

2 December 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 29 July 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. Interim Distribution to Secured Debenture Investors

We are pleased to advise that an interim distribution of 6.5 cents in the dollar (calculated on your secured debenture investment as at 10 April 2008) will be made in mid December 2009. Attached to this report is a letter from Perpetual Trust confirming the amount and timing of the interim distribution.

Although the Inland Revenue Department (“IRD”) has not concluded its GST audit of LF&I, it has been agreed they will waive any preferential claim over the amount being paid as an interim distribution (estimated at \$7.3m), thus enabling the distribution to occur sooner than would otherwise be the case.

The GST audit may still 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 further distribution to secured debenture investors. We are working with the IRD to progress the audit as quickly as possible.

## 3. Returns to Secured Debenture Investors

In our April and July 2009 letters 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, we make the following comments:

- The property market continues to be challenging and volatile, particularly in respect of development land and bare land coastal subdivisions. Borrowers continue to face difficulties in achieving sales or refinancing of the property assets securing LF&I’s loan book. 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.
- Marketing campaigns are currently underway in respect of certain significant loan assets. The outcome of these marketing campaigns will not be known until December 2009/January 2010 at the earliest and accordingly we intend to review our range of recoveries for our next report due in February 2010.

### *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 13 November 2009, net proceeds to LF&I (after settlement of prior ranking security holders and sale costs) from the property loan book totalled \$9.9M.

Realisation strategies are in place for each loan, with the property assets securing 9 of the 27 loans now realised. We continue to actively monitor the remaining loans to ensure the most appropriate strategy

for maximising realisations is implemented. In circumstances where there is, or is likely to be, a shortfall to LF&I, we are pursuing any guarantors.

#### *Commercial loan book*

As at 10 April 2008, the commercial loan book comprised 171 loans totalling \$2.9M. Gross recoveries from the commercial loan book for the period 10 April 2008 to 13 November 2009 totalled approximately \$1.8M. 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.

#### **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. This work is still on-going.

#### **5. Concluding Remarks**

Overall achieving loan recoveries remains 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.

We appreciate that this is a difficult process for secured debenture investors and are therefore pleased to be in a position to now make an interim distribution to secured debenture investors.

Please note that the Companies' operations will be closed over the Christmas period, from Thursday 24 December 2009, reopening on Monday 18 January 2010. Accordingly, enquiries submitted during this period may not be responded to until after 18 January 2010.

We will endeavour to keep investors updated on a regular basis and expect to issue a further report by 28 February 2010. 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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PricewaterhouseCoopers  
PO Box 243  
Wellington  
Facsimile: +64 4 462 7492  
Website: [www.pwc.com/nz/lombard](http://www.pwc.com/nz/lombard)

We thank you for your ongoing support and patience through this difficult process and wish you and your families a happy and safe holiday season.

Yours faithfully



John Fisk  
Receiver



Colin McCloy  
Receiver