

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

Circular to Debenture Holders

23 April 2013

We refer to our last circular to Debenture Holders dated 5 April 2013.

In our last circular, we provided debenture holders with an update on a broad range of matters affecting the receivership and revised our repayment guidance to the range of 70 to 80 cents in the dollar.

The purpose of this circular is to provide debenture holders with an update on the following matters:

- + Performing loan sale process
- + Revised repayment guidance
- + Timing of distributions
- + Other matters

This Circular only has relevance to BSL debenture holders. A separate update is being prepared for Cherry Fund Limited ("CFL") debenture holders.

1. Executive Summary

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

- + **Performing loan portfolio sale:** Final offers were received on 5 April 2013. Following a careful review of final bids including against a wind-down of the portfolio (through receipt of interest and principal repayments as loans mature), we provided our recommendation to The Trust Company ("the Trustee") and the Debenture Holder Committee ("the Committee") for a sale of the portfolio to be entered into with Deutsche Bank AG, Sydney Branch ("Deutsche"). Further information on Deutsche is detailed in Section 2, overleaf.

A sale of circa 500 loans with a face value of \$238.8 million was entered into on 19 April 2013 following unanimous support from the Committee, and Trustee approval. We are very pleased with the outcome of the sale which will allow BSL to declare a further distribution of 35 cents in the dollar by 30 June 2013. Settlement of the sale is due to occur on or around 17 May 2013.
- + **Revised repayment guidance:** Given the loan portfolio sale (which represents over 50% of BSL's remaining assets), we can forecast the repayment range to BSL debenture holders with greater certainty. In this regard, we are pleased to advise our revised best estimate is an overall return of 80 to 85 cents in the dollar.
- + **Timing of distributions:** We are working towards declaring two additional distributions by 30 June 2013, as follows:
 - 10 cents in the dollar to be paid on or around 17 May 2013 (funded from interest receipts and discharges); and
 - 35 cents in the dollar to be paid prior to 30 June 2013 (funded from the loan portfolio sale).

We will continue to update debenture holders on the progress of remaining asset realisations and the timing of additional distributions.

2. Performing loan sale process

As previously reported, since January 2013, the Receivers have offered a portfolio of circa \$270 million of BSL and CFL (mostly performing) loans for sale. We note that during the sale process, the portfolio has reduced by circa 10% due to refinances and other changes to the portfolio mix.

The sale process involved:

- + A public marketing campaign and targeting of specific parties likely to be interested in the opportunity; and
- + A staged due diligence process, leading to final offers on 5 April 2013.

On 5 April 2013, we received four final offers for the performing loan portfolio.

After detailed review of the offers (and taking into account all relevant terms and conditions), the Deutsche offer was considered to be the most attractive bid which provided the highest overall value (and covered the full transaction portfolio).

The Deutsche offer was compared against a managed wind-down of the loan portfolio (i.e. through receipt of interest and principal repayments over time) and after taking into account a range of factors, was determined to represent a better and more certain result for debenture holders than a wind-down.

A detailed presentation surrounding our sale process, the offers received and our assessment of the Deutsche offer against a wind-down was delivered to the Committee of debenture holders on 16 April 2013. The Committee expressed unanimous support for the Deutsche offer to be accepted.

Subsequently, and following the Trustee's approval, on 19 April 2013, we entered into a binding sale agreement with Deutsche for the performing loan portfolio.

Due to confidentiality provisions in the sale contract, we are unable to disclose the price paid by Deutsche however, we note that we are very pleased with the outcome which allows us to declare a distribution of 35 cents in the dollar from the proceeds by 30 June 2013. Further detail surrounding future repayments follows below.

About Deutsche

Deutsche is one of the world's largest banks. Publicly listed in Germany and the US, it has over 100,000 employees and offers financial services in more than 70 countries. Deutsche Bank has operated in Australia since 1973 and has offices in Sydney and Melbourne.

3. Revised repayment guidance

As the performing loan sale portfolio represents over 50% of BSL's remaining assets, securing a sale of same allows us to forecast the repayment range to BSL debenture holders with more certainty.

In this regard, whilst the ultimate return to BSL debenture holders may vary due to a number of factors, our revised best estimate is an overall return in the range of 80 to 85 cents in the dollar.

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

4. Timing of distributions

Having regard to realisations to date and the outcomes of the sale process, we are preparing for the following distributions by 30 June 2013:

- + 10 cents in the dollar funded from interest receipts and discharges – we are preparing for this repayment to be made on or around 17 May 2013; and
- + 35 cents in the dollar funded from the proceeds of the loan portfolio sale – we anticipate this repayment will occur prior to 30 June 2013.

Accordingly, it is our expectation that by 30 June 2013, BSL debenture holders would have received total repayments of 65 cents in the dollar.

Based on our revised repayment guidance (set out in Section 3 above), we expect further repayments (beyond 30 June 2013) in the range of 15 to 20 cents in the dollar. Our timing expectations will be communicated to debenture holders as more information comes to hand.

5. Update on other matters

There are limited other developments to report since our last circular issued 2½ weeks ago.

By way of summary, we report as follows:

- + **Remaining loans:** We continue to actively manage BSL's remaining loans comprising impaired loans and those loans that have an exposure to the Banksia Mortgage Fund. Our strategy involves a tailored approach to each loan and borrower, encouraging loan refinances and considering whether a sale of a portion of remaining loans is appropriate.
- + **Other assets:** We are dealing with BSL's various non-core assets comprising; freehold properties, collateralised debt instruments and the intercompany loan receivable.

We will continue to report on the progress of these asset realisations.

- + **Committee of debenture holders:** We have held 2 meetings of the Committee to date. The most recent meeting was held on 16 April 2013 where the Committee was provided with a comprehensive update on the sale process and unanimously declared their support for the Deutsche bid to be accepted.

We will continue to hold Committee meetings regularly as events unfold.

Details of the Committee members are attached at Annexure "A".

- + **Public examinations:** We have now served examination summons and notices to produce on approximately 20 individuals including; BSL's auditors, Directors and certain senior management. Many of these parties will be publicly examined in the Supreme Court of Victoria commencing from 23 July 2013.

The outcomes of the examinations together with our broader investigations will be used to obtain a prospects advice to determine whether there are actionable claims against third parties that could be pursued to increase the return to debenture holders.

- + **Class action:** We continue to co-operate with the class action plaintiffs. Certain production orders required by the Court have been met and the next milestone for the case is for the plaintiffs to file a Statement of Claim by 31 May 2013.

It is our expectation that the class action will not be substantially advanced until following the public examinations (which provide useful background for the class action plaintiffs). Queries concerning the class action should be referred to the class action solicitors via info@banksiaclassaction.com.au.

6. Contact details

Thank you for your co-operation and assistance to date.

We will continue to keep debenture holders regularly updated on the progress of the receivership.

Should you have any queries in relation to any aspects of the above, please do not hesitate to contact Link Market Services on 1800 722 079 or banksia@linkmarketservices.com.au.

Dated 23 April 2013

A handwritten signature in black ink, appearing to read 'T McGrath', with a stylized flourish at the end.

Tony McGrath
Receiver and Manager

Annexure “A”

In our circular dated 7 February 2013 we called for nominations for membership of the Committee of Debenture holders (“the Committee”).

Following our circular, we received a number of nominations and after consideration, we accepted ten debenture holders for membership of the Committee. The Committee members represent debenture holders in broad geographic locations and act as a useful sounding board for the Receivers.

To date, we have held two meetings with the Committee to discuss a range of matters including the sale of the BSL performing loan portfolio. With the Trustee, we will meet with and report to the Committee every 4 to 6 weeks (with the next meeting to be held in mid-May 2013).

We will continue to provide all debenture holders with regular updates on the progress of the receivership.

Please find below a schedule of Committee members and the geographic locations represented:

| Banksia Securities Limited (Receivers and Managers Appointed) - Schedule of Committee Members | |
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| Name | Location |
| Christian Hayes | Deniliquin region, NSW |
| Eleonora Symmonds | Warrnambool, Victoria |
| Laurie Cogger | Warrnambool, Port Fairy and Portland regions, Victoria and South Australian communities |
| Bruce Lloyd AM | Shepparton region, Victoria |
| Russ Goodear | South West Victoria (including Warrnambool, Hamilton, Portland, Heywood, Casterton, Coleraine, Terang, Cobden, Timboon and Mortlake) |
| Robert Lea | Ballarat region, Victoria |
| Douglas Crow | Kyabram region, Victoria |
| Donald McKenzie | Kyabram region, Victoria |
| Keith Pitman | Ballarat region, Victoria |
| Mark Elliott | Class action solicitor representing debenture holders from broad geographic locations |