

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

30 September 2011

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 30 September 2011) as required by Regulation 11 of the Regulations.

The headings in italics follow the format in Regulation 11.

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 ended 30 September 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 0.85¢ 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	1-Apr-2011 to 30-Sep-2011
Opening Cash	1,880,521
Amounts Received	
Interest	584,349
Income tax refunded	198
Loan repayments	1,914,346
RMB loan repayment	130,000
Other receipts	20,967
	2,649,860
Amounts Paid	
Operating expense:	
Management fee	143,750
Legal fees	124,977
Trustees fees	51,701
Audit and accounting fees	52,669
Monitors fees	30,987
Other operating expenses	93,242
Loan draw downs	115,000
Other payments	62,258
Purchase RMB bonds	449,107
Repayments of debentures	3,201,169
	4,324,860
Net Cash Increase	1,675,000
Closing Cash	205,521

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 2011.

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)*
- (ii) *Will be made available on request, and free of charge, by the issuer.*

The audited financial statements prepared as at 31 March 2011 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 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
- website – 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.

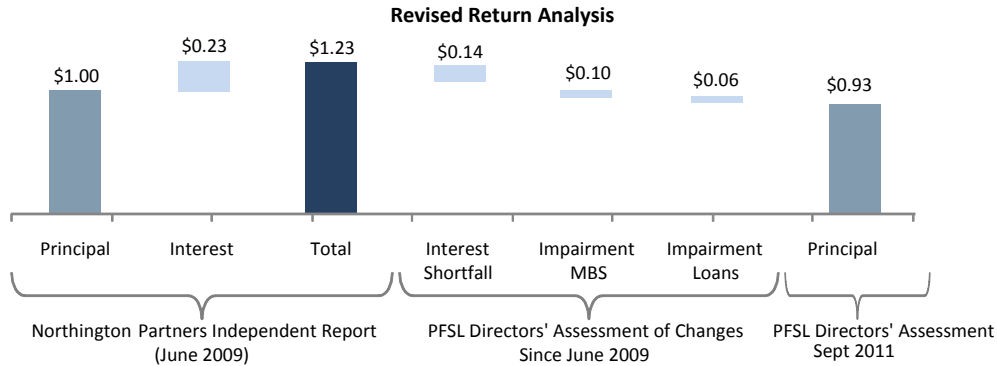
- (c) *other amounts likely to be available as at the date of the report for payment to creditors; and*

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*



Notes:

1. The anticipated principal repayment of \$0.85 is based on the net assets held by PFSL at 30 September 2011. The additional \$0.08 repayment is based on future cashflow receipts net of expenses. The total payment is anticipated to be \$0.93.
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

	Sep-2010	Mar-2011	Sep-2011
Assets			
Cash and cash equivalents	1,330	1,881	205
Term deposits & cash in Trusts	5,716	5,841	5,883
Expense reserve deposits - RMB Trusts	1,144	1,221	1,239
Advance to RMB Trusts – issue expenses	1,543	1,408	1,362
Accrued interest	13	9	60
Sundry debtors & advances	38	61	93
Property held for sale	2,315	1,814	1,814
Loans receivable	5,157	3,623	1,498
Mortgage-Backed Securities	42,085	39,675	40,719
Trust debtors	205	205	205
Property, plant & equipment	17	11	5
Income tax prepayment	1	1	1
Deferred tax asset*	0	0	0
	59,564	55,750	53,084

	Sep-2010	Mar-2011	Sep-2011
Liabilities			
Trade and other payables	112	101	85
Debenture repayments outstanding	15	15	15
Debenture Stock**	36,377	34,953	34,157
Trust creditors	205	205	205
	36,709	35,274	34,462
Net assets	22,855	20,476	18,622

* Deferred tax asset of estimated \$1.034m 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 \$65.582m plus accrued interest to 30 September 2011 of \$8.048m, totalling \$73.630m. The fair value of the debenture stock liability including interest totals \$34.172m.

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	Sep-2010	Dec-2010	Mar-2011	Jun-2011	Sep-2011
Total operating costs	270,196	325,962	239,358	241,389	243,695
Net cash flows	125,537	317,058	233,615	(809,822)	(865,781)

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% ¹	OCR+2% ²	n/a
Interest written off (forgiven)	-	\$12.3m	\$12.3m

(ii) *Moratorium Expectations 30 September 2011*

	Expectation 30-Sep-2011	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 (\$)	\$0.93	\$1.23	\$(0.24)
Projected returns (\$ NPV) Discount Rate 12%	\$0.58	\$0.78	\$(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-2010	31-Mar-2011	30-Jun-2011	30-Sep-2011
Pool size	86,043,257	28,775,467	24,913,976	23,494,077	22,446,896
Number of loans	323	108	96	90	85
Average by size	283,971	284,906	276,822	276,401	277,122
Average loan to value ratio	95.20%	94.70%	94.0%	94 %	94 %
Owner occupied	100%	100%	100%	100%	100%
90-day arrears	-	4.30%	3.8%	4.1%	6.0%
Charge-offs**	-	347,598	405,554	415,554	415,554

Propertyfinance RML 2005-3 Trust	Aug-2007	31-Mar-2010	31-Mar-2011	30-Jun-2011	23-Sep-2011
Pool size	317,006,497	104,317,685	74,430,020	67,902,589	63,474,517
Number of loans	1,031	389	288	269	254
Average loan size	385,653	338,694	330,800	323,346	320,578
Average loan to value ratio	78.50%	78.60%	78.4%	79%	80%
Owner occupied	624	232	167	153	Not available
Investment	407	157	121	116	Not available
90-day arrears	3.30%	7.60%	7.6%	7.1%	8.3%
Charge-offs**	–	10,583,870	11,887,745	12,046,473	11,738,611

Propertyfinance CM 2005-2 Trust	Aug-2007	31-Mar-2010	31-Mar-2011	30-Jun-2011	23-Sep-2011
Pool size	157,212,541	91,261,620	85,672,758	84,270,020	82,010,491
Number of loans	114	62	57	57	55
Average loan size	1,588,005	1,576,476	1,616,467	1,590,000	1,608,049
Average loan to value ratio	68.70%	68.40%	67.3%	67%	67%
90-day arrears	–	5.20%	10.5%	10.8%	12.8%
Charge-offs**	–	3,569,205	4,660,471	5,793,308	5,793,308

Propertyfinance LS 2005-4 Trust	Aug-2007	31-Mar-2010	31-Mar-2011	30-Jun-2011	31-Aug-2011
Pool size	75,749,913	59,324,986	54,561,776	53,015,798	52,256,160
Number of loans	980	751	685	670	659
Average loan to value ratio	16.10%	30.60%	33.5%	33.8%	33.9
Average age of borrower	77	79	80	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	\$7,755,555 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%	\$5,488,250 impairment