PROPERTY FINANCE

PROPERTYFINANCE SECURITIES LIMITED ("Company")

QUARTERLY MORATORIUM REPORT

31 May 2010

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 March 2010) 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 31 December 2009.*

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.

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.

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 $0.91 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 G.

On 14 May 2010 the Company's sole shareholder, propertyfinance group limited (PFG), announced that it was convening a Special Meeting of shareholders to consider a Resolution that PFG be delisted from the NZX and be placed in voluntary liquidation.

At the date of this report the Directors of the Company do not expect this to adversely impact on the conduct of the Moratorium, however an existing intercompany receivable of $223,948, which has been fully impaired by the Company, will be written off once PFG enters liquidation.

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 2009.

The most recent interim financial statements for the Company were prepared as at 30 September 2009. 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 2009 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.

The audited financial statements for the Company, prepared as at 31 March 2010, are in the course of preparation and will be filed with the Companies Office of the Ministry of Economic Development and will be available for public inspection at www.companies.govt.nz.

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

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.*

TABLE A: Statement of Assets and Liabilities

	Mar-2009	Mar-2010
Assets		
Cash and cash equivalents	350	784
Term deposits & cash in Trusts	5,362	5,613
Expense reserve deposits - RMB Trusts	1,050	1,050
Advance to RMB Trusts – issue expenses	2,111	1,633
Accrued interest	66	10
Related party receivables	427	0
Sundry debtors & advances	427	115
Property held for sale	3,679	2,315
Loans receivable	11,277	6,851
Mortgage-Backed Securities	45,425	42,221
Trust debtors	205	205
Intangible assets – software	100	0
Property, plant & equipment	205	23
Income tax prepayment	11	178
Deferred tax asset*	0	0
	70,695	**60,998**
Liabilities		
Trade and other payables	286	187
Debenture repayments outstanding	15	15
Debenture stock**	71,971	72,007
Trust creditors	205	205
	72,477	**72,414**
Net assets	(1,782)	(11,416)

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

** The March 2010 balance includes accrued moratorium interest of $3,225,000.

TABLE B: Management Costs

Quarter Ending	Mar-2010	Dec-2009	Sep-2009
Total Operating Costs	285,102	466,243	393,597
Net Cash Flows	(111,967)	(1,459,649)	2,231,120

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

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	9-42¢
Projected returns (cents per $ NPV)	65-74¢	78¢	4-13¢
Contractual interest rate	9.33%[1]	OCR+2%[2]	n/a
Interest written off (forgiven)	-	$12.3m	$12.3m

(ii) Moratorium Expectations 31 March 2010

	Expectation 31-Mar-2010
Projected period	7 years
Costs over projected period (7 years)	$3.4m
Projected returns (cents per $)	0.91¢
Projected returns (cents per $ NPV)	–
Contractual interest rate	OCR + 2%
Interest written off (forgiven)	$12.3m

TABLE E: Securitisation Programme

Propertyfinance RM 2005-1 Trust	Aug-2007	31-Mar-2009	31-Mar-2010
Pool size	86,043,257	42,456,876	28,775,467
Number of loans	323	162	108
Average by size	283,971	284,945	284,906
Average loan to value ratio	95.2%	95.0%	94.7%
Owner occupied	100%	100%	100%
90-day arrears	–	5.3%	4.3%
Charge-offs	–	110,000	347,598

Propertyfinance RML 2005-3 Trust	Aug-2007	31-Mar-2009	31-Mar-2010
Pool size	317,006,497	317,006,497	104,317,685
Number of loans	1,031	1,031	389
Average loan size	385,653	357,240	338,694
Average loan to value ratio	78.5%	78.5%	78.6%
Owner occupied	426	287	232
Investment	288	200	157
90-day arrears	3.3%	13.0%	7.6%
Charge-offs	–	6,453,855	10,583,870

Propertyfinance CM 2005-2 Trust	Aug-2007	31-Mar-2009	31-Mar-2010
Pool size	157,212,541	111,380,862	91,261,620
Number of loans	114	72	62
Average loan size	1,588,005	1,687,589	1,576,476
Average loan to value ratio	68.7%	69.4%	68.4%
90-day arrears	–	14.6%	5.2%
Charge-offs	–	110,240	3,569,205

Propertyfinance LS 2005-4 Trust	Aug-2007	31-Mar-2009	31-Mar-2010
Pool size	75,749,913	62,917,325	59,324,986
Number of loans	980	813	751
Average loan to value ratio	16.1%	28.5%	30.6%
Average age of borrower	77	79	79

* This information is supplied by NZGT through its noteholder monthly reports.

TABLE G: Key Assumptions by Scenario

Assumption	The Company Directors' Scenario	Receivership Scenario	Latest Expectation
Interest on debentures	OCT + 2%; average total rate of 6.5% assumed	Accrues at a fixed rate of 9.3%	OCT + 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	1 year
Capital losses on MBS	No further net losses	No further net losses	$4,318,753 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%	$2,148,930 impairment