

Banksia Securities Limited
ACN: 004 736 458
(Receivers and Managers Appointed)(In Liquidation) (“BSL”)

Circular to debenture holders

1 July 2014

We refer to our last circular to debenture holders dated 2 April 2014.

This further circular provides a brief update on the receivership, the status of the investigations and upcoming mediation, and notifies debenture holders of the appointment of Liquidators to BSL.

1 Receivership update

Debenture holders have received 80 cents in the dollar on their investment to date. Based on funds on hand and expected future realisations and expenses, we continue to expect that an outcome of circa 82 to 83 cents in the dollar is achievable from estimated remaining asset recoveries. Please note this estimate is before any costs and recoveries associated with future litigation BSL may pursue, and so is subject to the litigation update below.

As per our previous updates, the vast majority of BSL’s assets have now been realised and the loan book sales completed. We continue to manage down the impaired loan portfolio, where there are a small number of remaining exposures. We are also currently reviewing claims against valuers and/or guarantors in circumstances where there has been a shortfall of recoveries against impaired loans and are exploring options for realising value on any viable claims. Arrangements are also being made for the sale of BSL’s remaining non-core assets and outstanding administrative issues are being addressed

As such the major issue the Receivers are now addressing is managing BSL’s involvement in potential litigation as set out below.

2 Litigation update

2.1 Receivers' claims

Following completion of our public examinations in August 2013, we assessed the various claims that could be pursued by the Receivers against BSL’s current and former directors, officers, auditors and other advisors (the "Proposed Defendants"). Based on those findings, and the outcome of our own detailed investigations into the collapse of Banksia, we prepared a Draft Statement of Claim setting out BSL’s various claims against the Proposed Defendants.

On 10 April 2014, we provided a copy of the Draft Statement of Claim to the Proposed Defendants, their insurers, the class action plaintiff (Mr Bolitho) and The Trust Company (“Trust”) and invited those parties to attend a ‘global’ mediation in late July 2014. .

The mediation has been scheduled for 21 and 22 July 2014, with Mr Finkelstein QC acting as the mediator. All parties to the potential claims have indicated that they will be attending. Given the number of parties and complexity of the issues, the Receivers consider that, if possible, a mediated outcome is in the best interests of debenture holders as it would allow for a timely resolution of the claims and finalisation of the receivership, whilst avoiding costly and time consuming litigation.

As debenture holders will appreciate, given the number of parties and competing claims, it is not possible to determine with any precision what the outcomes of the mediation might be.

2.2 *Appointment of Liquidators*

As debenture holders are aware, Trust appointed the Receivers pursuant to the terms of the BSL Trust Deed. The legal relationship between the Receivers and Trust is therefore governed by the terms of that Deed, which provides that, amongst other things, the Receivers shall, in the exercise of their powers, authorities and discretions, comply with any directions given by Trust.

To date, the Receivers have relied on the existence of the class action to independently represent any potential debenture holder claims against Trust. On 31 May 2013, the class action plaintiff, Mr Bolitho, filed a Statement of Claim setting out claims against some of the Proposed Defendants as set out above, as well as Trust. To date, despite a number of amended pleadings, the class action plaintiff has not yet secured the leave of the Court to file its pleadings in relation to Trust. The next hearing of this matter has been adjourned for further directions to 1 August 2014.

In July 2014, the Receivers made an application to the Court to appoint a Liquidator to BSL. We confirm that Messrs John Lindholm and Peter McCluskey of Ferrier Hodgson were appointed by the Court as Liquidators of BSL on 24 June 2014.

The Liquidators' role is, primarily, to represent BSL at the mediation in respect of Trustee claims. The Liquidators have extensive powers to independently investigate and assess potential claims by BSL (or others) against Trust, and, amongst other things, will be able to ensure that any such claims will be fully represented at the proposed mediation and/or prosecuted in subsequent proceedings.

The appointment of the Liquidators does not impact the day to day role of the Receivers, who continue to deal with the realisation of BSL's remaining assets, communication with the debenture holder committee and debenture holders generally, and the management of any legal actions against third parties, other than Trust.

2.3 *Class action*

As noted above, the class action proceedings continue and are currently adjourned for further directions until 1 August 2014. The class action is being co-ordinated by Mark Elliott, who is solicitor for the class action plaintiff, Mr Bolitho. BSL is a named defendant in the proceedings.

We are aware that documents have recently been issued to debenture holders in relation to the class action and the proposed funding arrangements. The Receivers have corresponded with Mr Elliott to confirm our understanding that at this stage the class action plaintiff is not seeking preferential treatment for debenture holders who sign up to the funding agreement. Any relevant correspondence will be posted to the Banksia website in due course at www.banksiagroup.com.au.

Any queries concerning the class action should be referred to the class action solicitors via info@banksiaclassaction.com.au.

2.4 *Debenture holder committee*

We continue to work closely with the nine members comprising the debenture holder committee, who represent various regional and community groups. In addition to regular written updates and dialogue, nine face to face meetings have been held to date. As the mediation progresses, we will continue to liaise closely with the committee and trust that this will assist the flow of information to broader communities.

2.5 *Trustee fees*

As previously reported, we have been liaising with Trust and the debenture holder committee to agree Trust's remuneration for the receivership period. Following consultation with the Committee, it has been determined that the Receivers will seek the direction of the Court, that the Receivers are justified in paying a fee to Trust for acting as trustee, in consideration for Trust enforcing its duties and responsibilities under the Trust Deed.

As this matter develops, we will be required to notify debenture holders about the application and will provide access to relevant materials. We will also keep the Committee informed so that their views can be provided to the Court.

3 **Conclusion**

The receivership process is advanced and returns to date have been quite significant and paid as soon as practical after asset realisations.

However, the remaining issues, in particular the management of the complex litigation BSL is involved in, could potentially take some time to resolve if mediation is not successful, meaning the timing of payment of further and final dividends cannot currently be determined.

We also acknowledge the claims are extremely complex, involving many parties as well as requiring the involvement of a liquidator to appropriately manage certain aspects and provide the best chance of a settlement. In that regard, we hope this update provides a useful summary for debenture holders to aid their understanding of the many challenging issues impacting future returns.

For further information, please continue to contact Link Market Services on 1800 722 079 or banksia@linkmarketservices.com.au.

Dated 1 July 2014



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Receiver and Manager



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