

The Treasury

South Canterbury Finance Limited Information Release

Release Document

April 2011

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Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [2] 9(2)(b)(i) - to protect trade secrets
- [3] 9(2)(b)(ii) - to avoid unreasonable prejudice to the commercial position of the person who supplied the information or who is the subject of the information
- [4] 9(2)(ba) - to protect information that is subject to an obligation of confidence, or that was or could be provided under legal compulsion, where making the information available would be likely to prejudice the supply of similar information and it is in the public interest for that information to continue to be supplied
- [5] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [6] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [7] 9(2)(h) - to maintain legal professional privilege
- [8] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice.

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, an [8] appearing where information has been withheld in a release document refers to section 9(2)(i).

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

On the 12th of May a meeting between South Canterbury Finance Limited (“SCF”) and The Treasury was held on level five of No 1 The Terrace.

Present at the meeting were;

- [1] [redacted] - CFO SCF
- John Park – Team Leader, Deposit Guarantee Scheme (Treasury)
- Stephen Revill – Senior Solicitor (Treasury)
- Craig Murphy – Senior Analyst (Treasury)

The meeting centred around 4 issues;

1. Retail Deposit Guarantee Scheme;
2. Wholesale Deposit Guarantee Scheme;
3. Credit Quality; and
4. General issues.

1. Retail Deposit Guarantee Scheme

- [1] [redacted] indicated that SCF has pressure building on its funding from Jan 2010, as the DGS has distorted the depositor market (SCFs liabilities book is shortening).
- SCF would like to see an extension of the DGS announced sooner rather than later, to enable them to conduct their business with more surety and lengthen its liabilities.

2. Wholesale Deposit Guarantee Scheme

- SCF would like to be accepted onto the Wholesale Deposit Guarantee Scheme, as it would help with the diversification of funding.
- SCF would like to issue NZD100m in each NZD, USD and an Asian currency on 1, 2 or 3 year terms.
- SCF do have interest from the same group of investors that they completed the USPP with.

3. Credit Quality

- [1] [redacted] talked through SCF’s loan books generally. Most sectors are performing apart from significant parts of the property book.
- [1] [redacted] acknowledged that the world has changed, and indicated that SCF is working to change their business model to reflect this, specifically they are working on:
 - Reducing property exposures (acknowledged as a slow process), and to this end now have a work out team on the ground (Ian Thompson ex Westpac);
 - Reducing the size of SCFs book to circa \$1.5b; and
 - Increasing the level of equity in SCF, which is a function of book shrinkage and Hubbard providing more cash and or assets. It is acknowledged that Hubbard has very little cash (and

is very reluctant to sell farms or any assets) and that it will mostly likely occur through the merger of SCF and Southbury Group Limited (“SGL”) assets.

4. General Business

- John mentioned that we would be appointing an inspector to gather further information from South Canterbury Finance Limited. This drew a muted, but positive reaction.
- [1] talked through Hubbards recent transactions where he “swapped in” some “good assets” (farms), for loans that would have needed to be marked as impaired in the accounts to impaired assets low in the accounts. We indicated that this was less than ideal, and it would be preferable that the assets be left in SCF and additional cash injected.
- [1] talked through the restructure of the group which is being considered (SGL looking to swap its assets for shares in SCF). We have been consulted in regard to the independent expert that is proposed to be used as part of this process.
- SCF are looking to use a larger, better known audit firm from the end of this year, which could be either tier one or tier two.

Craig Murphy
Senior Analyst

John Park
Team Leader Deposit Guarantee Scheme