10 September 2008

Dear Sir/Madam

Lombard Group Limited – Annual General Meeting
Museum Hotel, 90 Cable Street, Tamburini Room, Wellington, at 2.00pm on Wednesday 24 September 2008

The Directors of Lombard Group Limited write to invite you to the Annual General Meeting of Lombard Group Limited and to provide you with the Annual Report 2008. A formal Notice of Meeting accompanies this letter.

From our perspective Lombard has had a particularly disappointing and difficult year which culminated in the receivership of its key subsidiary Lombard Finance & Investments Limited ("Lombard Finance") on 10 April 2008.

We very much appreciate that you will expect your Chairman, Directors and Chief Executive to account to you for the last twelve months and therefore we are also enclosing with this letter a memorandum which sets out some Questions and Answers and is designed to assist you in understanding the issues that arose and the impact on Lombard of the receivership of Lombard Finance. As is usual you will also have the opportunity at the Annual General Meeting to raise questions with the Directors and senior management.

Year in Review

You may recall at the 2007 Annual General Meeting we were able to report a net profit before tax of $7.7m for the Group for the year ending 31 March 2007, with a net profit after tax of $4.9m. We also noted that the Group's principal subsidiary, Lombard Finance had achieved a net profit after tax of $5.8m.

At that time your Directors resolved not to declare a dividend as this allowed Lombard Finance to continue to build up capital reserves as it had been doing since its formation in 2002. As a result, Lombard Finance's equity, being capital proportionate to the loan book, was in 2007 recorded at 12.5%, which at that time was at the upper end for finance companies in New Zealand (it was noted as being

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number 12 of 29 in those companies reviewed in the *New Zealand Finance Companies Report 2007*, McDouall Stuart).

At the time of the Annual General Meeting in July 2007, the Lombard Finance's liquidity (cash or deposits) was approximately $32m compared to a loan book of some $145m, which was considered to be a fairly healthy figure. By end July 2007 liquidity had increased to approximately $37m. Generally, your Directors at that time were pleased with the progress and profit of the Group, and expected continued performance from its subsidiary.

Your Directors judged, at that time, that Lombard Finance's relatively high capital and liquidity levels would enable it to survive other finance company failures as had been seen with Bridgecorp, Provincial and a number of others. The Directors had consciously increased this liquidity amount to provide Lombard Finance with the financial strength to weather the then potential financial storm.

The financial storm that occurred was more far reaching and of greater impact that many companies in the financial sector ever envisaged it would be, with the consequence that major institutions have suffered. As you know, since mid-2007 a radical reduction in confidence in the financial and banking sectors has occurred in the USA and UK, for a number of reasons, which has generally affected finance and real estate markets throughout the western world. This growing "sub-prime" crisis in the USA began to cause casualties in the global financial markets and New Zealand has not been immune.

While some companies were not well placed to deal with any downturn, the impact across the New Zealand finance company sector has been such that well-managed finance companies and financial institutions, have been caught in the same crisis, including to the extent that now a number of institutional funds have been frozen, including funds backed by mortgages. Significantly, two institutional funds, which had funds invested of some $520m, where frozen in March 2008.

The hard truth of the matter is that New Zealanders have fallen out of love with property. Investment in the property sector was a significant driver of economic activity. Finance companies funded that investment and investors made significant returns. Sentiment turned against property investment very quickly.

Lombard Finance was seriously affected by this turn away from property as it mainly provided loans that were used to fund property developments and which were secured by mortgages over real estate in New Zealand (with the size of loans to mortgage security determined on the basis of independent registered valuers' opinions). Unlike 16 of the 29 finance companies assessed by McDouall Stuart in its *New Zealand Finance Companies Report 2007*, Lombard Finance did not engage in any "related party" lending, that is, using debenture holder funds to invest with persons or entities related to directors and owners of the finance company. All loans were made on an arm's length basis.

You may be aware that that the New Zealand Government amended the *Securities Regulations* in September 2007 to provide some greater rights for trustees (who oversee issuer's compliance with the terms of their trust deed under which money was raised). Although not covered by the new regulations at that time, Lombard Finance agreed with its trustee, Perpetual Trust Limited, that it would provide whatever further information the trustee sought and consequently Lombard Finance's Directors commissioned a third party assessment of Lombard Finance's six major loans by the respected financial advisory firm Korda Mentha (formerly Ferrier Hodgson). Korda Mentha's report at that time did not raise concerns.

In late 2007, our former Chairman, Sir Douglas Graham, and Chief Executive, Michael Reeves conducted a series of "road shows" around New Zealand with debenture-holders. At that time Lombard Finance's board and senior management fully expected that Lombard Finance was in the position where it would survive and continue to succeed, despite the changing market conditions.

When Lombard Group reported its financial result for the six months to 30 September 2007, it noted the changing trading environment for finance companies. Your Directors decided that a good-will figure of $5.7m in the Group's balance sheet (arising from the reverse takeover of Pure New Zealand Limited) should be written-off as a matter of prudence. (This was a non-cash item, and didn't reflect any "loss" as such – it became an adjustment to the balance sheet.)

In March 2008 it became clear that Lombard Finance's critical issue was not so much a reduction in new deposits but the severe and rapid deterioration of the position of its borrowers and the consequent impact on their ability to meet their committed loan repayments. Accordingly, in mid March 2008, Lombard Finance commissioned Korda Mentha in a timely manner to assess its overall position, which at that time Lombard Finance had recorded as loans outstanding of some $142m while amounts due to secured debenture holders were $111m.

One important point for shareholders (and indeed debenture holders) is that the Lombard Finance Directors themselves took the initiative in the deteriorating situation of early April 2008 before any default had occurred and sought a meeting with the Trustee in order to advance a proposal of a moratorium based on preliminary advice from Korda Mentha. This event occurred on 2 April 2008. At that time, Lombard Finance's Directors reasonably believed that Lombard Finance's capital reserves could absorb write-downs of at least $20m on its loan book without defaulting under its Trust Deed. Lombard Finance's Directors regarded a moratorium as the best course in the then current market environment to maximise recoveries from the borrowers in an orderly manner and to preserve value for both the finance company debenture-holders and for the shareholders of Lombard Group Limited.

As a matter of record, the Trustee rejected the moratorium proposal and on 10 April 2008 placed Lombard Finance into receivership under the control and management of Price Waterhouse Coopers.

Lombard Group was disappointed with this decision. We genuinely believed that a moratorium would be in the best interests of investors. Lombard Group itself is the holder of secured debenture stock of $2m invested in Lombard Finance, its subsidiary, now in receivership.

The Present Situation

Over the last five months the Chief Executive has been available to assist the Receiver in preserving the intrinsic value of the loan book real estate securities. KPMG has also completed the annual audit of the Group's Accounts and these have been reported to the New Zealand Stock Exchange.

Management and Directors have spent considerable time restructuring the Group to reduce costs to enable it to restore profitability and continue to operate with an initial focus on the Groups mortgage origination business.

The Future

Now that your Directors and management have consolidated the Group they are assessing the "new territory" of the New Zealand financial sector following the fundamental changes which have occurred over the last twelve months to determine a future strategy. Despite the cyclic reduction in real estate values, the Directors are confident that the New Zealand economy is sufficiently strong to weather this particular storm, albeit with some casualties. The high terms of trade, lowering of the New Zealand dollar and the sound agricultural base with premium export prices for primary commodities justifies confidence, despite present energy prices.

In terms of the future strategy there are a number of opportunities that are being carefully considered and we trust that you will be supportive as we move through this rebuilding phase.

Yours sincerely
LOMBARD GROUP LIMITED

David Wallace
Chairman

LOMBARD GROUP LIMITED

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 2008 Annual General Meeting of the shareholders of Lombard Group Limited will be held at The Museum Hotel Wellington, 90 Cable Street, Wellington City on 24 September 2008, commencing at 2.00pm in the Tamburini Room.

Ordinary Business

1. Re-election of Director (Resolution 1)

In accordance with the Company's Constitution, the Hon William Jeffries, and being eligible, offers himself for re-election.

Accordingly, to consider and, if thought fit, pass the following ordinary resolution:

- *To re-elect Hon William Jeffries*

as Director of the Company.

(see Explanatory Note 1 for biographical detail)

2. Auditors

KPMG has given notice to the Company and do not wish to be reappointed.

The Board are currently in discussions with a number of auditors and unfortunately have not secured an auditor by the date of the Notice of Annual General Meeting. Once discussions are finalised and the Company secures an auditor the Board will call a special general meeting to record the appointment of the auditors and to consider and, if thought fit, to pass the resolution as an ordinary resolution:

3. Other Business

To consider any other business that may be properly brought before the meeting.

The Board will also present a report on the activities of the Company and provide shareholders with the opportunity to ask questions.

Voting

Each shareholder is entitled to one vote except on a poll where shareholders will have one vote in respect of each share held.

Resolution Requirements
An ordinary resolution is a resolution passed by a simple majority of votes of shareholders who are entitled to vote on the resolution and who exercise their right to vote.

Proxies
Shareholders are entitled to appoint a proxy to vote in their stead at the meeting. A proxy need not be a shareholder. A proxy form is enclosed with this Notice of Meeting and must be received at the registered office of the Company or the Share Registrar by 2pm on Tuesday 16 September 2008.

By Order of the Board

Michael Reeves
CEO - Director

10 September 2008

NOTES TO THE RESOLUTIONS:

Resolutions 1: Re-election of Director

Under NZX Listing Rule 3.3.8, and in accordance with the Company's Constitution, one third of the Directors must retire by rotation at each annual meeting. The Hon William Jeffries retires in accordance with the Constitution and offers himself for re-election.

The Hon William Patrick Jeffries
LLB (Victoria)

A former Cabinet Minister whose portfolios have included Justice and Transport, William is presently a barrister in private practice in Wellington and serving as Chief Commissioner of the Transport Accident Investigation Commission. William is also the Honorary Consul-General for Sweden.

If re-elected, the Hon William Jeffries will be an independent Director.

LOMBARD GROUP LIMITED

PROXY FORM

(for use if you are unable to attend the meeting)

I/We ____Shareholder No. *(if known)*___________

being a shareholder/shareholders of Lombard Group Limited

hereby appoint _________________________________ of __________________________________
(full name of proxy) *(full address)*

or failing that person ___________________________ of __________________________________
(full name of proxy) *(full address)*

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at 2pm on Wednesday 24 September 2008 and at any adjournment thereof.

I/We direct my/our proxy to vote in the following manner:

Resolutions:	**For**	**Against**
1. To re-elect William Jeffries as a Director of the Company	☐	☐

Indicate with an "X" in the space provided how you wish your vote to be cast. If no instruction is given, the proxy will vote or abstain at his or her discretion.

Signed this__________day of ____2008

Signature(s) ____

Notes

1. A shareholder of the Company who is entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of him/her. A proxy need not be a shareholder of the Company.

2. If you wish, you may appoint the Chairman of the meeting as your proxy (no address is required).

3. A proxy granted by a company must be signed by a duly authorised officer or attorney.

4. Joint holders must all sign this form.

5. Proxies must be received at the registered office of the Company's Share Registrar, Computershare Investor Services Limited, Level 2, 159 Hurstmere Road, Takapuna, Private Bag 92119, Auckland, or faxed to (09) 488 8787, no later than 2pm on Tuesday 16 September 2008.

6. When the form of proxy is signed by an attorney, the Power of Attorney under which it is signed, if not previously produced to the Company, must accompany the proxy form.

Summary of Information

Questions & Answers for Lombard Group Limited (LGL)

What is the effect of the receivership Lombard Finance & Investments Limited on Lombard Group Limited?

Lombard Finance & Investments Limited (LFIL) was the major subsidiary/asset in LGL. As a result of the receivership, the LFIL investment of $40 million in LGL was written down to zero. LGL had invested $2 million in secured debenture stock in LFIL. Based on the receivers first report we have revalued this down to $0.6 million.

In addition, the Board of Directors has been reduced reflecting the Company's needs. Sir Douglas Graham and Lawrie Bryant have resigned from the Board.

What has Lombard Group been doing since the receivership?

Since the receivership, Lombard Group has been investing a lot of time into its remaining businesses. LGL has been reducing costs and reviewing our processes to maximise the efficiency of our mortgage facilitating business.

The Group has also been undertaking a restructuring with a view to restoring the profitability in the near-term.

The Company has entered into a funding agreement with its major shareholders to provide certain additional funding requirements. The funding has not been required to date.

What is the contingent liability relating to the Tasman Group?

Tasman Mortgages Limited has been joined as a second defendant in a claim by a borrower of the first defendant. The claim relates to a period of time, before LGL was involved with owning a shareholding in the Tasman Group. Based on the information held to date there is no basis for the claim against Tasman Mortgages and no provision has been made in the financial statements.

Why have we included Group Pro-Forma Accounts for 2008 in the Annual Report?

Compliance with IFRS reporting requires the Board to show the assets and liabilities of the consolidated Group (including Lombard Finance), even though it went into receivership on the 10 April 2008. This information has been included in the Group 2008 account.

We have also included the Pro-Forma accounts to show what the state of the Group will be if you excluded the companies that went into receivership. The Board believes that this information is an appropriate basis from which shareholders can access the future position of the company.

What is the Group's current position?

The Company now operates on a much reduced basis. The Company has been able to operate within its limited income and resources. The Company continues to receive income from its mortgage facilitating businesses.

As at 31 March 2008, the total assets in the Group are $2.6 million and the total equity of $1.87 million.

What are the Group's future business plans?

The Group's short-term plans remain focused on a re-establishment period post the receivership. The company considers that when it has achieved its goal of consolidating the Group it will then look to exploit opportunities that will continue to exist in the sector.

The Board and management remain committed to the business during this restructuring period.

Why are KPMG not seeking re-appointment as auditors?

KPMG have indicated that with the receivership of Lombard Finance, and Lombard's significant reduction in size, KPMG no longer believe that Lombard fits within its client fee structure and is unable to provide a cost effective audit.

Summary of Information

Questions & Answers for Lombard Finance & Investments Limited (LFIL)

What were the events leading up to the announcement of the proposed moratorium?

The decision of the LFIL Board to approach the trustee was made at a board meeting held on 2 April 2008. At this point, LFIL had not failed to make any payment due to investors and had not defaulted under its Trust Deed.

LFIL promoted a moratorium to it's Trustee, under the belief that financial conditions affecting is borrowers had deteriorated to the point that, looking forward, there was the potential for a cash-flow shortfall to occur and that providing borrowers with further time to meet their obligations to the company would maximise overall recoveries and preserve value for LFIL investors.

LFIL's level of investment and reinvestment remained sufficient to fund its business. The key factor that lead to the moratorium being proposed was not a reduction in in-flows but the severe and rapid deterioration of the position of borrowers and the impact on loan recoveries. LFIL believes that the approach to the trustee was made as soon as this position was appropriately assessed.

Why did LFIL take deposits from investors up until a few days before the Trustee was approached concerning the proposed moratorium?

Up until 2 April, the Board's reasonable expectation was that loan recoveries would provide sufficient liquidity to fund the commitments of LFIL.

Why has the receiver stated that the provision for doubtful debts in the accounts is "significantly understated"?

The financial accounts for Lombard Finance & Investments Limited to which the Receiver refers to are incomplete draft management accounts. They were not complete, verified or presented to the board of LFIL, as at the date of the receivership on 10 April 2008.

The board had commissioned a report from KordaMetha to provide an independent review of Lombard Finance & Investments loan receivables. A verbal report was received on 2 April 2008. The draft written report was received on 7 April 2008 but the final report was never received as Receivers were appointed on 10 April 2008.

In addition, as part of the usual audit procedures, updated property valuations had been requested on the major loan receivables, to reflect the then market conditions. The valuations were not received by 10 April 2008.

The market conditions had deteriorated rapidly, and in the view of the directors, that on completion of the process, loss provisioning was expected to be considerably increased. Loss Provisioning which was recorded in the accounts, reflected provisioning made at 30 September 2008.

Did Lombard disclose to potential and existing investors the changed market conditions pertaining to Finance Companies?

There was a range of additional information included in an Amendment to the Prospectus filed on 24 December 2007, because the LFIL Board was acting in response to the increased interest of the Securities Commission, trustees and its investors in matters affecting finance companies generally. LFIL had provided a clear message to the market and investors, that LFIL's trading conditions were challenging. LFIL believes that it made the approach to the Trustee as soon as the financial position of LFIL became such that was necessary. That occurred on the afternoon of 2 April.

Why were receivers appointed?

This is a question that only the Trustee can answer. The view of the board was and still is that the return to investors was likely to be greater under a moratorium, than a receivership.

Why did the trustee not allow investors the opportunity to vote on a moratorium?

This is a question that only the Trustee can answer .The Trustee has stated "After reviewing the position of LF&I, the Trustee determined that the interests of investors would be better served by the appointment of receivers."

Why is the shortfall predicted by the Receiver so large? The recovery range is stated as 21% to 44%

The Receiver stated in their report to investors "difficulty in selling or completing these developments in the current market" The Receiver also states they have included a contingency for "unknown factors"

Market conditions have worsened rapidly with finance for property, mainly funded by finance companies, all but completely drying up. Additionally, in todays market property investors and developers are largely taking a wait and see attitude, thus there are few buyers and those who do make offers, are expecting a bargain These market conditions are quite extraordinary and were not foreseen by the industry as a whole, at the time the loans were granted.

Why did the directors resign from LFIL and LGL?

As the receivers have taken control of LFIL the directors have effectively been made redundant. As LFIL was the major investment of LGL, the remaining business of LGL does not, at this time, require a board with the same numbers as previously.