

PROPERTYFINANCE SECURITIES LIMITED (“Company”)
QUARTERLY MORATORIUM REPORT

 January 2012

Introduction

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

This report has been prepared by the Directors and is a quarterly report (for the quarter ended 31 December 2011) as required by Regulation 12 of the Regulations.

The headings in italics follow the format in Regulation 12.

12.1(a) *A statement summarising any material change in either the state of affairs with respect to the property of the Company, or the conduct of the moratorium proposal, since 30 September 2011.*

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 quarter ended 31 December 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 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 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.

During the quarter the Company outsourced the debenture registry function to Link Market Services Limited (Link). Link is a professional registry manager and provides external management of the stockholder registry.

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.

12.1(b) *A statement identifying:*

- (i) most recent audited annual financial statements of the borrowing group; and*
- (ii) most recent interim financial statements of the 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 2011. The interim financial statements were not audited.

12.1(c) *A statement to the effect that the financial statements referred to in paragraph (b):*

- (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.companies.govt.nz);*
- (ii) will be made available on request, and free of charge, by the Company.*

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.business.govt.nz/companies and are available, free of charge, by contacting the Company.

12.1(d) *A statement explaining how a request under paragraph (c)(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

12.1(e) *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.*

The following tables set out the Company's latest expectations under the Moratorium together with, where relevant, expectations at the commencement of the Moratorium.

TABLE A: Statement of Assets and Liabilities

	Dec 2011	Sep 2011	Jun 2011	Mar 2011
Assets*				
Cash and cash equivalents	1,369	205	1,071	1,881
Term deposits & cash in Trusts	5,943	5,883	5,883	5,841
Expense reserve deposits - RMB Trusts	1,260	1,239	1,235	1,221
Advance to RMB Trusts – issue expenses	1,398	1,362	1,352	1,408
Accrued interest	50	60	7	9
Sundry debtors & advances	79	93	79	61
Property held for sale	1,347	1,814	1,814	1,814
Loans receivable	340	1,498	3,489	3,623
Mortgage-Backed Securities	41,395	40,719	39,577	39,675
Trust debtors	205	205	205	205
Property, plant & equipment	2	5	8	11
Income tax prepayment	1	1	1	1
	53,389	53,084	54,721	55,750
Liabilities				
Trade and other payables	96	85	85	101
Debenture repayments outstanding	6	15	23	15
Debenture Stock**	34,901	34,157	34,311	34,953
Trust creditors	205	205	205	205
	35,208	34,462	34,624	35,274
Net assets	18,181	18,622	20,097	20,476

* Deferred tax asset of estimated \$3.6 million 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 \$67.205 million plus accrued interest to 31 December 2011 of \$8.792 million, totalling \$74.374 million. The fair value of the debenture stock liability including interest totals \$34.901 million.

There was a credit to the income statement of \$37.856 million at 31 March 2010. There was a further credit to the income statement of \$2.315 million at 31 March 2011. These were as a result of the requirement to show debenture stock at fair value. These also resulted in an increase in equity and a decrease in the debenture stock of \$40.171 million over the two years.

TABLE B: Management Costs

Quarter Ending	Mar 2011	Jun 2011	Sep 2011	Dec 2011
Total Operating Costs	239,358	241,389	243,695	212,365
Net Cash Flows	550,673	(576,207)	(865,781)	1,164,030

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 will not be known until 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%	OCR+2%	n/a
Interest written off (forgiven)	-	\$12.3m	\$12.3m

(ii) Moratorium Expectations 31 December 2011

	Moratorium	Expectation 31-Dec-2011	Difference
Projected period from commencement	7 years	7 years	No change
Costs over projected period (7 years)	\$3.5m	\$3.4m	\$(0.1m)
Project returns (\$)	\$1.23	\$0.85	\$(0.38)
Projected returns (\$ NPV, discounted at 12%)	\$0.78	\$0.61	\$(0.17)
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	31-Mar-2011	16-Dec-2011
Pool size	86,043,257	42,456,876	28,775,467	24,913,976	21,673,683
Number of loans	323	162	108	96	82
Average by size	283,971	284,945	284,906	276,822	277,868
Average loan to value ratio	95.2%	95.00%	94.7%	94.0%	94.0%
Owner occupied	100%	100%	100%	100%	100%
90-day arrears	-	5.30%	4.3%	3.8%	7.1%
Charge-offs**	-	110,000	347,598	405,554	435,554

Propertyfinance RML 2005-3 Trust	Aug-2007	31-Mar-2009	31-Mar-2010	31-Mar-2011	16-Dec-2011
Pool size	317,006,497	169,327,248	104,317,685	74,430,020	60,999,851
Number of loans	1,031	585	389	288	244
Average loan size	385,653	365,718	338,694	330,800	321,052
Average loan to value ratio	78.5%	79.30%	78.6%	78.4%	79.0%
Owner occupied	426	341	232	167	143
Investment	288	244	157	121	101
90-day arrears	3.3%	9.90%	7.6%	7.6%	9.6%
Charge-offs**	-	6,453,855	10,583,870	11,887,745	11,988,870

Propertyfinance CM 2005-2 Trust	Aug-2007	31-Mar-2009	31-Mar-2010	31-Mar-2011	16-Dec-2011
Pool size	157,212,541	111,380,862	91,261,620	85,672,758	81,850,096
Number of loans	114	72	62	57	55
Average loan size	1,588,005	1,687,589	1,576,476	1,616,467	1,604,904
Average loan to value ratio	68.7%	69.40%	68.4%	67.3%	67.0%
90-day arrears	-	14.60%	5.2%	10.5%	12.9%
Charge-offs**	-	110,240	3,569,205	4,660,471	5,793,310

Propertyfinance LS 2005-4 Trust	Aug-2007	31-Mar-2009	31-Mar-2010	31-Mar-2011	30-Nov-2011
Pool size	75,749,913	62,917,325	59,324,986	54,561,776	50,844,263
Number of loans	980	813	751	685	639
Average loan to value ratio	16.1%	28.50%	30.6%	33.5%	78,679
Average age of borrower	77	79	79	80	79

* 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	2 years
Loan life – RML	1 year	2 years	2 years
Capital losses on MBS	No further net losses	No further net losses	\$8,025,813 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%	\$5,013,586 impairment