

Provident Capital Limited (Receivers Appointed) (In Liquidation) ("Provident" or "the Company")



Q&A – Debentureholders

Notice: The following information seeks to provide answers to general queries from holders of Fixed Term Investments within the Provident Capital Limited Mortgage Debenture Issue only. **This was last updated on 7 December 2017.**

If you are a unit holder in the Provident Capital Monthly Income Fund (**MIF**) and Provident Capital High Yield Fund (**HYF**) please refer to the separate Q&A information sheet on our website as this information does not apply to any unit holders.

If you require any further information or have any specific queries please contact the dedicated PCL hotline on (02) 8767 1194. Alternatively, email your query to provident@linkmarketservices.com.au.

<p>A1. What has happened to Provident? / Why did the Receivership come about?</p>	<p>We were appointed on 3 July 2012 as joint and several Receivers of Provident Capital Limited (Provident or the Company) pursuant to an Order of the Federal Court of Australia. We were subsequently appointed as joint and several Receivers and Managers to the Company on 10 July 2012 pursuant to a fixed and floating charge granted by the Company in favour of Australian Executor Trustees Limited (AET).</p> <p>In February 2012, following extensive discussions with the Company and the ASIC, AET engaged PPB Advisory to prepare an independent expert report which was issued in March 2012. This report highlighted a potential deficiency of assets to meet liabilities.</p> <p>The Company subsequently issued an Information Booklet on 4 April 2012 which included its financial results for the six months to 31 December 2011, Provident reported a loss of \$9.091M. This loss was largely the result of the Company increasing its provisions against the carrying values of its loans and advances.</p> <p>Given the financial position of the Company and in order to protect all Debentureholders' interests, AET applied to the Federal Court, for leave to appoint Receivers to the Company.</p> <p>In doing so, AET has ensured that all Debentureholders would be treated equally.</p>
<p>A2. What is a Receivership?</p>	<p>Receivership is an insolvency procedure where if a company is in financial difficulty, a secured creditor or the Court may put the company into the hands of an independent party.</p> <p>For more information regarding the Receivership process, please visit www.asic.gov.au.</p>

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<p>A3. What is the role of the Receivers?</p>	<p>Our role as Receivers in this case is to act as an independent party to take control of the property of Provident in order to ensure that the property is protected in the interests of all Debentureholders.</p> <p>As Receivers we are empowered to administer the property and manage Provident.</p> <p>We were appointed as Receivers pursuant to an Order of the Federal Court of Australia for the purpose of recovering assets subject to security held by AET on behalf of all Debentureholders. This security entitled the Debentureholders to be paid in priority to other pre-Receivership claims, except for certain employee claims.</p>
<p>A4. What is the implication of the Receivership?</p>	<p>Our role as Receivers is to:</p> <ul style="list-style-type: none"> • collect and sell enough of the assets subject to the security to repay the debts owed to Debentureholders. This may include selling assets or the Company's business • pay out the money collected in the order required by law • report to the ASIC any possible offences or other irregular matters they come across. <p>Our primary duty as Receivers is to the Company's secured creditors. We will report to Debentureholders and the Court on the status of the Receivership process regularly.</p>
<p>A5. Who are the current appointees?</p>	<p>Messrs Marcus Ayres, Philip Carter and Tony Sims were initially appointed as joint and several Receivers by the Court on 3 July 2012. Each of these appointees have since retired. Christopher Hill was appointed on 6 February 2015 and Ken Whittingham was subsequently appointed on 15 March 2017 as joint and several Receivers pursuant to Orders of the Federal Court of Australia.</p>

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<p>A6. Who are the Liquidators and why were they appointed?</p>	<p>On 18 September 2012, Tony McGrath and Joseph Hayes of McGrath Nicol were appointed as joint and several Voluntary Administrators by AET pursuant to Section 436C of the <i>Corporations Act 2001 (Cth)</i>. Subsequently, on 24 October 2012, creditors of Provident resolved that the Company be wound up and that Messrs McGrath and Hayes to be appointed as its joint and several Liquidators.</p> <p>The Liquidation of Provident allows for a comprehensive investigation into the Company's affairs to be completed. This may provide opportunities for us to pursue actions against various third parties which could give rise to future recoveries to repay Debentureholder claims.</p> <p>It also allows unsecured creditors to lodge their claim against the Company.</p> <p>As all Debentureholders are secured creditors by virtue of AET's security interest, individual Debentureholders are not required to prove their claim in the Liquidation, nor are they required to vote at any meeting of creditors. Rather AET in its capacity as security trustee will represent all Debentureholders in the Liquidation process.</p> <p>Control of the Company's assets and business operations will otherwise remain with the Receivers and Managers. Any updates on the status of the Receivership will be communicated directly to Debentureholders via post or on our website.</p>
<p>A7. Is Provident continuing to trade?</p>	<p>Given the loan portfolio that was funded by the Debentureholders was largely non-performing, we determined that it was appropriate to cease business activities whilst they worked through the issues within the loan portfolio so that they could best determine the means to maximise returns to Debentureholders.</p> <p>We retained some Provident staff to assist in achieving these goals.</p> <p>Please note that the above commentary pertains to Provident's lending activities only which were funded by the Debentureholders. Mortgage holders and unit holders in MIF and HYF should review separate Q&A information sheets in respect of Provident's ongoing business activities.</p>
<p>A8. What was the outcome of our investigations? What has happened to Provident's</p>	<p>We undertook an extensive investigation program into the causes of Provident's collapse. In particular, we have assessed the conduct of Provident's directors (which involved public examinations) and whether their conduct forms the basis for any claim which could be pursued to increase the return to Debentureholders.</p>

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<p>directors?</p>	<p>The outcome of our public examinations, coupled with our forensic and manual review of the Company's books and records, revealed that many of the circumstances surrounding Provident's affairs and in particular the adverse characteristics of many of its loans were not properly considered by Provident's directors, nor were they adequately disclosed to Debentureholders, AET and ASIC.</p> <p>Having regard to the outcome of our investigation workprogram, we consider that Provident's directors have, amongst other conduct:</p> <ul style="list-style-type: none">• failed to appropriately manage and assess the value of impaired assets; and• failed to identify and report substantial failures to comply with prudent lending and provisioning processes. <p>We commenced proceedings against Provident's directors for a breach of their duties of care and diligence in managing the affairs of Provident in February 2014. Provident's claim is detailed in a statement of claim that was filed on 1 December 2014 with the Supreme Court of NSW (which is available on our website at www.ppbadvisory.com).</p> <p>We successfully reached a settlement of our proceedings against the directors for breach of their duties of care and diligence for amount of \$14 million on a no admissions basis. We finalised terms of settlement with the directors and related parties on 5 September 2017, with settlement funds being received on 3 October 2017. The proceedings were formally discontinued on 12 October 2017.</p> <p>We further advise that ASIC have since imposed the following penalties on Provident's directors for breach of their duties as directors and a failure to comply with financial services laws:</p> <ul style="list-style-type: none">• Michael O'Sullivan, Provident's Managing Director, has been banned from managing a corporation for five years and from providing financial services for seven years• John Sweeney, one of Provident's non-executive directors, has been banned from providing financial services for two years• Trevor John Seymour, one of Provident's non-executive directors, from managing corporations and providing financial services for three years
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	<ul style="list-style-type: none"> • Malcolm Bersten, one of Provident's executive directors and in-house legal counsel, from managing corporations and providing financial services for five years. <p>On 2 May 2017, the Administrative Appeals Tribunal (AAT) upheld ASIC's decision that Mr O'Sullivan be disqualified from managing corporations for five years and from providing financial services for seven years. Mr O'Sullivan's appeal to the AAT was defeated on 2 May 2017 as the AAT upheld ASIC's decision. Mr O'Sullivan has since made an appeal to the Federal Court.</p> <p>The AAT has amended Mr Bersten's period of disqualification from managing corporations from five years to four years and his period of disqualification from providing financial services from five years to three years and nine months.</p> <p>We understand that ASIC's banning orders against the other Provident directors are also presently under appeal.</p>
<p>A9. What are the next steps?</p>	<p>We have realised all of Provident's assets (including its loan portfolios) and settled all litigated proceedings, with the exception of one remaining loan. Realisation of same is expected to be lengthy and protracted.</p> <p>We intend to continue to keep Debentureholders periodically informed either by written communication and/or on our website at www.ppbadvisory.com.</p>
<p>A10. What is the current status of the proceedings against Provident's directors?</p>	<p>We reached a settlement of our proceedings against the directors for breach of their duties of care and diligence for amount of \$14 million on a no admissions basis. We finalised terms of settlement with the directors and related parties on 5 September 2017, with settlement funds being received on 3 October 2017. The proceedings were formally discontinued on 12 October 2017.</p>

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A11. Who is CFA and what is their relationship with Maurice Blackburn Lawyers?	<p>CFA is a special purpose vehicle, the beneficial interests in which are owned by the principals of Maurice Blackburn Lawyers, established for the purposes of funding litigation claims.</p> <p>Maurice Blackburn Lawyers is one of Australia's leading social justice law firms with a strong track record in managing large and complex litigation cases, including some of Australia's landmark decisions.</p> <p>CFA similarly has a strong record in successfully funding complex litigation cases often in insolvency, similar to the proceedings against Provident's directors.</p>
A12. How much are CFA and Maurice Blackburn Lawyers getting paid?	<p>The terms of the Funding Deed, including the Funder Fee payable to CFA and Maurice Blackburn Lawyers is confidential pursuant to an Order of the Federal Court of Australia on 4 March 2016.</p>

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<p>A13. What is the current status of my claim in the Receivership?</p>	<p>We estimate that Debentureholders will receive a further distribution of 2.9 cents in the dollar in respect to the face value of their debentures.</p> <p>An interim distribution of 100 cents in the dollar of interest accrued but unpaid as at 3 July 2012 on all debentures (whether interest was paid periodically or on maturity) was made on 11 January 2013.</p> <p>A second interim distribution to Debentureholders was paid on 21 June 2013. This distribution represents 2 cents in the dollar in respect of the face value of your current debentures.</p> <p>A third interim distribution to Debentureholders was paid on 15 October 2013. This distribution represents 2 cents in the dollar in respect of the face value of current debentures.</p> <p>A fourth interim distribution to Debentureholders was paid on 16 July 2014. This distribution represents 2 cents in the dollar in respect of the face value of current debentures.</p> <p>A fifth interim distribution to Debentureholders was paid on 24 December 2014. This distribution represents 2 cents in the dollar in respect of the face value of current debentures.</p> <p>A sixth interim distribution to Debentureholders was paid on 3 November 2017. This distribution represents 6.5 cents in the dollar in respect of the face value of current debentures. This takes total distributions to Debentureholders over the course of Receivership to date in excess of \$23 million.</p> <p>We will continue to make interim distributions to Debentureholders over the course of the Receivership, as and when funds become available.</p> <p>Debentureholders are otherwise not required to submit a Proof of Debt or Statement of Claim.</p>
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<p>A14. Has Centrelink been notified?</p>	<p>We notified Centrelink shortly following our appointment and continue to work closely with the Department of Human Services regarding the extension of government assistance to Debentureholders whom are impacted by the Receivership.</p> <p>The Department of Human Services have confirmed that as a consequence of the Receivership, your debentures will no longer be classified as a financial investment. As a result, interest payable on the debentures will no longer be considered for social security means testing purposes with effect from 3 July 2012.</p> <p>We subsequently contacted the Department of Human Services on 23 October 2017 notifying them of the sixth interim distribution of 6.5 cents in the dollar which will be paid on or around 3 November 2017 and that the projected remaining distribution will be 2.9 cents in the dollar.</p> <p>Debentureholders whom are affected by the above changes and/or consider that they are eligible for assistance should access their MyGov account to check the value of their investment at www.my.gov.au. Alternatively, they may contact the Department of Human Services on 132 300 or visit your local Centrelink office.</p>
<p>A15. Will there be another meeting of Debentureholders?</p>	<p>No further meetings have been called at this current time.</p> <p>Debentureholders will be notified in writing of any future meetings of Debentureholders.</p>
<p>A16. What is the estimated rate of return?</p>	<p>We have completed an analysis of the Company's loan portfolio and have estimated that the likely return of principal to Debentureholders will be in the region of 17.4 cents of every dollar invested. This is inclusive of previous principal distributions made to Debentureholders but is additional to the 4 cents paid in accrued interest as at the 3 July 2012.</p> <p>Given the vast proportion of available assets to Debentureholders have been realised and all other avenues of recovery have been exhausted, the primary link to a reduction in the estimated return is the ultimate recovery of Provident's one outstanding loan.</p> <p>Further details are contained in our report to Debentureholders as at 23 October 2017.</p> <p>If you have not received a copy of the aforementioned update, please contact Link so we can on-forward you a copy, or alternatively a copy is available on our website at www.ppbadvisory.com.</p>

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<p>A17. What is the forecast future principal distribution?</p>	<p>We estimate that Debentureholders will receive a further principal distribution of 2.9 cents in the dollar in respect to the face value of their debentures.</p> <p>Please refer to our latest report for further explanation of the forecast.</p>
<p>A18. When will I receive a distribution?</p>	<p>We intend to continue to make interim distributions to Debentureholders over the course of the Receivership, as and when funds become available.</p> <p>The timing of future distributions to Debentureholders is uncertain as it is subject to the realisation of Provident's remaining one loan, which is expected to be costs and protracted.</p> <p>We intend to continue to keep Debentureholders periodically informed either by written communication and/or on our website at www.ppbadvisory.com</p>
<p>A19. How will I receive my distribution?</p>	<p>Debentureholders who have provided their bank details will receive their distribution by EFT to their nominated bank account as per the Company's books and records.</p> <p>All other Debentureholders will receive their distribution by cheque to their nominated address as per the Company's books and records.</p> <p>Should you wish to update your details, please contact Link Market Services through the dedicated hotline (02) 8767 1194.</p>
<p>A20. I received a distribution, was this interest or principal?</p>	<p>An interim distribution of 100 cents in the dollar of interest accrued but unpaid as at 3 July 2012 on all debentures (whether interest was paid periodically or on maturity) was made on 11 January 2013.</p> <p>As this distribution was for interest accrued, withholding tax was deducted where applicable. This assessment was made from the Company's records.</p> <p>Subsequent distributions to Debentureholders represent the partial return of principal. These amounts are not subject to withholding tax.</p> <p>All Debentureholders have been issued an annual tax statement in respect of their income distributions for the 2012/13 financial year.</p>

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<p>A21. Was tax withheld from my distribution?</p>	<p>An interim distribution of 100 cents in the dollar of interest accrued but unpaid as at 3 July 2012 on all debentures (whether interest was paid periodically or on maturity) was made on 11 January 2013.</p> <p>As this distribution was for interest accrued, withholding tax was deducted where applicable. This assessment was made from the Company's records.</p> <p>Subsequent distributions to Debentureholders represent the partial return of principal. These amounts are not subject to withholding tax.</p> <p>All Debentureholders have been issued an annual tax statement in respect of their income distributions for the 2012/13 financial year.</p>
<p>A22. Will future distributions be a return of principal or interest?</p>	<p>All future distributions will be the return of principal. Accordingly, these amounts will not be subject to withholding tax.</p> <p>After paying all accrued interest to 3 July 2012, we estimate the likely return to Fixed Term Investment (FTI) Debentureholders from the recovery and realisation of Provident's assets will be 12 cents in the dollar, although this forecast does not include any return that might be achieved from the proceedings against Provident's directors. This return is inclusive of previous distributions made to Debentureholders.</p>
<p>A23. Can we make redemption requests during the Receivership period?</p>	<p>No – as a consequence of our appointment, redemptions of debentures will not be processed. This is to ensure that all Debentureholders are treated fairly and in accordance with the Trust Deed.</p> <p>This regrettably includes situations of hardship.</p> <p>Whilst noting the above, we are very conscious of the impact of the appointment and will be working toward making distributions to Debentureholders as early as possible.</p>
<p>A24. Are the Receivers getting paid?</p>	<p>The Trust Deed and <i>Corporations Act 2001 (Cth)</i> recognises that the costs of the Receivership take a priority before any other payments are made.</p>

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<p>A25. Will we still get our year-end tax statements?</p>	<p>Annual tax statements for the period ending 30 June 2012 were issued to Debentureholders in late September 2012.</p> <p>Debentureholders have now been issued a tax statement for the period ending 30 June 2013.</p> <p>Subsequent distributions to Debentureholders represent the partial return of principal. Accordingly, these amounts are not subject to withholding tax and no further tax statements will be issued.</p>
<p>A26. Will I receive a statement of capital loss/gain?</p>	<p>No.</p> <p>Whether you make a capital gain or a capital loss, and the amount of any such gain or loss, will depend on your particular facts and circumstances.</p> <p>Generally speaking, however, if you hold debentures that have paid interest periodically, any final capital gain or capital loss that you make may not arise until the Company's liquidation has been finalised.</p> <p>If, however, you hold debentures that would have paid interest at maturity, then your tax position is less clear as the tax rules are quite complex with respect to these debentures. Among other things, the outcome will depend on any tax elections you have made with respect to the debentures, and how you have previously applied, and continue to apply, the tax rules to your debentures. In this instance, you should seek advice from your accountant or tax adviser for more complete advice specific to your circumstances.</p> <p>In either case, the amount of any capital gain or capital loss will depend on a number of factors, including the amount you initially invested, and whether the liquidators make any further or final returns of capital. In this respect, we note that the liquidation of the Company's assets is ongoing and unlikely to be finalised for some time.</p> <p>Importantly, we recommended that you seek the advice of your accountant or tax adviser as to how the tax rules apply in your particular circumstances.</p>

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<p>A27. How do the class action proceedings affect me?</p>	<p>We understand that:</p> <ul style="list-style-type: none">• Slater & Gordon have commenced a class action against AET in the Federal Court of Australia in December 2014;• Meridian Lawyers have subsequently commenced a separate class action against AET in the Supreme Court of NSW in July 2015;• the class action commenced by Slater & Gordon was transferred to the Supreme Court of NSW in February 2015, with the Court making orders that the two class actions be heard together;• Debentureholders have the opportunity to opt out of the class action proceedings prior to 16 February 2018; and• the two class actions are currently listed for trial in July 2018 <p>We are not a party to either proceeding and recommend you contact the respective class action lawyers directly for further update. Their contact details are as follows:</p> <ol style="list-style-type: none">1. Slater and Gordon Group – on 1800 071 827 or provident@slatergordon.com.au2. Meridian Group – Mr Douglas Raftesath via draftesath@meridianlawyers.com
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<p>A28. Report to Debentureholders as at 23 October 2017</p>	<p>Please be advised that the latest update to Debentureholders as at 23 October 2017 has been distributed by Link Market Services and is available on our website at www.ppbadvisory.com</p> <p>If you have any queries (including requests to obtain copies of previous communications), please contact the Debenture holder registry service maintained by Link.</p> <p>Link's contact details are as follows:</p> <p>Address: Provident Capital Limited (Receivers Appointed) (In Liquidation) C/- Link Market Services Limited Locked Bag A14, Sydney South NSW 1235, Australia</p> <p>Telephone: (02) 8767 1194</p> <p>Facsimile: (02) 9287 0303</p> <p>Email: provident@linkmarketservices.com.au</p>
<p>A29. Where can I get a copy of communications to Debentureholders or other public communications issued by the Receivers?</p>	<p>A copy of all communications with Debentureholders and other key communications issued to stakeholders can be found on either:</p> <p>The PPB Advisory website: www.ppbadvisory.com under the link to 'Provident Capital Limited' in the Creditor Information section</p> <p>or</p> <p>By contacting PPB Advisory through the dedicated hotline (02) 8767 1194</p> <p>or</p> <p>Emailing a request to provident@linkmarketservices.com.au and including 'Copy Report (Debentureholder) Request' in the email subject line.</p>

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<p>A30. I need to update my details (name, address, bank account(s), advise of a deceased estate, etc) – who do I contact?</p>	<p>Link Market Services will now be the Debentureholders main point of contact for all matters in relation to Provident and the Debentureholders register including:</p> <ul style="list-style-type: none"> • updating all Debentureholder details including change of name, address and bank account; • enquiries in relation to your holding; • investment information to estate administrators; • re-issuing misplaced cheques and other payments (for those payments made by the Receivers); as well as • general enquiries in relation to the status of the Receivership. <p>All future correspondence and enquiries from Debentureholders regarding Provident should be now directed to Link. Link’s contact details are as follows:</p> <p style="text-align: center;">Provident Capital Limited (Receivers Appointed) c/- Link Market Services Limited Locked Bag A14 Sydney South NSW 1235 AUSTRALIA</p>
<p>A31. Who are Link Market Services?</p>	<p>Link Market Services is Australia’s leading share registry and financial services provider, managing over 10 million account records and over 1,000 ASX securities.</p> <p>We also provide specialist administrative services to insolvent companies and for a range of structure products including fixed interest securities.</p>