

29 July 2009

Dear Investor

Lombard Finance & Investments Limited (In Receivership) – (“LF&I”)
Lombard Asset Finance Limited (In Receivership)
Lombard Asset Finance NO. 2 Limited (In Receivership)
Lombard Property Holdings Limited (In Receivership) – (“LPH”)
(Collectively, "the Companies")

1. Introduction

Our last report to secured debenture investors was dated 28 April 2009. We take this opportunity to provide you with a further update on the progress of the receiverships and our investigations into events leading up to the receiverships of the Companies.

2. Returns to Secured Debenture Investors

In our April letter we estimated a range of recoveries to secured debenture investors of 17% to 29% of their original investment. At this time, our assessment of the estimated range of recoveries to secured debenture investors remains unchanged, however, the property market continues to be challenging and volatile, particularly in respect of development land and bare land coastal subdivisions. In a number of cases, LF&I is selling the underlying property asset as mortgagee or has appointed receivers to manage the sell down process.

Property Loan Book

LF&I's major asset is the property loan book which consisted of 27 loans with a total book value of \$136.7M as at 31 March 2008.

As at 17 July 2009, net proceeds to LF&I (after settlement of prior ranking security holders and sale costs) from the property loan book totalled \$8.7M. For the period 10 April 2008 to 17 July 2009 the following assets in the property loan book have been realised:

- Five apartments have been sold in a luxury development in New Plymouth, which has significantly reduced the amount owing to the prior ranking security holder.
- Sell down of units in a completed residential development located in the South Island is ongoing and has significantly reduced the amount owing to the prior ranking security holders.
- Sale of lots in two bare-land subdivisions in the lower North Island is ongoing with ten lots sold since our appointment as receivers of LF&I.
- Five lifestyle blocks in the South Island have been sold, with the proceeds partially repaying LF&I's debt.
- Sell down of units in a town-house development in Auckland has now been completed with LF&I's loan repaid in full.
- A residential property which formed part of a loan's collateral security has been realised, with funds available to LF&I after repayment of the prior ranking security holders.
- Sell down of a block of apartments in Auckland is now substantially complete with the remaining four units subject to conditional contracts.

- Sell down of apartments in a recently completed development in central Auckland has commenced. LF&I holds a third ranking mortgage over the property and it is unclear at this stage what funds, if any, will be available to LF&I.
- Two separate development land sites have been sold by the respective prior ranking security holders with no funds available to LF&I as the subordinated security holder.

We continue to manage all remaining loans on an individual basis to ensure the most appropriate strategy for maximising realisations is implemented, including utilising specialist property consultants, legal advisors and valuers to assist in assessing the options available, including the pursuit of guarantors.

Commercial loan book

As at 10 April 2008, the commercial loan book comprised 171 loans totalling \$2.9M. The types of loans include hire purchase, consumer and business loans. The finance provided is secured either over specific assets or as a general security over the assets of the borrower.

Gross recoveries from the commercial loan book for the period 10 April 2008 to 17 July 2009 totalled approximately \$1.5M. We continue to monitor and manage the collections process.

Other

Potential estimates of recoveries have excluded potential returns in respect of actions that may be taken against directors and other third parties. The likelihood of legal action and quantum of any returns cannot be estimated at this time.

3. Timing of Returns to Secured Debenture Investors

As set out in our last report, we have yet to receive confirmation of IRD's final claims in the receivership. IRD is currently undertaking an audit into the affairs of LF&I and this may result in the identification of preferential claims against LF&I. It is expected that any preferential payments will be required to be paid in full prior to any distribution to secured debenture investors.

Based on realisations to date and assuming that the IRD audit does not identify any further preferential claims, we expect to be in a position to make an initial interim distribution to secured debenture investors of between 5 cents and 6 cents in the dollar of their investment.

We recognise that the delay in the payment of an interim distribution is frustrating for secured debenture investors and we are working with the IRD to progress the audit as quickly as possible. Once we have confirmation from the IRD of the likely timing of the completion of the audit, we will advise secured debenture investors.

4. Investigations

The receivers continue to provide extensive assistance and information to various Government authorities in respect of their investigations. The receivers have sought legal advice as to the potential for legal action against a number of parties in relation to the activities of the Companies leading up to the appointment of receivers.

5. Concluding Remarks

Our assessment of the estimated range of recoveries to secured debenture investors remains unchanged at 17% to 29% of their original investment. We regret that we are unable to provide more certainty regarding the timing of returns to secured debenture investors; however, we will keep investors appraised as to the progress and outcome of the IRD audit.

Overall achieving loan recoveries remain difficult due to market conditions and in certain cases, enforcement action by prior ranking security holders has resulted in minimal or no recoveries for LF&I. We can assure investors that we continue to make every attempt to maximise recoveries in an efficient manner, whilst actively investigating those who may be held accountable for the losses.

A further report to secured debenture investors will be issued by 31 October 2009. In the meantime, should investors or other stakeholders have any queries arising from this report, please contact us in writing via our website, facsimile, or postal address, as follows:

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We thank you for your ongoing support and patience through this difficult process.

Yours faithfully



John Fisk
Receiver



Colin McCloy
Receiver