

Banksia Securities Limited
ACN: 004 736 458 (“BSL”)
Cherry Fund Limited
ACN: 106 274 631 (“CFL”)
(Receivers and Managers Appointed to both companies)
(Collectively, “the Companies”)

Circular to Debenture Holders

5 April 2013

We refer to our appointment as Receivers and Managers of the Companies in October 2012 by The Trust Company (Nominees Limited) (“The Trustee”). The purpose of the appointment is for the Receivers and Managers to manage and realise the assets of the Companies and distribute funds realised to debenture holders.

As at the date of our appointment, debenture holders were owed: BSL: \$663 million and CFL: \$10 million.

With the Trustee, we have:

- + Issued 5 separate updates to debenture holders including a detailed report dated 7 December 2012; and
- + Held debenture holder information sessions in Kyabram, Shepparton and Ballarat on 14 December 2012.

The purpose of this circular is to provide debenture holders with an update on the receivership since our last circular dated 7 February 2013.

This circular covers the following key matters:

- + Executive summary;
- + Asset realisation program;
- + Receivers’ investigations and public examinations;
- + Class action;
- + Committee of debenture holders;
- + Timing and quantum of future repayments; and
- + Debenture transfers.

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 are due in early April 2013. Following receipt of final offers we will carefully analyse the bids (including against a wind-down) and provide our recommendations to the Trustee and debenture holder Committee.
- + **Investigations and public examinations:** Our investigations into the conduct of various third parties (including Directors and auditors) is continuing. Public examinations of certain key individuals are scheduled to occur from 23 July 2013.

- + **Committee of debenture holders:** We have formed a Committee of debenture holders and the first meeting was held on 27 March 2013. At the meeting, a comprehensive update on the receivership (including the loan book sale) was provided.
- + **Repayment guidance – BSL:**
 - *Overall repayments:* Whilst we are unable to revise our repayment guidance until the sale process is further progressed, for present purposes, we expect the revision will result in total repayments of 70 cents to 80 cents in the dollar.
 - *Next repayment:* A distribution of 10 cents in the dollar (funded from interest receipts and discharges) will be paid during May 2013.
 - *Repayments from loan portfolio sale:* We anticipate a further distribution in the range of 20 to 35 cents in the dollar will be paid by 30 June 2013 if the loan book sale process is successful.
 - *Summary:* A successful performing loan sale completed during May 2013, will allow total returns to debenture holders of 50 to 65 cents since the commencement of the receivership to 30 June 2013. Beyond 30 June 2013, future distributions will be paid as remaining assets are realised.
- + **Repayment guidance – CFL:** We expect to revise (and improve) the repayment guidance to CFL debenture holders shortly. An initial distribution of 10 cents in the dollar funded from interest receipts and discharges will be paid during May 2013.

2. Asset realisation program

As previously reported, the most significant assets of the Companies comprise their loan portfolio.

The loan portfolio has been carefully examined and categorised to determine the most appropriate strategy to realise value for debenture holders. This is discussed in further detail below.

2.1 Loan portfolio sale

As previously advised, we have selected approximately 565 loans with a face value of \$270 million (with limited impairment) and offered these loans for sale via a public marketing campaign. Since commencement of the sale, the portfolio has reduced by approximately 10% due to refinances or changes to the portfolio mix.

The sale has been structured as a staged process, as follows:

- + The portfolio was offered for sale via a public marketing campaign in January 2013;
- + 20 parties were invited to participate in stage 1 due diligence;
- + 11 conforming indicative offers were received in late February 2013; and
- + A shortlist of significant financial institutions were selected to undertake further detailed due diligence and contract negotiations.

Final binding offers are expected to be received in early April 2013.

Following receipt of final bids, a detailed assessment will be undertaken of each offer including against the other options available, as follows:

- + Selling parts of the loan portfolio to more than one bidder;
- + An orderly wind-down of the loan book over time; and
- + A combination of a sale and wind-down.

Once we undertake our analysis, we will make a recommendation to the Trustee on the most appropriate course of action for their final approval. Prior to finalising our decision, we will also present our analysis to the Committee of debenture holders (see Section 5 below) to ascertain their views.

2.2 Realisation of the remaining loan portfolio

The characteristics of the remaining loan portfolio mean that careful consideration will need to be given as to how to best realise those loans and in what timeframe.

The most likely outcome will be a combination of:

- + Sale of selected parts of the portfolio;
- + Encouraging loans to refinance either prior to or following their maturity; and/or
- + Following an enforcement process for loans in default.

A lot of work has been done on the remaining portfolio, and we will provide debenture holders with more information on the realisation options in the coming months.

2.3 Other assets

We continue to realise BSL's other assets for the benefit of debenture holders. These assets include:

- + Freehold property interests (former branch offices) listed in the 30 June 2012 balance sheet at circa \$7 million. We are currently procuring updated valuations and real estate agency submissions with a view to offering the properties for sale in the immediate future;
- + The Securities Hold Co Limited ("SHL") \$11.2 million intercompany loan. We note that SHL has been co-operating via initiating a process of realising its assets to pay down its indebtedness to BSL; and
- + The Lehman Brothers collateralised debt obligation portfolio of circa \$2.95 million. \$2 million has been received from this source to date. We continue to liaise with the Liquidators of Lehman Brothers in relation to BSL's interests.

We will continue to keep debenture holders informed as to the progress of these asset realisation processes. Based on information currently at hand, we expect that a shortfall as compared to the values disclosed in BSL's 30 June 2012 accounts will occur.

3. Investigations and public examinations

We are progressing with our review of a broad range of matters to determine whether there are any actionable claims against third parties such as Directors, Officers, Auditors and other advisers that can increase the return to debenture holders.

Any action taken against third parties will be considered having regard to the likely benefit of same to debenture holders (including giving consideration as to the financial resources of the relevant defendants to meet claims as well as the strength of the underlying claims).

The Supreme Court of Victoria ("the Court") has now set down 23 July 2013 as the date for public examinations of certain key individuals to be commenced. Service of examination summons will occur in the next few weeks and debenture holders will be provided with further details as to the examinations (which are open to the public) shortly.

The Trustee and ourselves continue to work closely with the Australian Securities and Investments Commission (“ASIC”) to assist them with their inquiries as to the failure of the Companies. To date, ASIC have served 5 notices to produce various records on the Receivers and over 300,000 documents have been provided.

4. Class action

As previously reported, a class action against the Companies, their Directors, auditors and the Trustee (“defendants”) was commenced in December 2012.

The action is an ‘opt out’ proceeding, meaning all debenture holders are bound by any judgment unless they choose not to participate (the Court will specify a date by which debenture holders may decide not to participate and this will be communicated to debenture holders in due course).

An initial case management conference was held in Court on 19 March 2013 which dealt with certain logistics surrounding the proceedings (e.g. initial production of records).

We have had a number of meetings with the solicitors for the class action and are providing our co-operation and assistance.

The Companies, via the Receivers, may determine to pursue alternative action against the defendants following completion of our investigations and receipt of legal advice.

The solicitors for the class action have established:

- + a website: www.banksiaclassaction.com.au which deals with frequently asked questions and various other materials concerning the class action; and
- + an email address: info@banksiaclassaction.com.au where debenture holders can post any queries.

As previously reported, the Companies’ assets, including monies under the control of the Receivers, are not being utilised to fund the class action.

5. Committee of Debenture Holders (“the Committee”)

Following our circular dated 7 February 2013, we have received and accepted ten nominations for membership of the Committee. The Committee members represent debenture holders in broad geographic locations and will act as a sounding board for the Receivers on various decisions and represent the views of debenture holders generally.

The first Committee meeting was held on 27 March 2013.

At the meeting, a comprehensive update on the receivership (including the progress of the loan book sale) was provided to the Committee with the Trustee. We were pleased with the outcome of the meeting which allowed us to consult with the Committee on a broad range of matters concerning the receivership.

With the Trustee, we will continue to meet with and report to the Committee on a regular basis. We will next meet with the Committee in 2 or 3 weeks to present our analysis of offers received for the loan book sale.

Please note that we will continue to provide all debenture holders with regular updates on the progress of the receivership.

6. Timing and quantum of future repayments

BSL debenture holders received an initial repayment of 20 cents in the dollar on 7 December 2012 (funded from cash at bank at the time of our appointment) however, there have been insufficient funds for a distribution to CFL debenture holders to date.

For ease of reference, we note that our distribution estimates as set out in Section 12 of our detailed report dated 7 December 2012 were as follows:

- + Next repayment (prior to June 2013): BSL: 5 to 10 cents in the dollar and CFL: up to 5 cents in the dollar; and
- + Total repayments: BSL: 50 to 65 cents in the dollar and CFL: 55 to 70 cents in the dollar.

Our comments follow below.

6.1 Next repayment (prior to 30 June 2013)

The quantum of the next repayment to debenture holders was forecast on the basis it would be solely funded from loan discharges and interest receipts.

Based on higher than expected interest receipts and loan repayments to date, we are pleased to advise that we will be recommending to the Trustee a further/initial repayment can be made to both BSL and CFL debenture holders respectively at the rate of 10 cents in the dollar during May 2013.

Additionally, if the loan book sale is completed during May 2013, this will allow for the Trustee to approve a further significant distribution to both BSL and CFL debenture holders.

Until bids have been finalised, we are unable to forecast the likely return from that sale process. However, we anticipate it will allow for a further repayment in the range of 20 to 35 cents in the dollar to BSL debenture holders¹. We expect this payment can be made by 30 June 2013.

In summary, a successful performing loan sale completed during May 2013, will allow total returns to BSL debenture holders of 50 to 65 cents since the commencement of the receivership to 30 June 2013. Beyond 30 June 2013, future distributions will be paid as remaining assets are realised.

The return to CFL debenture holders from the loan portfolio sale is difficult to project given the relatively small number and value of loans included however, a distribution of 10 cents is being paid by 30 June 2013 from interest receipts and discharges (regardless of a loan book sale transaction).

6.2 Repayment guidance - BSL

In our circular dated 7 February 2013, we revised the repayment guidance for BSL debenture holders to the mid to high end of our original range, meaning the repayment estimate was close to 65 cents in the dollar.

As a result of the current performing loan portfolio sale expectations, and our increasing knowledge of the remaining loan portfolio, we will shortly be in a position to provide updated repayment guidance to debenture holders.

The revision can be announced following the conclusion of the performing loan portfolio sale process, which we expect can occur during May 2013. However, for present purposes we expect that the

¹ This range of returns factors an ongoing provision for meeting the operational costs of managing the remainder of the Companies' loan books and the receivership generally whilst further funds are realised

revision will result in improved total repayments of between 70 cents and 80 cents in the dollar for BSL.

6.3 Repayment guidance – CFL

Similarly to the position for BSL, based on the current level of interest for CFL's loans included in the portfolio sale and our increased knowledge of CFL's other assets, we expect to revise the repayment guidance to CFL debenture holders shortly.

Whilst we are unable to provide an improved range at this stage, we confirm that the projected return is likely to exceed our original range of 55 to 70 cents in the dollar.

We expect to provide updated guidance during May 2013.

7. Debenture transfers

As previously reported, the Trust Deed allows debenture holders to transfer their investment to a related party (e.g. a self-managed superannuation fund) or an unrelated third party (e.g. debenture traders).

A Transfer Deed can be obtained from Link Market Services (contact details at Section 8 below) to effect the transfer. As previously advised, debenture holders are encouraged (and the Transfer Deed requires) that they obtain independent legal, taxation and financial advice prior to agreeing a sale or transfer of their debentures.

In particular, although our distribution guidance is only a projection (and ultimate outcomes may differ from our forecast range), we would recommend that debenture holders await our revised distribution guidance prior to a sale/transfer to a third party.

8. Contact details

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

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 for BSL debenture holders and (02) 8280 7920 or cherry@linkmarketservices.com.au for CFL debenture holders.

Dated 5 April 2013



Tony McGrath
Receiver and Manager