

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.

From: Craig Murphy
Sent: Friday, 15 May 2009 2:37 p.m.
To: John Park; Stephen Revill
Subject: Inspectors.
Attachments: Inspector Letter - SCF.docx; Inspector Letter - [3]

John, Stephen,

Please find attached the inspection letters incorporating Stephen's comments attached.

I have had Kim Tate in ECO (former Senior Manger ANZ Credit) review it also, as he has had considerable experience with type of work at ANZNB. Kim said that this letter is quite prescriptive compare to what ANZNB would do.

I was thinking that we would use, subject to conflicts, Korda Mentha ([1]) for South Canterbury Finance Limited and PwC ([1]) for [1]

I would like to call both [1] Monday for an initial conversation after we have spoken to Internal Legal about getting the contract for service / procurement issues sorted out.

I am mindful that we need to get the terms of reference sorted. I will kick this off Monday.

Cheers,

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

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[DATE]

[NAME – PERSON]

[NAME – ENTITY]

[ADDRESS]

[ADDRESS]

CC [TRUSTEE]

CC [RBNZ]

Dear [NAME – PERSON],

THE APPOINTMENT OF [NAME – ENTITY] AS AN INSPECTOR UNDER THE CROWN DEED OF GUARANTEE IN RELATION TO SCF 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 [DATE] (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 is attached for your information.

The Crown requires more detailed information in regard to SCF. It wishes to appoint [NAME – ENTITY] as an Inspector under clause 6.5 of the Deed. This appointment is to be subject to the terms of the attached agreement 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 by [NAME – ENTITY] to compile a detailed scope document for the Inspection. The scope document is to outline:

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

The scope document is to be approved by the Crown 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 [NAME – ENTITY], SCF or third parties) the Crown may notify [NAME – ENTITY] of other matters in respect of which it wishes [NAME – ENTITY] to report to it.

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

The Crown recognises that [NAME – ENTITY] 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.

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 and directors;
- 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;
 - the effect of the proposed regulatory changes proposed by the RBNZ;
 - the business model of SCF; and
 - the governance model of SCF;
- Review the arrears, past due and impaired assets and provisioning across the portfolios; and
- Prepare an impact analysis on the proposed amalgamation of Southbury Group Limited assets within SCF, and what this mean for SCF.

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;
 - Related party lending; and
 - Assets that 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; and
- 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.

III. Liquidity;

The general liquidity position of SCF should be reviewed, with investigations centred around;

- SCF's current liability profile (maturity profile, amounts raised, interest rates etc);
- SCF's current asset profile (maturity profile, concentration risk etc);
- The level of parent support available; and
- The level of additional bank support available, the undrawn lines and SCF's capacity for further debt.

If you have any questions, or require clarification please do not hesitate to contact me.

Yours sincerely

John Park
Team Leader Guarantee Scheme