PPB ADVISORY

3 December 2012

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 communication in relation to this matter, and set out below an update on our expectations as to the likely return to Debentureholders.

We recommend that this letter should be read in conjunction with our other notices 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 letter.

Estimated return on Debentures

We have completed a preliminary analysis of the Company's loan portfolio and have **estimated** that the likely return to Debentureholders will be in the region of $0.25 to $0.35 of every dollar invested.

We note that our estimate of the likely return is based upon a number of assumptions, including:

- No new defaults from borrowers within the existing loan portfolio.
- 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.

Please note that it is often difficult to estimate with precision what the ultimate return will be in matters where there are a large number of variables outside a Receivers control. Therefore, Debentureholders should treat this as an estimate only, and subject to change once further and better particulars come to light.

Finally, this estimate **does not** include any expected return from possible claims that may be available for the Receivers or the Liquidators to pursue e.g. the Directors, professional advisors and third parties.

Preliminary assessment of reasons for loss

The prime cause of the shortfall appears to be related to Provident's lending and asset management policies.

Many of the loans written within the Debentureholder funded loan portfolio appear to have been originated on a pure asset basis and in some instances without regard to the borrower's ability to service the debt or repay it otherwise than from a sale of the security.

As a result:

- In excess of 90% of loans made by Provident (using Debentureholder funds) ultimately resulted in the borrower defaulting; and

- The ultimate return from these loans depends entirely upon the underlying value of the security offered by the borrower (as many of the borrowers have little to no wherewithal to bridge any shortfall upon sale of the security property).

In relation to the underlying security:

- By its reliance largely on underlying security, Provident became vulnerable to adverse movements in the property market over the last five years. Provident's vulnerability was not reflected in its accounts because in many cases, Provident appears to have not taken any steps towards realising loans where large losses were to be (or should have been) expected. Instead it appears that Provident was attempting to avoid crystallising losses by holding properties without any clear strategy to exit.

- In many cases, following default by the borrower, and a decision by Provident to take control of the underlying security property as mortgagee in possession, Provident failed to issue legal notices enacting its power of sale as well as comply with their obligations under the *Corporations Act 2001 (Cth)* as controller.

- 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 $40m. 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 appears to have lent on poor and unsuitable security in a large number of cases. Provident also appears to have lent on a partly unsecured basis in some instances.

- One consequence of Provident not acting promptly to deal with defaults within its loan portfolio (potentially to avoid crystallising losses) was that partial recoveries from defaulting borrowers were not made as soon as possible. As a result, Provident was unable to use the funds that could have been recovered for other more economically productive loans.

- Provident failed to maintain assets that it took control of in its capacity as mortgagee in possession. As a result, many properties which Provident has been in control of for a substantial period of time are damaged or severely run down. These properties are difficult to realise and are expected to suffer significant shortfalls against the carrying values in the Company's books.

In addition to the above, the shortfall has also been exacerbated by Provident's practice of booking intangible assets such as litigation claims or loans to related entities without any proper assessment of the likely recoverability. Our preliminary assessment as to a number of these assets is that they are substantially over valued.

We do not believe that these circumstances were disclosed by Provident to Debentureholders, AET or the Australian Securities and Investments Commission ("ASIC").

Investigations

Given the above, we have commenced investigations into the affairs of Provident and have identified a number of areas of focus, including but not limited to the following:

- Breaches of the *Corporations Act 2001 (Cth)*;
- Related party transactions;
- Provident's auditing and record keeping practices;
- Negligence by Provident's advisors;
- The quality of Provident's disclosure to investors; and
- Payment of in excess of $5m in dividends to Provident's shareholder (a company associated with Provident's managing director, Mr Michael O'Sullivan) since 2008.

In order to progress investigations, we have obtained authorisation from the ASIC to conduct Public Examinations. We anticipate these Public Examinations will take place early in the New Year (subject to Court availability).

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, likely prospects and potential recoveries at that time.

Assistance from the Department of Human Services ("DoHS")

We have received confirmation from DoHS 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 retrospective effect from 3 July 2012.

Debentureholders whom are affected by the above changes and/or consider that they are eligible (or could be eligible) for assistance should visit their local Centrelink office.

An information sheet issued by DoHS is attached to this letter and is also available on our website at www.ppbadvisory.com.

Further information

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 8280 7110
Facsimile:	+61 2 9287 0303
Email:	provident@linkmarketservices.com.au

Yours faithfully

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