

## PROPERTYFINANCE SECURITIES LIMITED (“Company”)

### QUARTERLY MORATORIUM REPORT

July 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 quarterly report (for the quarter ended 30 June 2011) as required by Regulation 12 of the Regulations.

*The headings in italics follow the format in Regulation 12.*

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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 2010.*

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. It is also noted that the Company is exposed to possible negative consequences from the Christchurch earthquakes. It is not possible, at this time, to quantify this.

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.

There has been no material change in the conduct of the moratorium proposal.

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.

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 2010.

The most recent interim financial statements for the Company were prepared as at 30 September 2010. 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](http://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 2010 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](http://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](mailto:mail@propertyfinance.co.nz)
- website – [www.propertyfinance.co.nz](http://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**

	Jun 2011	Mar 2011	Dec-2010	Sep-2010
<b>Assets*</b>				
Cash and cash equivalents	1,071	1,881	1,647	1,330
Term deposits & cash in Trusts	5,883	5,841	5,774	5,716
Expense reserve deposits - RMB Trusts	1,235	1,221	1,183	1,144
Advance to RMB Trusts – issue expenses	1,352	1,408	1,459	1,543
Accrued interest	7	9	14	13
Sundry debtors & advances	79	61	38	38
Property held for sale	1,814	1,814	2,315	2,315
Loans receivable	3,489	3,623	4,375	5,157
Mortgage-Backed Securities	39,577	39,675	40,938	42,085
Trust debtors	205	205	205	205
Property, plant & equipment	8	11	14	17
Income tax prepayment	1	1	1	1
	<b>54,721</b>	<b>55,750</b>	<b>57,963</b>	<b>59,564</b>
<b>Liabilities</b>				
Trade and other payables	85	101	99	112
Debenture repayments outstanding	23	15	15	15
Debenture Stock**	34,311	34,953	38,837	36,377
Trust creditors	205	205	205	205
	<b>34,624</b>	<b>35,274</b>	<b>39,157</b>	<b>36,709</b>
Net assets	20,097	20,476	18,806	22,855

\* 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 30 June 2011 of \$7.300 million, totalling \$74.505 million. The fair value of the debenture stock liability including interest totals \$34.334 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	Sep-2010	Dec-2010	Mar 2011	Jun 2011
Total Operating Costs	270,196	325,962	239,358	241,389
Net Cash Flows	125,537	317,058	550,673	(576,207)

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

(ii) *Moratorium Expectations 30 June 2011*

	Expectation 31-Dec-2010	Moratorium	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	\$0.59	\$(0.19)
Contractual interest rate	OCR + 2%	OCR + 2%	No change
Interest written off (forgiven)	\$12.3m	\$12.3m	No change

**TABLE E: Securitisation Programme\***

<b>Propertyfinance RM 2005-1 Trust</b>	Aug-2007	31-Mar-2009	31-Mar-2010	31-Mar-2011	24-Jun-2011
Pool size	86,043,257	42,456,876	28,775,467	24,913,976	23,459,954
Number of loans	323	162	108	96	90
Average by size	283,971	284,945	284,906	276,822	275,999
Average loan to value ratio	95.2%	95.00%	94.7%	94.0%	94 %
Owner occupied	100%	100%	100%	100%	100%
90-day arrears	–	5.30%	4.3%	3.8%	4.1%
Charge-offs**	–	110,000	347,598	405,554	415,554

  

<b>Propertyfinance RML 2005-3 Trust</b>	Aug-2007	31-Mar-2009	31-Mar-2010	31-Mar-2011	24-Jun-2011
Pool size	317,006,497	169,327,248	104,317,685	74,430,020	69,217,339
Number of loans	1,031	585	389	288	270
Average loan size	385,653	365,718	338,694	330,800	328,044
Average loan to value ratio	78.5%	79.30%	78.6%	78.4%	79%
Owner occupied	426	341	232	167	Not available
Investment	288	244	157	121	Not available
90-day arrears	3.3%	9.90%	7.6%	7.6%	6.9%
Charge-offs**	–	6,453,855	10,583,870	11,887,745	13,179,311

  

<b>Propertyfinance CM 2005-2 Trust</b>	Aug-2007	31-Mar-2009	31-Mar-2010	31-Mar-2011	24-Jun-2011
Pool size	157,212,541	111,380,862	91,261,620	85,672,758	84,283,059
Number of loans	114	72	62	57	57
Average loan size	1,588,005	1,687,589	1,576,476	1,616,467	1,590,246
Average loan to value ratio	68.7%	69.40%	68.4%	67.3%	67%
90-day arrears	–	14.60%	5.2%	10.5%	10.82%
Charge-offs**	–	110,240	3,569,205	4,660,471	4,660,471

  

<b>Propertyfinance LS 2005-4 Trust</b>	Aug-2007	31-Mar-2009	31-Mar-2010	31-Mar-2011	31-May-2011
Pool size	75,749,913	62,917,325	59,324,986	54,561,776	53,183,423
Number of loans	980	813	751	685	674
Average loan to value ratio	16.1%	28.50%	30.6%	33.5%	33.4%
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	\$8,063,415 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%	\$4,600,734 impairment