

Banksia Securities Limited
ACN: 004 736 458 ("BSL")
(Receivers and Managers Appointed)

Circular to debenture holders

28 August 2013

We refer to our last Circular to Debenture holders dated 17 May 2013, which enclosed a payment advice in respect of the second interim repayment at the rate of 45 cents in the dollar.

The purpose of this circular is to update debenture holders on:

- + BSL's remaining assets;
- + Repayment guidance;
- + Investigations and public examinations; and
- + The class action.

1 Executive summary

Whilst this circular should be read in its entirety, a summary of key points is as follows:

- + **Repayments to date:** We have made repayments totalling 65 cents in the dollar to debenture holders to date. This has been funded from BSL cash balances at appointment, funds received from loan repayments and security property realisations, and the proceeds from the sale of the performing loan book.
- + **Remaining loan assets:** BSL's remaining loan assets are comprised as follows:
 - **Performing loans:** As previously reported, the sale to Deutsche Bank of circa 500 of BSL's loans with a face value of \$239 million completed on 30 April 2013. Remaining funds relating to the sale of up to \$12 million, currently in escrow, are expected to be released to BSL on or around 31 October 2013.
 - **Impaired loans:** BSL's remaining impaired loans continue to be managed by a dedicated impaired loans team. Since our appointment to 31 July 2013, \$30 million has been recovered. We continue to manage 74 impaired loans with a face value of \$131 million. 23 of these loans, with a face value of \$22 million, are without any remaining property security (i.e. all property has been realised and claims against guarantors, valuers and other parties are being considered to recover BSL's shortfall).
 - **Banksia Mortgage Fund ("BMF") loans:** As at 31 July 2013, BSL had a circa \$57 million exposure to loans with or through BMF. To realise those interests, BMF has agreed to engage the Receivers/BSL to undertake a portfolio sale process for BMF. This is a complex process which will require Court approval (an initial hearing occurred on 20 August 2013). Further details are set out in Section 2.3 below.
- + **BSL's other assets:** BSL's remaining assets are comprised of four freehold properties (former branch offices), Collateralised Debt Obligations ("CDOs") and a related party loan receivable from BSL's parent entity, Securities Holdco Limited ("SHL"). Each of these assets has a realisation strategy and further details are provided at Section 3 below.
- + **Repayment guidance:** Based on the information currently at hand, there is no change to our overall repayment guidance of 80 to 85 cents in the dollar, as per our previous circular. We

expect a further repayment of 5 to 10 cents in the dollar this calendar year (subject to impaired loan realisations and the outcome of the BMF sale process).

- + **Investigations and public examinations:** The public examination of various parties completed on 22 August 2013. Following the completion of the examinations, we will obtain advice from Senior Counsel in relation to potential claims available and the associated prospects of success.
- + **The class action:** We continue to co-operate with the solicitors for the class action. It is our expectation that the class action solicitors will shortly be required by the Court to disclose further details of their activities and costs to debenture holders.
- + **The debenture holder committee (“Committee”):** We continue to work closely with the Committee. Five Committee meetings have been held to date, with the most recent meeting held on 22 August 2013.

2 Remaining loan assets

At the time of our appointment, BSL’s major asset class consisted of loans advanced directly to 3rd party borrowers on a stand-alone basis, and loans advanced with or through BMF. We report on each loan category as follows.

2.1 Performing loans

As previously reported, the sale to Deutsche Bank of circa 500 performing loans with a face value of approximately \$239 million completed on 30 April 2013 and funded the majority of the 2nd repayment to debenture holders of 45 cents in the dollar. In accordance with the sale agreement with Deutsche Bank, the sum of circa \$12 million is being held in escrow to support certain (limited) sale warranties. Subject to resolution of that issue, we anticipate that those funds will be released to BSL on or around 31 October 2013.

2.2 Impaired loans

At the time of our appointment, a significant proportion of BSL’s loans were impaired (i.e. borrowers had not made any interest payments to BSL for over 60 days).

BSL’s impaired loans are being carefully managed by a dedicated team including former distressed property bankers. To date, we have received recoveries of \$30 million from impaired loan realisations. We continue to manage 74 impaired loans with a face value of \$131 million. 23 of these loans with a face value of \$22 million are without any remaining property security (we are considering claims against guarantors, valuers and other parties to recover the shortfall to BSL). The strategy adopted for BSL’s impaired loans is to negotiate borrower repayment/refinances; and/or take control of underlying security property as mortgagee in possession (i.e. enforcement) and market these properties for sale.

Our expectation is that a proportion of the underlying security property will not have an active market and accordingly, other strategies will need to be considered to generate a recovery for BSL including the sale of certain loans as a portfolio.

At all points in time, the costs/benefits of the current strategy (enforcement and sale) are assessed relative to a portfolio sale option. Should the strategy change and a portfolio sale of the remaining impaired loan assets be considered more appropriate, it is likely such a process would commence in early 2014, following an outcome from the BMF loan portfolio sale (see section 2.3 below).

2.3 *BMF loans*

As previously reported, BSL has exposure to loans with or through BMF, which is a related party contributory mortgage scheme. BSL's exposure with or through BMF at 31 July 2013 was circa \$57 million. BMF currently has circa 1,300 retail investors with exposures to individual loans advanced by BMF.

A contributory mortgage scheme is an investment structure where investors take an interest in specific loans. In BMF's circumstances, most loans that BSL has an interest in also have a range of external retail investors that have also invested in the relevant loan.

Banksia Mortgages Limited ("BML") is the Responsible Entity ("RE") of BMF. BML is not in receivership and continues to trade and act in its capacity as RE of BMF, under the control of its Board of Directors and management.

Historically, BSL has funded all Banksia Group loans, was a major investor in loans with or through BMF (including via subordinated positions) and provided financial support to the Banksia Group.

Following the receivership of BSL, BML determined that BMF had no long-term future. Earlier this year, BML appointed Flagstaff Partners Pty Ltd ("Flagstaff") to offer for sale the RE/management rights pertaining to BMF. While Flagstaff undertook a comprehensive sale process in which various interested parties were identified, a sale was not achieved.

Following this process we have worked closely with BML to agree a strategy to realise BSL's investment and deal with BMF's future. After considering a broad range of options, BML determined that the best approach is to wind-down BMF and undertake a portfolio sale of all BMF loans.

On 20 August 2013, the Court made orders for the winding up of BMF and confirmed BML is justified in amending its constitution to enable a portfolio sale process to occur and to appoint BSL as 'transaction manager'.

BSL's role as 'transaction manager' will be to offer the loans for sale on behalf of BML, interact with bidders, and provide recommendations to BML throughout the process.

There is a level of complexity to this process given the BMF structure and the need to assess offers received on a loan by loan basis. Having regard to our experience in the BSL sale process, we are hopeful that a sale can occur during 2013. A further Court application will ultimately be required to approve any proposed sale transaction.

If a sale of BSL's interests in loans with or through BMF can be completed this year, we expect a third interim repayment of circa 10 cents in the dollar can occur from the proceeds (and other ongoing asset realisations).

3 **Other assets**

We continue to realise BSL's other assets for the benefit of debenture holders. A further update on these assets is set out below:

- + **Freehold property interests (former branch offices)** – We anticipate commencing the marketing of three of these properties in the next four weeks, with the remaining property (BSL's head office) to be marketed for sale following the closure of this office (not expected prior to late 2014).
- + **Collateralised Debt Obligations ("CDOs")** – BSL had a portfolio of CDOs with Lehman Brothers (the book value of remaining CDOs is \$5m). Approximately \$2 million has been

received to date and we continue to liaise with the Liquidators of Lehman Brothers in relation to BSL's remaining interests.

- + **SHL related party loan** – We continue to closely monitor SHL's efforts to realise its assets to pay down the debt to BSL. In this regard, SHL recently repaid approximately \$3.1 million of this loan. While we will continue to pursue SHL for full repayment of its related party loan, the timing and quantum of any further recoveries is uncertain and it is expected that BSL will suffer a significant shortfall. Debenture holders will be aware that SHL employs staff and owns certain infrastructure used by BSL which has required additional funding to ensure BSL's loans can continue to be managed.
- + **Potential legal recoveries** – At this stage, we cannot estimate with any certainty the quantum or timing of recoveries from potential legal action available to BSL. Following the completion of the public examination process and receipt of legal advice from Senior Counsel (see Section 5 below), we anticipate being in a position to report to debenture holders more fulsomely.

4 Repayment guidance

Repayments totalling 65 cents in the dollar have now been made to BSL debenture holders.

Based on the information currently at hand, there is no change to our overall repayment guidance of 80 to 85 cents in the dollar, meaning further repayments of 15 to 20 cents in the dollar are expected.

The timing and quantum of future repayments to BSL debenture holders will be impacted by remaining asset recoveries and, in particular, the success of the BMF sale process (discussed further at Section 2.3 above).

In the event that BSL's investment in BMF is successfully sold within the next three months, we anticipate that a repayment of around 10 cents in the dollar will occur in late 2013. In circumstances where the BMF sale process does not complete this year, we anticipate that a repayment of 5 cents in the dollar will occur in late 2013, which will predominantly be funded from impaired loan realisations.

We will continue to refine our repayment guidance as the receivership progresses.

5 Investigations and public examinations

We are continuing with our review of the causes of BSL's failure and the discharge of duties by various parties including (but not limited to) BSL's Directors and auditors.

In this regard, public examinations of circa 20 individuals commenced on 23 July 2013. To date, the public examinations have proven to be a useful process to gather information and documents to assist the Receivers and their legal advisors in clarifying potential claims against various parties.

Following completion of the examinations, we will obtain a prospects advice from Senior Counsel and undertake an assessment of which claims (if any) should be pursued (in consultation with the Trustee and debenture holder Committee).

We will report further to debenture holders once we have determined our strategy in this regard.

6 Class action

As you are aware, on 24 December 2012, Mr Laurence Bolitho of Kyabram (a BSL debenture holder), commenced a class action in the Supreme Court of Victoria ("the Court") against the Companies, their Directors, auditors and the Trustee ("the defendants").

The claims made allege that various prospectuses issued by BSL contained misleading or deceptive statements and had material omissions in contravention of the Corporations Act. The action is an 'opt out' proceeding, meaning all debenture holders are included and bound by any judgment unless they choose to not participate.

We continue to co-operate with the solicitors for the class action.

As previously reported, the Receivers are separately contemplating bringing additional proceedings to pursue certain parties or claims.

The next Court hearing for the class action is being held on 3 September 2013. In due course, the Court will require the class action solicitors to advise debenture holders in writing about their right to 'opt out' of the proceedings as well as the costs that they will be entitled to claim if the action is successful. Queries concerning the class action should be referred to the class action solicitors via info@banksiaclassaction.com.au.

7 Debenture holder Committee

We continue to work closely with the 9 members (one recently resigned) comprising the Committee, who represent broad community groups.

In addition to regular written updates and dialogue, five formal meetings have been held to date, with the most recent meeting held on 22 August 2013.

8 Contact details

Thank you for your co-operation and assistance to date. We will continue to report to debenture holders on the progress of the receivership including in particular, likely further repayments this calendar year.

Should you require any further information concerning further repayments, or any other matter, please do not hesitate to contact Link Market Services on 1800 722 079 or banksia@linkmarketservices.com.au.

Dated 28 August 2013



Tony McGrath
Receiver and Manager



Joseph Hayes
Receiver and Manager