

**PROPERTYFINANCE SECURITIES LIMITED (“Company”)  
HALF YEARLY MORATORIUM REPORT**

31 May 2011

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**Introduction**

This report is prepared pursuant to the Securities (Moratorium) Regulations 2009 (“Regulations”).

This report has been prepared by the Directors and is a half yearly report (for the half year ended 31 March 2011) as required by Regulation 11 of the Regulations.

*The headings in italics follow the format in Regulation 11.*

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*11.1(a) A summary of the state of affairs with respect to the property of the issuer as at the end of the half year to which the report relates.*

There has been no material change in the nature of the assets of the Company although it is noted that the carrying values have been further impaired by the Directors during the six months ending 31 March 2011.

A full table setting out the Company’s assets and current carrying values net of impairments is set out in this report under the heading Table A.

Following the Christchurch earthquakes a number of initial comments/observations can be provided:

- The Company’s management staff has relocated from the Christchurch CBD and have a new operational base up and running. There have been no changes in either our contact details or staff.
- The Company’s key Christchurch advisors; legal, audit and monitoring, have all established new offices and are operational albeit with some limitations.
- Our **initial** assessment is that the earthquake will not impact on the Company’s direct assets. However it is anticipated that earthquake losses **may** arise in two of the four mortgage trusts that the Company has invested in, from exposures to Christchurch property. Unfortunately it may take some time for the position to crystallize due to Civil Defence restrictions on property access currently in place and while owners work through insurance claims.

A high level Canterbury regional exposure assessment by Trust is:

Trust Name	RM 2005-1	RML 2005-3	CM 2005-2	LS 2005-4
% of loans within the Canterbury region (by loan principal \$)	7.7%	7.9%	13.8%	19.1%

At this point it would appear that the Company’s risk is largely concentrated within the CM 2005-2 Trust where it is exposed to three commercial properties within the Christchurch CBD ‘red zone’.

The RM/RML and LS Trusts have loans secured against residential property; it is expected that these exposures will be generally covered under a combination of EQC cover and private insurance minimising any potential losses to the Company.

There has been no material change in the conduct of the moratorium proposal. During the quarter the Directors and Trustee agreed that it is now appropriate for the Monitor to report on a quarterly basis (previously monthly) to the Trustee. The Monitor continues to receive information from and to monitor the Company on a monthly basis.

In the Moratorium material provided to stockholders prior to the June 2009 Special Meeting the Company forecast a total return to stockholders of \$1.23 over the seven year forecast period.

The \$1.23 comprised \$1 of principal and \$0.23 of interest. At the date of this report the carrying value of the Company's assets has reduced due to impairment charges, resulting in a revised principal backing of 0.87¢ for each dollar of debenture stock. The level and source of these additional impairment charges is set out in this report under the heading Table F.

On 31 May 2010 the Company's sole shareholder, propertyfinance group limited (PFG), passed a shareholder resolution to delist from the NZX and be placed in voluntary liquidation. This resulted in a write off of a loan to PFG of \$270,687.

*11.1(b) A summary of the conduct of the moratorium, including all amounts received and paid, during the half year to which the report relates.*

(i) Conduct of Moratorium

The primary management of the Moratorium is undertaken by the directors. Oversight is provided by:

- (i) The Trustee,
- (ii) The Financing Advisor, who must approve any trading activities as defined in the Trust Deed,
- (iii) The Monitor who reviews and reports on the activities of the directors and relevant costs.

The directors' strategy is to preserve the capital value of the Company's assets and realise these assets as quickly as practicable given market conditions.

(ii) Amounts received and paid

Period	30-Sep-2010 to 31-Mar-2011
<b>Opening Cash</b>	<b>1,329,848</b>
Amounts Received	
Interest	798,701
Income tax refunded	4,742
Sale of debt notes	0
Loan repayments	156,511
RMB loan repayment	160,000
Other receipts	20,907
	<b>1,140,861</b>
Amounts Paid	
Operating expense:	
Management fee	195,500
Legal fees	73,040
Trustees fees	63,564
Audit and accounting fees	34,800
Monitors fees	32,083
Other operating expenses	151,091
Loan draw downs	39,891
Other payments	219
Repayments of debentures	0
	<b>590,188</b>
<b>Net Cash Increase</b>	<b>550,673</b>
<b>Closing Cash</b>	<b>1,880,521</b>

11.1(c) A statement identifying:

- (i) The most recent audited annual financial statements of the borrowing group; and
- (ii) The most recent interim financial statements of borrowing group, including a statement of whether or not those are audited.

The most recent audited financial statements for the Company and borrowing group were prepared as at 31 March 2010.

The most recent interim financial statements for the Company were prepared as at 30 September 2010. The interim financial statements were not audited.

11.1(d) A statement to the effect that the financial statements referred to in paragraph (c):

- (i) Are filed on a public register at the Companies Office of the Ministry of Economic Development and are available for public inspection (including at [www.business.govt.nz/companies](http://www.business.govt.nz/companies))
- (ii) Will be made available on request, and free of charge, by the issuer.

The audited financial statements prepared as at 31 March 2010 are filed on a public register at the Companies Office of the Ministry of Economic Development and available for public inspection at [www.companies.govt.nz](http://www.companies.govt.nz) and are available, free of charge, by contacting the Company.

11.1(e) A statement explaining how a request under paragraph (d)(ii) should be made.

A copy of the most recent audited financial statements can be obtained, free of charge, from the Company, during normal working hours, by either:

- phone - 03 379 9336
- facsimile - 03 379 4256
- email - [mail@propertyfinance.co.nz](mailto:mail@propertyfinance.co.nz)
- website – [www.propertyfinance.co.nz](http://www.propertyfinance.co.nz)

11.2 The report must include details of—

- (a) the property disposed of since the date of any previous report and any proposals for the disposal of the property of the issuer; and

The Company continues to:

- i) realise property assets that it has a security interest over;
- ii) offer for sale through registered real estate agents property owned by the Company; and
- iii) take recovery action on defaulting loans.

- (b) amounts owing, as at the date of the report, to creditors of the issuer who would have preferential claims if the issuer were in receivership or liquidation; and

Amounts owing to the Trustee, Financing Advisor and Monitor have a priority claim arising from the Trust Deed (Trustee) or, in respect to the Financing Advisor and Monitor, security is provided by way of a cash bond.

- (c) other amounts likely to be available as at the date of the report for payment to creditors; and

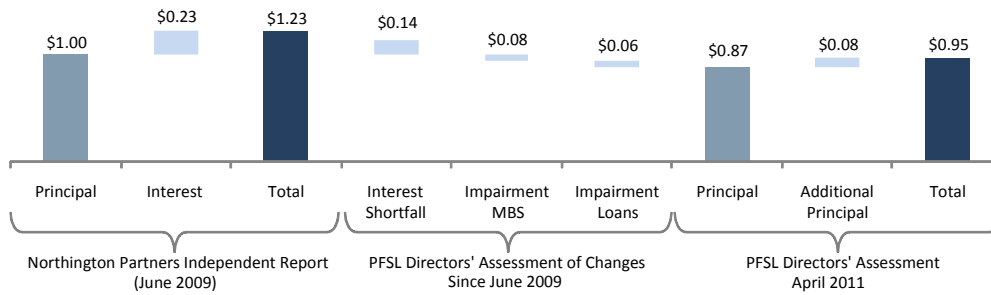
Normal trade creditors are payable under the Moratorium from normal cash receipts.

- (d) a statement as to all transactions (if any) that are material related party transactions under generally accepted accounting practice and were entered into or were being performed in the half-year to which the report relates; and

There are no material related party transactions.

- (e) if prospective financial information about amounts to be received by the borrowing group was contained or referred to in the prospectus or investment statement for the moratorium proposal, a comparison (if practicable, in the same form and for the same period as the prospective information) of the actual receipts against the prospective receipts; and

### Revised Return Analysis



**Notes:**

1. The anticipated principal repayment of \$0.87 is based on the net assets held by PFSL at 31 March 2011. The additional \$0.08 repayment is based on future cashflow receipts net of expenses. The total payment is anticipated to be \$0.95.
2. The Interest Shortfall of \$0.14 has resulted from three causes:
  - a. An assumption that no interest would be earned on the component of assets that are impaired;
  - b. Low bank bill rates over the last year. All Trust Notes bear an interest margin over bank bills so a reduction in the bank bill rate consequently results in reduced interest income to PFSL;
  - c. Under the Securitisation Trusts interest income to Trust Notes held by PFSL is used to protect the trust from losses arising from defaulted loans.
3. The MBS impairment arises from loan losses with the securitisation trusts:
  - a. CM Trust has been impaired by the equivalent amount of \$0.03 where enforcement action against defaulting loans has resulted in losses to the trust. The Directors' attribute these losses to continued difficult conditions in the commercial property sector with low sale prices and a lack of liquidity including the retreat of lenders from this sector. As a result of the losses to the trust, the carrying value of the trust notes held by PFSL have been impaired;
  - b. RML has been impaired by the equivalent amount of \$0.05 where enforcement action against defaulting loans has resulted in losses to the trust. The Directors' attribute these losses to the effect of the recession causing borrower defaults and subsequent recovery from enforcement action being lower than expected with continued difficult conditions in the residential property sector with low sale prices being achieved. As a result of the losses to the trust, the carrying value of the trust notes held by PFSL, have been impaired.
4. Impairments on direct loans comprises a range of loans where recovery action has been undertaken and the loan values now reflect expected/actual returns from the loans in today's market.

(f) *a statement of the trading prospects of the borrowing group, together with any material information that may be relevant to those trading prospects; and*

The prospects of the Company and therein the ability of the Company to make payments to debenture stockholders during the Moratorium is largely dependent on the successful winding down of the Company's securitisation programme.

The Company established four special purpose securitisation trusts, the details of which are set out in Table E.

Whilst each trust holds, as its only assets, first mortgages and cash, each trust must firstly repay notes that rank in priority to the Company's investment.

Accordingly the Company will be effected by the level of bad debts in each trust and the costs of servicing these trusts.

(g) *a statement updating any forecasts in any prospective financial information that has been previously disclosed to security holders; and*

See (e) above.

(h) *a statement of the extent to which any outcomes referred to in the prospectus or the investment statement relating to the moratorium proposal have been achieved, with particular reference to any milestones identified in those documents which were stated to enable achievement of those outcomes to be tracked on a quarterly basis; and*

See (e) above and Tables C on page 6.

(i) *a statement of any other matters that are material to the ability of the issuer to achieve any outcomes, forecasts, or milestones that have been previously disclosed to security holders.*

See (f) above.

11.3 The statement required by subclause (2)(f) must include a description of all special trade factors and risks that:

- (a) are not likely to be known or anticipated by the general public; and  
 (b) could materially affect the prospects of the borrowing group.

(i) *Management Services*

As the Company has a complex structure it is reliant on the on-going support of its directors to assist with historical matters that can and may have a bearing on ultimate recoveries.

(ii) *Property Values*

The Company's lending activities are all New Zealand property-based and accordingly the performance of the property sector affects the Company.

(iii) *Securitisation Trusts*

The Company has invested in debt notes issued from the securitisation trusts the Company established. The notes held by the Company ranked behind debt notes issued to institutional investors and accordingly a shortfall for any securitisation trust could lead to loss to the Company.

(iv) *Securitisation Trust Management*

The repayment of the Company's debt note investments in the respective trusts may be impacted upon by the level of fees and costs charged to the trusts for these services and the actions of the service providers in managing delinquent accounts.

**TABLE A: Statement of Assets and Liabilities**

	Mar-2010	Sep-2010	Mar-2011
<b>Assets</b>			
Cash and cash equivalents	784	1,330	1,881
Term deposits & cash in Trusts	5,613	5,716	5,841
Expense reserve deposits - RMB Trusts	1,050	1,144	1,221
Advance to RMB Trusts – issue expenses	1,633	1,543	1,408
Accrued interest	10	13	9
Sundry debtors & advances	115	38	61
Property held for sale	2,315	2,315	1,814
Loans receivable	6,658	5,157	3,623
Mortgage-Backed Securities	42,221	42,085	39,675
Trust debtors	205	205	205
Property, plant & equipment	23	17	11
Income tax prepayment	178	1	1
Deferred tax asset*	0	0	0
	<b>60,805</b>	<b>59,564</b>	<b>55,750</b>

	Mar-2010	Sep-2010	Mar-2011
<b>Liabilities</b>			
Trade and other payables	187	112	101
Debenture repayments outstanding	15	15	15
Debenture Stock**	34,151	36,377	34,953
Trust creditors	205	205	205
	<b>34,558</b>	<b>36,709</b>	<b>35,274</b>
Net assets	26,247	22,855	20,476

\* Deferred tax asset of estimated \$3.6m has not been recognised.

\*\* Debenture stock is shown at fair value based on management's expectations of cash repayments of principal and interest to debenture stock holders. Previously debenture stock was shown at amortised cost. This accounting fair value is entirely different to the legal contractual position between the Company and its debenture holders and the latter is not subject to any change.

The contractual liability to debenture holders principal is \$68.797m plus accrued interest to 30 June 2011 of \$6.538m, totalling \$75.320m. The fair value of the debenture stock liability including interest totals \$36.385m.

There was a credit to the income statement of \$37.856m at 31 March 2010 as a result of the requirement to show debenture stock at fair value. This also resulted in an increase in equity and a decrease in the debenture stock of \$37.856m.

**TABLE B: Management Costs**

Quarter Ending	Mar-2010	Jun-2010	Sep-2010	Dec-2010	Mar-2011
Total operating costs	285,102	109,861	270,196	325,962	239,358
Net cash flows	(111,967)	420,061	125,537	317,058	550,673

**TABLE C: Intervention Strategies Since July 2009**

In addition to the Company's asset management and collection activities the Moratorium specifically provided for the Company to undertake a range of intervention strategies. Each intervention requires the prior approval of the Financing Advisor.

The Moratorium forecast that interventions in the CM Trust would avoid \$4.0m of realised loan losses in the first two years. CM Trust interventions has been the principal activity undertaken however the Company has also undertaken interventions where the direct benefit is not easily measured, an example of this is promotional activity undertaken to clients with residential mortgages to highlight and/or incentivise the repayment of home loans.

No. of Loan Interventions	Benefit*
5 commercial loans	\$3.0-\$3.25m

\* The benefit is the directors' assessment after taking account of the known loan balances and likely property realisation values at the time of the intervention. The ultimate benefit/cost to the Company may only be known when the respective loan is repaid.

**TABLE D: Investor Returns**

(i) *Expectations 29 June 2009 Moratorium Explanatory Memorandum*

	Receivership	Moratorium	Difference
Projected period	3-7 years	7 years	0-4 years
Costs over projected period (7 years)	\$1.95m	\$3.5m	\$1.55m
Projected returns (cents per \$)	\$0.81-\$1.14	\$1.23	9-42c
Projected returns (cents per \$ NPV)	65-74c	78c	4-13c
Contractual interest rate	9.33% <sup>1</sup>	OCR+2% <sup>2</sup>	n/a
Interest written off (forgiven)	-	\$12.3m	\$12.3m

(ii) *Moratorium Expectations 31 March 2011*

	Expectation 30-Jun-2010	Moratorium	Difference
Projected period from commencement	7 years	7 years	No change
Costs over projected period (7 years)	\$3.4m	\$3.4m	No change
Project returns (\$)	\$1.23	\$0.95	\$(0.28)
Projected returns (\$ NPV) Discount Rate 12%	\$0.78	\$0.58	\$(0.20)
Contractual interest rate	OCR + 2%	OCR + 2%	No change
Interest written off (forgiven)	\$12.3m	\$12.3m	No change

**TABLE E: Securitisation Programme**

Propertyfinance RM 2005-1 Trust	Aug-2007	31-Mar-2009	31-Mar-2010	30-Sep-2010	31-Mar-2011
Pool size	86,043,257	42,456,876	28,775,467	26,755,646	24,913,976
Number of loans	323	162	108	101	96
Average by size	283,971	284,945	284,906	281,638	276,822
Average loan to value ratio	95.20%	95.00%	94.70%	94.10%	94.0%
Owner occupied	100%	100%	100%	100%	100%
90-day arrears	-	5.30%	4.30%	4.50%	3.8%
Charge-offs**	-	110,000	347,598	385,554	405,554

<b>Propertyfinance RML 2005-3 Trust</b>	Aug-2007	31-Mar-2009	31-Mar-2010	30-Sep-2010	31-Mar-2011
Pool size	317,006,497	169,327,248	104,317,685	88,616,131	74,430,020
Number of loans	1,031	585	389	328	288
Average loan size	385,653	365,718	338,694	347,514	330,800
Average loan to value ratio	78.50%	79.30%	78.60%	79.10%	78.4%
Owner occupied	624	341	232	197	167
Investment	407	244	157	131	121
90-day arrears	3.30%	9.90%	7.60%	8.40%	7.6%
Charge-offs**	–	6,453,855	10,583,870	11,068,615	11,887,745

<b>Propertyfinance CM 2005-2 Trust</b>	Aug-2007	31-Mar-2009	31-Mar-2010	30-Sep-2010	31-Mar-2011
Pool size	157,212,541	111,380,862	91,261,620	87,392,222	85,672,758
Number of loans	114	72	62	58	57
Average loan size	1,588,005	1,687,589	1,576,476	1,618,374	1,616,467
Average loan to value ratio	68.70%	69.40%	68.40%	67.70%	67.3%
90-day arrears	–	14.60%	5.20%	2.50%	10.5%
Charge-offs**	–	110,240	3,569,205	3,589,205	4,660,471

<b>Propertyfinance LS 2005-4 Trust</b>	Aug-2007	31-Mar-2009	31-Mar-2010	30-Sep-2010	31-Mar-2011
Pool size	75,749,913	62,917,325	59,324,986	56,519,115	54,561,776
Number of loans	980	813	751	715	685
Average loan to value ratio	16.10%	28.50%	30.60%	32.10%	33.5%
Average age of borrower	77	79	79	80	80

\* This information is supplied by The New Zealand Guardian Trust Company Limited through its noteholder monthly reports.

\*\* Charge-offs are the impairment charge against the Company's investment due to losses within the underlying loan portfolio. At this time and based on available information the Company assumes these impairments are actual losses on the relevant investment.

**TABLE F: Key Assumptions by Scenario**

Assumption	The Company Directors' Scenario	Receivership Scenario	Latest Expectation
Interest on debentures	OCR + 2%; average total rate of 6.5% assumed	Accrues at a fixed rate of 9.3%	OCR + 2%; average total rate of 6.5% assumed
Free-cash return	75%	100%	75%
Realisation from MBS	Sold in year 7 at 90% face value	Sold in year 3 at 60% of face value, in year 5 at 70% and year 7 at 80%	Sold in year 7 at 90% face value
Losses within CM Trust	\$3m losses in years 1&2	\$7m losses in years 1 & 2	\$3m losses in years 1&2
Loan life – RM	1 year	2 years	1 year
Loan life – RML	1 year	2 years	2 years
Capital losses on MBS	No further net losses	No further net losses	\$6,761,851 impairment
Realisation of other assets	Recognised at face value	Sold in year 3 at 10% of face value, in year 5 at 20% and year 7 at 40%	\$3,701,487 impairment