Provident Capital High Yield Fund Benchmark Update

As at 31 December 2009

Provident Capital®
FOR FINANCE AND INVESTMENT

ARSN 134 487 577

ASIC benchmarks

In September 2008, ASIC issued Regulatory Guide 45 setting out benchmarks for unlisted mortgage schemes to address in a PDS. The benchmarks identify a number of financial measures and business practices to help investors assess the potential risks and rewards being offered prior to making their investment. The benchmarks are not mandatory. Rather, issuers are required to disclose whether the benchmarks are satisfied and if not, then why not. Investors should review all benchmarks in the context of the PDS as a whole, rather than rely on any particular benchmark to make an investment.

Benchmark Summary (detailed responses follow:)	**Satisfied** YES / NO
Liquidity	✓ YES
Scheme borrowing	✓ YES
Portfolio diversification	✓ YES
Related party transactions	✓ YES
Valuation policy	✓ YES
Loan to valuation ratios	✓ YES
Distribution practices	✓ YES
Withdrawal arrangements	✓ YES

Ongoing disclosures

Provident Capital intends to continue to meet the requirements of the benchmarks. Updates on the benchmarks will be lodged on the Provident Capital website (**www.providentcapital.com.au**) after the end of June and December in conjunction with the issue of the financial statements for the Fund.

ASIC benchmarks

Benchmark 1: Liquidity

The Fund satisfies ASIC benchmark 1 with the following procedures and information.

Each month, as part of the Fund's ongoing compliance management processes, a projection will be made of the Fund's cash flow for the next 3 months.

The material assumptions underlying these cash flow projections include analysis of recent actual investor inflows and withdrawals, loan movements, and budgeted projections of income and expenses, as well as periodic stress testing of these assumptions.

When calculating projections, any undrawn amounts under bank overdrafts or lending facilities are not taken into account. The Fund will maintain cash or cash equivalents sufficient to meet its cash needs over the next 3 months as shown by these projections.

Investments in the Fund are not for any fixed or defined periods, subject to the minimum term of 24 months. Loans to borrowers are for a maximum initial loan term of 5 years. Accordingly, it may not be possible to balance the maturity of loans made by the Fund with investor withdrawals, and withdrawals may be delayed because of this.

Benchmark 2: Scheme borrowing

The Fund satisfies ASIC benchmark 2 with the following information.

Whilst the Fund is permitted under its constitution to borrow and give security for those borrowings, the Fund has not borrowed any money as at the date of this Benchmark Update.

Where the Fund does borrow, it may be for investment in new loans or for liquidity management (e.g. to manage distributions or withdrawal requests), such as under a stand-by facility. The borrowing will be limited to no more than 50% of the total value of the Fund's assets at the time and will be on ordinary commercial terms with Australian trading banks.

Where the Fund does borrow then the interests of the lenders to the Fund will generally rank before an investor's interest in the Fund.

ASIC benchmarks

Benchmark 3: Portfolio diversification

The Fund satisfies ASIC benchmark 3 with the information below and on pages 10-11 of the PDS under the sub-headings “Lending Criteria” and “Diversification”..

Portfolio Data as at 31 December 2009

	Loan 1
Loan Value (rounded to the nearest $000)	$62,000
Type of secured property	Residential
Location of secured property	NSW
Loan in arrears*	No
1st registered mortgage security	Yes
Maturity profile	Within 12months
Loan to value ratio range	Less than 50%
Interest rate range (% per annum)#	15-20%
Valuation (rounded to the nearest $000)	$260,000
Date of valuation	10/09/09

*The Fund considers a loan to be “in arrears” if interest has not been paid or the loan amount not repaid, in each case for at least 90 days after the due date.

The interest rate is reduced by 6% per annum for timely payments.

No loans were approved but had funds yet to be advanced.

The Fund does not write loans where the interest is capitalised and added to the loan amount instead of being paid by periodic interest payments.

The principal non-loan asset of the Fund was cash of approximately $3,700. The Fund does not hold any derivatives nor does it intend to.

Benchmark 4: Related party transactions

The Fund satisfies ASIC benchmark 4 with the following information.

It is the Fund’s policy that it will not have any loans to or from related parties nor any investments in related parties. As responsible entity, Provident Capital may transfer into the Fund existing 1st mortgage loans made by it in its other management capacities. Each such loan transfer will be for the loan balance current at the time of the transfer and must satisfy the lending criteria of the Fund as if a new loan made by the Fund at that time and will satsify the Fund’s conflict of interest policies. Provident Capital will not receive any fee in connection with the transfer.

Benchmark 5: Valuation policy

The Fund satisfies ASIC benchmark 5 by complying with the various approaches to valuations specified by the benchmark and by disclosing:

- the information set out below and on page 12 of the PDS under the sub-heading “Valuation Policy”;
- our lending criteria on page 10 of the PDS under the sub-heading “Lending Criteria;
- the portfolio valuation information set out in ASIC benchmark 3.

ASIC benchmarks

Benchmark 6: Lending principles – loan to valuation ratios

The Fund satisfies ASIC benchmark 6. Under ASIC benchmark 6, the Fund should maintain a loan to valuation ratio (“LVR”) (i.e. the amount to be borrowed, including any interest prepaid or capitalised, as a proportion of the value of the property over which the loan is to be secured) of 70% where the loan relates to property development (on the basis of the latest “as if complete” valuation) and 80% in all other cases (on the basis of the latest market valuation). As at the date of this Benchmark Update, the Fund’s maximum LVR limits are:

Security type	Maximum LVR	Benchmark 6 satisfied?
Property for development funding	70%	Yes
Property for residential use	80%	Yes
Property for commercial/industrial use	75%	Yes
Property for rural use	70%	Yes

These ratios apply at the time of approving a loan and are designed to mitigate some of the lending risk. The Fund will not necessarily approve a loan at the maximum LVR. During the course of a loan the total debt owing may exceed the LVR limit set for the loan on the value of the mortgaged property due to a combination of factors, including a decline in the value of the mortgaged property, or accrual of unpaid interest or other costs.

Benchmark 7: Distribution practices

The Fund satisfies ASIC benchmark 7 with the following disclosures. Each investor’s distribution entitlement (if any) will be calculated daily, based on:

- the number of units held;
- the period for which they were held, as a proportion of the total number of units in the Fund on issue during the calculation period; and
- the amount of the Fund’s distributable income for that distribution period.

Normally the Fund will pay a distribution out of income earned during a month within 10 business days after the end of the month for which it is calculated. This income is primarily sourced from the interest paid by borrowers under the loans that the Fund makes. The payment will be made by direct deposit into each investor’s nominated bank account.

ASIC benchmarks

However, if no distribution payment instruction has been received, the distribution will be reinvested automatically as additional units in the Fund to the value of the amount of the distribution.

Although the Fund may indicate an expected distribution rate of return or amount, the distribution rate may vary from period to period depending on the performance of the Fund.

Benchmark 8: Withdrawal arrangements

The Fund satisfies ASIC benchmark 8 with the following disclosures.

Withdrawals will be processed quarterly with effect from each 31 March, 30 June, 30 September and 31 December ("quarterly dates"). Investors may request withdrawal of part or all of their eligible units by giving a notice that must be received no later than 5.00pm AEST on the last business day at least 3 months before the relevant quarterly date. Eligible units are units which on the relevant quarterly date have been held for at least 24 months after the date the units were issued.

The withdrawal amount will normally be paid by direct deposit into your nominated bank account within 10 business days after the relevant quarterly date. However, the Fund's constitution allows the Fund to defer payment for up to 180 days after that date, and longer if:

- there is a circumstance outside of the responsible entity's control which it considers as having an impact on the Fund's ability to calculate unit prices properly or fairly; or
- the aggregate withdrawal amount payable at the time exceeds 10% of the value of the Fund's net assets; or
- Fund assets cannot be realised at prices that would be obtained if they were realised in an orderly fashion over a reasonable period in a stable market; or
- there are insufficient cash reserves available to meet withdrawal requests and pay the operating expenses of the Fund.

No fee is payable for a withdrawal.

The concept of "rolling over" an investment in the Fund does not apply as investments in the Fund do not have a maturity date fixed when the investment is made.

Normally the unit price payable on withdrawal will be $1.00 per unit. However, if the Fund suffers a loss of capital in its loan portfolio, there may be a reduction in value of the assets in the Fund on which the withdrawal value is based. This may result in a reduced withdrawal price payable to the investors in the Fund whose withdrawal is being made at that time.

If, for any reason, the Fund becomes 'illiquid' (as defined in the Corporations Act), the responsible entity may make a withdrawal offer to all investors, but there is no obligation for it to make such an offer. The Fund will be considered as 'illiquid' if its liquid assets account for less than 80% of the value of assets of the Fund. Liquid assets generally include cash, bank bills, bank deposits, bank accepted bills, marketable securities and mortgage loans that are expected to mature or be saleable as soon as practicable or otherwise within 180 days.