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

[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.

Finance Company - Sector Report – July 2009
Finance Company NBDT's monitored under the Deposit Guarantee Scheme (Building Societies & Credit Unions are excluded)

Guaranteed Deposits

The Finance Company sector evidenced an increase in the level of guaranteed deposits of $10m.

Entities with notable movements during the month in the value of their guaranteed deposits were as follows:

Increased	Decreased
Equitable – ($6.8m, 3.5%) [3] SCF – ($18.9m, 1%)	Allied – ($7.6m, 3.5%) [3]

Capital

The sectors total capital remained stable at $935m.

The major changes within the sector were [3] : increasing its capital by [3]
[3] and Equitable Mortgages reducing capital by $3m (reduction in capital instruments).

Under Reserve Bank calculations (Note 1), the sectors level of capital as a percentage of Risk Weighted Assets increased from 5.15% to 5.48% on the back of [3] s adjustment in its capital structure (noted above) and an slight improvement in SCF's position.

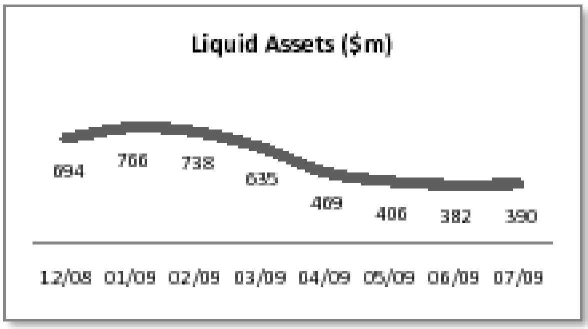
Generally, the level of capital in the sector is at modest levels. However, this is generally driven by lower capital ratios in some of the larger entities such as SCF (2.2%), Allied Nationwide (1.6%) and [3]

Wholesale funding

A number of Finance Companies hold funding arrangements with NZ Banks, in total, the sector has $1.8B of current facilities with $1.2B of the facilities currently undrawn. The weighted average maturity (WAM) of these facilities has increased from 8 months to 12 months on the back of [3]
[3]

Liquidity

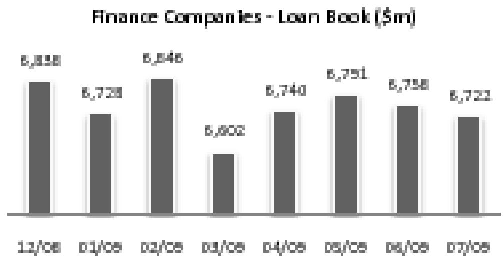
There was a slight improvement in the sectors liquidity levels in the month after 6 months of significant deterioration in liquidity levels.



The sector deposit reinvestment rate remained stable at 64%, however, within the sector SCF reinvestment rate declined from 75% to 61% whilst [3] improved from 66% to 73%.

Finance Receivables - Loan Books

The sector's combined loan book decreased by $36m.

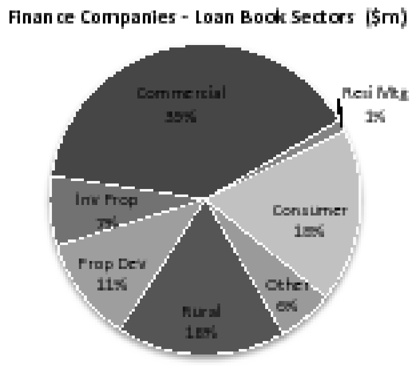


The key lending sector changes were as follows:

Lending Sector	Net Change	Key Drivers
Agriculture	-$18m	SCF -$28m
Other Pty	+$32m	SCF +$40m
Commercial	-$68m	[3]
Consumer	-$27m	
Other	+$47m	

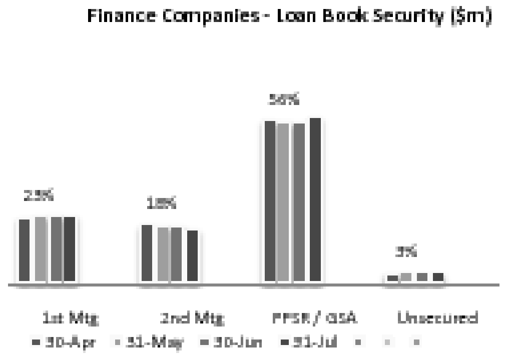
We suspect that the changes noted above are likely to be re-categorization of loans rather than changes in actual loans.

Note 1: RBNZ calculates Risk Weighted Assets on a best endeavour basis, where certain information is not held, assumptions have been made



Loan Book Security

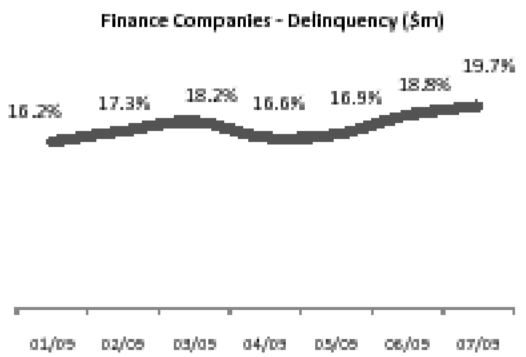
There has been a material reduction in second mortgage security held of $96m and an almost corresponding increase in PPSR security held of $87m. We suspect that the change reflects the collection/write off of property loans and the increased focus of a number of finance companies in the traditional installment credit lending area (plant & equipment/wheels).



Loan Book quality

Deterioration in the loan book quality was evidence during July. The Reserve Bank calculates delinquent and impaired assets plus a component of restructured loans and loans with interest capitalising as a percentage of the loan book.

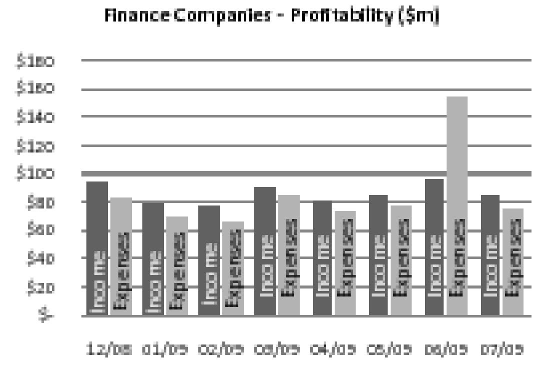
Utilising this calculation, 19.7% of the sectors loan book is delinquent or non-performing. Antidotal evidence suggests that the majority of this non performance lies within the property development asset class.



Entities with the worst and best performing loan books are as follows:

Worst	Best
Vision Securities – 78% [3]	[3]
Mutual Finance – 72% [3]	
Viaduct – 58%	
Equitable Mortgages – 56% [3]	

Financial Health



After SCF effectively "wiped out" the sectors year to date profits in June the sector produced a more normal monthly NBPT of $9m in July which marginally improved the sectors annual ROE to 0.05%.

Net Liability under DGS

Whilst the contingent liability for the crown under the DGS for this sector stands at circa $5.4b, the Reserve Bank calculates that in the event of default, the net possible claim under the DGS is circa $760m (unchanged from the prior month). The Reserve Bank does not draw any conclusion on the likelihood of potential claims.

Appendix 1

The appendix identifies entities that may have breached certain terms of the DGS that you may wish to further investigate:

APPENDIX 1

Transactions >1% of assets

Entity	($M)
Allied Nationwide Finance	5.000
[3]	

Related party transactions as a percentage of assets

Entity	(%)
[3]	

Movement in related party loans as a percentage of total assets

Entity	(%)
Vision Securities Limited	12.226
South Canterbury Finance Limited	5.065
[3]	

Distributions - including dividends

Entity	($M)
Allied Nationwide Finance Limited	0.200
South Canterbury Finance Limited	2.117
[3]	