



14 October 2011

**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

1. Introduction

Our last report to secured debenture investors was dated 23 March 2011 and, at that time, we advised that our next report would be the earlier of 30 September 2011 or when substantial progress has been made in the resolution of IRD’s potential preferential claim. This report has been slightly delayed whilst we finalised the IRD claim. We now 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.

Status of the Inland Revenue Department (“IRD”) Audit

As previously reported, the IRD has been carrying out a GST audit of LF&I since the commencement of the receivership in April 2008. The IRD has advised that it may have a preferential claim of up to \$4.5M in the receivership of LF&I. The preferential claim relates to the GST component of one specific transaction that occurred prior to receivership.

We are pleased to advise that, following negotiation, all preferential claims that the IRD may have against the Companies have now been settled in full for \$1.25M.

We consider that this settlement is in the best interests of the secured debenture investors for the following reasons:

- The settlement provides certainty, at a significantly lower cost than the potential claims, and enables distributions to secured debenture investors to re-commence sooner;
- Continuing the dispute process with the IRD would incur significant cost and could take a further 12 to 24 months to resolve; and
- There was no certainty as to the outcome of the disputes process with the IRD.

We note that the settlement amount will be largely funded from an income tax refund due to LF&I of \$0.9M. The income tax refund was not included in our assessment of estimated returns to secured debenture investors.

Third Interim Distribution to Secured Debenture Investors

As a result of settling the IRD’s preferential claim, we are now in a position to pay a further interim distribution of 2 cents in the dollar to secured debenture investors.



This will bring total distributions, to date, in the receivership to 11.5 cents in the dollar. Attached to this report is a Notice of Payment confirming the amount and timing of the interim distribution.

Returns to Secured Debenture Investors

In our November 2010 letter our estimated range of total recoveries to secured debenture investors was between **15%** and **24%** of their original investment.

As a result of the expected returns on two of the property loans, we have lowered the “high” end of our range to **22%**. Therefore, our estimated range of total recoveries to secured debenture investors is now between **15%** and **22%** of their original investment.

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 \$65M have been recovered from the property loan book as at 30 September 2011. Of these realisations, LF&I have received \$18M, with the balance being paid to prior ranking security holders and to cover direct sale costs.

The status of the loan realisations as at 30 September 2011 is summarised below:

Status	Number of loans
All property assets now realised	17
Loan repayment plan in place	2
Sell down process currently being undertaken	7
Enforcement action being taken to recover loans	1
Total	27

We are endeavouring to have the property loan book fully realised (or at least the properties subject to sales contracts) by early 2012. There are a number of sales campaigns currently being undertaken in respect of the underlying property securing each of the loans.

Where personal guarantees have been provided, we are seeking to enforce those personal guarantees either through repayment arrangements or court action. Of the guarantors, we note that five are bankrupt, seven have entered into settlement arrangements with the receivers and a further three guarantors are in discussions with the receivers.

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 30 September 2011 totalled approximately \$2.2M. We note that the majority of the loans have now been collected and enforcement action is being taken in respect of certain defaulting loans.

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) has issued criminal and civil proceedings under the Securities Act against certain LF&I directors.

The trial for the criminal proceedings is due to commence on 17 October 2011 at the High Court in Wellington. We understand that a date has yet to be set for the civil proceedings; however, these proceedings will be heard after the criminal proceedings.

At this stage we have no further update in respect of our investigations. 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. We are not able to comment further on the exact nature of those claims at this stage because to do so may prejudice the claims.

Concluding Remarks

We are pleased to have resolved the IRD's potential preferential claim and to be in a position to recommence distributions to secured debenture investors.

We are focussed on realising the balance of the property loan book and expect to issue a further report by 31 January 2012.

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 over a light grey rectangular background.

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.