

Up close and personal with Michael O'Sullivan

In this edition of Provident Times we interview Michael O'Sullivan, Provident Capital's long standing managing director. He shares with us a unique insight into Provident Capital's history, culture, values and its plans for the future.

Q: Provident Group was established in 1990. What was the business like in those early days?

Michael: For the first four years, Provident was largely a financial planning business with life insurance and mortgage broking divisions.

Q: You've described Provident's business in the early days as quite revolutionary. Why?

Michael: In the early 1990s, our business was already running like one of today's professional financial planning practices. Our clients received comprehensive financial plans and personalised investment advice. Plus, our advisers received regular structured training and were supported with in-depth investment research. This was all quite unusual in those days and has played an important part in building our culture of quality, professionalism and high levels of client service.

Q: Provident changed its business after 1994. What happened and why?

Michael: Feedback from our clients showed that their ideal rate of investment return was 10%. When questioned further, clients confirmed that they were prepared to forgo the investment returns of exceptional years for a known, fixed rate of return.

At the same time, our mortgage broking business was seeking private clients who wanted to invest in the mortgage market. We found that we could satisfy the investment needs of both types of parties if we matched borrowers with clients who wanted to invest. Borrowers wanted short-term, fixed rate, interest-only finance and investors wanted a known, fixed rate of return.

This new direction meant that Provident grew from being a distributor of financial products to a fund manager (mortgage manager) in its own right. It allowed us to control the returns generated for our clients. Seventeen years later, we're now an industry leader in the non-bank fixed interest investment community.

Q: Provident Capital started issuing debentures in 1998. How did it start?

Michael: Prior to 1998, our clients invested directly into mortgages that Provident identified and managed on their behalf. Our clients were the mortgagee or lender in each transaction, but they were limited to the particular transaction in which they had invested. We realised that we could improve our clients' investment options and simplify the processes if our clients invested in Provident and we became the mortgagee and made all the credit and lending decisions, determined the overall portfolio characteristics and remained responsible for the asset management role.

Debentures were the best solution to achieve this. They enabled Provident to provide investors with a known, fixed rate of return over a variety of investment periods whilst maintaining an appropriate level of security through a first ranking charge



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over Provident's company assets. As a result Provident Capital Limited was incorporated and issued its first debenture prospectus on 11 December 1998.

Q: Since Provident's debenture program started, has it ever failed to meet its obligations to investors?

Michael: Absolutely not! We have paid all interest and all debenture repayments on time, every time.

Q: What is important when evaluating the quality of debentures?

Michael: First, investors need to understand what they are investing in – is it in fact a debenture or an unsecured note or something else, and in each case what security is being offered.

Second, investors need to examine the quality of the debenture's underlying assets. For a loan portfolio, are the loans secured by first ranking securities? How much exposure does the company have to riskier investments such as construction and property development? What kind of diversification does the loan portfolio offer? What is the history and experience of the debenture manager? How much have the company's shareholders invested in the company?

Q: So what happened with the three companies that failed during 2007?

Michael: These companies were property developers with flawed business models. The loans

underpinning their debentures were poor quality and were not secured by first ranking securities.

Q: What will be the effect of the Australian Securities and Investment Commission (ASIC)'s new 'benchmarks' for debenture issuers?

Michael: The benchmarks are a very positive development for the industry. Investors should receive better information about the issuing company and it should be easier for investors to compare alternative issuers. They should lead to greater self regulation by participants which can only be good for investors.

Q: Do you see opportunities for Provident in the current market?

Michael: Absolutely! Provident Capital is well resourced to take advantage of weaker competitors and enhance our product development capabilities. New business lines will also be introduced to compliment our proven business strengths.

Q: Do you have anything else you'd like to pass on to Provident's investors?

Michael: I want to acknowledge and thank those investors who have been with us over the last 17 years. The level of our investor support has been a key factor in Provident's success to date.

This will be our last investor newsletter for 2007, so I'd also like to wish our investors and their families a very Merry Christmas, and a safe, happy and prosperous 2008.

A new client contact programme is set to boost Provident's customer service

In order to increase the level of our service and support for clients, we have recently introduced a new client contact program.

This program will involve:

- * an increase in the level of support available for clients
- * improved and more regular client communication through our quarterly newsletter, investment seminars and telephone contact.

Our consultants have been trained to deliver the highest level of client support. They are available to assist new and existing clients with any queries in regard to our prospectus, the completion of application forms, instructions or banking details.

The Client Services team is available toll free on **1800 650 422** from Monday to Friday between 8.30am and 5.30pm AEST.

Michael's 2008 outlook:

I'm really looking forward to 2008 because it's set to be an exciting year for Provident Capital.

New opportunities

We're always on the lookout for new business opportunities and ways to provide our clients with a broader range of products and services. Within the high yield or high interest rate product market, there are likely to be a number of opportunities such as the chance to buy mortgage portfolios.

There are also likely to be opportunities in the mortgage origination sector. These will provide mortgage deal flow particularly in the lower risk residential market.

Growth of Provident Lending Services

During 2007, we launched Provident Lending Services (PLS). This new division provides credit and lending expertise to mortgage brokers and borrowers. PLS operates in the commercial mortgage market and manages a panel of over 20 third party lenders.

PLS's objective for 2008 is to be the leading originator and manager of commercial mortgage assets for our broker 'introducers' and the major financial institutions involved in the commercial mortgage debt market.

We believe it will be a good fit with Provident's existing lending activities. Our intention is to develop a suite of the best and most diverse range of loan products for our borrower clients.

Expansion of Provident Cashflow

Provident Cashflow, our inventory finance business, is set to continue to expand next year. Formerly known as Provident Inventory Finance, it has recently changed its name to Provident Cashflow to more accurately reflect its growing range of products.

Provident Cashflow is already Australia's leading provider of cashflow finance for inventory purchases and outsourced production costs.

New Provident product to be launched

Provident is committed to strengthening its position as one of Australia's most innovative non-bank mortgage finance companies. We're set to release two new products in 2008:

1. **Retirement Booster** is a product which will combine a reverse mortgage with a Retirement Booster debenture. This will provide retirees with an attractive income stream throughout their retirement years.
2. Our **wholesale mortgage trust** is a new product to increase Provident's exposure to the investment adviser wholesale market. This new offering will compliment our debenture fund.

Provident gives back to the community

Provident Capital is committed to supporting the community and we were proud to be involved with a number of charities during 2007. We supported:

- * The Friends of the Mater Foundation
- * The Kokoda Track Foundation
- * Guide Dogs NSW/ACT
- * Royal Flying Doctor Service of Australia
- * Children's Medical Research Institute
- * Movember
- * Leukaemia Foundation

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Company News

Debenture Prospectus 10 – available end of December 2007

We have been working hard on updating our debenture prospectus and are planning to release it via our website and in hard copy format in late December. If you'd like a hard copy, please contact our Client Service team on **1800 650 422** from Monday to Friday between 8.30am and 5.30pm AEST.

What's new?

The new debenture prospectus is even simpler for investors to read and understand. Plus, the application form is now easier and faster to fill out.

We have included more information about our loans and our business. The new prospectus will also contain an extract of our 30 June, 2007 financial information so that you can learn more about the performance of our business.

We encourage you to read it thoroughly and call us or ask your financial adviser if you have any questions. If you'd like a full annual report, please visit our website at www.providentcapital.com.au in the 'About Us' section or you can request a copy from us during business hours.

New debenture interest rates (Effective 3 December 2007)

We have increased our debenture interest rates as a result of the Reserve Bank's recent 0.25% interest rate rise. This means that there's never been a better time to consider investing with us.

What are Provident's interest rates*?

Debenture terms	Interest paid on maturity	Interest paid monthly
90 days	7.25% pa	-
180 days	7.50% pa	-
270 days	7.75% pa	-
1 year	8.75% pa	8.25% pa
2 year	8.95% pa	8.35% pa
3 years	9.25% pa	8.50% pa
5 years	9.75% pa	9.00% pa

Interest is calculated for all interest elections on a simple interest basis for the term of the debenture. All rates are per annum. Rates are effective 3/12/07 and are subject to change.

All applications for debentures must be completed on the form contained in the current prospectus which the Company has lodged with the Australian Securities and Investments Commission (ASIC).

Provident Capital debentures have not been rated by an ASIC recognised credit rating agency. This means that no external assessment recognised by ASIC has been made about the risk of investors getting all or part of their principal investment back.

When is interest paid?

For investments of one to five years, interest payment terms are monthly, quarterly, half-yearly, annually or on maturity.

*Discontinuation of the 60 day term

We have recently reviewed our debenture terms and discontinued the 60 day term. We have done this because it was the term least requested by our investors.

Our current rates are available at www.providentcapital.com.au or by calling a member of our Client Services team on **1800 650 422**, Monday to Friday between 8.30am and 5.30pm (AEST).

If you wish to receive updates by email, please write to info@providentcapital.com.au and write 'email interest rates' in the subject line. Rates are also published in our print advertisements.

The impact of the US sub-prime crisis on Provident Capital

One of the key side effects of the US sub-prime crisis is tighter credit conditions in the Australian lending market. This has made it harder and more costly for many lenders to raise money.

In contrast, Provident has actually benefited from the fallout in the US sub-prime market. We have been relatively insulated against the events in the US because we raise our capital predominantly through retail investors as opposed to other lenders who raise their capital by selling their loan portfolios (known as "securitising") to other lenders who borrow in the US capital markets.

What does this mean for Provident?

Provident is currently experiencing a surge in lending, which has been particularly strong in the period leading up to Christmas. We've strengthened our market position due to enhancements to our lending products and improved price competitiveness relative to other lenders.

This increase in lending activity is likely to translate into:

- * increased lending balances
- * a more diversified loan book
- * increased profitability
- * a stronger net-asset position.

September investor seminars – a resounding success!

In September this year, we ran a number of investor seminars in Brisbane and Sydney. These were designed to give existing and prospective clients more information about our products, current industry developments and activity by regulators such as ASIC.

Feedback from attendees suggested the seminars were very useful. There was significant interest in the recent collapses of property developers, Westpoint, Fincorp and Australian Capital Reserve.

Thank you to everyone who attended and who provided comments and suggestions. Your feedback assists us providing the types of products, services and information that you need.

Some of comments from seminar attendees included:

"A very worthwhile and informative morning."

"It gave me confidence about the security of my Provident investment."

"It was very professional."

As a result of the success of these seminars and your feedback, we will be holding a more extensive series of seminars in 2008. More details are included in this newsletter and on our website.

Tax Office Warns of Email Scam

The Tax Office has released an announcement warning taxpayers that a fraudulent email is being circulated that claims to offer a refund from the Tax Office.

Taxpayers are warned that the email fraudulently uses the Tax Office logo, and contains subject lines of: 'Australian Taxation Office – Notification' or 'Australian Taxation Office – Please Read This'. The email asks people to click on a link which sends them to a bogus website. This website will ask taxpayers for credit card and personal details in order to receive a refund.

Greg Farr, acting Tax Commissioner, explained that anyone who receives the email should delete it immediately. The Tax Office has asked all taxpayers to type internet addresses directly into their internet browser rather than clicking on hyperlinks attached to emails. This matter has been notified to relevant authorities who are investigating.

Source: Australian Tax Office 15 October 2007

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Client Profile

A cool head for investment

Queenslander Mervyn Holdway knows a lot about keeping his cool when it comes to business and investment. For over thirty years, he ran one of Queensland's leading air-conditioning and ventilation companies. He is one of the pioneers of the industry and was also one of the early adopters of employee superannuation. He provided superannuation for his employees decades before compulsory super was officially introduced in Australia.


One of his career highlights was the installation of air-conditioning systems in the first KFC stores in Queensland. He also met KFC's founder Colonel Sanders and says: "he was a terrific fellow and looked just like the illustration".

Since Mervyn and his wife sold the business, they have relied on a number of investments to fund their retirement. They have historically only owned property and invested in a range of shares. They have since included Provident's debentures in their investment portfolio.

The Holdways were attracted to Provident's debentures because of their capacity to pay income on a monthly and quarterly basis. Mervyn was also impressed with the range of terms: *"the different terms have been excellent for us and very beneficial"*.

"Since we started investing with Provident, we've always had some personal contact with them which has been good. We're comfortable recommending Provident to friends and if we think a prospectus might be of interest, we'll pass it on" says Mervyn.

Here's the latest example from our current ad campaign



New Rates!

It's always a good time to invest in a real find.


With new interest rates, there's never been a better time to invest in debentures.

Get more than a great rate. Invest in a successful funds manager like Provident Capital, with a solid balance sheet and good earnings results.

Enjoy the flexibility with:

- Terms from 30 days to 5 years
- Payment options include monthly, annual or at maturity
- Invest from as little as \$1,000

Track down a prospectus today.
Call **1800 066 655** or visit www.providentcapital.com.au

 **Provident Capital™**
FOR FINANCE AND INVESTMENT

This offer of debentures is made in a prospectus and applications must proceed on the form contained in the current prospectus lodged with ASIC by Provident Capital Limited 78 082 735 573 AFSL 225172. SAMAG_021207

We continue to focus on the fact that with Provident Capital you get more than a great rate. You have the backing of a successful funds manager, with a solid balance sheet and good earnings results.

Investor Seminars for 2008

Due to strong demand, we are pleased to announce another series of investor seminars in 2008. These will be held across Australia and each session will address current topical industry issues and how these issues relate to Provident's clients and business. They will also look at the latest developments for Provident Capital and how they may benefit clients.

The following seminars have been scheduled for 2008:

Location	Date	Venue	Time
CBD seminars:			
Sydney	Monday, 3 March	The Menzies Hotel	10.30am
Melbourne	Tuesday, 4 March	The Mercure Hotel	10.30am
Adelaide	Wednesday, 5 March	Rydges South Park	10.30am
Perth	Thursday, 6 March	Rydges Perth	10.30am
Brisbane	Thursday, 15 May	Rydges South Bank	10.30am
NSW regional seminars:			
Wollongong	Monday, 5 May	Wollongong Golf Club	10.30am
Epping	Tuesday, 6 May	The Epping Club	10.30am
Newcastle	Wednesday, 7 May	Noahs on the Beach	10.30am
Port Macquarie	Thursday, 8 May	Port Macquarie Golf Club	10.30am
Coffs Harbour	Friday, 9 May	Coffs Harbour Catholic Club	10.30am
QLD regional seminars:			
Townsville	Monday, 12 May	Rydges South Bank	10.30am
Toowoomba	Tuesday, 13 May	Toowoomba Motel & Events Centre	10.30am
Sunshine Coast	Wednesday, 14 May	Twin Waters Golf Club	10.30am
Gold Coast	Friday, 16 May	Sofitel Gold Coast	10.30am

How do I book?

Seminar places are limited, so we recommend you book as soon as possible.

Visit www.providentcapital.com.au/seminars. This website will continue to be updated with venue and other seminar information. Alternatively, you can call Client Services on **1800 650 422**.

Each seminar will include light refreshments. Venues are conveniently located to public transport and parking facilities.

We look forward to seeing you there!

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Provident's office hours over the Christmas holiday break

Our office will be closed on the normal public holidays over the Christmas and New Year period. If you need to call us during this holiday period, please contact us toll free on **1800 650 422** and leave a message. We will contact you immediately on our return.

Feedback

Your feedback is very important to us as it helps us to ensure the services we provide meet your needs. If you would like to see an article or more information on a particular topic, please let us know.

Plus, if you have any questions, please do not hesitate to contact us.

Internet and email

Has your email address changed in the last six months? If you have internet access and wish to receive future newsletters via email, please write '**email newsletter**' in the subject line and email to:

info@providentcapital.com.au.

Contact us

There are a number of different ways you can contact us:

1. Call our Client Services team toll free on **1800 650 422**, Monday to Friday between 8:30am and 5:30pm (AEST)
2. Email us at **info@providentcapital.com.au**
3. Visit our website at **www.providentcapital.com.au.**

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