

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

Circular to debenture holders
Third interim repayment of 5 cents in the dollar

18 October 2013

We refer to our last circular to debenture holders dated 23 August 2013. This further circular confirms a third interim repayment of 5 cents in the dollar and provides a brief update on the receivership.

Third repayment

The Trustee and the Receivers are pleased to advise a third interim repayment of 5 cents in the dollar has been declared and paid today, resulting in a total return to date of 70 cents in the dollar to BSL debenture holders

The further repayment has again been administered by Link Market Services and paid in the same manner as previous repayments, which is generally via electronic funds transfer. For those debenture holders who have nominated to be paid by cheque, please find attached to this circular a cheque for your repayment.

Overall repayment guidance currently unchanged

There is currently no change to our overall repayment guidance of 80 to 85 cents in the dollar, meaning further repayments of 10 to 15 cents in the dollar are still expected.

In this regard, we note the timing and quantum of future repayments to BSL debenture holders will be directly linked to the success of the Banksia Mortgage Fund ("BMF") sale process currently underway, and further recoveries from the realisation of remaining impaired loans. Subject to those processes, a further repayment (of at least a further five cents in the dollar and possibly more) is expected in early 2014.

We will update debenture holders on the likely quantum and timing of the next repayment, as well as any revision to the overall repayment guidance, in late November 2013.

Update on other key matters

Our 23 August 2013 circular provided some detail on the major project areas and asset recovery programs being pursued. Key update points are:

- + ***Performing loan book sale:*** We expect the release of the escrow funds relating to the performing loan book sale (completed in April 2013) of up to \$12 million, on or around 31 October 2013;
- + ***BMF loan book sale:*** The sale process for the BMF loan portfolio, including BSL's circa \$54 million in loans, is proceeding to expectations. Second round due diligence with shortlisted bidders is underway, and final offers are expected to be received in late October 2013. Thereafter we are subject to a timetable that requires the Trustee, Banksia Mortgages Limited, and Court approval prior to completion of a transaction. Subject to bids being acceptable, the objective of all the parties is to finalise the approval processes this calendar year, with a repayment to BSL debenture holders to follow as soon as practicable following completion of the sale;
- + ***Impaired loan recovery:*** The impaired loan portfolio continues to be carefully managed to maximise realisations. The Receivers focus on refinance and enforcement as the drivers of

value, and targets are still being met. We will shortly be reporting to the debenture holder Committee with a comprehensive impaired loan update and strategy review;

- + *Investigations and public examinations:* We have completed the investigation and public examination process, many aspects of which were reported in the press. As debenture holders will appreciate, the Receivers must be very careful releasing information from the process, given there may be litigation arising from the failure of BSL. As soon as practicable, we will advise debenture holders of the likely next steps BSL proposes to take;
- + *Class Action:* The next step in the Class Action against BSL and Cherry, their Directors, Auditors and the Trustee, is for the plaintiffs to serve Amended Statements of Claim by 18 October 2013. Queries concerning the class action should be referred to the class action solicitors via info@banksiaclassaction.com.au; and
- + *Debenture holder Committee:* We continue to work with the nine members comprising the Committee, who represent a range of community groups. In addition to regular written updates and dialogue, five face to face meetings have been held to date and a further meeting is scheduled for 24 October 2013.

A further update, including a review of the current repayment guidance, will follow towards the end of November 2013, when we will have clarity around the outcomes and timetable for completion of the BMF sale process.

Trustee fees

Following our appointment as Receivers in October 2012, we have been working closely with the Trustee on all key aspects of the receivership. The Trust Company (Nominees) Limited is the Trustee for the debentures issued by BSL, and holds the security interest on behalf of debenture holders. The Trustee's role is to represent and act in the best interests of debenture holders. In this capacity the Trustee will continue to be involved in, and ultimately approve, all major decisions throughout the receivership.

The Receivers are able to agree the Trustee's remuneration commensurate with the Trustee's role and responsibilities, and as a consequence of the Trustee enforcing the security interest under the BSL Trust Deed. In that regard we are in discussion with the Trustee concerning the work undertaken and fees pertaining to that work.

We will continue to liaise with the debenture holder Committee on this issue and provide a further report to all debenture holders in due course.

Please note that a separate update will be forwarded to Cherry Fund Limited's debenture holders shortly, updating on the appointment and an upcoming repayment.

Contact point

Thank you for your ongoing co-operation and assistance. For further information concerning the current repayment or any other matter concerning the receivership, please continue to contact Link Market Services on 1800 722 079 or banksia@linkmarketservices.com.au.

Dated 18 October 2013



Tony McGrath
Receiver and Manager



Joseph Hayes
Receiver and Manager