

1 October 2014

NOTICE 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 on the status of the Receivership, in particular our investigations.

We recommend that this letter should be read in conjunction with our other publications issued to Debentureholders. These notices 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 on the final page of this Notice.

Executive summary

- Our Statement of Claim (**SoC**) was served on Provident’s directors on 27 August 2014. It is currently in the process of being amended.
- A hearing on Provident’s application to amend the SoC is scheduled for 10 February 2015 in the Supreme Court of NSW.
- We are currently considering various options to fund the action against Provident’s directors. While funds exist to pursue the action, there may be avenues of funding this litigation which are beneficial to the Debentureholders. We may be required to obtain directions from the Federal Court in relation to this issue.
- We have recently obtained directions from the Federal Court to the effect that we are not in a position to advise Debentureholders about which class action (if any) you should join in or pursue, and that our involvement is limited to the publication of the attached notice marked Annexure A. The attached document was settled by the two class action groups and endorsed by the Federal Court.

Our investigations to date

Since our appointment, we have undertaken an extensive investigations program into the causes of Provident’s collapse. In particular, we have assessed the conduct of Provident’s directors and whether their conduct forms the basis for any claim which could be pursued to enhance the return to Debentureholders.

Public examinations of Provident's directors occurred over 14 days during April and June 2013. Following those examinations a number of matters have been further investigated. Our computer forensic and manual review of the Company's books and records together with the examinations and other evidence we have gathered appears to demonstrate that details of Provident's assets were:

- not properly considered by Provident's directors; and
- not adequately disclosed to Debentureholders, Australian Executor Trustee Limited (**AET**), and the Australian Securities and Investments Commission (**ASIC**).

Our recent ongoing investigations have further revealed that on a cash basis, Provident's borrowers failed to repay sufficient money on their loans for Provident to break even on the cost of its borrowings for a substantial period of time. It appears that Provident was only able to maintain apparent profitability by taking into account revenue from fees and other charges that were debited to borrowers' accounts but never physically paid in cash by the borrowers.

In addition, our investigations indicate that Provident's directors:

- failed to account for significant loan loss provisions that we consider should have been evident had they been exercising proper due care and diligence; and
- appear to have used its cash, such as funds raised from Debentureholders, to pay the ongoing operating expenses of its business, and dividends to its shareholder (which is an entity controlled and associated with Mr Michael O'Sullivan, Provident's managing director).

We served our SoC on Provident's directors on 27 August 2014. This is being further amended.

Next steps

As detailed in our Report to Debentureholders issued on 11 August 2014, we are now working closely with our legal advisors in relation to the claim against Provident's directors.

The hearing of Provident's application to amend the SoC will take place on 10 February 2015 in the Supreme Court of NSW. An application filed by Provident's directors to dismiss the proceedings or otherwise strike out parts of the SoC is also listed to be heard on that day.

In the interim, we are considering various options to fund the proposed action, including but not limited to litigation funding or alternatively, using assets available within the Receivership.

In relation to each of these options:

a. Litigation funding

We have had preliminary contact with various parties, including litigation funders and hedge funds who may wish to fund our action against Provident's directors.

If external litigation funding is obtained, funding the conduct of the claim will not risk depleting the funds in the estate. The downside is that some of the proceeds of any successful action will be returned to the funder as a return for taking on the funding obligations.

b. Utilising assets available within the Receivership

Our preliminary view is that Provident has sufficient assets available to fund the claim. If used to fund these proceedings however, these assets would not be available for distribution to Debentureholders. In addition, there is never any guarantee that litigation will be successful or that a judgment will ultimately be satisfied.

We will provide you with as much further information as is possible in relation to any proposed funding arrangements.

Finally, it may be necessary to seek directions from the Federal Court in relation to the terms of any funding arrangements. We will also advise you of the outcome of any such application for directions.

Class action groups

We are aware that some Debentureholders may have been contacted by Meridian Lawyers and/or Slater & Gordon Lawyers regarding potential class actions proposed by both of these lawyers in relation to the Provident matter.

We applied to the Federal Court for directions in relation to these potential actions on 25 August 2014.

On 19 September 2014, the Court ordered we publish a disclosure to Debentureholders in the form of Annexure A to this Notice providing further details on these actions and confirming our position.

Further information

We will continue to keep Debentureholders informed of any major developments.

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

Otherwise, please direct any further queries to the Debentureholder registry service maintained by Link Market Services, contact details are as follows:

Address: Provident Capital Limited
(Receivers and Managers Appointed) (In Liquidation)
c/- Link Market Services
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



Marcus Ayres and Tony Sims
Receivers and Managers
Provident Capital Limited

Representative Proceedings

The Receivers and Managers of Provident have become aware that there are potential representative proceedings proposed which may concern Debentureholders. Such proceedings are commonly known as “class actions”.

The Receivers and Managers are aware of the following potential class action groups that may seek to pursue claims for the benefit of some or all Debentureholders:

1. A class action group represented by Slater & Gordon Lawyers (**Slater & Gordon Group**); and
2. A class action represented by Meridian Lawyers (**Meridian Group**).

The Receivers and Managers understand that the Slater & Gordon Group wishes to explore whether Australian Executor Trustees Ltd (**AET**) breached its duties as trustee. If AET breached its duties, then AET may be liable to investors for damages.

The Receivers and Managers understand that the Meridian Group wishes to explore whether AET and/or Provident's directors breached their duty to investors. Again, if AET and or Provident's directors breached their duty then they may be liable to investors for damages.

The Receivers and Managers may have different claims to those proposed by the Slater & Gordon Group and the Meridian Group and have not explored the claims that those groups may seek to bring.

Neither the Slater & Gordon Group nor the Meridian Group are funded by or have any arrangement with the Receivers and Managers.

The Receivers and Managers are not obliged to advise you on whether you should enter into any litigation funding agreement or join any class action group.

The Receivers and Managers have the function of realising the assets of Provident for the purpose of maximising the return to Debentureholders under an order of the Federal Court. One of Provident's assets is the proceedings that the Receivers and Managers have caused Provident to commence against the directors of Provident for damages and compensation.

You should carefully consider the rights and obligations associated with any litigation funding agreement and seek independent advice.

As noted above, the Receivers and Managers are unaware of the details of the claims which the Slater & Gordon Group and Meridian Group may pursue. The Receivers and Managers note that there may be significant differences between the membership of the Slater & Gordon Group and the Meridian Group.

Finally, the Receivers and Managers are not aware of any other class action groups with respect to Provident, but will, upon becoming aware of any other bona fide class action groups, update this notice.

For further details in relation to the class action groups please contact:

1. Slater and Gordon Group – on 1800 071 827 or provident@slatergordon.com.au
2. Meridian Group – Mr Douglas Raftesath on 9018 9978 or via draftesath@meridianlawyers.com.au