

The Treasury

South Canterbury Finance Limited Information Release

Release Document

April 2011

www.treasury.govt.nz/publications/informationreleases/scf

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.

From: Craig Murphy
Sent: Wednesday, 17 June 2009 3:04 p.m.
To: [1]
Cc: Stephen Revill
Subject: Korda Mentha - Appointment.
Attachments: Email 1 of 3; Email 3 of 3; Email 2 of 3; Agreement for Inspector Services.docx; Appointment Letter.doc

Hello [1]

As discussed, please find attached the Agreement for Inspector and Related Services, the Appointment Letter (both in MS Word format) and some background information on SCF that we received.

Due to the potential/actual situation where you are instructed by third party to cover similar issues to those raised by the Crown, two issue arise;

- You will need to advise us of any potential conflicts as they arise, or escalate; and
- To the extent that any work is done for the mutual benefit of both the Crown and a third party, we would like this to be reflected in your fee structure to ensure that we can meet our procurement guidelines.

If you need any additional information from me, please do not hesitate to call me.

Regards,

Craig Murphy | Senior Analyst | The Treasury

Tel: +64 [1]

CONFIDENTIALITY NOTICE

The information in this email is confidential to the Treasury, intended only for the addressee(s), and may also be legally privileged. If you are not an intended addressee:

- a. please immediately delete this email and notify the Treasury by return email or telephone (64 4 472 2733);
- b. any use, dissemination or copying of this email is strictly prohibited and may be unlawful.

12 June 2009

[1]

Kordamentha
Level 16, Tower Centre, 45 Queen Street
PO Box 982
Auckland 1140

Dear [1]

APPOINTMENT OF KORDAMENTHA AS AN INSPECTOR UNDER CLAUSE 6.5 OF THE CROWN DEED OF GUARANTEE IN RELATION TO SOUTH CANTERBURY FINANCE LIMITED.

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

As part of the Crown’s ongoing management of its contingent liability under the Deposit Guarantee Scheme, the Crown has sought additional information from SCF under clauses 4.1 and 6.4 of the Deed, which I will forward to you separately.

The Crown requires more detailed information in regard to SCF. Accordingly the Crown wishes to appoint Kordamentha (“Kordamentha”) as an inspector under clause 6.5 of the Deed. This appointment is to be subject to the terms of the attached Agreement For Inspection & Related Services and the terms of this letter.

The key issues that the Crown requires to be investigated are outlined in this letter, and are to be used in conjunction with a verbal briefing from the Crown. After the verbal briefing Kordamentha is to compile a detailed scope document for the inspection within three business days of the verbal briefing. The scope document is to outline:

- The detailed deliverables of the report;
- The required external consultants;
- Key milestones dates, including a completion date for the inspection;
- Key personnel conducting the inspection;
- Estimated expected costs associated with the report; and
- The format of the report.

The scope document is to be approved by the Crown, and the Agreement for Inspection and Related Services signed prior to the commencement of the investigation.

During the course of the investigation as a result of information provided to the Crown (whether by the Kordamentha, SCF or third parties) the Crown may notify Kordamentha of other matters in respect of which it wishes Kordamentha to report to it.

The Crown anticipates that Kordamentha will have discussions with the directors and senior officers of SCF. Kordamentha may instruct professional advisors in areas that require specialist skills, subject to Crown approval.

The Crown recognises that Kordamentha's ability to complete the above tasks will be limited by the availability of information and cooperation of SCF, and the third party reporting. Please advise the Crown immediately if you should experience any problems in sourcing information from SCF or in the level of co-operation Kordamentha is receiving from SCF.

The key issues that the report is to focus on are:

I. General Business Practices;

- Prepare a company profile of SCF, its shareholders, key staff, directors and related parties (listed investments, or listed shareholders etc);
- Prepare a company profile of SCF's corporate metrics over the past three years in six monthly intervals;
- Review SCF in respect to its:
 - Asset write strategy;
 - Funding strategy;
 - Trust Deed;
 - The effect of the proposed regulatory changes proposed by the RBNZ;
 - The business model of SCF; and
 - The governance model of SCF.
- Outline what steps are being taken to reorganise SCF to improve its liquidity and financial stability.

II. Credit Quality;

- In regard to the property book, we would like you to undertake a due diligence style review of those material assets that:
 - Are impaired, past due, in arrears by more than 60 days or otherwise at risk;
 - Are related party lending; and
 - Do not "cash flow".
- The valuations on file should be reviewed and a desktop valuation as at today undertaken based on a "willing buyer and willing seller" and a "forced seller" basis for the material impaired, related party and non-cash flow assets.
- On the balance of the property book, a due diligence style review should be conducted on a sample only basis, unless initial investigation warrants further enquiry;
- In regard to the other books, we would like you to undertake a due diligence style review on a sample only basis, unless initial investigation warrants further investigation;

- Review the arrears, past due and impaired assets and provisioning across the portfolios: and

III. Market Position;

Given the large loan book of SCF, and the level of new lending that SCF has historically undertaken is there any sector, or geography that will be significantly affected if SCF was to shrink their loan book and or stop lending.

IV. Liquidity;

The general liquidity position of SCF should be reviewed, with investigation and analysis centred around:

- SCF's current liability profile (maturity profile, amounts raised, interest rates etc);
- SCF's current asset profile (maturity profile, concentration risk etc);
- An outline of the depositor mix (number of depositors, quantum invested etc);
- The level of parent support available; and
- A full analysis of banking facilities held by SCF should be conducted, including outlining the key covenants and default / review events. Any changes to key terms, conditions or facility limits over the past year should be outlined. The level of additional bank support available, including undrawn lines and SCF's capacity for further debt should also be explored.

V. Proposed Restructure of Southbury Group Limited and SCF (the "Restructure");

- SCF have engaged the services of an independent expert in regard to the Restructure of Southbury Group Limited and SCF, this report will be made available to you.
- It is expected that the reporting on SCF will include an analysis of the proposed Restructure.
- Reasonable steps should be undertaken to ensure the accuracy of any information gained from the independent expert.

If you have any questions or require clarification, about any of the matters contained in this letter please do not hesitate to contact Craig Murphy on (04) 917 6002.

Yours sincerely

Jeremy Corban
Assistant Secretary, Economic Performance Group