

The Treasury

South Canterbury Finance Limited Information Release

Release Document

April 2011

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

From: John Park
Sent: Wednesday, 8 April 2009 8:54 a.m.
To: Liora Saad
Subject: FW: Watchlist report - SCF- 1Apl08.doc
Attachments: Watchlist report - SCF- 1Apl08.doc

John Park | Team Leader Guarantee Scheme | **The Treasury**

Tel: [1] | John.Park@treasury.govt.nz

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From: Douglas Widdowson [<mailto:Douglas.Widdowson@rbnz.govt.nz>]
Sent: Monday, 6 April 2009 3:07 p.m.
To: Kathryn McBride; Peter Wilding; Stephen Revill; Craig Murphy; John Park
Cc: Andy Wood; Joanna Gordon
Subject: FW: Watchlist report - SCF- 1Apl08.doc

John

Enclosed is the watch list report for SCF for this period

Regards

Douglas Widdowson

Adviser, Domestic Deposit Taking Oversight
Prudential Supervision Department | Reserve Bank of New Zealand
PO Box 2498 | 2 The Terrace | Wellington, New Zealand
Telephone [1] Fax +64 4 471 3995
douglas.widdowson@rbnz.govt.nz | www.rbnz.govt.nz

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South Canterbury Finance Ltd (SCF) – February 2009

Board Members ¹ :	Allan Hubbard (Chairman), Robert White, Edward Sullivan, Stuart Natrass
Management:	Lachie McLeod
Trustee:	Trustee Executors
Guaranteed Deposits (\$)	\$1,897,840k
Deposit holders (#)	34,733

Ownership

SCF is a wholly owned subsidiary of **Southbury Group Limited** (Southbury).

Southbury is controlled by Allan Hubbard via his 70% shareholding.

Southbury also has interests the following key subsidiaries:

- **Scale Corporation Limited** – controlled by Hubbard interests with 83% of the shares held by Rangitata Plains Farms Limited (100% owned by Hubbard), Southbury Group and Hubbard personally.

Scale Corporation in turn owns:

- Mr Apple New Zealand Limited
- Polarcold Stores Limited which in turn owns:
 - Whakatu Coldstores Limited
 - Liqueo Bulk Storage Limited

The group is involved in the following:

- Shipping
- Cool storage – 164,000 tonnes
- Apple production (NZ largest producer)
- Liquid bulk storage
- **Helicopter (NZ) Limited** – controlled by Hubbard interests with 100% shares held by Southbury and Hornchurch Limited (owned 100% by SCF). Helicopter NZ owns and operates 41 helicopters.
- **Dairy Holdings Limited** – controlled by Hubbard interests with 59% of the shares held by Southbury & 3 American registered companies all with addresses at 39 George St, Timaru (Hubbard's office address). Dairy Holdings in turn owns:
 - Clumber Farms Limited
 - West Coast Dairy Limited

The group owns and operates 58 dairy units on 17,500 ha milking 45,382 cows and producing 15.3m kg of milk solids (15.3m x \$6 = \$91.8m gross revenues)

¹ No independent Board Members

In addition to the above investments Southbury has interests in land holdings and a 4% interest in Pyne Gould Corporation (via SCF) which ultimately owns Marac Finance.

SCF owns the following subsidiaries:

Entity	Shares Held %	Value (\$m)	Activity
Face Finance	75	8.7	Plant & Equipment Finance
Fairfield Finance	100	1.4	Acquired Nelson based Finance Company
Flexi Lease	100	6.4	Car leasing
Galway Park	100	0	Not operating
Helicopter Nominees	100	0.84	
Hornchurch	100	14.13	
Kelt Finance	75	2.4	JV with Kelt Capital Hastings – Corporate Financing
Rental Cars	100	1.5	Not operating
SCFG Systems	100	0.010	
Southbury Insurance	100	0.66	Vehicle insurance

Liquidity

(\$000)	Dec 08	Jan 09	Feb 09
Deposits			
Call	17,000	16,570	16,480
Term	1,673,000	1,805,570	1,902,940
Weighted Average Term	3.21 years	3.21 years	3.21 years
Loan Book			
Call	72,000	89,800	139,790
Term	1,543,000	1,436,600	1,452,090
Weighted Average Term	3.53 years	3.45 years	3.53 years

- The call position is positive and the term position is almost matched.

As at Feb 2009, SCF held liquid assets of \$340m in addition to committed funding lines with available credit of ~\$125m (down from \$150m in Jan 09)

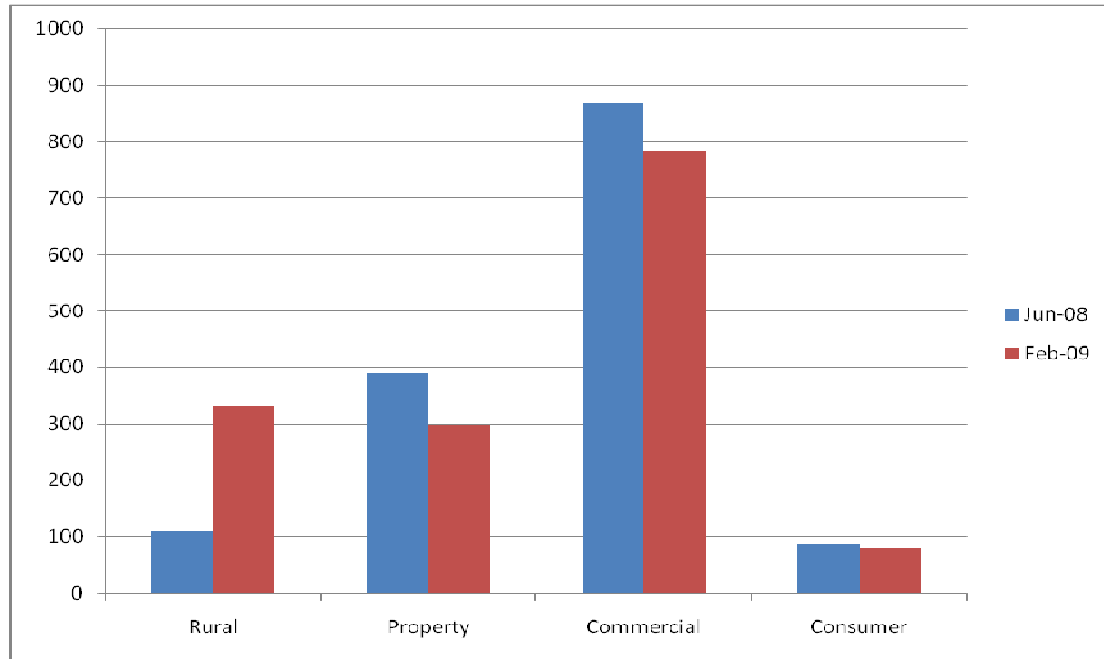
Receivables

SCF has a diversified book lending to the following sectors:

- Rural
- Property (mainly property development)

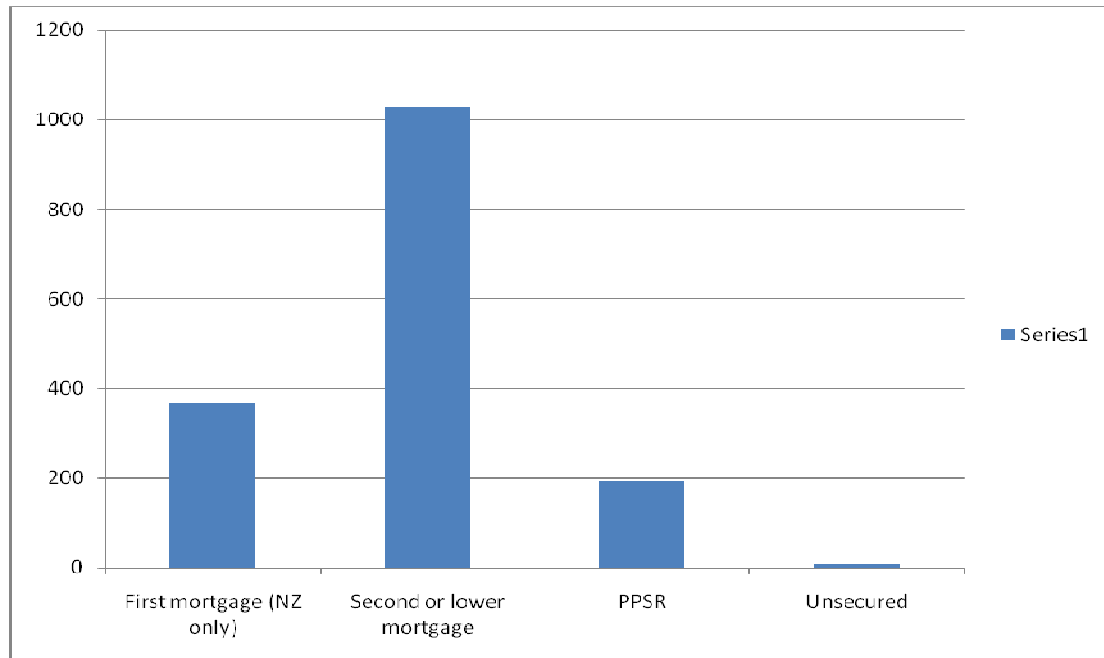
- Commercial
- Consumer

The lending book grew 19% in the 12 months to 31/12/08 from \$1,352,554k to \$1,615,000k. The book reduced by \$89m in January 2009 to \$1,526,400 via the sale of loans by SCF to the parent, Southbury, but then increased to \$1,591,880 in February 2009 on the back of \$65m of new lending:



The property sector is dominated by Property Development loans (75% of the property book)

A feature of the SCF book is the comparatively high level of second mortgage security held.



Asset Quality

	Jan 09	Feb 09	% movement
30+ arrears	42,700	82,310	↑93
90+ arrears	0	5,440	↑100
Loans with capitalising interest	73,000	111,030	↑52
Impaired Assets	152,300	164,700	↑8
Provisions % of 90 day + arrears and impaired assets	37%	12%	↓68%

Average LVR/Average loan size

Sector	Average Loan Size (\$M)	Average LVR
Agriculture/farming	1	60%
Property Development	2.6	70%
Other property investment	0.950	90%
Commercial	0.500	Not applicable
Consumer	0.010	Not applicable

Performance

	FY05	FY06	FY07	FY08	6mths Dec08
RoE	21%	18%	16%	27%	11% ²
Opex / Revenue			25%	23%	19%
Equity / TTA	10%	10%	13%	13%	12%
Loan Provision/Loan Book			1.02%	1.55%	1.5%
Interest Margin			5.77bps	4.24bps	5.5bps ³
Related Party Lending/loan book			5.55%	4.66%	10.29%
NPBT	30,276	38,707	46,394	80,731 (Note below)	20,000

Note: FY08 includes \$44.5m capital gain from selling 12.75% share in Dairy Holdings.

² Annualised

³ Annualised estimate based on position as at 12/08

Estimated Loss to the Crown

The contingent liability to the Crown is \$1,898, 840k made up of 34,733 depositors.

In the event of default the estimated loss to the Crown is expected to be circa \$485m as detailed in appendix A

Concerns

1. General concerns over Corporate Governance given the extent of control exerted by the Chairman and majority shareholder (Allan Hubbard).
2. High level of impaired assets at 10% of the book.
3. High level of arrears at 5% of the book and the deteriorating trend in the arrears levels.
4. High levels of related party loans now at 13% of the loan book (\$201m) including loans made by SCF to SCF senior managers to purchase shares in the parent company.
5. Recent related party transactions which has led to a possible breach of the Crown Guarantee (clause 6.2 (b)).
6. Lack of published accounts for the parent, Southbury Group Limited.
7. High concentration exposure to the largest 6 borrowers, averaging \$31m each (each potentially 12% of shareholders funds).
8. High proportion of security held being second or lower mortgages (65% of the loan book)
9. Exposure to the property development sector (\$300m) with a portion of these being capitalised interest facilities.

Recommendations

1. Continued robust monthly monitoring.
2. SCF to be put on notice regarding the Crown Guarantee breach.
3. Ongoing support of SCF Trustees.

Appendix A

Asset Class	Portfolio (\$m)	Est. PD (%)	Est. LGD (%)	Est. Loss (\$m)
Rural secured by 1 st Mortgage	86	5	25	1
Rural secured by 2 nd Mortgage	247	15	100	37
Property development secured by 1 st Mortgage	78	50	50	20
Property development secured by 2 nd Mortgage	221	75	100	165
Other Property related secured by 1 st Mortgage	25	10	25	1
Other Property related secured by 2 nd Mortgage	71	40	100	28
Commercial secured by 1 st Mortgage	173	10	25	4
Commercial secured by 2 nd Mortgage	492	40	100	197
Commercial secured by PPSR	118	20	50	12
Consumer secured by PPSR	74	20	50	7
Consumer unsecured	6	20	100	1
	1,591			473

The loss to the Crown is estimated as follows:

Assets		Liabilities	
Receivables (\$1,591 - \$473)	1,118	Guaranteed Deposits	1,898
Cash	340	Non-Guaranteed Deposits	151
Trade (50% discounted)	9	Other liabilities	47
Op leases (90% discounted)	1		
Fixed Assets (50% discount)	52		
Listed Equity Investments (50%)	43		
Intangibles			
	1,563		2,096

Total shortfall of \$533m spread as follows:

Crown	91%	\$485m
No Guaranteed Depositors	07%	\$ 37m
Other Creditors	02%	\$ 11m