



10 February 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 14 October 2011. 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 October 2011 letter, our estimated range of total recoveries to secured debenture investors was between **15%** and **22%** of their original investment. At this time our assessment of the estimated range of recoveries to secured debenture investors remains unchanged.

Distributions in the receivership to date total 11.5 cents in the dollar.

Based on the timing of the marketing campaigns for the remaining property assets, we expect a further distribution may be made in late March/April 2012.

Operational Matters

We advise that we have outsourced the administration of the debenture registry to Computershare. This will mean that Computershare will deal with:

- Address changes
- Bank account changes
- Transfers of investments

We attach a letter from Computershare in this regard. Please note that any queries as to the status of the receiverships should continue to be directed to the receivers.

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. Gross realisations of circa \$67M have been recovered from the property loan book as at 31 January 2012. Of these realisations, LF&I has received circa \$19M, with the balance being paid to prior ranking security holders and to cover direct sale costs.

There are property assets securing seven loans that have yet to be realised. The status of realising these property loans assets is as follows:

- Three properties are being sold by LF&I as mortgagee. LF&I previously endeavoured to sell these properties but was unsuccessful (primarily due to issues with the properties). Those issues have now been dealt with and the properties are currently subject to marketing campaigns. We will be seeking to have these properties under contract for sale by the end of March 2012.
- Three properties are currently being sold by the borrower. These properties include a partially sold down sub-division and two blocks of land. These properties are all subject to marketing campaigns.
- 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 the sell-down of this subdivision until the second half of 2012.

In addition to the property assets, we are enforcing personal guarantees either through repayment arrangements or court action.

In this respect, we have entered into settlement arrangements with several guarantors, which provides 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 the expected recovery from the settlement is greater than the expected recovery from the liquidation or bankruptcy of the borrower/guarantor.

In a number of cases, the guarantors of the loans to LF&I are now bankrupt. In those cases, we have filed 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 (recoveries were circa \$2.1M). There are three commercial loans where we are taking enforcement action to recover the loan.

Other Recoveries

Potential estimates of recoveries have excluded possible returns in respect of any 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.

Investigations

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

The criminal trial has now been completed and we understand that judgment is expected on 24 February 2012 (if not deferred). We understand that a date has yet to be set for FMA's civil proceedings; however, these proceedings will be heard after the criminal proceedings.

As previously reported, our investigations into claims that may be brought by the Companies against third parties are in their final stages. Based on our current factual and legal assessment, it is likely that claims will be issued against third parties, with a view to making recoveries for the benefit of investors.

As with the FMA's civil proceedings, further steps will be taken after the conclusion of the criminal proceedings noted above.

Concluding Remarks

We are focussed on realising the balance of the property loan book so that further distributions can be made to secured debenture investors as soon as possible.

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 be 'John Fisk', written in a cursive style with a large loop at the end.

John Fisk
Receiver

Appendix I**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.