

28 April 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 15 December 2008. 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 December letter we estimated a range of recoveries to secured debenture investors of 19% to 40% of their original investment.

Since December 2008, the property market has continued to deteriorate. Borrowers are facing significant challenges in either refinancing or selling down developments and, in some cases, prior ranking mortgagees are taking enforcement action. These factors continue to adversely impact upon the options available to the receivers, the potential level of realisations from LF&I's loan book and the timing of those realisations. As a result, we have revised our estimated range of recoveries to secured debenture investors to 17% to 29% of their original investment. Specific reasons for the reduced recovery range include:

- A property loan asset based in Auckland was sold by the prior ranking mortgagee. Unfortunately, we have been advised that there will be no funds available to LF&I, as second mortgagee, from the sale of this property. Accordingly we have reduced our high estimate on this loan asset to nil.
- Further work has been undertaken by specialist property consultants in assessing the costs associated with continuing a partially completed development. This analysis indicates that the costs of development will be higher than originally estimated and accordingly we have reduced the “high” estimate of recoveries on this particular property loan asset.

- Difficulties in settling pre-sales and sell down of units in a completed residential development in the South Island. As a result, we have revised downward both the “high” and “low” estimate of recoveries.

We will continue to monitor closely the status of, and recoveries from, each of the property loans made by LF&I.

Property Loan Book

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

Based on discussions with the borrowers, legal advisers and specialist property advisers we continue to implement individual loan strategies, which we consider will maximise the recoveries to investors. These strategies are continuously assessed and revised as the circumstances of the borrowers alter or where the prior ranking mortgagees take enforcement measures.

Where appropriate we have placed borrower entities into receivership in order to take control of developments and manage either the future development or sell down process. These receiverships include Brooklyn Developments No. 1 Limited, Brooklyn Views Limited, Der Rohe Holdings Limited and Liardet Apartments Limited.

As at the date of this report, the following assets in the property loan book have been realised:

- A bare land coastal subdivision has been sold with a shortfall on the amount owed to LF&I. Summary judgment has been obtained against the guarantors of the loan for the balance outstanding;
- Four apartments have been sold in a luxury apartment development in New Plymouth, which has significantly reduced the amount owing to the prior ranking security holder;
- Ten apartments have been sold in a completed development in Auckland, which has reduced the loan balance outstanding;
- 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;
- Sell down of sections in two bare-land subdivisions in the lower North Island is ongoing;
- Three lifestyle blocks in the South Island have been sold, with the proceeds fully repaying prior ranking mortgages and partially repaying LF&I's debt.
- Sell down of units in a completed town-house development in Auckland is ongoing and all prior ranking securities have now been satisfied; and
- 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.

Gross assets of \$26.3M have been realised from the property loan book as at 17 April 2009. Of these realisations, LF&I has received \$6.8M, with the balance being paid to prior ranking security holders and to cover direct sale costs. We note that the extent of prior ranking securities combined with the longer time period that is required to realise some properties will, in most cases, reduce the funds available to LF&I.

Property owned by LPH

As previously reported, LPH owned a residential property in Auckland, which has now been sold resulting in net realisations of \$1.8M.

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 for the period from 10 April 2008 to 17 April 2009 total approximately \$1.3M. We continue to monitor the collections process closely.

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 action and quantum of any returns cannot be estimated at this time.

3. Timing of Returns to Secured Debenture Investors

In our last report, we advised that we were hopeful of being in a position to make an interim distribution to secured debenture investors by the end of March 2009. We further noted that any distribution was dependent upon loan recoveries occurring as forecast and confirmation of the Inland Revenue Department's ("IRD") final claims in the receivership.

Unfortunately, although loan recoveries have occurred as forecast, 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 are required to be paid in full prior to any distribution to secured debenture investors.

The IRD are conscious that investors are awaiting an interim distribution in the receivership and have advised that the LF&I audit is being treated as a priority. The IRD are keeping us updated as to the progress of the audit.

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

We regret that we are unable to provide more certainty regarding the timing of returns to secured debenture investors; however, we will keep investors apprised as to the progress and outcome of the IRD audit. 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 July 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