

BRIEFING NOTES

January 2012

Welcome to this quarter's Briefing Notes.

Overview

The Company's total assets as at 31 December 2011 have risen slightly to \$53.4m, this compares with \$53.1m as at 30 September 2011, due to impairment reversals.

During the quarter there have been no material changes in either the conduct of the Moratorium or the assets being managed. The asset backing per \$1 of original debenture stock principal remains unchanged at \$0.85.

As advised in our previous Briefing Note, we now include the statutory Moratorium Reports with the Briefing Note reports to minimise postage. Accordingly please see the attached quarterly Moratorium Report.

In the last Briefing Note we highlighted the ongoing simplification of the Company's assets; this work has continued this quarter and the Company has sold land in the Bay of Islands, acquired through a loan default, and settled what was known as the Market Place loan. The effect of this simplification is expressed in the pie chart under the heading "Where is your money". In a general sense the Company, excluding cash, now has only seven assets, namely investments in:

Asset Name	Current Carrying value \$
• RM Trust; residential mortgages	8,430,898
• RML Trust; residential mortgages	6,608,340
• CM Trust; commercial mortgages	15,634,741
• LS Trust; residential mortgages	15,604,683
• Historical direct loan (Maymorn)	340,463
• Land asset (purchased via a loan default)	1,346,575
• The Rated Mortgage programme	3,767,726
	<hr/>
	51,733,426

During the quarter, with the approval of the moratorium Financing Advisor, the Company purchased further bonds in the securitisation programme (at a discount). The net cash cost to the Company was \$1.1 million.

These bond purchases will enable the Company to both generate profits and provide more options when the securitisation trusts are wound up in the future.

At quarter end the Company had on hand \$1.4m in cash.



Distributions/Statements

No distribution will be made this quarter.

The Directors wish to advise stockholders that future distributions will primarily occur when the mortgage trusts are wound up, accordingly future distributions will be irregular and likely to be of larger sizes than historically.

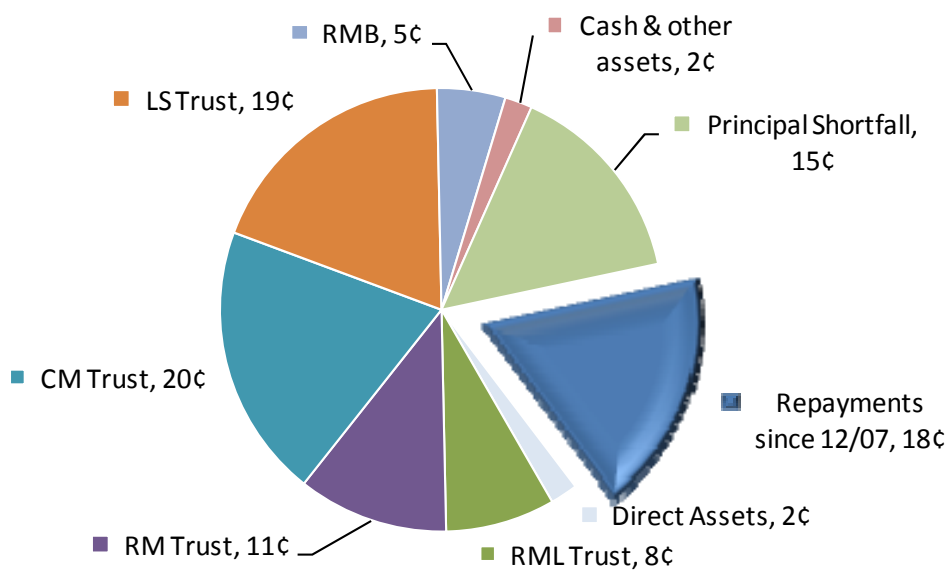
Each Briefing Note will update you on this aspect of the moratorium.

The last distribution of 2¢ was made to stockholders on 20th July 2011.

The interest rate applying under the moratorium (being the Official Cash Rate (OCR) + 2.0%) remains at 4.5%.

Where is Your Money?

As a guide to understanding where the Company has invested its assets, we have set out below the latest pie graph, reflecting the current position as at 31 December 2011.



Total Assets as at 31 December 2011: \$53.4 million

The segment denoted "Principal Shortfall" represents the current shortfall of principal to Stockholders if the Company's assets were realised at current book values.

Direct Assets

The level of involvement in the Company's direct assets is now decreasing as recoveries and/or loan sales have been made.



The residual direct assets, and the current carrying values are:

Asset Name	Asset	Current Carrying Value \$
Maymorn	Residual lots from a Wellington subdivision	340,463
Tinopai	Northland land holdings now owned by PFSL	1,346,575
		1,687,038

Each of the abovementioned assets is being managed in accordance with an agreed recovery strategy with the Financing Advisor.

Securitisation Trusts

The Company's focus is now working with its advisors on avenues to accelerate the winding down of these Trusts so that distributions can be made to the Company and in turn to stockholders. The Company is also concerned to make sure that the Trusts are being managed on a timely and cost effective basis.

A current summary of the four Trusts is:

Trust Name	Asset Type	Initial Size* (\$)	Today's Size (\$)	PFSL Investment (\$)
RM 2005-1	Residential 1 st mortgages	86,043,257	21,673,683	8,430,898
RML 2005-3	Residential 1 st mortgages	317,006,497	60,999,851	6,608,340
CM 2005-2	Commercial 1 st mortgages	157,212,541	81,850,096	15,634,741
LS 2005-4	Home Equity / Residential 1 st mortgages	75,749,913	50,844,263	15,604,683
		636,012,208	215,367,893	46,278,662

* 29/08/07 at receivership.

Expanding on each Trust:

■ RM Trust

Comprises a pool of residential first mortgages for owner-occupied homes.

This pool of mortgages has reduced substantially from \$86.0m (311 loans) at receivership to \$21.7m today (82 loans). The Company has \$8.4m invested in this Trust and based on the current information expects a full recovery of this investment over time.

Average Loan Size	\$277,868
90 day arrears (current)	7.14%

■ RML Trust

Comprises a pool of residential first mortgages for both owner-occupied and investment properties.

This pool of mortgages has reduced substantially from \$317m (1,031 loans) at receivership to \$61.0m today (244 loans). The Company has \$6.6m invested in this Trust. The Company is presently unable to access the detailed information required to fully assess the recoverability of the Company's investment in this Trust. Based on the information available, this investment is at risk and has therefore been written down in the Company's accounts. Our current assessment remains that a partial recovery may be made over time.

Average Loan Size	\$321,052
90 day arrears (current)	9.59%



- **CM Trust**

Comprises a pool of first mortgages for commercial properties.

This pool of mortgages has reduced substantially from \$157.2m (114 loans) at receivership to \$81.9m today (55 loans). The Company has \$15.6m invested in this Trust. It is expected that the value of this investment will need to be written down in the near future. However, based on the information we currently have access to, it is expected that most of this investment will be recovered over time.

Average Loan Size	\$1,604,904
90 day arrears (current)	12.95%

- **LS Trust**

Comprises a pool of first mortgages for owner-occupied properties.

This pool of mortgages has reduced from \$75.7m (980 loans) at receivership to \$50.8m today (639 loans). The Company has \$15.6m invested in this Trust. Over time, the Company expects a full recovery of its investment.

Average Loan Size	\$78,679
90 day arrears (current)	0%

Cash Movements – Quarter Ended 31 December 2011

Period	
Opening Cash	204,918
Amounts Received	2,076,871
	2,281,789
Amounts Paid	912,841
	1,368,948
Net Cash Increase	1,164,030
Closing Cash	1,368,948
Management fees	46,000
Distribution	nil
Official cash rate	2.5%

Information

All significant correspondence is available on the Company's website, www.propertyfinance.co.nz.

We are happy to address any queries that you may have. Please feel free to call us via the Company's messaging service on 03 379 9336 or if it is more convenient, by email to catherine@propertyfinance.co.nz.

Thank you.

Darryl Queen
Managing Director