

17 April 2009

Lachie McLeod  
South Canterbury Finance Limited  
7 Sophia Street  
PO Box 125  
TIMARU 7940

CC, Trustees Executors Limited  
CC Doug Widdowson, Advisor, Reserve Bank of New Zealand

Dear Lachie,

**Crown Request for Information under clauses 4.1 and 6.4 of Crown Deed of Guarantee (Non-Bank Deposit Taker)**

South Canterbury Finance Limited ("SCF") and Her Majesty the Queen in right of New Zealand, acting through the Minister of Finance (the "Crown") entered into a Crown Deed of Guarantee (Non-Bank Deposit Taker) on 19 November 2008 (the "Deed").

As part of the ongoing monitoring process under the Retail Deposit Guarantee Scheme it has been brought to my attention that SCF may have breached its obligations under section 6.2(b) of the Crown Deed of Guarantee. The text of clause 6.2 (and its related clause, clause 6.8) is set out in an attachment to this letter.

We are advised that the first transaction relates to the sale of loans by SCF to the Southbury Group for \$89.60 million in December 2008. Southbury has been described to us (in a paper handed to us by Lachie McLeod at a meeting on 22 January) as SCF's "parent". As such it would appear that it is accepted by SCF that Southbury has control of SCF in terms of 6.8 of the Deed. The threshold above which such transactions require consent from the Crown is one percent of total tangible assets and at the relevant time that was \$21.36 million. No such consent was requested and no written certificate from an independent expert approved by the Crown was supplied to show that the transaction was at arm's length.

There is another transaction relates to the purchase of listed equity investments in January 2009 for \$90 million. Whilst we have no further details of this transaction it has been advised to us that the transaction was concluded with a related party and therefore one that may fall with the definition of control set out in clause 6.8 of the guarantee deed. If such is the case then the transaction exceeded the one percent threshold (which stood at \$22.30 million) and no consent was sought by SCF from the Crown for this transaction to take place, nor was there any independent certification from an expert approved by the Crown to show that the transaction was at arm's length.

The Crown views clause 6.2 as being very important. You will appreciate that breaches of clause 6.2 can result in withdrawal of the Crown Guarantee under clause 6.9. You will also be

aware of the meeting between SCF and my predecessor, Dr Brian McCulloch, on 22 January 2009 to discuss your paper entitled "Proposals for the Future" (the "paper") . It would appear from a communication from Brian on 23 February 2009 that clause 6.2 was discussed at that meeting. By that e mail communication Brian advised your colleague Mr Lachie McLeod that the transactions the subject of the paper would require Crown consent and this consent would be subject to a number of requirements.

Can you please confirm whether the above transactions took place between SCF and other parties that controls or is under common control with SCF, and if they did:

- The relevant details of each transaction;
- On what basis was it determined that Crown consent or independent certification was not required.

Further to my request for information in relation to the programme of related party transactions and as part of the Crown's ongoing management of its contingent liability under the Deposit Guarantee Scheme, the Crown is seeking additional information from SCF. Pursuant to clauses 4.1 and 6.4 of the Deed, we request the following information:

1. SCF's management reporting suite (in regard to credit, capital adequacy and financial performance) for the past three months;
2. An outline of SCF's current and forecasted liquidity position, and liquidity management policy;
3. A detailed summary of SCF's arrears position (including impaired assets) and SCF's definition of an "arrear"; and
4. A detailed outline of SCF's loan portfolio (in the form attached).

Please note that we may also be in contact with third parties related to SCF, such as its Trustee, bankers and auditor seeking related information under clause 4.2 of the Deed.

Please provide the information requested to us as soon as possible, but no later than **Thursday 30 April 2009**, together with a certificate signed by two Directors of SCF that the information provided to us is true, correct and complete in all material respects as at the date of return and that no Default Event has occurred.

We think it would also be helpful that you also provide the information that we have requested in this letter to your Trustee as soon as possible (either before sending it to us or concurrently).

If you have any questions or require any further information, please do not hesitate to call me or Craig Murphy.

Yours faithfully

John Park  
Team Leader Guarantee Scheme