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.

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[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

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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.

From: Craig Murphy
Sent: Wednesday, 8 July 2009 8:09 a.m.
To: Joanna Gordon; John Park
Cc: Stephen Revill; Peter Wilding; [1] William More
Subject: RE: HOYA UPDATE - the rating is out...
Attachments: image001.gif

http://www.stuff.co.nz/timaru-herald/news/2573612/Threat-hangs-over-SC-Finance

…essentially the same message, but a little less positive.

Craig Murphy | Senior Analyst | **The Treasury**
Tel: +64 [1]

From: Craig Murphy
Sent: Wednesday, 8 July 2009 7:41 a.m.
To: Craig Murphy; Joanna Gordon; John Park
Cc: Stephen Revill; Peter Wilding; [1] William More
Subject: HOYA UPDATE - the rating is out...

South Canterbury Finance gets S&P warning

http://www.depositrates.co.nz/news/976495349/south-canterbury-finance-gets-s-p-warning.html

The excerpt below is from deposit rates.

South Canterbury Finance is teetering on the edge of moving into junk bond status.

Tuesday, 7 July 2009

Standard & Poor's has completed its review of South Canterbury Finance and left its rating at BBB- but put it on creditwatch negative.

A BBB- is the lowest rating on the investment grade status and any downgrade would have significant implications for the company.

A CreditWatch negative status means that the rating could change and any change would be in a downward direction.

S&P says the negative listing implies a "one-in-two chance" of a rating downgrade in the next three months.

The ratings agency says its rating action follows SCF's announcement of a loss of $37 million and because of "a material provisioning expense of $58 million."

"The CreditWatch action reflects our view that there is now an increased risk that some of the non-performing assets could translate into lending losses ultimately," Standard & Poor's credit analyst Derryl D'silva says SCF's decision to shift its holdings of liquid assets from cash to higher risk and high-yield investments has increased the risk profile of the company and weakened its liquidity.

"The investments have also resulted in an increase in related-party exposures, which have moderated SCF's capitalisation, and are a weakness at the 'BBB-' rating level."

Additionally, an existing rating trigger on SCF's US$100 million private-placement facility compounds the liquidity concerns.

"The trigger specifies that if the rating on SCF were lowered to below 'BBB-', funding providers may review or withdraw their funding support for SCF. Such a downgrade would likely exacerbate the consequent negative rating momentum, whereby a small negative ratings movement could magnify significantly because of liquidity difficulties that may emerge."

Positive factors for the company include SCF's sound business profile and geographic diversity, which underpin the company's market position as one of the largest domestically owned finance companies in New Zealand.

"The 'BBB-' rating is supported by our expectation that SCF's primary shareholder, Allan Hubbard, will remain steadfast in his ability and willingness to support SCF if required."

Hubbard injected $40 million in capital into the company last week to absorb the impact of the increased credit costs.

"At the same time, he plans to have a legal underwriting agreement (which is yet to be executed) that is expected to stand as security for any further specific loans that could become impaired."

D'silva said the ratings may be lowered by one or more notches should SCF fail to address pressures concerning its liquidity and its weaker capital adequacy position stemming from related-party exposures and rising credit costs.

" In addition, the ratings may be removed from CreditWatch if SCF's underwriting agreement with its major shareholder were successfully executed, and if SCF reduced or eliminated its related-party exposures such that it decreases the pressure on its capitalisation level."

Craig Murphy | Senior Analyst | **The Treasury**
Tel: +64 [1]

From: Craig Murphy
Sent: Tuesday, 7 July 2009 12:03 p.m.
To: Joanna Gordon; John Park
Cc: Stephen Revill; Peter Wilding;[1] William More

Subject: HOYA UPDATE
Importance: High

[SEEMAIL]

Hello All,

Please find attached an update on SCF.

I received an e-mail from Korda Mentha in regard to their visit to SCF on Monday. Key point of the e-mail were:

a. Korda Mentha met with Allan Hubbard, Lachie McLeod and [[1]] in Timaru yesterday;

b. Korda Mentha were given an outline as to the wider group structure (including Southbury Group) and the planned restructure that the wider Group is implementing this week;

c. Korda Mentha now have a critical path in terms of delivery for all documentation we require and this should all be available by Friday 10 July;

d. Korda Mentha have received some preliminary downloads of information and expect further in that regard today (The most valuable information in relation to individual loans, etc, will only be accessible on site);

e. Korda Mentha agreed with the Company that we will commence a full review on Monday 13 July, which will initially be undertaken in Timaru, although some work will also be undertaken in Christchurch where the Asset Management team is domiciled;

f. All in all Korda Mentha interpreted as being very positive meeting, although it was observed that the company is under some pressure with year end, S+P review, the restructure etc;

g. In relation to the restructure, it was outlined to Korda Mentha that circa 36 out of a team of 120 will be advised in the next 48 hours of their release and that message is necessarily being made by the management team, hence the commitment to the Monday morning start for the detailed review; and

h. A key message was outlined in the Korda Mentha update as to the <u>potential effect of a S+P downgrade, Korda Mentha</u>'s comment were:

   i. Korda Mentha haven't yet been able to review any documentation relating to the issue, but SCF advised that <u>an event of review under the terms of the US Private Placement will arise if the S+P rating falls below BBB-</u>;

   ii. Korda Mentha understand that the <u>event of review</u> period lasts for six weeks and at the end of that period those lenders will be entitled to <u>call for repayment of circa US100million owing</u> to them unless they agree otherwise:

   iii. Korda Mentha also understand this will cause <u>cross defaults under both the Trust Deed and the Group's standby funding lines</u>. Korda Mentha are attempting to access relevant documentation as a matter of urgency: and

   iv. Korda Mentha understand that the <u>S+P announcement was expected last night and must now be imminent</u>.

Treasury will get a more formal update as to the information received by Korda Mentha, as they do seem to have covered off the key "trip up" events.

Regards,

Craig Murphy | Senior Analyst | **The Treasury**
Tel: +64 [1]