Provident Capital Limited (Receivers and Managers Appointed) (In Liquidation)

Annual Report to Debentureholders for the 2013 Financial Year

30 September 2013

PPB ADVISORY

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30 September 2013

REPORT TO DEBENTUREHOLDERS

Dear Debentureholder

Provident Capital Limited
ACN 082 735 573
(Receivers and Managers Appointed) (In Liquidation)
("Provident" or "the Company")

We refer to our previous communications in relation to this matter, and set out below an update as to the progress of the receivership as well as our expectations as to the likely return to Debentureholders.

We recommend that this Report should be read in conjunction with our previous communications with Debentureholders. Copies of these are available on our website at www.ppbadvisory.com under 'Provident Capital Limited' in the Creditors Information section. Alternatively, copies of issued documents can be requested from the Debentureholder registry service being maintained by Link Market Services ("Link"). Link's contact details appear in the paragraph opposite.

Further information in respect to the Receivership is available on our website at www.ppbadvisory.com under 'Provident Capital Limited' in the Creditors Information section.

If you have any queries (including requests to obtain copies of previous communications), please contact the Debentureholder registry service maintained by Link.

Link's contact details are as follows:

Address:	Provident Capital Limited (Receivers and Managers Appointed) (In Liquidation) C/- Link Market Services Limited Locked Bag A14, Sydney South NSW 1235, Australia
Telephone:	+61 2 8767 1194
Facsimile:	+61 2 9287 0303
Email:	provident@linkmarketservices.com.au

Yours faithfully

Tony Sims and Marcus Ayres
Joint and Several Receivers and Managers
Provident Capital Limited

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Forecast total return

	Paid to date	Forecast future distributions (cents in the $)	Total Forecast (cents in the $)
FTI Investors			
Interest to 3 July 2012	$4.8m	Nil	100
Principal	2c/$	15-17	17-19
Non-FTI Investors and BEN			
BEN	56c/$	44	100
HYF* / Unit holders	77c/$	33	100
MIF* / Unit holders	77c/$	33	100

Source: PPB Advisory analysis

*Total windup distributions

1. Executive summary

1. Executive summary

- After paying all accrued interest, we estimate the likely return to FTI Debentureholders will be in the range of $0.17 to $0.19 for every dollar of capital.
- We propose to pay a third interim distribution to Debentureholders in October 2013. This distribution will represent 2 cents in the dollar in respect of the face value of debentures.
- In the first year of our appointment, we have realised 69 loans in the FTI and BEN portfolios. Of these, 52 were realised at full value. The 17 loans realised below full value have left a residual debt of circa $18.6 million. We are pursuing guarantors for those residual debts where appropriate.
- Asset realisations have been significantly below the Company's carrying values previously reported by Provident.
- Realisations have been significantly impaired for a number of reasons, including a lack of demand for properties that required significant investment to make them marketable.
- Many of Provident's intangible assets (such as litigation claims and residual debts outstanding following realisation of security properties) have resulted in minimal return for Debentureholders.
- The loans remaining in Provident's loan portfolio are essentially all non-performing (i.e. the borrowers are in default and not paying interest), resulting in further asset realisations being costly, difficult and protracted. We have therefore had to make significant provisions against these assets.
- We are continuing to seek opportunities to rationalise the Company's business operations so that we can realise cost efficiencies which will enhance the net return to Debentureholders.
- Throughout the course of the public examinations of Provident's directors in April and June 2013, we have confirmed that many adverse circumstances surrounding the Company's loan portfolio were known by its Directors, but were not properly disclosed to Debentureholders, AET or the ASIC.
- We are continuing our investigations into the Company's affairs in order to identify whether recovery actions may be pursued against various third parties. These actions could give rise to future recoveries, additional to recoveries from the loan portfolios, to repay Debentureholder and creditor claims.

2. Return to FTI Debentureholders

2. Return to FTI Debentureholders

2.1 Estimated return on FTI Debentures

We have prepared an estimated outcome statement which indicates estimated cash available for distribution to FTI Debentureholders will be $26.2 million. This equates to full payment of interest outstanding at the date of our appointment, and a further payment of 17 – 19 cents for every dollar of capital invested.

Our estimated return is based upon a number of assumptions:

- No new defaults from borrowers within the existing loan portfolios.
- Full recovery of certain loans from existing defaulting borrowers which have been identified as having low 'loan to value' ratios.
- Provident staff will continue to support the Receivers.
- No significant adverse changes to the Australian property market.
- **Exclusion** of any recoveries from litigation against third parties that may be pursued by the Receivers, AET or the Liquidators of Provident.
- **Inclusion** of possible litigation costs against third parties (although we note that we may be able to procure third party funding for such costs).
- Actual receivership cashflows being in-line with the estimated outcome statement shown opposite.

Estimated return on Debentures

	Net proceeds ($)	Return (cents in the $)	Paid to date (cents in the $)
Interest (actual)	4.8 m	100	100
Principal (estimated)	21.4 m – 23.5 m	17 – 19	2

Source: PPB Advisory analysis

Estimated outcome statement

	Amount ($'000)
Cash Inflows	
BEN Equity – Gross	79,566*
Total net FTI MIP Realisations	26,087
FTI Principle Loan Repayments	10,827
Residual/Litigation Loans	3,293
Pre-appointment Cash	2,168
MIF and HYF	1,688
FTI Loans - Interest	1,071
Refund of pre-appointment income tax	448
BEN Loan Management Fee	195
MMP Commissions	118
Other Income	41
Total cash inflows	**125,502**
Cash outflows	
BEN (secured creditor)	(74,200)
Corporate Overheads	(6,620)
Receivership Costs – Paid to date	(5,124)
Receivership Costs – Outstanding to date	(1,985)
Receivership Costs – Future estimated	(1,391)
Legal Fees – Paid to date	(3,181)
Legal Fees – Outstanding to date / Future estimated	(3,819)
Provision for possible litigation costs against third parties	(1,500)
Trustee's Preappointment Advisor Costs	(714)
Loan to Cashflow solutions	(587)
Other Costs/Contingency	(230)
Total cash outflows	**(99,351)**
Estimated net cash available for distribution to Debentureholders	**26,151**

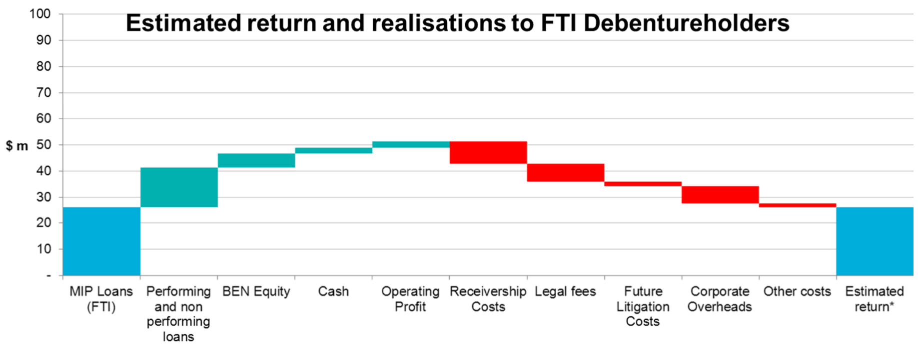
Source: PPB Advisory analysis

2. Return to FTI Debentureholders *continued*

Within our estimated return, we have estimated equity in the BEN portfolio (i.e. after extinguishing the debt due to the secured creditor) as $5.366 million. Whilst we consider this to be realistic, there could be further losses within the portfolio. We have further comments in relation to this portfolio in Section 3 of this report.

The below estimated return bridge shows the key sources of income together with outflows, resulting in the forecast total recovery range of between 17 - 19 cents in the dollar for principal invested and $4.8 million in pre-appointment interest.

Estimated return and realisations



* Estimated return totals $26.2 million, which includes principal and pre-appointment interest.

The downward revision in the estimated total return from 25 – 30 cents in the dollar (i.e. including principal and pre-appointment interest) to 20 – 25 cents in the dollar is as a result of:

- Lower recoveries from the sale of mortgaged properties. Refer to Section 3 - Loan portfolios for further details as to the deterioration in pre-appointment value of the loan portfolios.
- Unavoidable delays associated with the sale of mortgaged properties resulting in additional property holding costs.
- Additional legal and professional costs associated with the Receivership. Refer to Section 5 - Professional fees for further details.

Importantly, this estimate **does not** include any expected return from claims that may be available for the Receivers and Managers, AET or the Liquidators to pursue against third parties, including the Directors and other professional advisors.

2.2 Timing of future distributions

We anticipate that a third interim distribution to Debentureholders will be paid in October 2013. This distribution will represent a further 2 cents in the dollar of outstanding capital and will take total distributions to Debentureholders over the course of receivership to almost $10 million.

We are unfortunately not in a position to confirm the timing of future distributions beyond October 2013 due to the uncertainty surrounding the sale and settlement of the remaining security properties. However, we will continue to make interim distributions to Debentureholders as and when sufficient funds become available.

3. Loan portfolios

3. Loan portfolios

3.1 FTI loan portfolio

At the time of our appointment, the FTI loan portfolio (this is the portfolio which was funded by Debentureholders under the Fixed Term Investment program) held 49 loans with a carrying value of $113.2 million. A summary of the loan portfolio is shown below:

Summary of the FTI loan portfolio as at 3 July 2012

	Carrying value ($)	Number
Performing	8,474,272	14
Default	24,806,913	8
Mortgagee in Possession	70,543,971	17
Total secured loans	**103,825,156**	**39**
Residual debt	5,690,094	9
Related party loans	3,703,592	1
Total unsecured loans	**9,393,686**	**10**
Total	**113,218,842**	**49**

Source: Provident's management accounts and PPB Advisory analysis

Since our appointment, we have successfully realised 23 loans, comprising 10 loans at full recovery and 13 loans where the security has been insufficient to fully discharge the outstanding loan balance. Recoveries from these loans total over $25.1 million.

These recoveries have been at a significant shortfall ($17.1 million) to the loan carrying values (valued on Provident's balance sheet at $42.2 million). The reason for the shortfall on a number of the loans is explained in further detail later in this Report.

The shortfall ($17.1 million) is still contained in the FTI loan portfolio as residual debt. Residual debt refers to loans were the real property security has been realised and there is a shortfall which is unsecured. We are pursuing guarantors for those residual debts where appropriate.

3.1.1 Summary of the Top 5 FTI loans realised

To assist Debentureholder understanding as to why Provident is unable to recover the full value of its loans, we have summarised in the below table the top five loans by carrying value where we have successfully realised the security, but there has been a substantial shortfall resulting in a residual debt.

Summary of top 5 FTI loans realised to date by carrying value

Loan	Property type	Location	Provident's carrying value as at 3 July 2012 ($ million)	Receivers independent value net of realisation costs ($ million)	Net Realised value ($ million)
1	Development site	Newcastle, NSW	7.2	1.2	1.3
2	15 serviced apartments	Sydney, NSW	5.3	2.7	3.5
3	Development site	Sydney, NSW	5.0	1.4	1.4
4	Residential house	Eagle Bay, WA	4.9	4.4	4.2
5	14 residential units	Gold Coast, QLD	4.5	2.7	2.7
			*** 26.9**	**12.4**	**13.1**

Source: Provident's management accounts and PPB Advisory analysis

* Provident's carrying value as at 3 July 2012 is the value at which the loans were recorded on Provident's balance sheet prior to receivership.

3. Loan portfolios *continued*

The key issues encountered when dealing with the above properties are summarised below:

Loan 1

This loan went into arrears on 1 October 2006, with interest capitalised by Provident at 15.99% for the next 6.5 years until settlement on 31 March 2013. No possession notices were issued by Provident to the borrower, so the loan remained in payment and maturity default rather than Provident seeking to enforce its securities to gain control of the asset and realise the security in a timely manner. Additionally considerable demolition works and costs associated with the DA applications were capitalised to the loan.

The security property, with an existing DA for 46 apartments, was not an attractive proposition for the Newcastle urban development market. The property was valued at $1.5 million and sold for $1.65 million at auction. A number of years of unpaid land rates and land tax of $262k significantly eroded net proceeds from the sale.

Loan 2

There was minimal market interest in this property primarily due to:

- the apartments being in a state of disrepair.
- individual and groupings of units had previously been marketed for sale without success.
- the property manager had a favourable management agreement with the borrower which allowed either party to terminate the management agreement with only 90 days' notice and if a unit was sold the management agreement effectively terminated. This is unattractive to any prospective purchaser as it provides no certainty in regards to income flow and arrangements would have to be renegotiated with the property manager.
- the favourable arrangements between the property manager and the by-laws associated with the owners' corporation. For example:
  - owners are excluded from sourcing occupancy for their unit other than through the property manager; and
  - the property manager had exclusive rights in relation to signage, car parking, gymnasium and conference area.
- the complex titling structure of the units, especially the restrictions on the titles, for example:
  - the owner cannot occupy the unit for more than 30 days in a 12 month period
  - an occupant cannot reside in the units for more the 90 days in a 12 month period
  - restrictions on use meaning that there was very little scope for an alternative use of the units.

Accordingly, the property was unattractive to both owner occupiers and investors leaving the only realistic purchaser as the property manager who ultimately proceeded to purchase all 15 units. The property manager was able to leverage the fact that they were deeply entrenched in the property during the course of the sales process. Despite this, we were able to negotiate a sale price of $3.6 million against an independent valuation range of between $2.8 million to $3.0 million.

We have subsequently received advice from our independent experts that the valuation methodology used by Provident to calculate the loan's carrying value of $5.3 million was incorrect.

Loan 3

Provident was mortgagee in possession of the property since 2008 and in an attempt to improve the saleability of the property lodged a development application for a nine lot subdivision.

3. Loan portfolios *continued*

As of the date of our appointment, the development application remained conditional on a number of outstanding issues being resolved, including neighbour authorisation and geotechnical issues. We were unable to obtain neighbour authorisation and the costs associated with building a retaining wall to overcome the geotechnical issues outweighed the potential value improvement of the development application.

The property was poorly maintained and any previously obtained approvals for subdivision were due to lapse on 30 September 2013. The final sale price of $1.6 million achieved by the Receivers was in-line with the independent valuation.

<u>Loan 4</u>

The Receivers settled a contract for sale that was exchanged prior to appointment. The Receivers agreed to complete the pre-appointment sale contract on the basis that:

- an extensive marketing campaign had been completed by Provident.
- the security property was situated south of Perth where the luxury market was experiencing softness, and a new marketing campaign was not expected to provide for an increase in the achievable sale price.
- the final sale price of $4.4 million was only 4.3% below valuation. Due to the lack of high end properties in the area, the valuer had little sales evidence to form his opinion as to the value of the property. The valuer also assumed an eight to ten month marketing campaign which would involve significant holding costs.

<u>Loan 5</u>

The Gold Coast unit market was affected by over-supply during the global financial crisis and Provident took possession of this security asset in 2008. High-end apartment values have declined 50-60% in value, with lower priced apartments falling by 20-40% in value depending on type and location.

The auctions for the units resulted in all properties selling for a total price of $2.87 million which was consistent with our independent valuation.

3.1.2 Summary of the FTI loan portfolio as at 31 July 2013

The table below summarises the status of the FTI loan portfolio as at 31 July 2013. As the majority of the portfolio is in default, interest is not being serviced, which has caused the loan balances to increase since our appointment.

Summary of the FTI loan portfolio as at 31 July 2013

	Provident's carrying value ($)	Receivers' ERV ($)	Number
Performing	3,997,801	commercially sensitive*	4
Default	12,368,677	commercially sensitive*	3
MIP	51,423,991	commercially sensitive*	9
Total secured loans	**67,790,469**	**20,112,865**	**16**
Residual debt	23,214,164	-	22
Related party	3,856,494	-	1
Total unsecured loans	**27,070,658**	**-**	**23**
Total	**94,861,127**	**20,112,865**	**39**

Source: Provident's management accounts and PPB Advisory analysis

*The Receivers' ERV for these loans has not been disclosed due to a sales process that is currently underway for a number of these security properties.

Most of the remaining recoverable value in the FTI loan portfolio is from non-performing loans, with the vast majority 'locked up' in assets controlled by Provident in its capacity as mortgagee in possession. Further, whilst we continue to explore all avenues for recovery of residual debt and related party loans totalling $27.1 million, it is unlikely that any material recovery will result due to the majority of borrowers being of little or no personal financial substance.

3. Loan portfolios *continued*

3.1.3 Examples of issues with remaining security assets impacting on value and ability to realise

We have summarised in the following table the remaining top five loans by carrying value where we are currently in the process of realising the security, together with details of the key issues impacting these loans:

Top 5 FTI loans to be realised

Loan	Property type	Location	Provident carrying value ($ million)	Receivers' ERV ($ million)
1	Development site	QLD	commercially sensitive	
2	Cattle Farm	NSW	commercially sensitive	
3	Vineyard	NSW	commercially sensitive	
4	Vineyard	NSW	commercially sensitive	
5	Residential house	QLD	commercially sensitive	
			52.7	**12.8**

Source: Provident's management accounts and PPB Advisory analysis

Loan 1

- Provident have been mortgagee in possession of this partially completed Queensland development since 2008. We understand that shortly after Provident took control, it became aware that the development consent had lapsed.
- The Receivers are working with the local Council to obtain a new development consent in order to progress realisation of the asset.
- Council have engaged a geotechnical expert to identify land slip concerns with the site and quantify rectification costs.
- Until the stability issues are resolved and any required rectification works are agreed with Council (now expected to occur in October), the development consent remains outstanding and the development cannot be progressed, nor the underlying security sold.
- A very significant capital loss is expected from this loan.

Loan 2

- Provident has been mortgagee in possession of the security property supporting this loan since 2011.
- The primary security is a large farm property which we have engaged Colliers to market.
- The asset value has been impacted by a number of adverse market factors including a diminishing land values, as well as a depressed cattle market.
- A very significant capital loss is expected from this loan.

Loan 3

- Vineyard and winery operators in the Hunter region have been leaving the industry due to low economic returns.
- Valuations of these assets are ascribing minimal commercial value to the vine improvements, which are seen as a liability due to costs to remove.
- The subject security property is also adversely impacted by an adjacent, large coal mining operation.
- Provident had valued the security asset on the basis that the property was within a compulsory acquisition zone by the coal mining company. We have conducted investigations into this aspect, which cannot be revealed at this stage due to the commercial sensitivity of that information.
- Nonetheless, we expect a significant capital loss on this loan.

Loan 4

- The security against this loan is a vineyard that has not been operational since 2010.
- The lack of maintenance and state of the vineyard market result in there being minimal commercial value in the vines.

3. Loan portfolios *continued*

- The security property is currently being marketed for sale, however there is limited interest.
- A very significant capital loss is expected from this loan.

Loan 5

- Provident has been in control of this asset as mortgagee in possession since 2010. The property has not been maintained which had led to deterioration of the physical condition of the security asset.
- This is a premium property priced well above the area's average property price of $400k. As such, demand is limited, and reliant on interest from non locals.
- Prospective purchasers were concerned with the rectification requirements, and adjusted their bids accordingly.
- A very significant capital loss is expected from this loan.

In addition to the specific issues impacting the five security assets detailed above, there are a number of more general issues preventing the timely realisation of the remaining assets within the FTI loan portfolio. These include, but are not limited to:

- Development issues - a number of security properties are subject to deficient or expired development consents. We are working with various local councils and statutory authorities to resolve these issues so that security assets can be sold in the most valuable state.
- Poor state of maintenance for assets – due to the poor physical state of some security assets which have been left vacant for long periods of time, in some instances we have been required to undertake rectification works so that the property can be put to market in a safe and presentable state.
- As advised previously, there were 16 cases of litigation in progress at the time of our appointment and a further case was instigated post our appointment. Of the 16 cases, ten have now settled or finalised realising $4.3 million ($2.0 million in respect of the BEN loan portfolio and $2.3 million from the FTI loan portfolio). The estimated realisable value of the 6 cases that are ongoing cannot be disclosed. For the purposes of this report, the ongoing cases have been valued as having no realisable value to reflect the contingent nature of these assets.

3.2 Recovery from the BEN loan portfolio

At the time of our appointment, Provident held a $100 million wholesale finance facility with Bendigo & Adelaide Bank Limited ("BEN") which was drawn to $74.2 million and secured by 75 individual loans. In addition, BEN held further security in the form of cash collateral of $10.0 million provided by Provident.

A summary of the BEN loan portfolio upon appointment is set out below:

Summary of the BEN loan portfolio as at 3 July 2012

	Carrying value ($)	Number
Performing	39,028,431	49
Default	27,792,354	18
MIP	7,364,005	8
Total	**74,184,790**	**75**

Source: Provident's management accounts and PPB Advisory analysis

Provident has been in default of its obligations to BEN since March 2012 when the facility expired prior to receivership. As a result, whilst BEN has not enforced its facility, it has withheld releasing Provident's cash collateral (and other amounts owing to Provident) pending full repayment of its facility (as it is entitled to do).

3. Loan portfolios *continued*

Since our appointment, we have realised 42 loans at full recovery and the security on a further four, generating realisations of over $40.0 million on behalf of BEN. Receivership costs associated with managing the BEN loan portfolio are recovered from BEN. We have summarised in the following table the anticipated equity (estimated at between $5.4 million and $7.5 million) that will be available to Debentureholders, following the full repayment of the BEN facility.

Estimated range of recovery from the BEN loan portfolio as at 31 July 2013

	Best case Amount ($ million)	Likely case Amount ($ million)
Amount owing to BEN as at 31 July 2013	**(31.8)**	**(31.8)**
Estimated future loan recoveries	26.3	24.2
Cash collateral account	10.0	10.0
Net income retained by BEN owing to Provident	3.0	3.0
Total future recoveries	**39.3**	**37.2**
Net expected return to Provident	**7.5**	**5.4**

Source: Provident's management accounts and PPB Advisory analysis

The table below summarises the current status of the BEN loan portfolio as at 31 July 2013:

Summary of BEN loan portfolio as at 31 July 2013

	Carrying value ($)	Receivers' ERV ($)	Number
Performing	630,686	commercially sensitive*	1
Default	26,211,566	commercially sensitive*	20
MIP	11,325,922	commercially sensitive*	8
Residual debt	2,001,028	-	4
Total	**40,169,202**	**26,341,244**	**33**

Source: Provident's management accounts and PPB Advisory analysis

*The Receivers' individual ERV for these loans has not been disclosed as a sales process is currently underway for a number of these security properties.

The majority of the remaining recoverable value in the BEN loan portfolio is from non-performing loans. As a result, it is likely to take an extended period of time before the equity is recovered.

However, in order to achieve a more timely recovery of the portfolio, we are currently considering options for the sale of some of the loans.

3.2.1 Reasons for shortfall

The predominant reasons for the shortfall between the estimated realisable value of the loan portfolios and the amount Provident was carrying the value of these loans for in its books and records, was highlighted in our Notice to Debentureholders dated 3 December 2012, and includes:

- Over 90% of loans made by Provident (using Debentureholder funds) were non-performing at the time of the Receivers and Managers appointment.
- Provident was heavily reliant upon the value of the underlying security property to recover its loan exposures. As a result, it became vulnerable to adverse movements in the property market.
- Provident failed to take active steps towards realising assets securing non-performing loans in certain cases, where large losses were anticipated. In some cases, Provident had taken control of the assets for periods of four or more years.
- Provident appears to have lent on poor and unsuitable security in a large number of cases and on a partly unsecured basis in some instances. In certain circumstances, markets are non-existent or marginal for security properties.
- Provident failed to maintain assets that it took control of in its capacity as MIP. As a result, many security properties which Provident has been in control of for a substantial period prior to receivership are damaged, run down or have allowed planning approvals to lapse. Many will be difficult to realise or are in some cases of minimal or nil value.

3. Loan portfolios *continued*

- Provident had a large concentration of loans guaranteed by two individual borrowers (“Key Borrowers”). Provident's exposure to entities associated with Key Borrowers is approximately $40 million. Based on our investigations to date, Provident is likely to recover less than 50% of amounts lent to these borrowers.
- Our preliminary investigation indicates that the Key Borrowers are essentially worthless in their own right and are notoriously in default of their obligations to other creditors.
- Provident’s booked intangible assets such as litigation claims or loans to related entities without any proper assessment of the likely recoverability. Our assessment as to a number of these assets is that they are substantially over valued.

In addition to the above, we are also investigating undisclosed related party transactions and the impact that those transactions had on the financial performance of Provident.

3.3 Provident Capital Monthly Income Fund (MIF) the Provident Capital High Yield Fund (HYF)

In addition to managing the FTI and BEN loan portfolios, Provident is both the RE and manager for MIF and HYF. As at 3 July 2012, MIF was the larger of the two funds with 76 loans with a face value of $31.2 million and HYF with 5 loans with a face value of $637k.

Whilst freezing the funds to new investments, the receivers facilitated a number of distributions to unitholders due to the repayment of the loans and also undertook an extensive sales process in order to determine whether the funds could be sold, replacing Provident as RE and manager.

Summary of the MIF and HYF loan portfolios as at 3 July 2012

	MIF		HYF	
	Carrying value ($)	Number	Carrying value ($)	Number
Performing	28,434,590	70	394,669	4
Default	2,538,193	5	242,437	1
Residual debt	263,890	1	-	-
Total	**31,236,673**	**76**	**637,106**	**5**

Source: Provident’s management accounts and PPB Advisory analysis

Following completion of the sales process, on 12 December 2012, the receivers determined to terminate the funds. During the windup process, Provident continues to receive fees for its role as RE and manager, but also recovers abnormal expenses associated with windup costs to ensure that Debentureholders in the FTI portfolio are not funding the recovery of fund loans that ultimately benefit unitholders.

The process of winding down the funds is well advanced, with 61 MIF loans totalling $23.2 million being recovered in the year to 31 July 2013, allowing for total windup distributions of 77 cents per unit to be made to MIF unitholders. Similarly, only one loan with a face value of $130k remains in HYF, with 77 cents per unit being distributed to HYF unitholders. In order to finalise winding up the funds, the receivers are considering a number of options to further advance recoveries.

Summary of the MIF and HYF loan portfolios as at 31 July 2013

	MIF		HYF	
	Carrying value ($)	Number	Carrying value ($)	Number
Performing	1,218,697	2	129,999	1
Default	5,835,720	11	-	-
Residual debt	140,000	1	-	-
Total	**7,955,046**	**15**	**129,999**	**1**

Source: Provident’s management accounts and PPB Advisory analysis

4. Next steps

4. Next steps

4.1 Investigations

Public examinations of the Company's Directors occurred during April and June 2013. A list of the Company's Directors is provided below.

Composition of Provident's Board of Directors

Director	Role	Date appointed
Michael O'Sullivan	Managing director	25/05/1998
Malcolm Bersten	Chief legal counsel	01/07/2000
Trevor Seymour	Non-executive director	25/05/1998
John Sweeney	Non-executive director	30/07/2008

Source: ASIC database and PPB Advisory analysis

We have confirmed that many of the circumstances surrounding the Company's affairs (in particular the adverse characteristics of its loan portfolios) were not adequately disclosed to Debentureholders, AET, the ASIC, or BEN.

By way of example, this includes details regarding Provident's single largest loan (comprising c. 20% of the entire FTI loan portfolio) which it initially funded to the borrower in 2001. Due to the Liquidation of the borrower, Provident took possession of this security property in September 2008 with the intention of completing construction of a 36 townhouse development.

Our investigations reveal however that no significant works were conducted on site for an extended period by the borrower (or Provident once it entered into possession). Furthermore, it appears that Provident was on notice from at least September 2009 (but potentially earlier) that the Town Planning Consent Permit had lapsed and as a result it did not hold the relevant approvals to develop the project. Subsequent legal advice procured by Provident in 2009 and 2010 in fact indicated that the original Consent Permit lapsed in 2002.

As a result, evidence gathered from examinations indicate that Provident's carrying value of this security property (circa $20 million) was significantly overstated in its historical financial reports, various prospectuses' and information booklets issued to Debentureholders.

In light of these revelations, we are currently reviewing our overall investigations strategy with our legal advisors.

This is likely to involve further examinations of the following parties:

- Key Borrowers.
- The Company's former auditors.
- Related parties such as PCL Holdings Pty Limited.
- Other third parties, including valuers previously engaged by Provident.

As our investigations into the affairs of the Company are ongoing, and so as to not prejudice potential claims that may be available to Provident and its Debentureholders, we are unable to disclose the complete results of the recent public examinations at this stage.

We are however working closely with key stakeholders, including but not limited to, AET, the ASIC and Provident's Liquidators regarding our investigations and consequential recovery strategy.

After concluding our investigations, we will make an assessment of what legal recoveries may be available for the benefit of Debentureholders, and will communicate our views on the costs, and potential recoveries at that time.

4.2 Other recoveries and cost savings

Since our appointment we have proactively sought to enhance the return to Debentureholders by:

- Rationalising labour costs through reduced head count (providing a saving in payroll costs in excess of $1.74 million per annum).
- Reducing corporate overhead by relocating the Company's staff to within PPB Advisory's premises and ceased ancillary services which were no longer required (generating cost savings in excess of $630,000 per annum).

4. Next steps *continued*

In addition to the above, we have successfully recovered almost $450,000 from the Australian Taxation Office ("ATO") in respect of pre-appointment tax that was paid for the period ending 30 June 2008. We have retained specialist tax experts to assist us with this recovery and work through the following tax periods (i.e. 2009, 2010 and 2011) to determine if there could be any further recoveries.

Further, we are currently in the process of transitioning Provident's loan operating system to a third party provider which will enable us to further rationalise corporate overheads. These costs savings will benefit Debentureholders by reducing the overall cost of the Receivership and ultimately enhance the net return.

4.3 Receipts and payments

A summary of the receipts and payments incurred from the date of our appointment to 31 July 2013 is summarised opposite:

Summary of receipts and payments for the period to 31 July 2013

	Amount ($)
Receipts	
BEN - Loan realisations	42,681,382
FTI - MIP loan realisations	18,503,307
FTI - Performing loan realisations	4,135,991
Pre-appointment cash at bank	2,168,371
FTI - Residual debt realisations	2,448,000
MIF and HYF Income	1,621,077
Interest income	855,229
Loan repayment from Cashflow Finance Solutions	500,000
Refund of pre-appointment income tax	448,032
MMP - Commission income	352,590
Other income	235,340
MMP - Realisation of income trail	235,000
BEN - Loan management fee	186,263
Total receipts	**74,370,582**
Payments	
Distributions to BEN	(42,044,861)
Distributions to Debentureholders	(7,289,429)
Receivership costs – Asset Management	(1,773,017)
Receivership costs – Other (e.g. investigations)	(1,761,896)
Receivership costs – Loan Portfolio management	(582,318)
Receivership costs – Creditors	(516,258)
Receivership costs – Fund Management	(357,878)
Disbursements	(132,956)
MIP property expense	(3,618,614)
Corporate overheads	(3,376,567)
Legal fees	(3,181,110)
Trustee legal and professional costs to 3 July 2012	(653,959)
Loan to Cashflow Finance Solutions	(587,253)
Voluntary Administrators' costs	(122,271)
Trustee costs	(60,427)
Total payments	**(66,058,814)**
Net receipts and payments	**8,311,768**

Source: PPB Advisory analysis

4. Next steps *continued*

4.4 Key ongoing workstreams

During the course of the next six months, whilst continuing to recover the loan portfolio assets, there will be an increased focus on investigations in order to determine whether recoveries from third parties may be available to Debentureholders.

The key workstreams being progressed by the Receivers and Managers include:

- Ongoing wind down of the loan portfolios, including enforcement action against delinquent borrowers and realisation of assets in Provident's control.
- Ongoing management of security properties which Provident controls in its capacity as mortgagee in possession.
- Attending to the ongoing day to day operations of Provident's business.
- Ongoing reporting to AET and BEN regarding the wind up of the loan portfolios.
- Ongoing wind down of MIF and HYF and reporting to unitholders and the ASIC.
- Coordinating with the assistance of market experts to test the market for further loan portfolio sales.
- Resolving any outstanding litigation claims.
- Investigating the ability to recover any value from residual debts and related party loans.
- Progressing the transition of Provident's loan operating system onto a third party service provider in order to realise further operational cost efficiencies which will ultimately enhance the net return to Debentureholders.
- Furthering an objection to the ATO's assessment of the Company's tax position for the 2009, 2010 and 2011 income tax years.
- Ongoing investigations including preparation of further examinations against third parties.
- Liaising and meeting with key stakeholders (AET, the ASIC, BEN and Provident's Liquidators) throughout the course of the Receivership.
- Further rationalisation of ongoing day to day operational costs where possible.
- Facilitate further distributions to Debentureholders as and when funds become available.

5. Professional fees

5. Professional fees

5.1 Key actions undertaken since our appointment

A summary of the key actions we have an undertaken throughout the course of our appointment follows:

- Realising 69 loans from within the FTI and BEN portfolios, as well as 65 loans from within MIF and HYF.
- Notifying and coordinating two information sessions for Debentureholders.
- Preparing submissions to Court and receive approval to amend the Trust Deed allowing for distributions to Debentureholders to commence.
- Distributing in excess of $7 million to Debentureholders.
- Completing the sale of two portfolios of par loans to MKM Capital Pty Limited generating circa $12 million.
- Completing sale of the Mortgage Manager Program (“MMP”).
- Preparing and lodging an objection to the ATO in respect to the 2008 Company’s income tax assessment resulting in a recovery.
- Managing the day to day operations of the Provident business, including enforcement in respect to outstanding loans.
- Ongoing management of security properties controlled by Provident in its capacity as MIP.
- Attending to recovery of the loan portfolios and exploring options to accelerate recoveries.
- Progressing litigation matters afoot as at the date of our appointment.
- Overseeing the wind down of the MIF and HYF.
- Regularly considering options to reduce ongoing operational costs where possible.
- Undertaking an extensive investigations program into the Company's historical affairs.
- Conducting public examinations of the Company’s Directors over 10 days.
- Ongoing reporting to the AET and BEN regarding the wind up of the loan portfolios.
- Liaising and meeting with key stakeholders (such as AET, BEN, the ASIC and Provident’s Liquidators) through the course of the Receivership.

5.2 Receivers’ remuneration

Our remuneration is based on time incurred, calculated in accordance with the rates set by PPB Advisory in accordance with the Insolvency Practitioners Association of Australia’s Best Practice Guide. These rates have been approved by the Federal Court of Australia.

Full particulars of work undertaken and remuneration incurred are being provided to AET for approval as well as to the ASIC for their review and comment. No fees are paid until this process has been completed.

The receivers have been paid approximately $4.9 million (GST exclusive) in fees since our appointment until 28 February 2013.

We have accrued approximately $1.8 million (GST exclusive) in fees for the period 1 March 2013 to 31 July 2013 and will be seeking to pay these once the distribution of 2 c/$ described in this report has been paid in October 2013. We have deferred payment of our fees so as to enable a further distribution to Debentureholders.

Our costs have been greater than what was initially forecast due primarily to the poor state of the portfolio and the extensive investigations program that has been progressed.

Future remuneration costs will be dependent upon a number of variables, for example if enforcement of loans is more time intensive and costly (as opposed to borrowers refinancing). However, we have estimated that our future costs could be $3.8 million (GST exclusive) to completion. As highlighted within this report, we are cognisant of the impact on Debentureholder returns that the costs of the receivership have, and are constantly seeking options to reduce those costs.