

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: Woodnorth Myers [woodnorthmyers@gmail.com]
Sent: Wednesday, 23 September 2009 3:40 p.m.
To: John Park
Cc: lachie.mcleod@scfinance.co.nz
Subject: SCF Audit
Attachments: Treasury letter 23.9.09.pdf

Hi John

Re Audit of South Canterbury Finance (SCF)

I have been provided with your contact details and attach a letter seeking clarification on a number of matters with regard to our audit of the above.

Your early attention would be greatly appreciated.

Regards

[1]

--

Woodnorth Myers & Co

IMPORTANT NOTICE: This is an email from Woodnorth Myers & Co. We do not accept responsibility for any changes to this email or its attachments made after we have transmitted it. We do not accept responsibility for attachments made by others to this email.

CONFIDENTIALITY: The contents of this email (including any attachments) are confidential and may be privileged. Any unauthorised use of the contents is expressly prohibited. If you have received this email in error, please advise us by email immediately and then delete this email together with all attachments.

VIRUSES: Myers & Co Ltd does not represent or warrant that the files attached to this email are free from computer viruses or other defects. Any attached files are provided, and may be used, on the basis that the user assumes responsibility for any loss, damage or consequence resulting directly or indirectly from the use of the attached files.



WOODNORTH MYERS & Co

23 September 2009

FAO John Park by post and email

Team Leader
Deposit Guarantee Schemes
The Treasury
1 The Terrace
PO Box 3724
Wellington 6140

Dear John

Re Audit of South Canterbury Finance (SCF)

We are currently auditing SCF for the year to 30 June 2009 and are seeking clarification around the operation of the SCF Group's Crown Deed of Guarantee dated 19 November 2009 for the purposes of completing our audit of SCF.

In particular we refer to the following matters:-

1. The SCF group entered into an "assignment and security sharing deed" with Mr A J Hubbard (AJH) for a sum totalling \$89,536,386 on 1 October 2008. This date being prior to the announcement date for the Crown Deed of Guarantee. This agreement resulted in the purchase and derecognition of \$89.6m of potentially impaired loan receivables at carrying value by AJH. (essentially a recapitalisation of SCF by AJH)
2. SCF view the subsequent receipt of preference shares in a company "South Island Farm Holdings Limited" in the sum of \$67.2m, as a settlement for and linked to the above "assignment and security sharing deed" and hence the transaction did not require Crown approval. We are satisfied based on our review to date, as to the value of South Island Farm Holdings.
3. The assignment and security sharing agreement was subsequently extended by a further \$9.5m in March 2009.

We are advised that these transactions have been discussed with the team from Korda Mentha (KM) during their recent review conducted in accordance with the engagement letter set out in Appendix A of their report to Treasury. We note at 2.1 of that engagement letter that compliance with the Crown Deed of Guarantee (Non-Bank Deposit Taker) was a key task area. We note that no breach of Crown Deed of Guarantee is mentioned in the report from KM but would like to confirm that the above matters have been considered as part of the KM report.

In addition to the above SCF have recently entered into an underwrite agreement with Mr A J & Mrs M J Hubbard. As a result, an amount of \$25m is available to "make whole" any future losses on impaired loan receivables. SCF's legal advisors concur with the view that this does not constitute a transaction requiring prior Crown approval under the Crown Deed of Guarantee (Non-Bank Deposit Taker). However, they further recommend seeking a retrospective waiver as the most conservative approach. Whilst it is clear that this agreement does not extract any value from SCF to the guarantor,

we seek confirmation that this underwrite agreement does not constitute a transaction as far as the Crown Debt of Guatemala is concerned.

If you have any queries please do not hesitate to contact the writer direct

We ask your confirmation of the above by 5pm Friday 24 September 2009.

Yours faithfully

11