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

Update to Debentureholders
as at 30 June 2014

PPB ADVISORY

11 August 2014

Update 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 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 $)	Forecast total return (cents in the $)
FTI Debentureholders			
Interest to 3 July 2012	$4.8m	Nil	100
Principal	6c/$	11-13	17-19
Non-FTI Investors and BEN			
BEN	73c/$	27	100
HYF / Unitholders	80c/$	20	100
MIF / Unitholders	89c/$	11	100

Executive summary

- Following the public examinations of Provident's Directors, we have engaged Senior Counsel and financial loss experts to progress the legal claims that we consider are available for the receivers to pursue. We expect to be in a position by no later than the end of the year to bring a comprehensive claim against the Directors and other parties for the matters that we have identified within section 1 of this report.
- After paying all accrued interest to 3 July 2012, we continue to estimate the likely return to Fixed Term Investment (**FTI**) Debentureholders from the realisation of the loan portfolio assets will be in the range of $0.17 to $0.19 for every dollar of capital. The timing of future distributions to Debentureholders is uncertain as it is subject to realisation of the remaining non-performing loans within the FTI loan portfolio and recovery of the forecast equity in the Bendigo and Adelaide Bank (**BEN**) loan portfolio.
- Since our appointment, we have realised 100 loans in the FTI and BEN loan portfolios. Of these, 63 were realised at full value and 37 loans realised below full value leaving a residual debt. We continue to assess 22 of these residual loans with an outstanding balance of $26.1m and the commercial viability in pursuing guarantors.
- Asset realisations have generally been significantly below the carrying values of the loans previously reported by Provident, refer to section 3 of this report, especially with respect to the FTI loan portfolio.
- Realisations have been significantly impaired for a number of reasons, including the period of time that Provident was mortgagee in possession of some assets and the significant level of arrears on default loans causing the outstanding loan balance to be in excess of the security value.
- The outstanding loans now remaining in the FTI and BEN loan portfolios are, with the exception of one loan, all non-performing (i.e. the borrowers are in default and not paying interest), resulting in further asset realisations being costly, difficult and protracted. Significant provisions have been made against these assets.
- We continue 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.

1. Investigations

Investigations

Our investigations into the affairs of Provident and its demise have progressed significantly since the completion of the public examinations of the Directors.

We have:

- Identified that a strong claim exists against the Directors of Provident in relation to breaching their duties of care and diligence under the *Corporations Act 2001* (Cth) (**the Act)** and that claim is currently being formulated in conjunction with our expert legal advisors and Senior Counsel;
- Engaged a financial loss expert to calculate Provident's loss as a result of the alleged breach; and
- Instructed Senior Counsel to provide an opinion about aspects of the viability of a claim against Provident's Directors.

Our investigations indicate 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. Further, it also appears that Provident failed to account for significant loss provisions that should have been evident to its Directors if they had been exercising proper care and diligence.

It appears that Provident was only able to maintain apparent profitability by taking into account income from fees and other charges that were debited to borrowers' accounts, but never physically paid by the borrowers themselves. Further, Provident used its cash, such as the proceeds of debenture investments, to pay the fees (and in some cases interest) debited to the borrower's account (in circumstances where many of the borrowers failed to meet some, or in many cases, all of their repayments). As such, Provident's model of engaging in pure asset lending meant that Provident was reliant on the value of its securities.

Over time, it appears that a combination of high credit losses and an insufficient margin between the cost of funds and the average interest rate actually paid by borrowers in cash or otherwise recoverable by Provident compromised Provident's ability to repay Debentureholders.

We are currently assessing two particular claims:

- Provident's Directors failed to appropriately manage impaired assets and assess the value of those assets; and
- Provident's Directors failed to identify and report substantial failures to comply with prudent lending and provisioning processes.

We have provided within the annexures to this report some examples of loans which we have realised. These examples are provided as guide of the types of mismanagement identified in our investigations.

Regrettably, while our investigations are ongoing, we are unable to provide further details about the possible claims as we do not wish to jeopardise any claim available for the Receivers to pursue by giving further details in advance of potentially prosecuting proceedings.

We also continue to investigate a number of other matters in relation to whether any claims exist against Provident's professional advisors and auditors.

Whilst we continue to identify and consider what claims are commercially viable to pursue, we are conscious of the expense of litigation and the limited assets available in the Receivership. As a consequence, we will need to consider how best to fund these claims and the costs of doing so. These costs will be reviewed together with the prospects of success before an ultimate decision is made to prosecute available claims.

1. Investigations *continued*

Proceedings against PricewaterhouseCoopers

We refer to our previous advice relating to the appointment of special purpose receivers to consider pursuing a claim against PricewaterhouseCoopers (**PwC**) in respect to PwC's apparently negligent audit of Provident in 2007.

The special purpose receivers have determined that it would not be commercially viable to pursue claims against PwC for a range of reasons at this stage. Refer to our website at www.ppbadvisory.com under Provident within the creditor's information section for further information regarding this claim. Investigations are continuing into other auditors and advisors to Provident.

Litman proceedings

As you may be aware, some Debentureholders have been granted authority to act as Eligible Applicants for the purposes of Division 1 of Part 5.9 of the *Corporations Act 2001* by the ASIC for the purposes of conducting public examinations of Provident's Directors and the trustee of its Debenture Scheme, Australian Executor Trustee Ltd (**Trustee**). The Eligible Applicants are being represented by Meridian Lawyers (**Meridian**).

Litman Holdings Pty Limited (**Litman**) has agreed to provide funding to the Eligible Applicants so they may conduct public examinations subject to a sufficient number of Debentureholders entering into that funding agreement and various other conditions. We can confirm that a copy of the Debentureholder register (**register**) was provided pursuant to a request brought by the Eligible Applicants under section 173 of the Act upon execution of a confidentiality agreement. Only names and addresses were provided, values of holdings were excluded. The Receivers and the Trustee have not provided a copy of the register to Meridian.

These examinations will be entirely separate to the examinations of Provident's Directors already conducted by us as Receivers and Managers.

We are not in a position to assist any Debentureholders regarding whether or not they should enter into the funding agreement and the rights and obligations associated with that agreement. There are a number of considerations applicable to entering into such an agreement which you should consider seeking advice on prior to making a decision.

We have had no involvement with Litman and are unaware of the claims that Litman wishes to explore and whether some of those claims are similar to the claims against Provident's Directors which we, as the Receivers, intend to prosecute. We will endeavour to meet with Litman and their solicitors shortly so that we may understand their strategy and other key information pertaining to their investigation and any contemplated proceedings.

Debentureholders will need to make their own independent decision as to their participation in the Litman proceedings. We will seek to obtain assurances that Litman's investigations and proceedings will not hinder or prejudice the claims which we intend to prosecute, the successful outcome of which will be for the benefit of the whole Debentureholder group. We will also be keen to ensure that there is no duplication of costs which might be borne by Debentureholders as a result of the Litman investigations and proceedings.

Please note that Provident's assets, including monies under our control, are not being utilised to fund the Litman proceedings.

Lastly, we note that the Debentureholders may receive other offers of litigation funding, although we are currently not aware of any alternative proposals. Our comments above concerning the need to carefully consider such offers is likely to be equally applicable to any alternative offers.

Any further queries regarding the Litman proceedings should be referred to their solicitors via draftesath@meridianlawyers.com.

2. Return to FTI Debentureholders

Return to FTI Debentureholders

We have updated our estimated outcome statement which indicates estimated cash available for distribution to FTI Debentureholders will be in the range of $21.4 million to $23.5 million. This is consistent with our previous report. This equates to full payment of interest outstanding at the date of our appointment, and a further estimated payment of 17 – 19 cents for every dollar of capital invested.

Our estimated return is based upon a number of assumptions:

- No new significant provisions against outstanding loans.
- Full recovery of certain loans from existing defaulting borrowers which have been identified as having low 'loan to value' ratios.
- Positive and timely outcomes from the large number of property enforcement matters.
- Remaining Provident staff will continue to support the Receivers.
- No significant adverse changes to property market values.
- Exclusion of any recoveries from litigation against third parties that may be pursued by the Receivers, AET or the Liquidators of Provident.
- Inclusion of preliminary forecast litigation costs against third parties (although we 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 to FTI Debentureholders

	Net proceeds ($)	Estimated 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	6

Source: PPB Advisory analysis

Estimated outcome statement as at 30 June 2014

	Amount ($'000)
Receipts	
BEN – loan realisations	79,298
FTI – MIP loan realisations	23,592
FTI – principal loan repayments	8,491
FTI – residual debt realisations	4,438
Pre-appointment cash at bank	2,168
MIF and HYF income	1,929
FTI loans – interest income	1,363
Receipt of loan to Cashflow Finance Solutions	587
Refund of pre-appointment income tax	1,582
BEN loan management fee	352
MMP - commission income	118
Other income	34
Total receipts	**123,952**
Payments	
Distributions to BEN	(74,151)
Corporate overheads	(7,055)
Receivership costs – paid to date *	(7,883)
Receivership costs – outstanding to date	(1,388)
Receivership costs – future estimated	(729)
Legal fees – paid to date *	(5,239)
Legal fees – outstanding to date/future estimated	(1,760)
Provision for possible litigation costs against third parties	(1,500)
Trustee's pre-appointment advisor costs	(883)
Loan to Cashflow Finance Solutions	(587)
Other costs/contingency	(428)
Total payments	**(101,603)**
Estimated net cash available for distribution to Debentureholders	**22,349**

Source: PPB Advisory analysis

* we note that in some circumstances, the costs associated with recovery of default loans are collected from the borrowers upon settlement and these recoveries are included within realisations shown under receipts to offset recovery costs

2. Return to FTI Debentureholders *continued*

Within our estimated return range, we have incorporated value for the estimated equity in the BEN loan portfolio (i.e. after extinguishing the debt due to the secured creditor) of $5.1 million. This figure represents a $0.5 million decrease since our 31 December 2013 estimate and is explained in Section 3. The decrease is mainly attributable to a reduction in the estimated recoverable value on loan realisation and lower than anticipated interest recoveries.

Forecast quantum and timing of future distributions

The forecast future principal distribution range of 11 – 13 cents in the dollar is dependent upon the realisation of:

- FTI loan assets at the estimated recoverable value, noting that these assets are mostly mortgagee in possession and subject to some form of legal enforcement action.
- BEN equity, which is based upon recovery of the remaining default loans at the estimated recoverable value.

Section 3 of this Report details the issues with the remaining loan assets in each respective loan portfolio, and the resulting uncertainty as to timing of recoveries which are required to allow for the payment of future distributions.

Whilst we currently anticipate that a fifth interim distribution to Debentureholders may be paid in the first half of calendar 2015, this distribution could be made sooner depending upon the timing of recovery of the FTI and BEN loans.

3. Loan portfolios

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 (note that interest and costs continue to accrue against this balance).

A summary of the loan portfolio as at 30 June 2014 is shown below.

Summary of the FTI loan portfolio as at 30 June 2014

	Provident's carrying value ($)	Receivers' ERV ($)	Number
Performing	700,010	commercially sensitive*	1
Default	8,615,235	commercially sensitive*	1
Mortgagee in possession	31,885,115	commercially sensitive*	3
Total secured loans	**41,200,360**	**8,385,919**	**5**
Residual debt	23,190,683	-	17
Related party loans	4,242,899	-	1
Total unsecured loans	**27,433,582**	**-**	**18**
Total	**68,633,942**	**8,385,919**	**23**

Source: Provident's management accounts and PPB Advisory analysis

Since our appointment, we have realised 37 loans with a carrying value of circa $65.6 million for circa $33.7 million, of which:

- 13 loans have been recovered at full carrying value.
- 24 loans have been recovered for a value less than their carrying value, resulting in a shortfall of $31.9 million (excluding additional costs to recover residual debt). The reason for the shortfall in recovery from these loans is explained in further detail later in this Report.

Of the $31.9 million shortfall in realisations, $18.9 million remains in residual debt pending further review of the commercial viability to pursue guarantors. The balance of residual debt, being $4.3m, is the balance of $7.1 million outstanding at the time of our appointment less $2.8 million which has been written off with a net recovery of $0.3 million. Residual debt refers to loans where the real property security has been realised and there is a shortfall which is unsecured. We are pursuing guarantors for those residual debts where possible and appropriate.

Most of the remaining recoverable value in the FTI loan portfolio is from secured 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 $27.4 million, it is unlikely that any material recovery will result due to the majority of borrowers and associated guarantors being of little or no personal financial substance.

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 17 cases, 15 have now settled or finalised realising $5.7 million ($2.0 million in respect of the BEN loan portfolio and $3.7 million from the FTI loan portfolio). The estimated realisable value of the two ongoing cases cannot be disclosed for commercial reasons. 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.

In addition to the above issues, 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 – the largest asset within the FTI loan portfolio remains subject to an expired development consent. We continue to work with our engaged independent experts, the local council and statutory authorities so that the security asset may be realised in the most valuable state as soon as possible.
- Agricultural exposures – a number of the security properties are impacted by the poor performing Australian beef and wine markets.
- Long dated loans – the final performing loan has a long dated (2028) maturity. We are negotiating with the borrower to explore options to accelerate recovery of this loan.

3. Loan portfolios *continued*

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

Further to our previous report, we continue to seek to realise the real property security supporting the remaining top three FTI loan portfolio loans by carrying value. These loans are summarised in the below table:

Top 3 FTI loans by value still to be realised

Loan	Property type	Location	Provident carrying value ($ million)
1	Development site	QLD	commercially sensitive
2	Cattle Farm	NSW	commercially sensitive
3	Vineyard	NSW	commercially sensitive
			39.0

We have not disclosed our estimated realisable value for these loans given the commercial sensitivity of that information. However, we anticipate on a consolidated basis that there will be a substantial shortfall on carrying value.

Loan 1 – Development site

- As previously reported, Provident has been mortgagee in possession of this asset since 2008.
- Since our appointment, we have progressed a request for development approval (**DA**) (note that the previous DA had lapsed) in order to position the partially constructed development for sale. Due to the topography of the development site, the local council and Provident have obtained independent geotechnical expert reports to attempt to resolve the local council's concerns with the site.
- To progress the matter, and in consultation with our legal advisors, Provident filed an appeal in the Planning and Environment Court on 16 May 2014. A directions hearing on 6 June 2014 resolved that the local council notify Provident of its position on the DA by 14 July, and that the parties mediate by 24 July.
- The local council provided notification of its objection to the DA and the parties attended mediation on 23 July. The outcome of the mediation was that the respective geotechnical experts meet to attempt to resolve council's concerns which would be expected to enable the DA, or an amended DA, to be approved. The meetings of the respective geotechnical experts are ongoing.
- Once this issue is resolved, we intend to put this property to market. However, a substantial capital loss is expected from this loan given the significant amount of interest which had been capitalised on the loan.

Loan 2 – Cattle farm

- Provident continues to manage this large working cattle property as mortgagee in possession whilst seeking to realise the property. As advised in our previous report, this asset has been impacted by a number of adverse market factors, including diminishing land values and a depressed beef market.
- A fresh auction marketing campaign was commenced in April 2014 with an auction held on 12 June 2014. Unfortunately the bids received at auction were well below valuation.
- We continue to work with the agent, interested parties and the valuer to progress a sale of the asset.
- A significant capital loss is expected from this loan.

Loan 3 – Vineyard

- As noted in our previous report, this asset is impacted by a number of factors which has delayed the realisation of this asset, including adverse market conditions for vineyard operators in the Hunter region and the locality of the property, being adjacent to a large coal mining operation.
- Provident has agreed further forbearance arrangements with the Borrower of this loan, with a view to completing a sale by 31 December 2014.
- Local and national sales agents are expected to be engaged within the next two weeks to allow for a sale campaign of the vineyard to commence.
- A significant capital loss is expected from this asset.

3. Loan portfolios *continued*

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.

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).

Since our appointment, we have realised 52 loans and the security on a further 11 loans, generating realisations of over $54.0 million. 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 $5.1 million and $6.0 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 30 June 2014

	Best case Amount ($ million)	Likely case Amount ($ million)
Amount owing to BEN as at 30 June 2014	**(20.3)**	**(20.3)**
Add:		
Estimated future loan recoveries	13.2	12.3
Cash collateral account	10.0	10.0
Net income retained by BEN owing to Provident	3.1	3.1
Net expected return to Provident	**6.0**	**5.1**

Source: Provident's management accounts and PPB Advisory analysis

The table below summarises the current status of the BEN loan portfolio as at 30 June 2014:

Summary of BEN loan portfolio as at 30 June 2014

	Carrying value ($)	Receivers' ERV ($)	Number
Performing	-	-	0
Default	13,963,212	commercially sensitive*	9
MIP	6,081,442	commercially sensitive*	3
Residual debt	8,497,853	-	11
Total	**28,542,507**	**9,295,647**	**23**

Source: Provident's management accounts and PPB Advisory analysis

*The Receivers' individual Estimated Realisable Value (**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 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.

We have considered a range of alternative options to achieve a more timely recovery of the portfolio, including a sale of all or part of the BEN portfolio, however the discounts implied by buyers of the portfolio to enable a sale of some or all of the loans was substantially lower than our ERV for the loans. We therefore considered that a sale of the portfolio should not proceed.

3. Loan portfolios *continued*

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

Provident continues to discharge its obligations as responsible entity (**RE**) for both MIF and HYF.

The process of winding down the MIF is well advanced, with 70 loans which had a carrying value of $28.6 million at the time of Receivership being discharged to 30 June 2014, allowing for total distributions of 89 cents per unit to be made to MIF unitholders.

There are six remaining loans in the MIF at 30 June 2014 with a carrying value of $2.9 million. Two of these loans were realised in July 2014 and the remaining four loans are in default with enforcement action well advanced.

All loans in the HYF have been realised, with 80 cents per unit having been distributed to the HYF unitholders at 30 June 2014.

We continue to forecast a full recovery of capital for MIF and HYF unitholders. However, this forecast subject to final statutory wind up requirements and associated costs, as well as recovery of the remaining MIF loans being in line with forecast. The final distribution to HYF unitholders is anticipated by 31 December 2014.

Summary of the MIF and HYF loan portfolios as at 30 June 2014

	MIF		HYF	
	Carrying value ($)	Number	Carrying value ($)	Number
Performing	-	-	-	-
Default	1,945,047	5	-	-
MIP	968,551	1	-	-
Total	**2,913,598**	**6**	**-**	**-**

Source: Provident's management accounts and PPB Advisory analysis

4. Next steps

Cost savings and other recoveries

We continue to seek opportunities to realise operational savings which will enhance the return to Debentureholders. Some of the more material savings achieved to date include:

- Rationalising labour costs through reduced head count in Provident staff (providing a saving in payroll costs in excess of $3 million excluding redundancy costs since our appointment).
- Reducing corporate overhead by relocating the Company's staff to within the Receivers' premises and ceased ancillary services which were no longer required (generating cost savings in excess of $630,000 per annum).
- We are in the final stages of transitioning Provident's loan operating system to a third party service provider which provides for a more cost effective operating system solution.

We continue to pursue other recoveries from:

- Investigations – refer to Section 1 of this Report.
- The ATO for overpaid tax in the 2010, 2011 and 2012 tax years.

Further to our previous advice that we continue to pursue recoveries from the ATO for overpaid tax in the 2008 and 2009 tax years, we have now recovered gross proceeds $1.5 million.

Receipts and payments

A summary of the receipts and payments incurred from the date of our appointment to 30 June 2014 is summarised opposite.

Summary of receipts and payments for the period to 30 June 2014

	Amount ($)
Receipts	
BEN - loan realisations	54,061,473
FTI - MIP loan realisations	25,364,875
FTI - performing loan realisations	4,481,991
Pre-appointment cash at bank	2,168,371
FTI - residual debt realisations	3,886,185
MIF and HYF income	1,928,537
FTI loans - Interest income	1,300,485
Loan repayment from Cashflow Finance Solutions	500,000
Refund of pre-appointment income tax	1,581,664
MMP - commission income	352,590
Other income	253,478
MMP - realisation of income trail	235,000
BEN - loan management fee	289,145
Total receipts	**96,403,794**
Payments	
Distributions to BEN	(53,878,323)
Distributions to Debentureholders	(12,308,148)
Receivership costs – asset management	(2,461,130)
Receivership costs – other (e.g. investigations)	(3,261,294)
Receivership costs – loan portfolio management	(959,791)
Receivership costs – creditors	(569,820)
Receivership costs – fund management	(498,084)
Disbursements	(132,956)
MIP property expenses	(4,526,231)
Corporate overheads	(6,042,950)
Legal fees	(5,239,332)
Trustee legal and professional costs to 3 July 2012	(653,959)
Loan to Cashflow Finance Solutions	(587,253)
Voluntary Administrators' costs	(163,746)
Trustee costs	(228,624)
Total payments	**(91,511,641)**
Net receipts and payments	**4,892,153**

4. Next steps *continued*

Loan to Cashflow Finance Solutions

We detailed in our previous report a loan for $587,253 that Provident made to a related entity Cashflow Finance Solutions Pty Ltd (**Cashflow**) to enable legal proceedings on foot to continue. These proceedings ultimately settled for $934,199.

Cashflow have repaid $500,000 of this loan and will shortly make a further and final estimated distribution to Provident of approximately $114,000.

Key ongoing workstreams

During the course of the next six months, whilst continuing to recover Provident's 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 that are currently being progressed 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, BEN and Debentureholders regarding the wind up of the loan portfolios.
- Ongoing wind down of MIF and HYF and reporting to unitholders and the Australian Securities and Investment Commission (**ASIC**).
- Resolving any outstanding litigation claims.
- Investigating the ability to recover any value from residual debts and related party loans.
- Finalisation of Provident's 2012 company tax return to determine if further recoveries of overpaid tax are possible.
- Ongoing investigations and progressing potential claims against third parties.
- Continue liaising and meeting with key stakeholders (AET, the ASIC, BEN and Provident's Liquidators).
- 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

Key actions undertaken since our appointment

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

- Realising 100 loans from within the FTI and BEN loan portfolios, as well as 75 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 $12.3 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.
- Preparing and lodging an objection to the ATO in respect to the 2008, 2009, 2010 and 2011 Provident income tax assessment resulting in gross recoveries of $1.5m. Further recoveries are expected.
- Managing the day to day operations of the Provident business, including commencing enforcement action where necessary to recover outstanding loans.
- Ongoing management of security properties controlled by Provident in its capacity as mortgagee in possession.
- Attending to recovery of the loan portfolios and exploring options to accelerate recoveries.
- Progressing the majority of the litigation matters in progress as at the date of our appointment resulting in $5.7 million in recoveries.
- 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 Provident's historical affairs, and considering possible actions against third parties.
- Conducting public examinations of Provident’s Directors over 10 days.
- Filing protective proceedings against PwC, who were Provident’s auditors until January 2008.
- 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).

Receivers’ remuneration

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

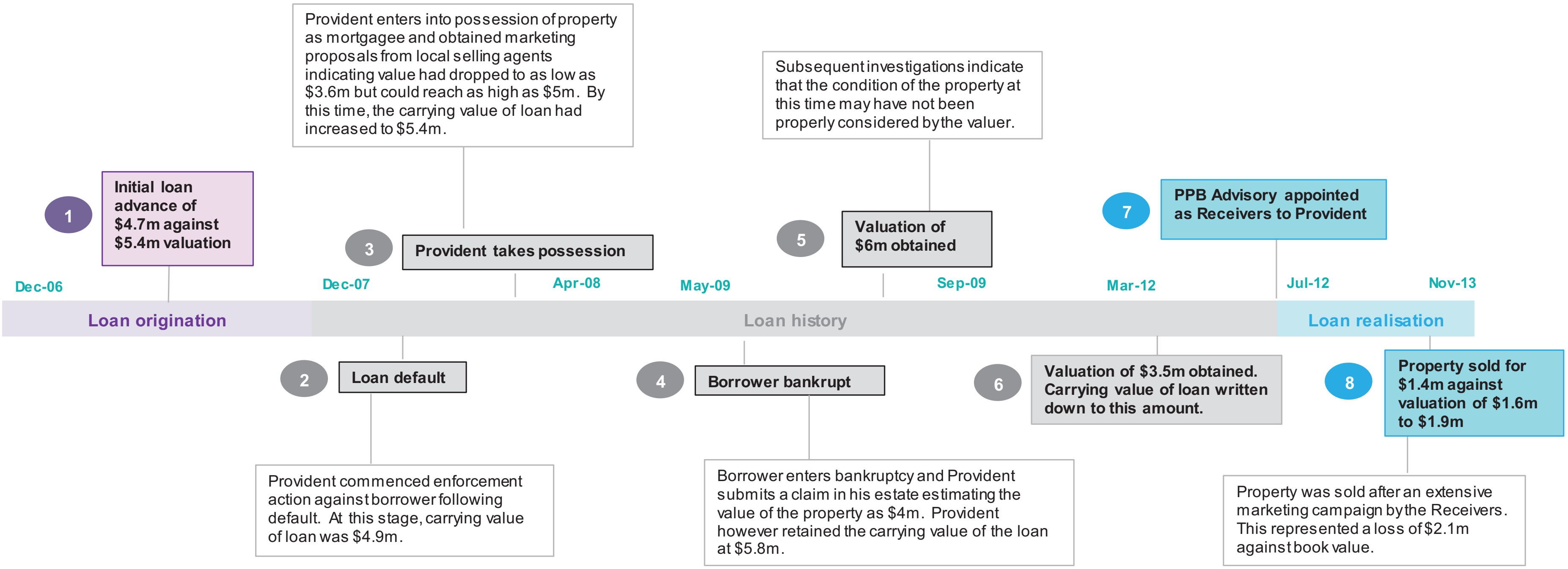
Full particulars of work undertaken and remuneration incurred are being provided to AET for approval as well as to the ASIC for their review and comment. No fees are paid until this process has been completed.

The Receivers have been paid approximately $7.8 million (GST exclusive) in fees since our appointment until 30 June 2014.

Our costs have been greater than what was initially forecast due primarily to the poor state of the loan portfolio which has led to substantial time being necessary to enforce and recover loans 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 $1.6 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.

Annexure A - North Queensland security property



The initial loan advance was against a luxury residential property in north Queensland. The borrower defaulted on this loan within 12 months and entered into bankruptcy shortly thereafter.

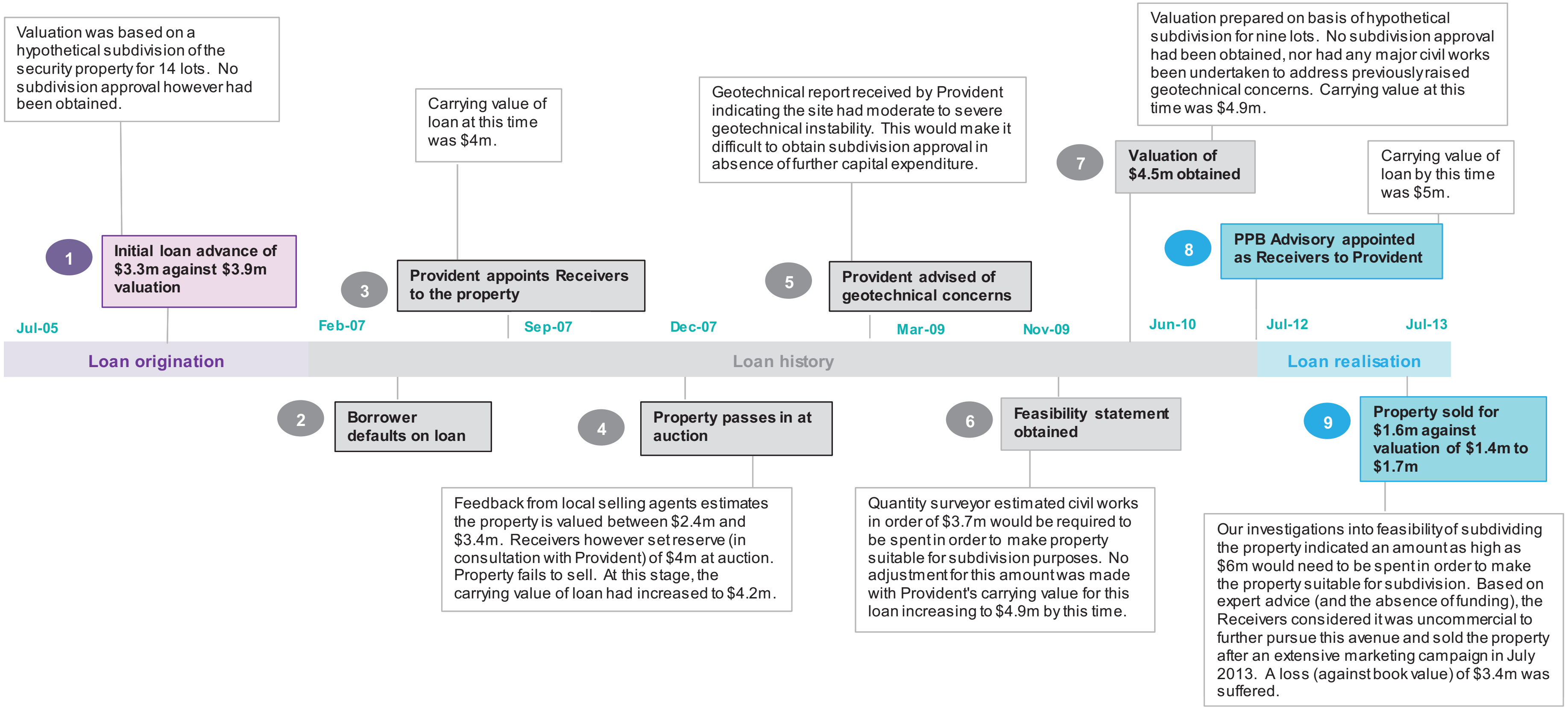
Provident entered as mortgagee in possession of the security property in April 2008. Since that time, it appears that Provident undertook minimal steps to realise the property and ensure that appropriate maintenance was completed to maintain the value of this asset, before the impact of negative market conditions.

As detailed above, our review of the Company's books and records has revealed that Provident's Managing Director, Michael O'Sullivan, failed to properly consider the impact of information made available to him (from as early as April 2008) that suggested the value of the underlying security property supporting this loan was not reflective of the carrying value recorded in its financial accounts.

Upon our appointment as Receivers to Provident in July 2012 (over four years after Provident took possession), the property was rundown and the local market for luxury properties was still depressed.

We sold the property in November 2013 for $1.4m, representing a loss of $2.1m against book value or $3.3m against the initial loan advance.

Annexure B – Hills District (NSW) security property



The initial advance for this loan was supported by a valuation for a hypothetical subdivision that did not have approval. Subsequent to the borrower defaulting on this loan, Provident appointed Receivers to this security property in September 2007.

As detailed above, our review of the Company's books and records suggests that Provident's Managing Director, Michael O'Sullivan, failed to properly consider the impact of information made available to him (from as early as December 2007) that suggested the value of the underlying security property supporting this loan was not reflective of the carrying value recorded in its financial accounts.

Additionally, from at least March 2009, it was becoming increasingly apparent that a subdivision of the property was going to be difficult. Provident however retained a carrying value for this loan (and in fact allowed it to increase without any adjustment for the required capital expenditure estimated to be as much as $3.7m) on the basis that the property could be subdivided.

Upon our appointment as Receivers to Provident in July 2012 (almost five years after Provident enforced its security), Provident was still exploring means to subdivide the property, which we ultimately assessed with the benefit of expert advice (and the absence of funding) was uncommercial to pursue.

We sold the property in July 2013 for $1.6m, representing a loss of $3.4m against book value or $1.7m against the initial loan advance.