

30 March 2009

Dominion Finance Group Limited (In Receivership) – ‘Dominion’ or ‘the company’

Confidential

Our fifth report to investors:

- provides an update on the conduct of the receivership;
- reports on the potential for other recoveries resulting from further receivership investigation work; and
- updates previous advice regarding distributions.

Update

Our last report provided an estimate of recoveries to investors in the range of 10% to 25% based on valuations of property securities obtained by the receivers. Realisations to date have been in ranges consistent with this estimate and we therefore believe it remains appropriate. Our last report contains considerable information of ongoing relevance that is not repeated here. This can be accessed via www.deloitte.com/nz/dominion.

We explained that the Dominion loan book was exposed to severe risk of loss because a very high proportion of lending was:

- secured by second mortgage or lower ranking security (80% by number and value as at 9 September 2008)
- for property development, with approximately 42% of Dominion loans by value secured over apartment developments either in progress or completed, a further 15% secured over developed sections outside main centres and 10% over undeveloped land. The majority of loans are therefore secured by second mortgage over property in the most oversupplied and most heavily discounted property markets
- for assets that were not paying interest from cash ‘holding income’ generated from the properties (80% by number)
- in default (78% by value and 82% by number).

We noted that if a first mortgage lender advances, say, 70% of the purchase price and the second mortgage lender advances the balance, a reduction of 20% in the value of the property will cause a loss of two thirds of the second mortgage security value. This, in combination with excessive lending to high risk markets, significantly contributed to Dominion's losses.

Dominion was capitalising unpaid interest to increasingly unrecoverable loan balances and including this interest in profit. We have previously noted that in all but a very small number of cases there were no valuations on file other than those apparently arranged by the borrower at the time the loan was proposed. We have notified a claim in the liquidation of a valuation company responsible for valuations in relation to Dominion loans to seven significant developments associated with one developer and two significant loans to other developers. Without an independent valuation there was no reliable benchmark against which recovery prospects of defaulted loans could be evaluated. These two pre receivership practises were major contributors to the extent of loss implicit in the receivership recovery estimates based on registered valuations of properties "securing" Dominion advances.

The recovery estimate advised in our last report was made at an early stage of the receivership (prior to obtaining results of our initial investigation of the company's affairs) and does not include recovery from any of the matters referred to under "Other Recoveries" below.

Initial receivership work included:

- a full evaluation of the Dominion loan portfolio;
- briefing valuations on most security properties in the absence of any valuations of relevance on file in most cases;
- obtaining further input on local market conditions, realisation strategy, timeframe, etc from valuers and real estate agents experienced in the relevant property types and locations;
- managing Dominion's loan portfolio including assessment of realisation strategies and actions;
- restructuring Dominion staffing consistent with receivership requirements and maximising recoveries;
- establishing appropriate systems for managing loans and realising securities;
- reducing ongoing costs from a change to much cheaper premises;
- continuing a number of legal actions in which Dominion was already involved at the time of appointment of receivers;
- assisting regulatory agencies with their investigation into the affairs of the company;
- obtaining a 'forensic copy' of the company's computer systems;
- negotiating with borrowers and first mortgagees in relation to funding for completion of projects, priority and sale arrangements;
- significant work in realising properties subject to security sharing arrangements securing loans from third parties so that the remaining assets securing this debt can be realised for Dominion investors;
- commencing realisation of other Dominion securities where appropriate and consistent with realisation strategies designed to maximise Dominion recoveries;
- resolving and/or managing legal disputes with a significant number of borrowers, guarantors and first mortgagees as to Dominion's rights to receive money from projects and guarantors;

Some of this work has identified certain pre-receivership matters that require further investigation. These matters are referred to further under “Other Recoveries” below. The receivers will pursue any viable claims determined from this process.

Other Recoveries

We appreciate the continuing support of investors for our investigations. We investigate the affairs of all companies we are appointed receivers of and Dominion is no exception.

Our investigations have shown that Dominion engaged in transactions involving significant amounts of money with related parties and entities associated with the wider group’s directors and shareholders. Potential recoveries in relation to these transactions and other claims relating to the operation of the company prior to its collapse have not yet been included in the initial recovery range estimated.

Liquidation

We have been working closely with Perpetual Trust, the investors’ trustee, and given the scale of the losses to investors, strongly recommended appointment of a liquidator to Dominion to extend the powers available to be applied in investors’ interests.

An application for liquidation was filed in the High Court at Auckland on 20 November 2008 for appointment of a liquidator. This date is crucial because it determines how far back a liquidator can go to overturn related party transactions and distributions to a shareholder. The liquidation petition was heard on 20 February 2009 but was adjourned to be heard again on 15 May 2009.

North South Finance

Claims between Dominion and its sister company North South Finance involving funds transferred in complex related party transactions will need be resolved by application to the Court. Some funds relevant to this issue are being held in a solicitor’s trust account. These recoveries were included in the “High” estimate of 25% but excluded from the “Low” estimate.

North South Finance has also made claims to priority over Dominion in relation to specific customer loans which are being investigated. These more recent claims were not known at the time our estimates were determined and are therefore not included .

Claims against directors and officers

Initial receivership work identified the potential for claims against parties responsible for properly administering the affairs of Dominion in addition to the issues raised by the various related party transactions. As the initial receivership ‘company stabilisation’ work was completing we commenced a more detailed review of these matters. While this is still at an early stage we strongly believe that Dominion suffered significant losses from the way the company was operated prior to its collapse. We have put the directors’ insurers on notice of a potential claim and will now be instructing lawyers to seek recovery from directors and officers.

Effect on investor recoveries

Quantification of these losses and assessment of the extent of potential recovery will take some time. However we believe that recoveries from actions against directors and officers in conjunction with liquidation recoveries could potentially materially enhance investor recoveries.

Distributions

Our 28 November report noted a number of factors that would influence the timing of realising Dominion's property securities and advised that we expected to have made the majority of distributions within 24 months of our appointment.

Previous reports have also noted our objective to maximise realisations for investors and advised that, in some cases, this could mean that sales of properties subject to very depressed markets may need to be deferred. In other cases uncompleted developments may require completion in order to maximise Dominion's recovery. While our first preference is to realise value from the uncompleted development (one partially completed development has already been realised for good value), if this is not possible Dominion may have to complete some developments.

Our principal objective in managing this receivership is to maximise returns for Dominion's investors. This has required a firm approach and has resulted in criticism from some borrowers, guarantors and other lenders involved in various projects, who do not share our concern for the level of recovery achieved by Dominion.

After review of the funds expected to be realised and funding commitments in the future, we believe that Dominion will be able to make a first distribution of \$5.8m in the week commencing 24 May 2009. If the final recovery for investors is at the midpoint of our estimated range of 10% to 25%, this \$5.8m (or 2.5%) would be 1/7th of the total amount to be distributed. The timing of further distributions after that date is not yet able to be reliably predicted.

You can be assured that the receivers, working in conjunction with the Trustee, have a primary objective to protect your interests. At times we have pursued this objective to an extent that has not been easy for borrowers or other lenders.

Qualifications and Important Notice

The information required to complete this report was provided by the employees of the company and obtained from company records. Accounting values are based on book values from the financial statements and accounting records prepared by company personnel. Loan realisation estimates have been based on the work of property and finance specialists.

We take no responsibility for any incorrect information contained in this report that has been supplied by the company, its officers or other persons. Any realisation estimates, time taken to complete realisations and related costs were all subject to uncertainty at the time that the estimates were prepared. We express no opinion on the likelihood of any estimates being achieved. Financial projections are based on assumptions and estimates of future events which cannot be estimated with any certainty. Actual results are likely to be different from estimates and the variations could be material since anticipated events frequently do not occur as expected. In accordance with standard practice neither Deloitte, the receivers, nor any member or employee of Deloitte, undertakes responsibility arising in any way whatsoever to any

person in respect of realisation estimates, the related commentary on options available to the receivership, or any other report content including any errors or omissions herein arising through negligence or otherwise however caused.

Communication and Further Updates

We have previously provided details of the receivership website developed at the time of our appointment (www.deloitte.com/nz/dominion). We have filed the receivers' first statutory report on-line at the Companies Office and that report can be viewed free at the Companies' Office website www.companies.govt.nz.

We will continue to update the Trustee who is overseeing us, and will post further updates and matters of relevance to investors on the receivership website as appropriate.

In the meantime:

- for further information please visit the website www.deloitte.com/nz/dominion ;
- if you have questions please use the email facility on the website or call the investor information phone number: 09-306-4343.

Confidentiality

This report is confidential to the Trustee and debentureholders and is not to be reproduced or used for any other purpose without our prior written consent in each case. We do not accept any liability whatsoever to any party from any use of, or reliance on, this report.

Yours faithfully
Dominion Finance Group Limited (In Receivership)

Rod Pardington

R G Pardington
Receiver and Manager