVISION

As at 31 December 2015, an impairment provision of $3,171,387 is held for loans exceeding 42 days in arrears.

RENEGOTIATED LOANS

Renegotiated loans are those loans where principal or interest was otherwise greater than 30 days past due that have been restructured, transferred or whose terms have been renegotiated within the past six months.

As of 31 December 2015 the Company had 7 renegotiated loans with a combined outstanding balance of $396,642 (balance of $469,103 at the time of restructuring). All of these loans are currently in order and therefore are not included in the analysis of loans in arrears above.

LARGEST BORROWER

Number of loans	Amount ($)	% of loan portfolio
2	9,271,324	7.19

AGGREGATE TOTAL OF THE LARGEST 10 BORROWERS

Number of loans	Amount ($)	% of loan portfolio
54	30,961,391	24.02

SECURITY PROFILE

Type	No.	Amount ($)	% of loan portfolio
Plant, equipment & chattels	2,976	71,918,243	55.81
Registered first mortgages – non development loans	112	27,716,780	21.50
Registered first mortgages – development loans	17	14,692,302	11.40
Security interests over shares & assets	59	9,415,397	7.30
Registered second mortgages	23	1,991,293	1.54
Other	11	112,428	0.09
Unsecured	385	3,046,538	2.36
TOTAL	**3,583**	**128,892,981**	**100.00**

Benchmark 6 – Related Party Transactions

1. Funds lent to Related Parties

The risk with Related Party transactions is that they might not be made with the same rigour and independence as transactions made on an arm's-length commercial basis. There is a greater risk of the loans defaulting and, therefore, investors' money is at greater risk if:

- the issuer has a high number of loans to Related Parties; and
- the assessment and approval process for these loans is not independent.

Issuers who on-lend funds to Related Parties should disclose their approach to Related Party transactions.

The Company satisfies this benchmark. Related Party loans account for 5.42% of the Company's total loan portfolio as at 31 December 2015. The Company makes loans to Related Parties in accordance with the terms and conditions set out in its Related Party Transaction Policy & Procedures Manual which is summarised in Section 5.3.

1. BENCHMARK INFORMATION (CONTINUED)

The total value and number of loans to Related Parties as at 31 December 2015 can be summarised as follows:-

Loan to	Ref	No. of loans	Amount ($)	% of loan portfolio	Original loan term or type
Westlawn Holdings	(a)	1	533,034	0.41	Line of credit
Westlawn Holdings	(b)	1	2,386,477	1.85	36 months
Westlawn Holdings	(c)	2	21,811	0.02	36 months
Sub-total		**4**	**2,941,322**	**2.28**	
Westlawn Wealth Management Pty Ltd	(d)	1	1,512,002	1.17	36 months
Andrew Hayes & Related Parties	(e)	1	61,800	0.05	60 months
James Dougherty & Related Parties	(e)	5	123,143	0.10	Line of credit and 60 months
Mark Dougherty & Related Parties	(e)	3	530,230	0.41	Line of credit and 24 to 36 months
Geoff Scofield and Related Parties	(e)	1	23,244	0.02	54 months
Subsidiaries of Westlawn Finance Limited	(f)	2	518,929	0.40	Line of credit and 60 months
Associates of Westlawn Finance Limited	(g)	1	1,276,406	0.99	Floor plan
TOTAL		**18**	**6,987,076**	**5.42**	

(a) Westlawn Holdings
A loan to Westlawn Holdings for working capital with a total facility limit of $900,000 is granted at a variable rate of interest, currently 8.90% p.a. Interest on this loan is calculated and paid monthly. The Company holds a registered Security Interest over certain shares & units owned by Westlawn Holdings plus a registered Security Interest over the assets and undertakings of Westlawn Holdings together with limited guarantees provided by the shareholders. Based on audited accounts as at 30 June 2015, Westlawn Holdings has net assets of $20.992m. Excluding the carrying value of Westlawn Holdings shareholding in the Company ($17.444m), there remains approximately $7.158m in assets as security against total indebtedness to the Company of $3.610m as at 30 June 2015 ($2.941m as at 31 December 2015).

(b) Westlawn Holdings
A loan to Westlawn Holdings for the partial retirement of existing bank debt and other financial investments is granted at a variable rate of interest, currently 8.90% p.a. Interest on this loan is calculated monthly and paid at least annually. The Company holds a registered Security Interest over the assets and undertakings of Westlawn Holdings together with limited guarantees provided by the shareholders. Refer to (a) above for additional information on Westlawn Holdings.

(c) Westlawn Holdings
Loans to Westlawn Holdings for purchase of equipment in hotel operations granted at a fixed rate of interest, currently 9.00% p.a. Repayments are structured as principal and interest monthly instalments. The Company holds a registered Security Interest over the asset being purchased plus the assets and undertakings of Westlawn Holdings. Refer to (a) above for additional information on Westlawn Holdings.

(d) Westlawn Wealth Management Pty Ltd
A loan to Westlawn Wealth Management Pty Ltd is granted at a variable rate of interest, currently 8.90% p.a. Interest on this loan is calculated and paid monthly. The Company has a registered Security Interest over Westlawn Wealth Management Pty Ltd supported by a guarantee from Westlawn Holdings to secure this loan. Refer to (a) above for additional information on Westlawn Holdings.

(e) Directors and other Related Parties
Loans to Directors and Related Parties are granted at rates of interest between 7.20% p.a. and 10.00% p.a. Interest on the majority of these loans is calculated and paid monthly or at least annually. Security is held for approximately 91% (8 loans totalling $0.67m) of these loans whilst the balance is unsecured (2 loans totalling $0.07m). Security for these loans comprises a combination of registered first mortgage, plant and equipment, as well as registered Security Interests over shares and assets.

1. BENCHMARK INFORMATION (CONTINUED)

(f) Subsidiaries of Westlawn Finance Limited
A loan to Westlawn Insurance Brokers Pty Ltd to partially fund the purchase of an insurance broking business is granted at a fixed interest rate of 9.00% p.a. The balance of this loan as at 31 December 2015 is $518,889. Interest on this loan is calculated and paid monthly. The Company holds a registered Security Interest over the assets and undertakings of Westlawn Insurance Brokers Pty Ltd.

A loan to North State Finance Pty Ltd to partially fund its premium funding loan book is granted at a variable interest rate, currently 8.00% p.a. The balance of this loan as at 31 December 2015 was $39 and has a total facility limit of $750,000. Interest on this loan is calculated and paid monthly. The Company holds a registered Security Interest over the assets and undertakings of North State Finance Pty Ltd.

(g) Associates of Westlawn Finance Limited
A floor plan facility is provided to Ken Casson Motors Pty Ltd (a Grafton based Holden and Mazda dealership in which the Company has a minority equity interest) on arm's-length commercial terms, upon which floor plan charges are calculated monthly at a variable rate of interest, currently 8.25% p.a. This facility is secured by a registered Security Interest over the new motor vehicles that were purchased using this facility.

2. Funds invested by Related Parties

Notes held by Directors and Related Parties are as follows:-

Notes	As at 31 Dec 2015	% of Notes on issue
TOTAL	**$9,687,081**	**5.73**

Benchmark 7 - Valuations

If the issuer does not include information about valuations in the prospectus, it will be more difficult for investors to assess how risky the investment is. Keeping valuations up-to-date and shared among a panel of valuers means they are more likely to be accurate and independent.

Where an issuer is involved in or (directly or indirectly) lends money for property-related activities, they should disclose their approach to obtaining and relying on valuations.

The Company does not satisfy this benchmark.

The Company has an approved list of panel valuers who provide valuations and this list has been approved by the Trustee. Panel valuers are independent of the Company and have no interest in the subject property or any relationship with the borrower. No one individual valuer conducts more than one third of the total number of valuations obtained. The Company occasionally may be required to utilise the services of a qualified valuer outside the approved list, however only when the property is located outside the region of valuers within the list.

In certain circumstances, the Company may arrange for a property to be appraised by a real estate agent, who may not be a registered property valuer, however only in the instance where the LVR is 70% or below. A Valuer General valuation confirmed by local council records may also be relied upon when the LVR is 80% or below. Property Contract for Sale purchase price values may be relied upon if funding is provided for purchase purposes, however only when the LVR is 50% or below.

During the period of 1 January 2015 to 31 December 2015, the following number of valuations were obtained to support new mortgage lending:

Source of valuation	Number of valuations	% of total loans
Panel valuers within approved list	29	85%
Qualified valuers outside approved list	3	9%
Real estate agent appraisals	1	3%
Valuer General valuations	1	3%
Contract for sale purchase price	0	0%
Total	**34**	**100%**

1. BENCHMARK INFORMATION (CONTINUED)

The Company makes loans for property related activities in accordance with the terms and conditions set out in its Lending Policy & Procedures Manual and Related Party Transaction Policy & Procedures Manual (refer to Section 5.3 for a summary of these policies).

Funds for property development loans are only released in stages to cover project completion costs. Funds are only provided to the developer when the construction costs are quantified by industry experts, eg; Independent Quantity Surveyors Reports.

Real property assets which are taken as security for loans are valued on an "as is" basis and for development property on an "as if complete" basis. Valuations on an "as is" basis mean the property is valued as it currently exists with regard to current market conditions. Valuations on an "as if complete" basis means the property is valued as if the proposed development has been completed with regard to current market conditions.

In September 2014 the Company approved a loan facility for $6.8m secured by a residential property which represents approximately 5.5% of the total loan book as at 31 December 2015. The security property is a prestige property located in Sydney supported by a valuation of $10.25m performed by a licenced valuer, Alcorn Lupton & Associates. The valuation was undertaken on the basis of determining the fair market value of the property for first mortgage purposes. The Company is now mortgagee in possession with the property scheduled to be auctioned on 19 March 2016.

Internal or external valuations are required for any new loans where property is taken as security and these valuations are generally updated every two years. Valuations cannot be more than one year old when a new loan is made.

Benchmark 8 – Lending Principles – Loan to Valuation Ratios

A high loan-to-valuation ratio means that the investment is more vulnerable to changing market conditions, such as a downturn in the property market. Therefore, the risk of investors losing their money could be higher.

Where an issuer (directly or indirectly) on lends money in relation to property-related activities, it should maintain the following loan-to-valuation ratios:-

a) **where the loan relates to property development – 70% on the basis of the latest complying valuation; and**

b) **in all other cases – 80% on the basis of the latest complying valuation.**

The Company does not satisfy this benchmark.

The Company's lending activities include property-related loans which are predominately funded within the above lending ratios and in accordance with its Lending Policy & Procedures Manual. The occasional concessions in loan-to-valuation ratios are only provided to strongly qualified applicants who are considered to be a low level credit risk. Such applicants will be required to satisfy the Company that they have more than sufficient cash flow to service loan repayments and may be required to provide other assets as collateral security for the loan. Further lending policy details are provided in Section 5.3.

Details of the Company's non-property development loans, as at 31 December 2015, which do not comply with this benchmark in regard to LVR, are disclosed below:

LVR	Number of loans	Amount ($)	% of loan portfolio
81 – 90%	2	356,875	0.28%
90 – 100%	1	156,941	0.12%
TOTAL	3	513,816	0.40%

The Company does not have any property development loans with an LVR in excess of 70%.