The Treasury

South Canterbury Finance Limited Information Release

Release Document

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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: Craig Murphy
Sent: Wednesday, 24 June 2009 11:38 a.m.
To: [1]
Subject: Sector Reporting.
Attachments: Sector Report CU January to February 2009 _2_.pdf; Sector Report FC January 2009 to Fenruary 2009 _2_.pdf; Sector Report BS January to February 2009 _2_.pdf; Sector Report FC March 2009.doc; Sector Report BS March 2009.doc

[1]

Please find attached the RBNZ sector reporting.

Regards,

Craig Murphy | Senior Analyst | **The Treasury**
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Sector Report – Finance Companies

January 2009 to February 2009

This paper outlines the key changes in the finance company sector over the months of January and February 2009. It excludes data from Building Societies and Credit Unions.

Executive Summary

- New guaranteed retail deposits are being used to fund new lending as opposed to last month where funds were being used to repay non guaranteed deposits and other creditors with the balance being deposited with Banks.

- South Canterbury Finance appears to be almost single handily driving the entire sector in terms of new lending for the month having lent $113m for the month or 94% of the net increase in receivables for the sector.

- Asset quality continues to deteriorate on the back of generally deteriorating economic conditions as evidenced by increasing total arrears up 90bpts to 8.4% of the book and impaired assets plus 90 day + arrears up 60bpts to 11.8% of the book.

- Of concern is the negative trend in provisions as a percentage of impaired assets plus 90 day + arrears. This percentage has dropped from 19.3% (adjusted refer note below) to 12.7% indicating that new provisioning is not keeping pace with the increasing levels of impaired assets.

- The sectors financial performance was generally stable in the month with a recovery in lending margin from 3.4% to 3.9% but an increase in the OPEX to total revenues from 24% to 27%. Of note is that cash flows from operations have moved from negative to positive and the reliance on cash flows from financing have reduced significantly.

- The sector generated NPBT of $30m for the quarter although 12 of the 28 entities made losses. The loss making entities were generally the smaller higher risk entities apart from Allied Nationwide.

- Two new entities were reported on in February being Rockforte Finance and [3] ese entities with guaranteed deposits of $2m and $9m have minimal impact on the sector results overall.

Analysis

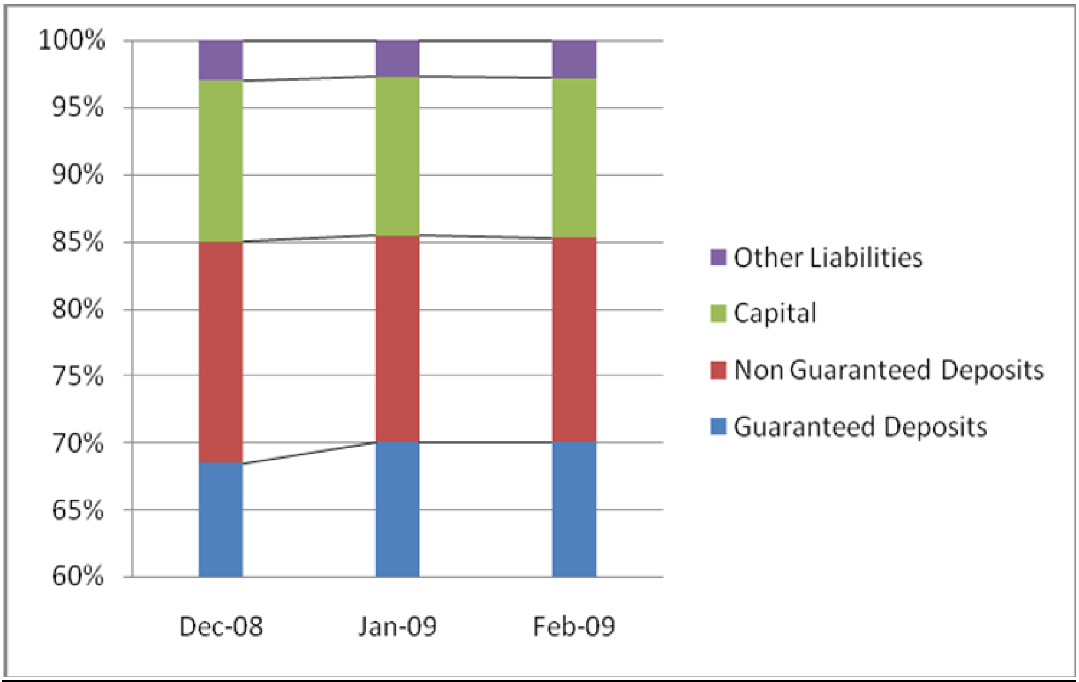
1. Fund Flows

- The sector generated circa $129m of cash flow principally sourced from:
    - Increase in guaranteed deposits $72m
    - Decrease in liquid assets $26m

- The funds generated were principally used to:
    - Increase the loan book by circa $120m
        - New lending was mainly driven by SCF $113m (property development & commercial) & Equitable $24m (property investment)

2. Changes in Liability Structure

There was minimal change in the liability structure for the sector for the month.



3. Liquidity

Liabilities

- Deposits increased by $72m over the month.
- Funding lines decreased by $12m over the month
- The weighted average maturities remained stable:
  - Retail deposits maintained a circa 12 month weighted average maturity.
  - Funding line average weighted maturity decreased from 19 months to 18 months.

Assets

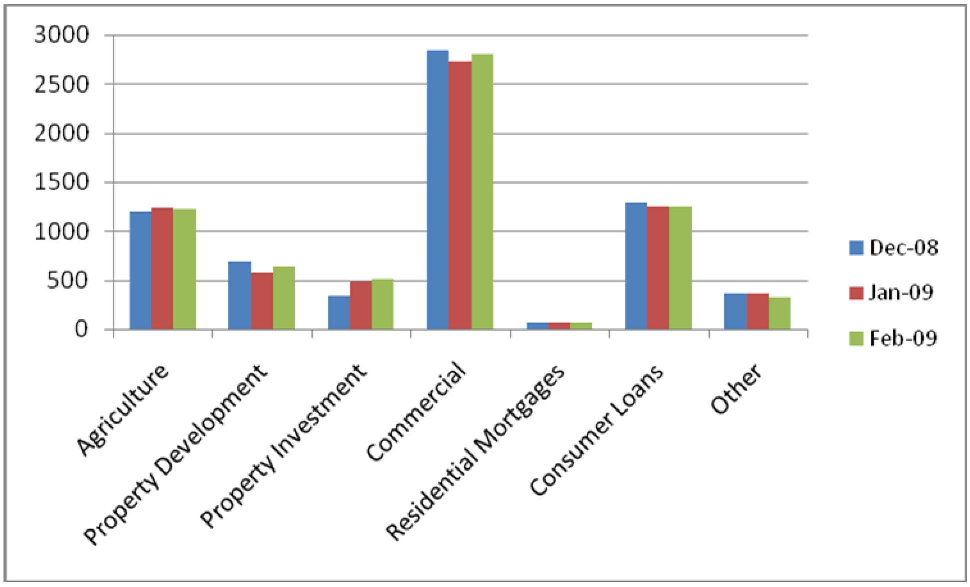
- Total loans increased by $120m for the month.
- The weighted average maturity for the loan book decreased from 29 to 25 months.

Assets and liabilities are reasonably matched in terms of gross value however liquidity issues present themselves at circa 12 months.

4. Reinvestment Rate

The reinvestment rate for the month decreased from 67% to 63%.

5. Changes in Lending Sectors



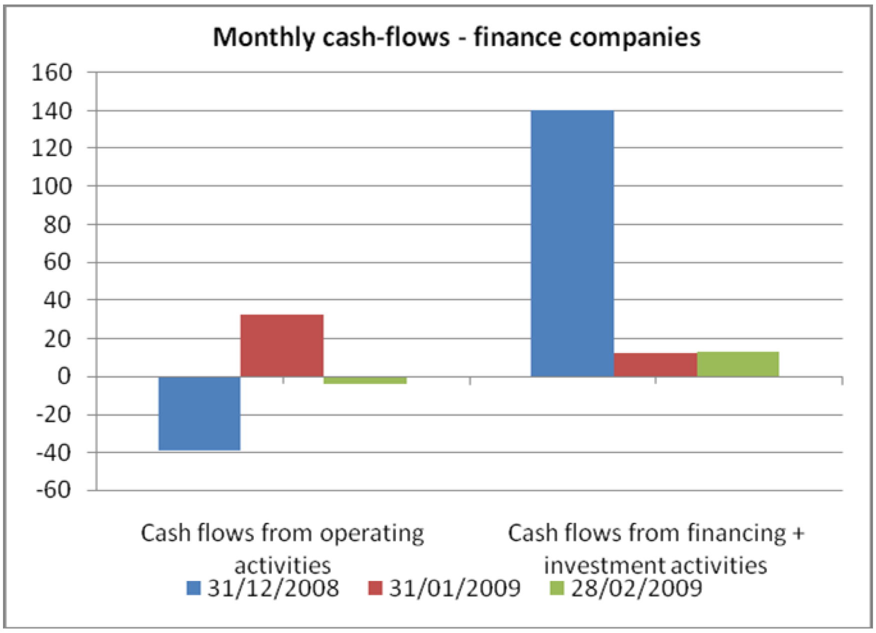
Generally the finance companies exposure to the various lending sectors remains stable.

6. Asset Quality

- There has been deterioration in asset quality over the month as evidenced by increases in total arrears, impaired assets and 90 day + arrears (up 90bpts & 60bpts respectively)
- Provisions to impaired assets and 90 day + arrears has deteriorated from 19.3% to 12.7% (last month provisions were compared to impaired assets only and reported at 24%) indicating that new provisioning is not keeping pace with the increasing levels of impaired assets.
- Transactions with capitalised interest have increased (50bpts) whilst related party transactions have decreased (80bpts)

7. Performance

- The net interest margin over the sector recovered from 3.4% to 3.9%.
- OPEX to total revenues increased from 24% of total revenues to 27% of total revenues.
- The sector generated NPBT of $30m for the quarter although 12 of the 28 entities made losses. The loss making entities were generally the smaller higher risk entities apart from Allied Nationwide.
- Distributions increased over the month from $2m to $5m.
- Cash flows from operations have been volatile and tending negative but now appear to be stabilising. When the sector operating cash flows were negative funding was sourced from financing activities, this trend appears to have now abated at the moment.



<u>Appendix A contains supporting information.</u>

APPENDIX A

Reconciliation of key monthly changes

	($m)
Inflows	
Increase in guaranteed deposits	72
Increase in non guaranteed deposits	2
Increase in capital	16
Increase in other liabilities	13
Decrease in liquid assets	26
Total monthly inflows	**129**
Outflows	
Increase in loan book	120
Increase in other assets	9
Total Monthly Outflows	**129**

Liquidity

Deposits	Amount ($m)	Monthly Change ($m)	Monthly Change (%)	Weighted Average Term (months)
Call	519	↑1	0	0
Term	5,189	↑72	↑1	12
Funding Lines	1,524	↓12	↓1	↓18
Total	**7,232**	**↑62**	**0**	**13**

Loans	Amount ($m)	Monthly Change ($m)	Monthly Change (%)	Weighted Average Term (months)
Call	1,794	↑116	↑7	0
Term	5,028	↑3	0	↓25
Total	**6,822**	**↑119**	**↑0**	**25**

Lending Sectors

Sector	Exposure ($m)	Change ($m)	Change (%)
Agriculture	1,224	↓15	↓1
Property Development	637	↑58	↑10
Property Other	505	↑23	↑5
Commercial	2,799	↑76	↑3
Residential	71	↑4	↑6
Consumer	1,255	↑6	↑0
Other	331	↓31	↓9
Total	**6,822**	**↑121**	**↑2**

Asset Quality

	(%)	Change
Total Arrears/Book	8.4	↑90bpts
Arrears (90 days +) & Impaired Assets/Book	11.8	↑60bpts
Capitalised Interest Loans/Book	7.6	↑50bpts
Related Party Loans/Book	3.3	↓80bpts
Provisions/Impaired Assets + 90 day + arrears	12.7%	↓660bpts

Performance

	Jan 09 (%)	**Feb 09 (%)**	**Change**
Interest Margin	3.6	3.9	↑
OPEX/Total Revenues	24	27	↑
Distributions	$2m	$5m	↑

Sector Report – Finance Companies

March 2009

This paper outlines the key changes in the finance company sector over the month of March 2009. It excludes data from Building Societies and Credit Unions.

Executive Summary

- Mascot Finance has been excluded from the reporting cycle as of March 2009.

- There were no new Finance Company entities approved into in the DGS in March 2009.

- The sectors total balance sheet reduced by $109m over the month.

- Guaranteed retail deposits reduced by $153m for the month. This is the first time since reporting started in December 2008 that guaranteed deposits have not increased on a month on month basis. Mascot Finance exclusion accounted for $66m of the reduction (net movement of negative $87m).

- The reinvestment rate for the month decreased from 71% to 63% contributing to the overall reduction in deposits.

- Liquidity in the sector remained materially consistent.
  - Both the deposit books and loan books reduced in size ($129m & $244m respectively).
  - Committed credit lines reduced by $204m.
  - The weighted average maturity for deposits reduced 1 month to 11 months.
  - The weighted average maturity for committed credit lines reduced by 7 month to 11 months.
  - The weighted average maturity for loans increased from 20 months to 21 months.

- As noted the sector loan book decreased by $244m however, this was almost entirely driven by:
  - [3] reclassification of assets. [3] reported $156m of previous commercial loans as operating leases which are recorded as "other assets" therefore reducing the reported loan book.
  - The removal of Mascot Finance from the reporting cycle accounted for $82m of the remaining $88 reduction.

- The sectors asset quality appears to be stable to slightly deteriorating on the back of a 30bpt increase in 90 day + arrears & impaired assets to the loan book.

- Provisions to impaired assets and 90 day + arrears has deteriorated from 12.7% to 10.7% indicating that new provisioning continues not to keep pace with the increasing levels of impaired assets.

- The sectors financial performance was generally stable in the month with a stable lending margin of 4% but an increase in the OPEX to total revenues from 27% to 29% (a possible driver for this is that some entities have a 31/03/09 balance dated and write offs were taken in the March month). Of note is that cash flows from operations have moved from negative to positive and the reliance on cash flows from financing have reduced significantly.

<u>Analysis</u>

1. Changes in Assets & Liabilities

The sectors total balance sheet reduced by $109m over the month.

- Changes in assets:
  - Reduction in the loan book ↓$ 244m
  - Reduction in liquid assets ↓$ 94m
  - Increase other assets ↑$ 229m

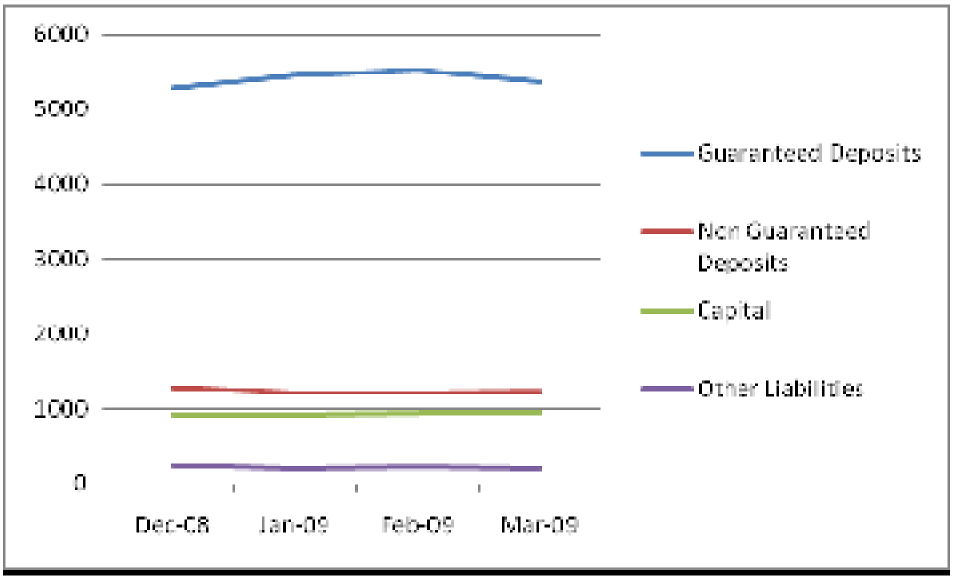
- Changes in liabilities:
  - Reduction in guarantee deposits ↓$153m
  - Reduction in other liabilities ↓$ 9m
  - Increase in capital ↑$ 29m
  - Increase in non guaranteed deposits ↑$ 24m

This month's reporting was distorted by [3] reclassification of assets. [3] reported $156m of previous commercial loans as operating leases which are recorded as "other assets" therefore reducing the reported loan book.

Mascot Finance was removed from the monthly reporting cycle and accounted for $82m of the remaining $88m reduction in the loan book and $66m of the $153m reduction in guaranteed deposits.

2. Changes in Liability Structure

There was minimal change in the liability structure for the sector for the month aside from the reduction in guaranteed deposits of $153m (between Dec 08 & Feb 09 guaranteed deposits increased by $239m).



3. Liquidity

The sectors loan and deposit books are reasonably match in terms of gross value (deposits $6,950m and loans $6,578m).

The deposit book reduced by a net amount of $129m with 43% of this ($66m) attributed to the removal of Mascot from the reporting cycle.

There was a $204m reduction in committed funding lines ($1,524m to $1,370m) driven by reductions the funding lines for the following entities:

[3]

The weighted average maturity (WAM) for deposits reduced by one month to 11 months and the WAM for committed funding lines reduced from circa 18 months to 11 months on the back of a reduction in the WAM of [3]

The sector loan book decreased by $244m, however as noted this is almost entirely driven by [3] 's reclassification of assets ($156m) and the removal of Mascot Finance from the reporting cycle ($82m).

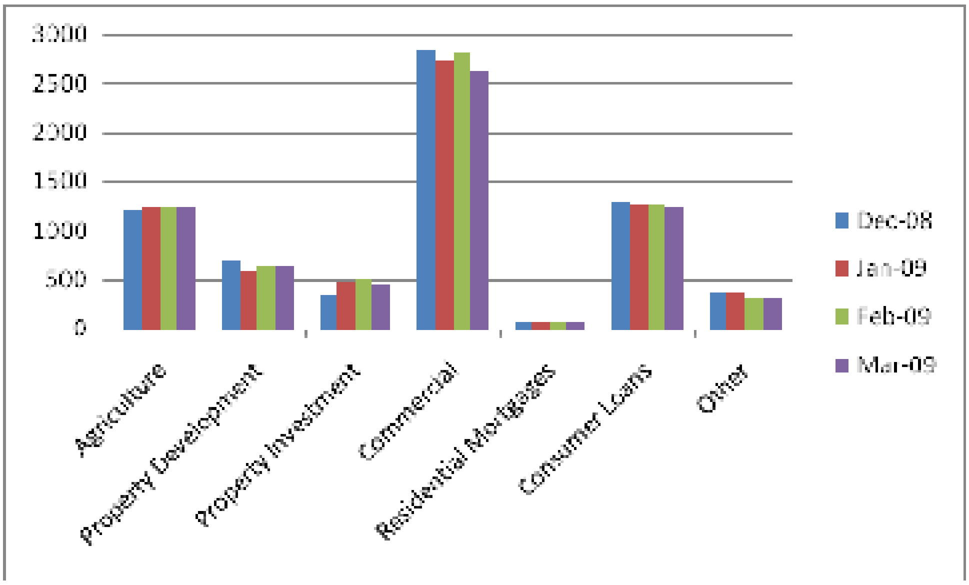
The weighted average maturity for the loan book increased from 20 months (adjusted from prior month) to 21 months.

As stated assets and liabilities are reasonably matched in terms of gross value however liquidity issues present themselves at circa 12 months.

4. Reinvestment Rate

The reinvestment rate for the month decreased from 71% to 63% (the reinvestment rate was reported as a simple average rather than a weighted average last month).

5. Changes in Lending Sectors



Generally the finance companies exposure to the various lending sectors remains stable aside from the impact of [3] ; asset reclassification and Mascot's removal in the month.

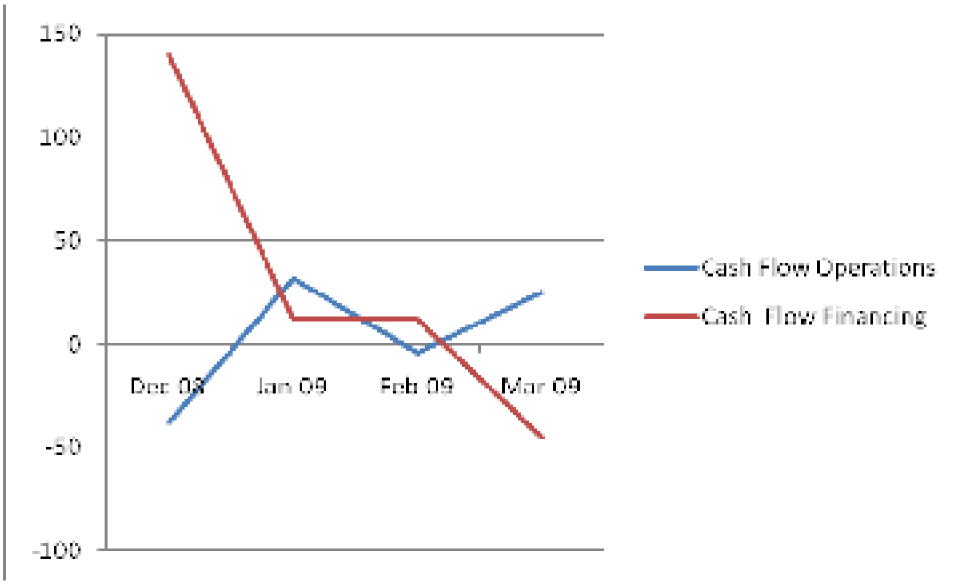
6. Asset Quality

- The sectors asset quality appears to stable to slightly deteriorating on the back of a 30bpt increase in 90 day + arrears & impaired assets to the book.
- Provisions to impaired assets and 90 day + arrears has deteriorated from 12.7% to 10.7% indicating that new provisioning is not keeping pace with the increasing levels of impaired assets.
- Transactions with capitalised interest have increased (10bpts) whilst related party transactions have decreased (110bpts)

7. Performance

- The net interest margin over the sector was stable at circa 4%
- OPEX to total revenues increased from 27% of total revenues to 29% of total revenues – (a possible driver for this is that some entities have a 31/03/09 balance dated and write offs were taken in the March month).

- The NPBT for the sector halved in month from $11m to $6m – the key entities driving this decline were [3] , and SCF (as stated the deterioration in financial performance could be linked to bad debt write offs in the month)
- Distributions were stable over the month at $5m.
- Cash flows from operations have been volatile and tending negative but now appear to be stabilising. When the sector operating cash flows were negative funding was sourced from financing activities, this trend appears to have now abated at the moment.



<u>Appendix A contains supporting information.</u>

APPENDIX A

Reconciliation of key monthly assets & liability changes

	($m)
Assets	
Loan Book	↓88
Liquid Assets	↓94
Other Assets	↑73
Total Monthly Change	**↓109**
Liabilities	
Guaranteed Deposits	↓153
Non Guaranteed Deposits	↑24
Capital	↑29
Other Liabilities	↓9
Total Monthly Change	**↓109**

Liquidity

Deposits	Amount ($m)	Monthly Change ($m)	Monthly Change (%)	Weighted Average Term (months)
Call	515	↓4	↓1	0
Term	6,075	↓125	↓2	↑15
Funding Lines	1,370	↓204	↓13	↓14
Total	**7,960**	**↓333**	**↓4**	**↑14**

Loans	Amount ($m)	Monthly Change ($m)	Monthly Change (%)	Weighted Average Term (months)
Call	1,639	↓155	↓9	0
Term	4,999	↓89	↓2	↑28
Total	**6,578**	**↓244**	**↓4**	**↑28**

Lending Sectors

Sector	Exposure ($m)	Change ($m)	Change (%)
Agriculture	1,236	↑12	↑1
Property Development	631	↓6	↓1
Property Other	444	↓61	↓12
Commercial	2,630	↓169	↓6
Residential	75	↑4	↑6
Consumer	1,230	↓25	↓2
Other	332	↑1	0
Total	**6,578**	**↓244**	**↓4**

Asset Quality

	(%)	Change
30 days + Arrears/Book	4.7	↓50bpts
Arrears (90 days +) & Impaired Assets/Book	12.1	↑30bpts
Capitalised Interest Loans/Book	7.7	↑10bpts
Related Party Loans/Book	3.4	↑10bpts
Provisions/Impaired Assets + 90 day + arrears	10.7	↓200bpts

Performance

	Feb 09	**Mar 09**	**Change**
Interest Margin	3.9%	4.0%	↑
OPEX/Total Revenues	27%	29%	↑
Distributions	$5m	$5m	0
NPBT	$11	$6m	↓