

THE STANDARD *(1)*

# Banksia fudged debt figures, class action claims

By EVERARD HIMMELREICH

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Banksia's management will again be in the spotlight this month when Banksia's directors and others will be questioned in the Supreme Court about their conduct by the company's receivers, McGrathNicol.

A LARGE and ongoing gap between what Banksia Securities told investors about its level of bad debts and its actual, much worse financial situation is alleged in the class action's latest statement of claim.

According to the statement of claim lodged in the Victorian Supreme Court, a large discrepancy between Banksia's real and reported financial situation opened up in 2009. That was soon after the parent company of Banksia Securities, Securities Holdco, took over another investment company, Statewide Secured Investments, which had a similar Kyabram background to that of Banksia Securities.

The recent statement of claim, lodged on behalf of about 1600 investors in the failed Banksia Securities and associated Cherry Fund, adds much more detail to the writ lodged by the class action in December last year and gives more evidence of alleged improper management of the business.

It said that six months after Securities Holdco's acquisition of Statewide, it was

apparent that more than 34 per cent of Statewide loans were subject to legal action or were non-performing.

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The substantial shortfall between Statewide's loan assets and its debenture liabilities forced Banksia Securities managing director Patrick Godfrey to seek \$53.2 million from Banksia in August 2009 to cover the deficit.

Despite this, Banksia made provision for less than \$2 million of bad and doubtful debts in October 2009.

The claim said the lack of disclosure of the company's true financial position continued from 2009 until 2011.

In October 2010, the company made provision for bad and doubtful debts of only \$3.845 million when its June 30, 2010 accounts showed \$30 million of its loans were past due and impaired.

The high value of Banksia's past due loans exceeded investors' net equity in the company, the statement said.

Again in October 2011, Banksia's provision for bad and doubtful debts was only \$4.146 million when it had more than \$28.5 million of past due and impaired loans, again exceeding investors' net equity in the company. By August 2011, when Banksia had absorbed the vast majority of Statewide's loan portfolio, its total loans in legal action were more than \$130 million, comprising more than 21 per cent of the Banksia Group's total loan portfolio.

Banksia's management will again be in the spotlight this month when Banksia's directors and others will be questioned in the Supreme Court about their conduct by the company's receivers, McGrathNicol.

The hearings are scheduled to take place on July 22.