

Equitable Mortgages Limited (In Receivership) ('EML') Company No. 907414

EQU30516
2 August 2012

Introduction

Investors have now received two partial repayments of their investments, on 8 August 2011 and 15 December 2011. Those payouts collectively amount to approximately 26% of the total principal amount owing to investors as at 29 November 2010 (although there were very small differences in the amount each investor received depending on individual entitlements).

We are now able, on behalf of the Trustee, to make another payout, which will be paid on 17 August 2012. This payout will equate to a further 18% of the principal amount you were owed on the date of receivership. The letter enclosed with this update details the amount you are being paid.

Please contact us if you have not received either of the first two repayments, or you have any other questions. Our contact details are as follows:

Email: eml@kordamentha.com

Phone: (09) 307 7865

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Update on loan recoveries

- At the date of receivership, \$190.6 million was owed by EML's borrowers across 50 individual loans. The investor update we issued in December 2011 provided details about the loans.
- By 30 June 2012, we had collected \$55.1 million from 27 borrowers. These recoveries were slightly ahead of the estimates on which our most recent Investor Update was based. Collections are therefore proceeding in accordance with our expectations.
- At 30 June 2012, 32 loans remained owing by 14 borrowers, with a gross balance of \$142.6 million. It will not be possible to collect the gross amount that is owed.
- Most of the loans that remain outstanding are subject to some form of enforcement action:

Loan book	30-Jun-12		Date of Receivership	
	\$000	# of Loans	\$000	# of Loans
Performing	\$ 4,600.00	1	\$ 32,347.87	15
Arrears	\$ 32,516.73	10	\$ 78,094.42	21
Receivers appointed	\$ 94,502.09	20	\$ 54,200.25	10
Mortgagee in possession	\$ 11,007.91	1	\$ 25,976.29	4
TOTAL	\$ 142,626.73	32	\$ 190,618.83	50

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Estimated loan recoveries

We have continued to adopt loan strategies that we believe have the best chance of maximising recoveries for investors. It will not however be possible to recover the entire amount that is owed by EML's borrowers.

We anticipate shortfalls on 31 of the remaining 32 loans. Our current estimate is that we will recover approximately \$44 million of the principal amount owing at 30 June 2012 (in addition to the \$55.1 million already recovered). This is only an estimate and our estimate will change over time but we do not expect to repay investors the full amount they are owed.

Loan loss guarantee provided by Equitable General Insurance ('EGI')

As we noted in our last report, EGI provided EML with guarantees to cover a portion of any loan losses. The amount of EML's claims exceeded EGI's financial resources. EGI would not therefore have been able to meet all of EML's claims under the guarantees.

The anticipated shortfall was significant so we took extensive legal advice on the rights and remedies that might be available to EML, and assessed the range of financial outcomes that might result.

We have now agreed a settlement and EGI has paid EML \$12.5 million, primarily in full and final settlement of this debt.

The settlement is advantageous for investors because:

- The amount EML received is more than EGI's own resources would have enabled it to pay. EGI's shareholders contributed to the settlement.
- The amount EGI paid is equivalent to the amount our analysis showed EML might have been able to collect under alternative options.
- The settlement avoids the cost and inherent uncertainty of the litigation that would have inevitably been involved under the alternative options.
- Money is available to repay to investors much earlier than it would have been under alternative options.

The money received under this settlement will be paid to investors in the distribution scheduled for 17 August 2012.

Estimated potential return to investors

On 17 August 2012, we will pay another distribution that will be equivalent to 18% of the principal amount investors were owed at the date of receivership.

After this payment, investors will have received approximately 44% of the total principal amount owing on 29 November 2010.

Estimating returns continues to be difficult, considering the state of the loan book.

We can however estimate that we might be able to repay between 65% and 70% (\$124.9 to \$134.6 million) of the total principal amount that was owing to investors on the day receivers were appointed. This estimate includes the amounts we paid investors in August and December 2011, and the amount that we will pay investors on 17 August 2012. It is exceedingly unlikely that we will be able to pay any interest.

		\$000	%
8-Aug-11	1st interim distribution	\$ 35,000.00	18%
15-Dec-11	2nd interim distribution	\$ 15,000.00	8%
17-Aug-12	3rd interim distribution	\$ 35,000.00	18%
	Estimated balance to be paid	\$ 40,000.00	21%
	Total Estimated Recovery	\$ 125,000.00	65%
29-Nov-10	Principal amount owed to investors	\$ 192,203.00	

The timing of distributions to investors is determined by the timing of loan recoveries so it is difficult to advise timeframes for future repayments. We believe however that we will be able to make another repayment to investors between September and December 2012 and we continue to expect it may take until the end of 2013 to recover all the assets.

We will always provide you with at least 14 days' notice of our intention to pay a distribution.