



14 September 2012

**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)
(Collectively, "the Companies")**

Dear Investor

Introduction

Our last report to secured debenture investors was dated 10 February 2012 (the “February Letter”). We take this opportunity to provide you with an update on the progress of the receiverships.

This report is subject to the restrictions set out at Appendix I.

Returns to Secured Debenture Investors

In our February Letter, our estimated range of total recoveries to secured debenture investors was between 15% and 22% of their original investment.

Since our February Letter, a number of properties securing the loan book have either been realised or are subject to contract. In most cases, the prices being achieved for the properties are in the middle of the estimated realisation range. Accordingly we have refined our estimated return to secured debenture investors to **15% to 20%** of their original investment.

Potential estimates of recoveries have excluded the costs and possible returns in respect of any actions that may be taken against directors and other third parties (as outlined under the Investigations section below). The quantum of any returns cannot be estimated at this time.

As at the date of our February Letter, distributions to secured debenture investors totalled 11.5 cents in the dollar, with a further 1.5 cents in the dollar paid to secured debenture investors on 19 April 2012. This brings total interim distributions in the receivership to date to 13 cents in the dollar.

Please note that we have omitted certain details concerning the realisation of receivership assets, as we believe that their inclusion would materially prejudice the exercise of our functions and in particular, our duty to obtain the best price reasonably obtainable.

Investigation

Action by the Financial Markets Authority

As reported previously, the Securities Commission (now the Financial Markets Authority) issued criminal and civil proceedings under the Securities Act against certain LF&I directors.

The trial for the criminal proceedings in the High Court at Wellington has been completed. The four directors were found guilty on some of the counts brought against them and were sentenced on 29



March 2012. The directors each received community-based sentences, and two of the directors were also ordered to pay reparations totalling \$200,000. We understand that all of the directors have appealed their verdicts and their sentences to the Court of Appeal. We understand that a date for the appeal hearing has not yet been set.

Action by the Receivers

As previously reported, we have spent considerable time and effort investigating potential claims that may be brought by the Companies against third parties, with a view to making recoveries for the benefit of investors.

Those investigations have now largely been completed. Based on our investigations and legal advice, we consider that the Companies have claims against certain LF&I directors for breaches of directors' duties pursuant to the Companies Act 1993.

A draft statement of claim has been prepared and provided to LF&I's directors. We have also instructed an expert banker, forensic accountant, and director in respect of these claims, all of whom will provide expert evidence in any litigation that follows.

As these claims are likely to be before the Court, we are limited as to the extent of further comments we can provide at this stage. We will keep you updated as the claims progress as best we are able to without prejudicing the claims.

We are continuing our investigations in relation to certain other third parties and we expect those investigations to be concluded in the near term.

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. For the period to 10 September 2012, LF&I has received net realisations of circa \$22.9M, with the balance being paid to prior ranking security holders and to cover direct sales costs.

In our February Letter, we advised that there were property assets securing seven loans that had yet to be realised. The current status of realising those properties is as follows:

- Four of the properties have now been sold and settled with the net proceeds being received by LF&I;
- Two of the properties are subject to marketing campaigns; and
- One property is a completed coastal sub-division which has proven difficult to realise due to a number of issues. We are currently working with the relevant local council to resolve some of those issues. We expect that we will not be able to commence realising this property until late 2012.

We are also seeking to maximise the value of any collateral securities (including personal guarantees) that LF&I holds.

In some cases, we have entered into settlement arrangements with parties, which provide for funds to be repaid to LF&I over an agreed period of time.



Generally settlement arrangements are only entered into where there is no prospect of further recovery from the sale of the property securing the loan, and where the expected recovery from the settlement is greater than the expected recovery from the liquidation or bankruptcy of the borrower/guarantor.

In some cases, the guarantors of the loans to LF&I are now bankrupt. In those cases, we have put a claim in the bankruptcy and will await the outcome of the bankruptcy process to determine whether there will be any funds available to LF&I.

Commercial Loan Book

The commercial loan book has now been largely recovered (total gross recoveries were circa \$2.1M).

Other Recoveries

As noted above, potential estimates of recoveries have excluded the costs and possible returns in respect of any actions that may be taken against directors and other third parties. The quantum of any returns cannot be estimated at this time.

Concluding Remarks

We continue to focus on recoveries from the property loans, personal guarantees provided by borrowers and legal action that may be available to us. We note that we must balance any future distributions against the funds required to pursue the claims referred to above for the benefit of investors.

At this time, we are unable to provide any definitive timing for the next distribution, until we have further certainty in relation to the claims described above. We will continue to monitor this situation.

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:

Lombard Finance & Investments Limited (In Receivership)
PricewaterhouseCoopers
PO Box 243
Wellington
Facsimile: +64 4 462 7492
Website: www.pwc.com/nz/lombard

Yours faithfully

A handwritten signature in black ink, appearing to read 'John Fisk', written over a faint horizontal line.

John Fisk
Receiver



Restrictions

- The statements and opinions expressed herein have been made in good faith, and on the basis that all information relied upon is true and accurate in all material respects, and not misleading by reason of omission or otherwise.
- We have not independently verified the accuracy of information provided to us, and have not conducted any form of audit in respect of the Companies. Accordingly, we express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied. Whilst all care and attention has been taken in compiling this report, we do not accept any liability whatsoever arising from this report.
- The statements and opinions expressed in this report are based on information available as at the date of the report.
- We reserve the right, but will be under no obligation, to review or amend our report, if any additional information, which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.
- We have relied on forecasts and assumptions prepared by the Companies about future events which, by their nature, are not able to be independently verified. Inevitably, some assumptions may not materialise and unanticipated events and circumstances are likely to occur. Therefore, actual results in the future will vary from the forecasts upon which we have relied. These variations may be material.
- In addition the following should be noted:
 - Certain numbers included in tables throughout this report have been rounded and therefore do not add exactly.
 - Unless otherwise stated all amounts are stated in New Zealand dollars.