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: [1]
Sent: Friday, 4 September 2009 4:09 p.m.
To: John Park; Craig Murphy
Cc: [1]
Subject: Treasury Report for Apple
Attachments: Final Report 040909.pdf

Final report as discussed.

Any queries please do not hesitate to contact me.

Regards,

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South Canterbury Finance

Report to The Treasury

4 September 2009

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Appendices

Abbreviations

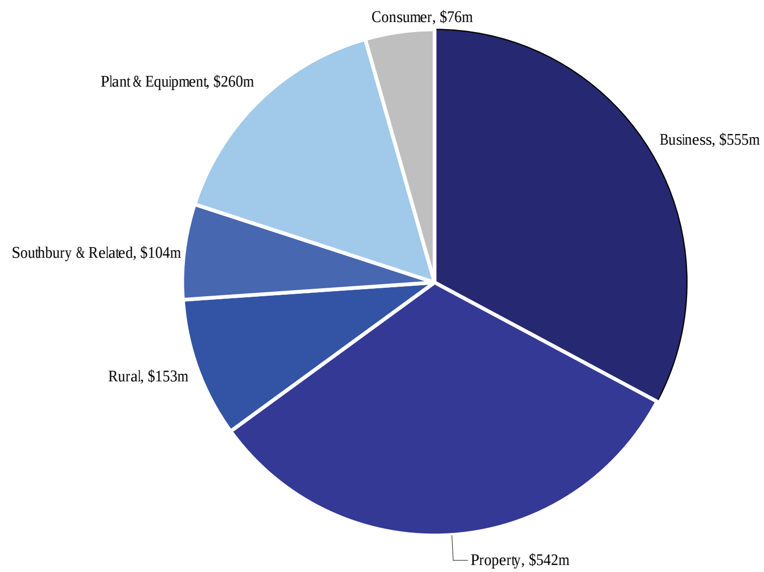
BNZ	Bank of New Zealand
CBA	Commonwealth Bank of Australia
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Company	South Canterbury Finance Ltd
DHL	Dairy Holdings Ltd
IRD	Inland Revenue Department
LVR	Loan to Valuation Ratio
NBDT	Non-Bank Deposit Taker
RB	Reserve Bank of New Zealand
SCF	South Canterbury Finance Ltd
Southbury	Southbury Group Ltd
USPP	US Private Placement

1. Executive Summary

- SCF has grown its loan book by over $1 billion over the last five years. In particular, the depositor base grew significantly over the past 18 months and it appears that it started to take higher-risk positions as it sought to invest its increasing assets.
- The Company's systems and procedures have not kept pace with this growth and they do not compare well against the standard we would expect for a business of this size, in terms of origination, risk assessment and ongoing loan management. The absence of a standardised risk grading framework makes effective management and analysis of the book very difficult.
- Governance has also remained sub-standard for an issuer of SCF's scale, a matter that has been compounded by the resignations of Messrs Nattrass and White on 27 August 2009. The Company had earlier advised that it would address its governance arrangements by appointing two independent directors but we consider that this is unlikely to occur until its long-term future is assured.
- ***Other Assets*** grew by $389 million between 30 June 2008 and 30 June 2009 but ***Loan Receivables*** remain the Company's key asset:

$ million	Audited 30-Jun-08	Unaudited 30-Jun-09
Cash & Equivalents	404.0	124.6
Other Assets	167.2	556.3
Loan Receivables (net of provisions)	1,456.6	1,630.9
Total Assets	2,027.8	2,311.8
Creditors	(22.8)	(21.4)
Long-Term Borrowings	(1,752.3)	(2,079.3)
Net Assets / Equity	252.7	211.1

- The loan portfolio was mainly comprised of ***Property*** and ***Business*** exposures at 30 June 2009. The growth in the portfolio has also been concentrated within these categories:



  – The ***Consumer*** and ***Plant & Equipment (Face Finance)*** books ($336 million gross) are generally written within policy and well administered. By their very nature, they generate acceptable cashflow (as compared with other books of a similar nature).

  – The ***Rural*** book is relatively small, averaging $900k per loan, mainly owing by South Island borrowers.

  – 65% of the loan book by value is split evenly between ***Business*** and ***Property*** loans. These books suffer from liquidity and impairment problems.

1. Executive Summary (cont.)

- The Company adopted an additional $106 million in impairment charges in FY09, which generated an unaudited NPBT loss of $72 million ($32 million higher than it first announced in July 2009).
- Impairment analysis was a key element in our detailed review of 206 loans. In our opinion, total impairment provisions could be up to $110 million higher than those adopted by the Company:

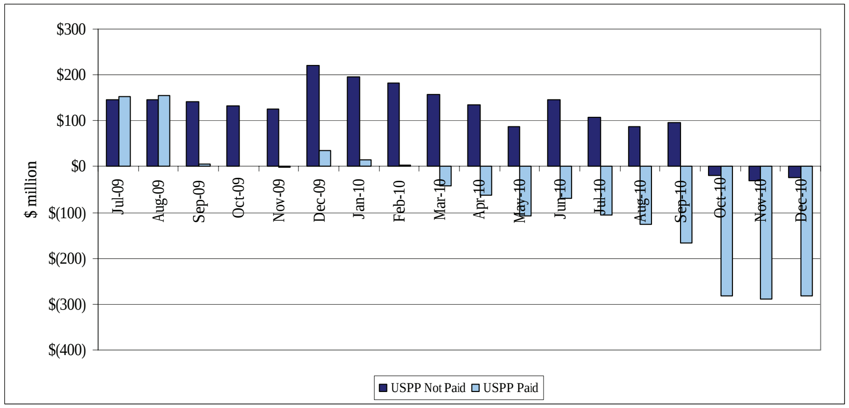
$ million	Company	Low	Mid
Specific	80	139	139
Collective - at risk (say)	19	10	40
Collective - unimpaired (say)		25	30
Total	99	174	209

- We identified a further $233 million of loans that exhibit characteristics indicating they may be at risk of loss (but which do not yet require a provision). The collective provision we have adopted is structured to cover both defaults on these at risk loans and over the balance of the loan book.
- Our impairment range would have placed the Company in default of its trust deed at 30 June 2009:

$ million	Low	High
Equity at 30 June 2009	211	211
Potential Additional Provisioning	(75)	(110)
Revised Equity (pre-underwrite)	136	101
Underwrite Allowance	25	25
Revised Equity (post-underwrite)	161	126
Equity Reqd for Trust Deed Compliance	175	175
Surplus / (Deficit)	(14)	(49)

  – We have allowed for the recovery of $25 million under a further limited-recourse loss underwrite that Mr Hubbard granted in August 2009. SCF believes that there are sufficient assets backing this underwrite to enable it to call on the full $25 million. We cannot confirm that because we have not been provided with any supporting information.

- The Company acknowledges that it is facing a liquidity problem in 2010, irrespective of the level of impairment. If the USPP noteholders do not demand repayment, the Company will be out of funds in mid-2010 as it approaches the original expiry date of the Crown Guarantee (by which time a large amount of debenture stock is due for repayment):



- SCF is in dire need of fresh equity, in light of this liquidity profile and its assessment that approximately $1.1 billion of its assets are illiquid. The shareholder has previously taken steps to maintain a reasonable level of equity but we understand that it is not in a position to address SCF's issues.
- The Company is also now in breach of:
  – Its standby credit line with BNZ and CBA, which is on drawstop for other reasons. We consider it most likely that the banks will cancel this facility.

1. Executive Summary (cont.)

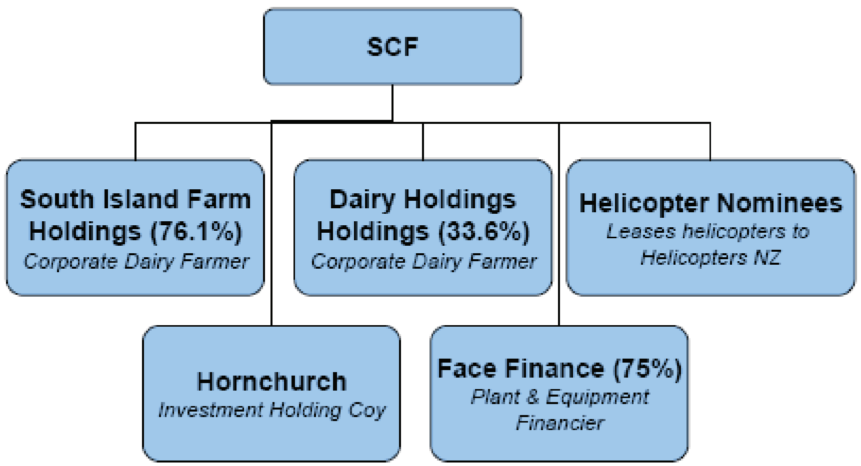
- The US$100 million USPP. Our understanding is that the noteholders are entitled to call for repayment.

- We understand that SCF accepts that there is a very serious risk it will fail without a material equity injection and a restructuring of its balance sheet, management and governance.
- In this context the Company established an Advisory Board, advised by Cameron and Partners, Deloitte and Bell Gully, that was executing a recovery plan:
  - $150 million was to be raised from an unnamed third party. We understand that a terms sheet has not been signed and that the injection is highly conditional.
  - Management and governance would be restructured.
  - The balance sheet would be restructured such that non-core assets would be sold (there is no definition as to how this will occur), allowing the Company to become a register bank and progressively comply with the relevant capital adequacy regime.
- The Company asked the Government to support its restructuring by extending the Crown Guarantee to the USPP noteholders (to avoid the repayment obligation) and taking other steps to maintain investor confidence in SCF.
- On 28 August 2009 SCF announced the resignation of two of its directors, including Stuart Nattrass who had been leading the Advisory Board.
- Southbury has since appointed its own advisers (Harmos Horton Lusk and Forsyth Barr) and we understand that the Advisory Board has been disbanded. It is not yet clear what strategy Southbury's advisers will pursue but we understand that it is not intending to adopt that which the Advisory Board had developed.
- During the execution of any strategy, the Company will have to manage:
  - Regulatory authorities, including the Securities Commission, the Ministry of Economic Development (Companies Office), the Treasury and the Reserve Bank.
  - The Trustee, although there are currently no breaches of the Trust Deed.
  - USPP noteholders, who are agitating for repayment.
- Any revised strategy must be executed in the short-term, in light of the Company's liquidity problems, and address its key structural issues. We are uncertain whether the strategies that Southbury's advisers are adopting fit within those parameters.

2. Company Overview

2.1 Background

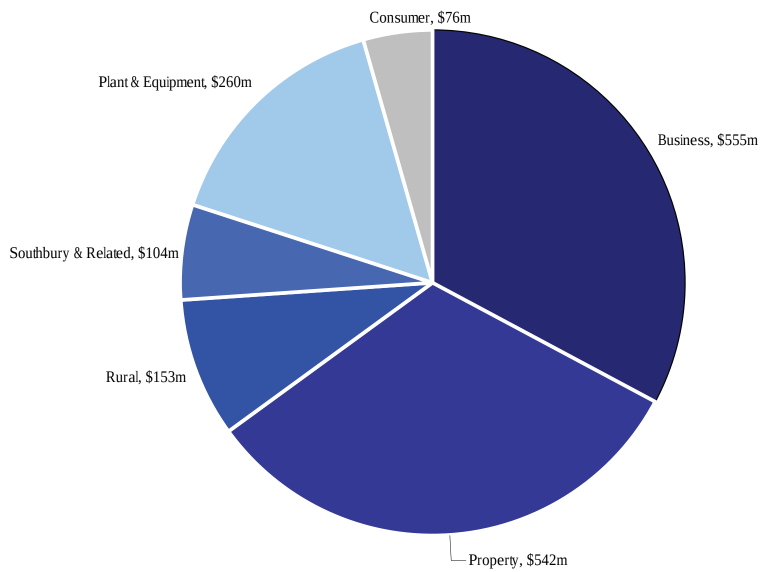
- SCF, founded in 1926, is one of the largest finance companies in New Zealand.
- Headquartered in Timaru, SCF operates in 11 regions across New Zealand and lends to a range of sectors. SCF grew through the acquisition of a number of regional finance companies.
- The regional finance companies were amalgamated with SCF in October 2008. Following this amalgamation, SCF's key subsidiaries are its farming assets (refer Appendix B for a full structure chart):



- The farming assets are discussed at section 4.
- In late 2006 SCF obtained a BBB- (investment grade) credit rating from Standard & Poors.
- The finance industry has been in turmoil over the past two years. During this time SCF grew while many of its peers were failing. In a large part this was due to the market's perception that SCF was a market leader in its field. The general perception has been that it is well run and has not entered into the more speculative type of lending that was common in the industry.
- SCF's depositor base grew significantly over the past 18 months (refer section 2.3). We have not undertaken a detailed analysis of the historical characteristics of SCF's loan book but it appears that it started to take higher-risk positions as it sought to invest its increasing assets.
- In early July 2009 SCF announced what it advises is its first loss since the Great Depression of the 1930s.
- Subsequently, on 13 August 2009 S&P downgraded SCF to BB+, a sub-investment grade rating, and placed the rating on "Negative Outlook". This implies a one-in-three chance of a further downgrade within one year.
- On 28 August 2009 SCF announced a revised result for the 2009 financial year. The net profit before tax loss of $72 million is $32 million higher than the loss announced in July, on the back of further provisions for impaired assets.

2.2 Lending Overview

- SCF's loan book totalled approx. $1.7 billion at 30 June 2009, across six key industry categories:



- The loan book has grown by over $1 billion in five years (up from $576 million on 30 June 2004. Growth was particularly strong since mid-2006 and since 2008 the Company has benefited from the positive inflow of funds into the industry following the introduction of the Crown Guarantee.
- The business lending sector was traditionally SCF's focus but property loans grew most significantly in the past two years.
  - Section 5 provides an overview of the segments within which this growth was achieved.
- This has been an aggressive growth curve that took SCF from being a medium-size industry player to one of the largest participants in the non-bank deposit taking sector.
- Historically SCF's charges for bad debts and provisions for asset impairment have been reasonably low. Asset quality has however deteriorated significantly over the past two years, with total impairments and write-offs in FY07 of $10.5 million increasing to $106.4 million in FY09:

$ million	30-Jun-07	30-Jun-08	30-Jun-09
Bad Debts	2.67	10.36	16.50
Provisions	7.82	8.60	54.92
Loss on Investments	0.00	0.00	35.00
Total	10.49	18.95	106.42

- In FY09 Mr Hubbard purchased approximately $90 million of bad debts from the Company. During our file review process we also identified instances where Mr Hubbard has made advances to borrowers who otherwise may have failed or required further advances from SCF. The Company's impairment and write-off charges would have been commensurately higher had Mr Hubbard not supported the Company in this manner.

2. Company Overview (cont.)

2.3 Funding Overview

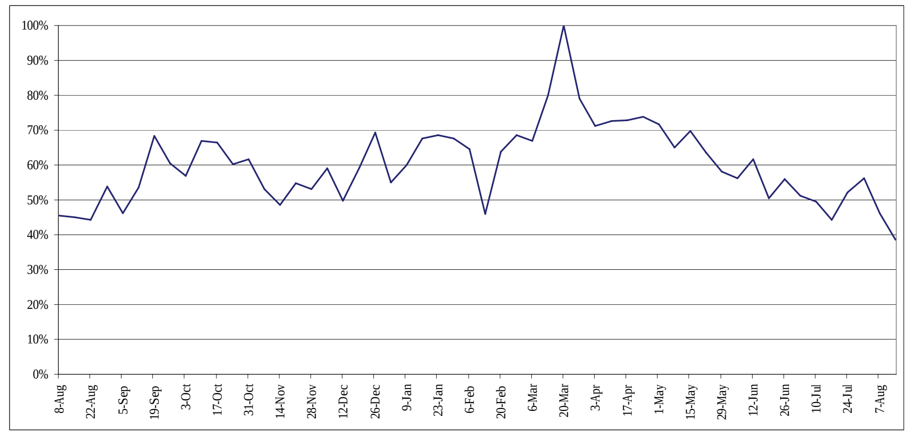
- SCF has two key funding channels: domestic retail investors (est. approx. 38,000 at 30 June 2009) and since 2007 private US-based noteholders:

Balance at 30 June 2009 ($ million)	
Secured Debenture Stock	1,553
Secured Bonds - maturing October 2010	100
Secured Bonds - maturing June 2011	125
Secured Bonds - maturing December 2012	125
Unsecured Deposits	28
US Private Placement (NZD equiv.)	125
	2,056

- The above liabilities rank parri-passu under the Company's Trust deed but the USPP has additional covenants.
  - The key covenants are detailed at Appendix C, together with analysis of covenant compliance (which is also summarised at section 3.1).
- In addition, the Company has issued $120 million of perpetual preference shares that are listed on the NZDX (NZX code: SCFHA).
  - These preference shares support equity (accounting for 47% of shareholders funds at 30 June 2009) because are not debt instruments (as they cannot be redeemed by the holder).
  - The preference shares are not covered by the Crown Guarantee. The yield on recent trades is very high, at approximately 55%.
- The NZDX listing for the preference shares and the secured bonds (refer below) means that the Company must comply with continuous disclosure obligations. This exposes the Company to a level of public scrutiny that would not otherwise exist.

Debenture Stock

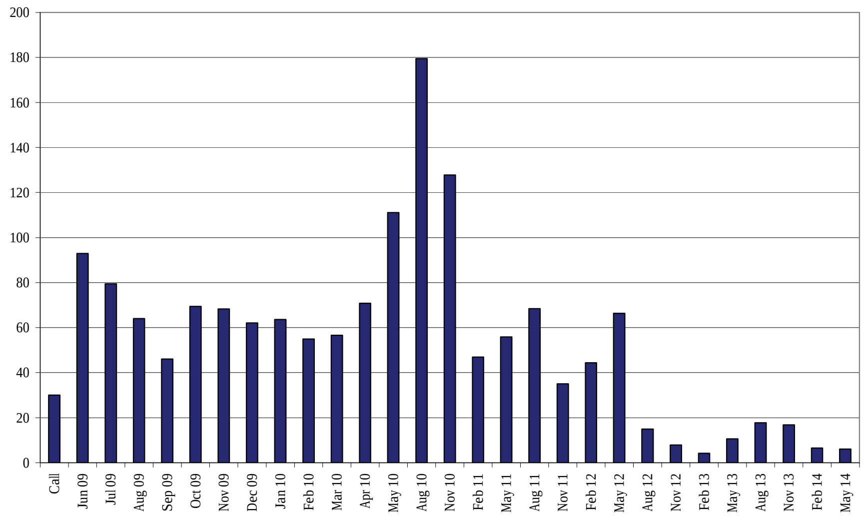
- Debenture retention rates have fluctuated between 46% - 76% over the past 12 months. Rates improved after the introduction of the Crown guarantee in November 2008, but have recently fallen following the S&P downgrade and SCF's announcement of its preliminary result in early July 2009:



  - Around 55% of debenture funding is originated through brokers and financial intermediaries.
- There are approximately 31,000 debenture stock investors.
- Approximately 60% of investments (by value) are held by South Island investors, 36% by investors from the North Island and 3% by parties with an overseas address.
- We understand that SCF historically enjoyed a reasonably long-dated maturity profile. That is no longer the case.
- The maturity profile of the debenture book now contains a significant concentration immediately prior to the original expiry date of the Crown Guarantee on 12 October 2010. It seems clear that investors have been

2. Company Overview (cont.)

managing their term of the investments to ensure they remained with the Crown Guarantee period:



- Just over $1 billion of debenture stock currently matures before October 2010. As is discussed at section 8, when combined with the Company's other repayment obligations this drives significant liquidity pressure in the middle of 2010.
- On 26 August 2009 the Government announced that the Crown Guarantee scheme would be extended to 2011 but with more strict qualifying criteria. SCF must maintain a credit rating of BB or higher to comply. It is not yet clear whether this extension (assuming that SCF continues to qualify) will encourage investors to extend their investments to the new expiry date of October 2011.
- Regardless, we have noted that the reinvestment rate has been relatively low recently despite the fact that investors could have been reinvesting for 12 months and still be covered by the original Crown Guarantee. This supports the assumption that there are other factors driving investors' decisions, as opposed to their decision being solely focused on the protection that the Crown Guarantee provides.
- Assuming that the extension of the Crown Guarantee does improve the investment profile (reinvestment rate in particular), the Company will have a longer period of stability within its investor base to work through the structural issues that are discussed in this report.
- There will however remain a risk that the same maturity profile will eventuate, with a liquidity pressure arising in the period leading up to October 2011.

Secured Bonds

- $225 million of secured bonds fall due for repayment with the extended Crown Guarantee period.
- The bonds are listed on the NZDX,
- The yield for the 2012 bond is very high, reflective of the fact that its maturity date falls outside the Crown Guarantee period:

Maturity Date	Principal ($ million)	Coupon	Yield (last trade)
8 October 2010	100	8.00%	7.00%
15 June 2011	125	10.50%	9.75%
15 December 2012	125	10.43%	19.00%

- The 2011 bond yield dropped significantly on 25 August 2009, after the Crown Guarantee was extended such that this bond now matures before it expires:

US Private Placement ("USPP")

- In November 2007, through a transaction that was facilitated by NAB in New York, SCF raised US$100 million from five institutional investors in the United States.
- This is not a syndicated facility; rather, it is a coordinated set of bilateral arrangements.
- All noteholders benefit from the same facility terms.
- The notes fall due for repayment in two tranches:

Noteholder	US$ million
Northwestern Mutual Life Insurance Co	27
Nationwide Life Insurance (and associated companies)	25
Hare & Co	11
Mac & Co	4
Assurity Life Insurance Company	3
Sub-total Notes due April 2013	70
ING (and associated companies)	30
Sub-total Notes due April 2015	30
Total	100

- The Company has hedged its foreign currency exposure such that the amount repayable is fixed at NZ$125 million.
- The Company is in default of the covenants attached to this facility so the noteholders are entitled to call for repayment. We discuss the Company's current negotiations with the noteholders at section 8.
- We have not assessed whether there would be any break costs of repaying this facility early, in terms of the foreign currency hedge contracts.

2. Company Overview (cont.)

2.4 Strategy

- SCF embarked a strategy of rapid growth in recent years, with a focus on reaching assets of $2 billion by 30 June 2009.
- It achieved this target, as gross assets at 30 June 2009 are valued in the balance sheet at $2.3 billion. This does however include $145 million of equity in corporate diary farmers, which SCF acquired from its parent through transactions designed to offset loan losses.
- We are not aware of there previously being stringent definition around the weighting of various asset classes, and of loan types and borrower characteristics within the loan portfolio (i.e. we do not believe there has been a rigid asset writing strategy). It appears that the loan portfolio grew on an ad-hoc basis
- We understand that the SCF Board decided at its February 2009 meeting to take a different course:
  - Consolidate the loan book at $1.5 billion and reallocate industry weightings;
  - Focus on asset quality & reduction of related party transactions;
  - Focus on lending in Canterbury / Southland region going forward;
  - Create a centralised risk function and asset management capacity;
- As is discussed at section 9, the Company has since focused on recovery strategies to address its financial position and inadequacies within its governance and management structures.
- We expect that SCF will formulate a strategic plan as part of that equity raising and restructuring process.

2.5 Shareholding of SCF

- SCF is a wholly-owned subsidiary of Southbury Group Limited.
- Interests associated with Allan and Margaret Hubbard control Southbury:

	# Shares	% Holding
Allan Hubbard	7,496,583	75%
Lachie McLeod	1,000,000	10%
Andrew Borland	250,000	3%
Other Shareholders (19)	1,253,417	13%
	10,000,000	**100%**

  - Lachie McLeod is the CEO of SCF and Andrew Borland is CEO of Scales Corporation, (a Southbury subsidiary).
  - SCF has advanced $19.7 million to McLeod, Borland and other current and former SCF directors to enable them to acquire their Southbury shares.
- In July 2009 SCF announced that Southbury was looking for new investors as a succession plan for Mr Hubbard, aged 82.
- It has transpired that fresh equity is now a critical plank of the Company's strategy to assure its future survival (refer section 9).
- We understand that Southbury and Allan Hubbard will play a much more limited role in SCF in the future, following its intended restructuring and recapitalisation.

2. Company Overview (cont.)

2.6 Governance

- Following the resignation of two directors on Thursday, 27 August 2009 (Stuart Natrass, independent, and Bob White, a former Hubbard Churcher partner), SCF now has two directors:
  - Allan Hubbard as Chairman, board member since 1961, senior partner at Timaru accounting firm, Hubbard Churcher, and majority shareholder of Southbury Group;
  - Edward Sullivan (Independent Director), board member since 1990, partner in Timaru law firm, Raymond Sullivan McGlashan, a close associate of Mr Hubbard
- Whilst Mr Sullivan is classified as an independent director, he has a longstanding and close business association with Mr Hubbard through his law partnership.
- We understand that the two directors resigned after a disagreement about the Company's governance and management. It is obviously concerning that the board is now comprised of two directors and has lost one of its key directors, Stuart Natrass, who was heavily involved with its recovery plan.
- We are advised that the Board met formally every two months but the regularity of meetings has recently increased as a result of the Company's problems.
- We do not believe that the Company has been complying with best practice for corporate governance, when measured against the Securities Commission's ***Corporate Governance in New Zealand – Principles and Guidelines***. The Securities Commission notes its expectation that issuers would comply with these guidelines.
- During our review process, it was evident that a number of new lending opportunities were originated by board members (often clients or contacts of Hubbard Churcher or Raymond Sullivan McGlashan, or associated of one of the board members). It is questionable whether the directors were able to operate with an independent perspective when those loan proposals were presented for approval.
- Directors also appear to be involved with the management of some loans. Allan Hubbard manages approximately 9% of the loan book directly, including the loan to Southbury ($81.7 million at 30 June 2009).
- SCF has previously advised us that it intends appointing two truly independent directors, although it seems unlikely that this will be possible until the Company's longer-term future is determined.
- SCF will be able to assess compliance with the Reserve Bank governance requirements during this selection process.

2.7 Management

Key Employees

- There are presently four members of the senior management team:
  - Lachie McLeod has been the CEO since September 2003. He has commercial and rural banking experience in the South Island with Westpac (12 years) and previously the Rural Bank.
  - Graeme Brown, CFO since August 2006. Prior to joining SCF, Brown worked for EziBuy and NZ Post.
  - Kevin Gloag, General Manager Funding, joined SCF in 1979 after six years with BNZ. He has been involved as a Senior Lending and Investment Manager and the Company's Credit Manager for nearly 20 years before leaving in 1998 to work as a professional rugby coach. He rejoined SCF in 2001 as GM Funding, a new position created to manage the Company's funding base and investment broker network.
  - Peter Bosworth, formerly Chief Operations Officer, joined SCF in January 2005 as COO, based in Christchurch. Prior to joining SCF, Peter worked for Westpac for 11 years. For the last 5 years at Westpac he held regional manager positions in the agribusiness and commercial lending segments.

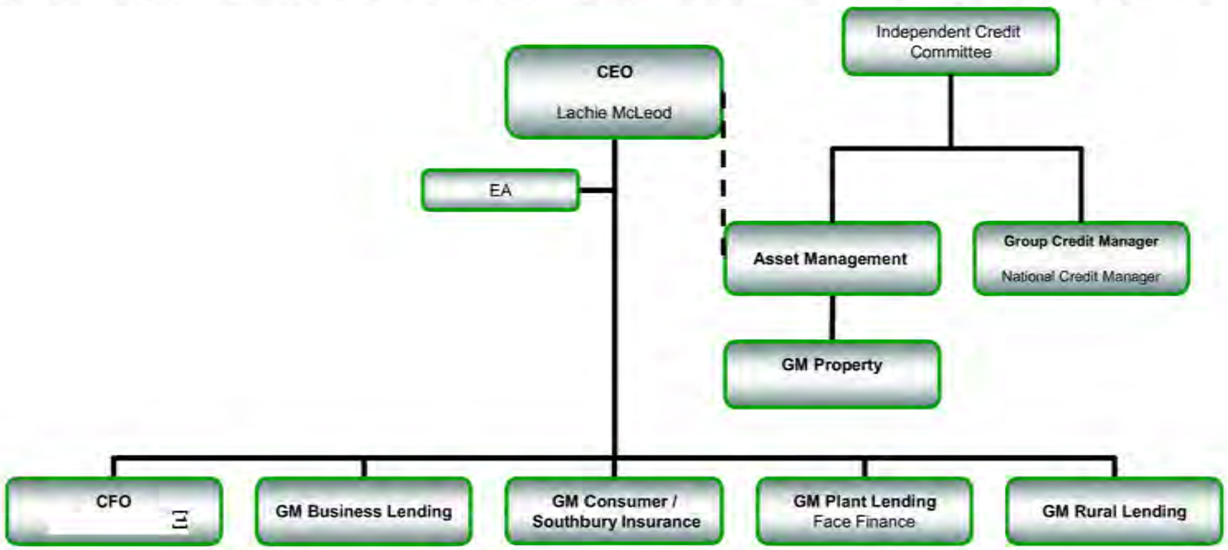
Historical Structure

- Historically, the Company operated through a network of eight regional finance companies (for example, Auckland Finance, Waikato Finance, Otago Finance, Southland Finance) and a number of other regional offices.
- These offices operated with a high degree of autonomy, including responsibility for lending administration and documentation functions within the individual offices. There has been no regular independent oversight to ensure that policies and procedures were being followed.
- There were a number of areas where SCF's internal management processes did not meet best practice principles for a business of SCF's scale:
  - No rigid separation between origination and credit/risk approval.
  - No industry specialisation.
  - No separation between origination and subsequent loan management.
  - Before April 2009, no dedicated asset management (distressed asset) resource.
- This framework led to significant inconsistency across the group in credit quality and loan management that has been evident throughout our loan reviews. It is apparent that some offices took on fringe and marginal business that was written outside of SCF's core lending parameters.

2. Company Overview (cont.)

Restructure

- In mid-2009 SCF recognised the weaknesses in its organisational structure:
  - In October 2008 the regional finance companies were amalgamated with the parent company (SCF) and direct reporting lines to Timaru were established.
  - During July 2009 an organisational restructuring occurred that disestablished a large number of positions, and separated and centralised a number of core lending processes.
- The prime objectives of the restructuring were to reduce cost, establish industry specialisation and separate the loan management and credit processes.



2. Company Overview (cont.)

Position	Appointee	Background
Independent Credit Committee	Ξ Lachie McLeod	CEO Scales Corporation GM Plant Lending (Face Finance) CEO SCF
Group Credit Manager	Ξ	Formerly COO Appointed to role by the CEO
Asset Management (GM Property role left vacant given the scope of this role)	Ξ	Head of Asset Management since division established in April 2009 Appointed to deal with SCF's distressed property loans and assets Previous roles with Westpac Asset Management More latterly a property developer
GM Consumer / Southbury Insurance	Ξ	GM of the Consumer division since July 2009.
GM Plant Lending	Ξ	Experienced plant and equipment financier with UDC Established Face Finance in 2004 on his departure from UDC Face Finance is predominantly ex-UDC personnel who departed during UDC's 2004 restructuring
GM Rural Lending	Ξ	Joined SCF in mid-2007 as General Manager Rural. Many years experience in rural banking. Prior to joining SCF was Rural Manager for Rabobank in New Zealand.
GM Business Lending	To be confirmed	

2. Company Overview (cont.)

- is the only truly independent member of the credit committee.
- As is discussed at section 9, we understand that the equity investor that SCF has been negotiating with has insisted on the right to be involved with decisions on management structures and personnel.
- We consider it likely therefore that there will be further changes to this structure following settlement of the equity raising (if it occurs).

2. Company Overview (cont.)

2.8 Reserve Bank NBDT Regime

- The enactment of the Reserve Bank Amendment Bill (No 3) on 3 September 2008 extended the Reserve Bank's responsibilities to the non-bank deposit taking ("NBDT") sector, which includes credit unions, building societies and finance companies.
- The Reserve Bank has been working to progressively introduce new prudential regulations for the NBDT sector over 2009 and 2010. The proposed regulations include:
  - Credit Ratings – all NBDTs with deposits exceeding $20 million will be required to obtain a credit rating by March 2010.
  - Minimum Capital Requirement – Tier 1 capital must be at least 8% of risk weighted exposures (expected to come into force in September 2009, with non-complying NBDTs given 12 months in which to comply).
  - Related Party Exposures – must not exceed 15% of Tier 1 capital (expected to come into force in September 2009, with non-complying NPBTs given 12 months in which to comply).
  - Risk Management – all NPBTs will be required to adopt and comply with a risk management programme.
  - New governance requirements – at least two independent directors.
- Breaches of these regulations will constitute an offence under section 157 of the Reserve Bank Amendment Act 2008 and will be punishable by a jail term (generally not to exceed 12 months) and/or a fine not exceeding $1 million.

Impact on SCF

- SCF will need to raise significantly more capital (or restructure to reduce its risk weighted exposure), reduce related party lending and appoint independent directors in order to comply with the Reserve Bank's draft NBDT policies.

Related Party Exposures

- The proposed regulations limit aggregate credit exposures to all related parties to a maximum of 15% of Tier 1 capital.
- Assuming Tier 1 capital of $152 million, SCF would be permitted to lend $22.8 million to related parties.
- SCF would therefore need to reduce related party exposures by $188 million in order to comply with the draft regulations.

Independent Directors

- SCF has one director who may meet the criteria of an independent director, although it could be argued that his long relationship with Mr Hubbard means that is not the case.
- Depending on the classification of Mr Sullivan, SCF will have to appoint one or two independent directors to comply with the NBDT regime.
- We suspect that the Company will struggle to appoint independent directors before its current issues are resolved.

Minimum Capital Requirement

- Tier 1 capital includes ordinary share capital, retained earnings and non-cumulative, non-redeemable perpetual preference shares (to a maximum of 25% of total Tier 1 capital).
- The perpetual preference shares issued by SCF are redeemable (although not at the option of the holder) and therefore not strictly able to be classed as Tier 1 capital. This is a significant issue for SCF, as the perpetual preference shares currently contribute more than 50% of shareholders funds.

2. Company Overview (cont.)

- SCF informs us that the Reserve Bank has verbally advised that it is likely to treat the perpetual preference shares as "standard capital" and give the Company a five year period in which to meet the Tier 1 capital requirement.
- In the table to the right we have analysed the potential impact upon SCF of the proposed Minimum Capital Requirement. We have assumed that SCF's perpetual preference shares are eligible to constitute 25% of Tier 1 capital. The capital figures are current as at 30 June 2009.
- We have estimated the risk weighting that should be applied to SCF's asset classes but this is something that the Company would have to agree with the Reserve Bank.
- The table shows that SCF would require an additional $415 million in new capital to enable it to satisfy the proposed 8% minimum capital requirement at 30 June 2009. This assumes that Reserve Bank permits the perpetual preference shares to contribute 25% of Tier 1 capital. If it does not, SCF would be required to raise an additional $445 million of Tier 1 capital.
- In reality, if SCF is to comply with the NBDT regime it will have to restructure its balance sheet to mitigate the impact of the Risk Weighting framework on its asset base, as it seems unlikely that it will be able to secure the level of equity required by its current distribution of assets.

($000)	Per Balance Sheet	Risk Weighting	RWA
Capital (as at 30 June 2009)			
Share Capital	91,102		
Perpetual Preference Shares	30,367		
Retained Earnings & Reserves			
Less Deductions	(15,135)		
Total Capital	**106,334**		
Exposures (as at 30 June 2009)			
NZ Govt / RBNZ	39,434	0%	0
Bank Deposits	123,563	20%	24,713
Property Lending High Risk	373,132	300%	1,119,396
Other Lending	1,257,763	150%	1,886,645
Corporate Short Term	15,418	20%	3,084
Property - Past Due	0	350%	0
Other Lending - Past Due	0	200%	0
Equity Investments	330,351	600%	1,982,106
Other Assets	156,958	500%	784,790
Total	**2,296,619**		**5,800,733**
Operational & Market Risk			708,518
Total Exposures			**6,509,251**
Capital Ratio			**1.6%**
Additional Capital Required to meet 8%			**414,406**

3. Historical Financial Performance & Covenant Compliance

- The Company's profitability improved as it grew but FY09 performance has been very poor as a result of $106 million in impairment charges and write-offs:

($000's)	Audited 30-Jun-07	Audited 30-Jun-08	Unaudited 30-Jun-09
Interest Income	158.6	199.1	220.1
Interest Costs	106.2	135.2	180.3
Net Interest Margin	52.4	63.9	39.8
Other Income	46.0	41.0	38.4
Net Gain or Loss on Sale	1.1	44.4	7.5
Revenue	99.5	149.4	85.7
Direct Costs	17.2	19.9	11.1
Other Expenses	24.6	27.7	39.1
Provisions - General	7.8	8.6	54.9
Bad Debts	2.7	10.4	16.5
Loss on Investments	0.0	0.0	35.0
Total Expenses	52.3	66.6	156.7
Assoc. Profit Share			1.0
Net Profit Before Tax	47.2	82.8	(71.9)

  – The FY09 result is unaudited and therefore subject to change.

- The impairment charges are primarily comprised of $66 million in additional specific impairment provisions and write-offs against the loan book:

	$ million
Bad Debts Written-Off	16.5
Loan Impairment Provisions	49.1
Impairment on Shares & Investments	5.8
Investments Write-Off	35.0
	106.4

  – The $35 million ***Loss on Investments*** is the write-off of SCF's investment in the Waterfront Fund.

- The specific provisions and write-offs adopted in FY09 lead to questions about the impairment policies previously adopted. Our review suggests that impairment analysis has not always been undertaken when warranted and that senior management have not always adopted provisions that line management recommended.
- It may be that performance in prior years was therefore overstated if it were compared with the facts known at the time of the 30 June 2009 financial result,
- The 30 June 2009 result creates breaches of the USPP and the standby credit facility provided by BNZ and CBA. There is no breach of the Trust Deed.

3.1 Historical Covenant Compliance

3.1.1 Key Trust Deed Covenants

- The Trust Deed covenants apply to the Bonds, Debenture Stock and the USPP. The key covenants are listed in Appendix C.
- SCF is required to report on covenants to the Trustee (Trustees Executors Ltd) within 60 days of the end of the financial year and half year. Appendix C includes a summary of SCF's declarations at 31 December 2008.
- The Company has advised that it has not breached any covenants at 30 June 2009. SCF has $36 million headroom in its equity covenant:

$ million (per preliminary unaudited result)	
Total Liabilities	2,100.7
1/12 Total Liabilities	175.1
Shareholders Funds	211.1
Headroom	36.0

- The trust deed requires that SCF's aggregate exposure to a single group of borrowers cannot exceed 35% of shareholders funds, being $73.9 million at 30 June 2009. The exposure to the Southbury group would exceed that cap but we understand that this is not a breach.
  - The Trust Deed provides that the 35% cap does not apply to any single borrower group to which SCF's exposure exceeded that cap on the day the Trust Deed was signed, where the Company declared that in writing to the Trustee.
  - We understand that the Trustee has advised that the cap does not apply to Southbury because it exceeded 35% on the day the Trust Deed was signed.
- A cross-default may arise under the Trust Deed if the USPP noteholders call for repayment, as the Company can not afford to repay them (refer section 8).
- Through our review of the Company's audited financial statements we did not identify any misreporting of covenants. We have not however independently reviewed the Company's audited accounts.

3.1.2 US Private Placement

- The terms and conditions of the Notes issued under the private placement are set out in the Note Purchase Agreement dated 2 April 2008.
- The covenants, which are extensive and complex, are listed at Appendix D.
- The Company has not been reporting the covenants to the noteholders, we understand because they were not asked to.
- Our analysis, which the Company has not disputed, shows that SCF was in breach of two covenants at 31 December 2008 relating to the relativity of equity to non-performing assets. This breach was not declared to the noteholders.
- On 13 August 2009 S&P downgraded the Company's credit rating below investment grade. If the credit rating is not upgraded within 90 days (which is exceedingly unlikely) the noteholders will be entitled to be repaid (if they so choose).
- Regardless, the Company is also in breach of other covenants at 30 June 2009, which entitle the noteholders to call for repayment.
- The Company is presently attempting to renegotiate terms with the noteholders, as it cannot afford to repay their facilities.

3.1.3 Syndicated Facility Agreement

- In November 2007 SCF executed a syndicated facility agreement comprised of:
  - a 364 day facility with a limit of $50 million (now expired); and
  - a three year facility with a limit of $100 million (currently draw-stopped).
- The syndicate comprises BNZ and CBA, in equal shares.
- SCF has not drawn on either facility.

3. Historical Financial Performance & Covenant Compliance (cont.)

- In April 2009 the banks advised that they would not honour any drawdown requests because they believe that the amalgamation of SCF with its subsidiaries in October 2008 constitutes a technical breach of their facility terms (as the Company did not obtain their consent).
- The covenants applicable to the facility are summarised in Appendix E.
- The Company breached a number of other covenants at 30 June 2009.
- It is exceedingly unlikely that this facility will remain available to the Company.
- We have noted that the Company’s prospectus has not always accurately described these facilities.

4. Financial Position at 30 June 2009 (unaudited)

- The Company's preliminary result for 30 June 2009 shows that equity has reduced by $42 million since 30 June 2008.

$ million	Audited 30-Jun-08	Unaudited 30-Jun-09
Cash & Equivalents	404.0	124.6
Property Plant & Equipment	51.1	157.0
Investments	41.6	242.8
Loan Receivables (net of provisions)	1,456.6	1,630.9
Tax	42.8	53.6
Shares in Associates	18.5	87.5
Other	13.2	15.4
Total Assets	2,027.8	2,311.8
Creditors	(22.8)	(21.4)
Long-Term Borrowings	(1,752.3)	(2,079.3)
Net Assets	252.7	211.1
Opening Equity	204.5	252.7
Profits	70.4	(67.8)
Value Adjustments	(4.6)	(1.9)
Dividends on Preference Shares	(8.7)	(7.9)
Dividends on Ordinary Shares	(34.0)	(24.0)
Equity Before New Capital	227.7	151.1
Ordinary Shares Issued	25.0	60.0
Closing Equity	252.7	211.1

- The reduction in equity would have been $60 million higher had Southbury not injected further equity.
- The additional equity was injected by SCF purchasing assets from Southbury.

- Southbury also received dividends totalling $24 million during the year.

4.1 Property Plant & Equipment

- Excluding property, the key asset is the helicopter fleet owned by Helicopter Nominees Ltd, which is leased to the Southbury subsidiary Helicopters (NZ) Ltd:

$ million	Unaudited 30-Jun-09
Helicopter Nominees Ltd	69.2
Belfast Park (property development)	10.1
Asset Owned by Hornchurch	45.3
	124.6

4.2 Investments & Shares in Associates:

$ million	Unaudited 30-Jun-09
Property	9.4
Listed Equities	13.2
Unlisted Equities	30.9
Corporate Bonds	98.7
Helicopters (NZ) Preference Shares	20.0
Scales Corporation (equity)	10.5
South Island Farm Holdings (76% equity)	67.2
Dairy Holdings (33.6% equity)	75.7
Other	4.8
	330.4

- ***Corporate Bonds*** and ***Listed Equities*** have been sold since 30 June 2009 to support liquidity. The balance is now much lower.

- Unlisted equities are likely to be extremely difficult to sell. We have concerns about their value.
- South Island Farm Holdings is a company formerly owned by Allan Hubbard. SCF acquired the equity through the transaction in December 2008 under which Mr Hubbard purchased approximately $90 million of bad debt from SCF.
  - SCF has not been able to provide financial information about South Island Farm Holdings, which is surprising.
  - We could not therefore undertake any analysis of the potential value of SCF's equity.
- SCF also acquired its Scales shareholding through this transaction.

4.3 Dairy Holdings Limited ("DHL")

- DHL owns and operates 58 dairy farms and six grazing support blocks in Canterbury, Otago, Southland and the West Coast.

	Total Area (Hectares)	Milking Area (Hectares)	Production FY09 (000Kg MS)
West Coast	3,881	2,356	1,259
Canterbury/North Otago	11,020	10,340	10,576
South Otago	164	150	128
Southland/West Otago	1,645	1,398	1,234
Total Dairy Farms	**16,710**	**14,244**	**13,197**
Grazing	2,843		
Total Farms	19,533		

- For the year to 31 May 2009, DHL produced 13.2 million kilograms of milk solids, equivalent to 1.5% of New Zealand's total milk production.
- With around 44,500 cows, DHL is New Zealand's largest dairy farmer.
- SCF is therefore the largest shareholder in New Zealand's largest dairy farmer.

- DHL is a privately held company. SCF is the largest shareholder, having acquired Southbury's 33.5% stake in June 2009 for [3]
  - The purchase price was settled by the issue of [3] of shares in SCF and the payment of [3] in cash.
- The second largest shareholder, Alan Pye, with 21% of the company, issued a "transfer notice" in December 2008 for his shares at $202.49 per share (equiv. to $67m). The other DHL shareholders declined to purchase his shares and subsequently Pye marketed the stake to targeted investors. That marketing was unsuccessful and the transfer notice has expired.

Financial Performance

- DHL lost $10 million in FY09 but is budgeting to break-even in FY10 on the back of growth in production:

$000	Actual 31 May 2008	Forecast 31 May 2009	Budget 31 May 2010
Production (Kilograms per Milk Solids)	*13,926*	*13,197*	*14,898*
Gross Income	82.4	59.0	61.3
Farm Expenses	(40.9)	(44.1)	(36.4)
Farm Surplus	41.5	14.9	24.9
Livestock Trading Account	33.1	5.1	3.5
Other Income	(13.9)	0.8	0.6
Corporate Costs	(2.5)	(2.8)	(2.8)
Depreciation	(4.3)	(2.5)	(2.7)
EBIT	**53.9**	**15.4**	**23.6**
Interest	(26.1)	(26.2)	(23.6)
Interest on Shareholder Advances	(7.5)	0.0	0.0
NPBT	**20.3**	**(10.8)**	**0.0**
Tax	0.0	0.0	0.0
NPAT	**20.3**	**(10.8)**	**0.0**

4. Financial Position at 30 June 2009 (unaudited) (cont.)

- The significant 2009 loss reflects:
  - production down 14% on budget (production budgeted was 15.3m kg);
  - a $5.20/kg milksolids payout compared with the record $7.90/kg in 2008; and
  - a higher cost base in 2009 off the back of the record 2008 payout.
- The FY10 budget shows a breakeven result based on:
  - A 13% increase in production (i.e. production is budgeted on the same basis as the FY09 budget);
  - payout of $5/kg MS; and
  - a significantly reduced cost base.
- Production in the 2009 season was adversely impacted in all regions due to drought conditions. DHL has upgraded the irrigation systems on a number of properties and one property is a recent dairy conversion. In this context, the production budget may not be overly aggressive.
- At the same time however DHL is focused on controlling farm expenses. Key farm costs, such as winter grazing, purchase of supplementary feed and fertiliser applications, have a direct correlation with production.

Sensitivity Analysis

- Based on the current $4.55/kg MS payout forecast by Fonterra for the 2010 year (versus the $5/kg used in the budget), the potential budget outcome would be a $5.0m loss.
- A 5% production decrease on budget (to 14.1m kg MS) on a $4.55/kg payout would result in a further loss of $2.7m, therefore an aggregate loss of $7.7m.

Financial Position

- Reflective of its size, DHL is heavily indebted to its lenders and its shareholders:

Summary of Financial Position	Actual 31 May 2008 ($000)	Pro Forma 31 May 2009 ($000)	DHL Budget 31 May 2010 ($000)
Current Assets	25,570	14,852	17,376
Livestock	72,815	41,113	42,319
Investments	78,304	65,515	64,742
Land and Buildings	511,046	532,764	535,782
Plant and Motor Vehicles	7,969	8,388	5,825
Total Assets	$695,704	$662,632	$666,044
Current Liabilities	11,282	3,000	2,549
Term Liabilities	308,091	363,913	367,756
Shareholder Advances	52,341	34,841	34,841
Shareholder Equity	323,990	260,878	260,898
Total Funds Employed	$695,704	$662,632	$666,044

- We do not have detailed financial accounts but the large drop in equity of $63 million from May 2008 to May 2009 can be explained by a combination of”
  - $10.9 million trading loss;
  - $13 million reduction in the value of Fonterra shares;
  - $32 million reduction in livestock values: lower numbers plus an adjustment to the book value based on IRD values released in May of each year; and
  - interest on shareholder advances.

4. Financial Position at 30 June 2009 (unaudited) (cont.)

- The bank debt facilities at May 2009 are detailed below. Each bank funds a separate farm group):

Bank Debt $m	Term Debt	Overdraft	Total
Westpac	104.2	11.0	115.2
ANZ National	121.5	9.0	130.5
BNZ	39.0	4.5	43.5
Rabobank	70.5	0.0	70.5
SCF	4.2	0.0	4.2
Total	**339.5**	**24.5**	**363.9**

Sale of DHL shares to SCF

- The proposed transfer price was [redacted] per share based on revised net assets at 31 May 2009 of [redacted] million. The total consideration of [redacted] was settled by the issue of [redacted] of shares in SCF (thereby increasing its shareholders funds) and the payment of $35.7 million in cash.
- As part of an independent expert's report on the transaction, Parker O'Connor was engaged to review the proposed sale price for the DHL shares. Parker O'Connor's report concluded a value of [redacted] per share (a [redacted] range).
- The independent opinion summarises the rationale for the sale of the DHL shares by SGL to SCF.
- The independent expert's opinion summarises that on balance they consider the best interests of SCF were served by the DHL transaction despite:
  - an increased risk concentration;
  - a reduction of $35.7 million in liquid funds;
  - the possibility of a future call on SCF as shareholder or financier to provide seasonal finance to DHL;
  - pressure on SCF's ability to comply with a bank and private placement facility interest cover covenant (both of which have now been breached);
  - the related party exposure;
  - the risk of impairment in the share value; and
  - the prospect of near term deterioration in the financial performance.
- This opinion was based on:
  - the infusion of $40m of Tier 1 capital;
  - the associated lift in the SCF capital adequacy ratio (from 3.59% to 4.5%);
  - the maintenance in SCF's view of an excess liquidity provision;
  - the creation of an equity buffer against which an impairment in the DHL share value and adverse financial performance can be absorbed;
  - continued compliance with Trust Deed Covenants; and
  - the absence of notice of, and no SCF expectation for, any prospective banking, Crown Guarantee, credit rating, or Reserve Bank sanctions.
- We agree with the downside risks summarised in the expert's report, noting in particular that this transaction required SCF to pay [redacted] in cash.
- We do however question the purported benefits. At the time of the transaction it should have been apparent to SCF that it was facing significant liquidity problems. This transaction led to it reducing its cash reserves and taking ownership of a highly geared asset in an industry that is under stress.
- SCF should also have recognised that the asset would likely be very difficult to sell, given that another shareholder had failed to sell his shareholding six months earlier.

- The additional capital, and associated improvement in SCF's capital adequacy, may have been of short-term benefit but it is questionable whether this outweighed the advantages of having the [3] in cash on hand, given the issues that the Company is facing.
- The latter four bullet points in the list of benefits are more observations on the adequacy of SCF's position post the transfer.
- It is also worthy of mention that SCF, with a core business as a finance company, was contemplating a significant investment into the dairy farming sector. It is questionable whether this was appropriate.

5. Loan Portfolio at 30 June 2009

5.1 Overview of the Portfolio

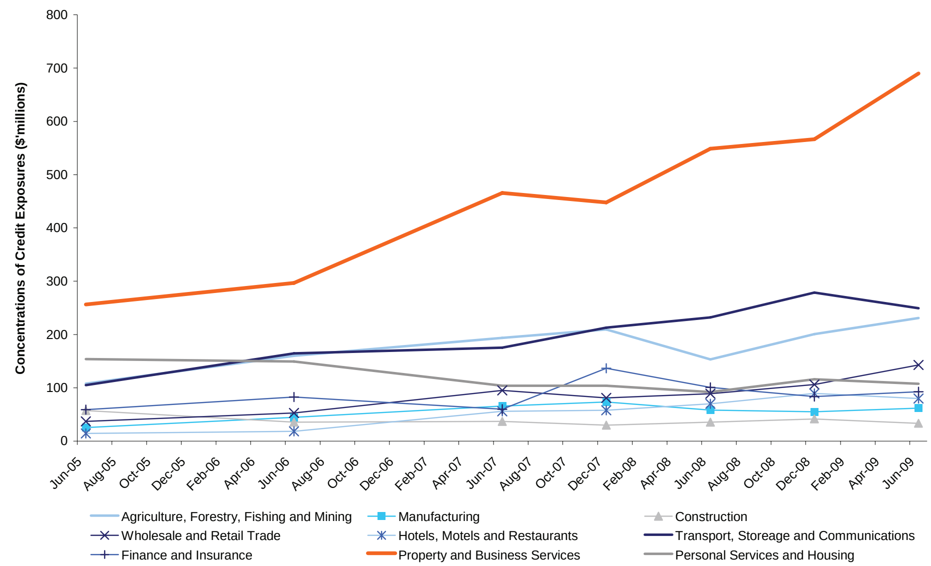
- 65% of the loan book is invested in ***Business*** and ***Property*** loans:

$ million	Gross Loans	Percentage of Total	Number of Loans	Average Size ($000's)
Business	554	33%	1,149	482
Property	540	32%	211	2,559
Plant & Equipment	260	15%	389	668
Rural	153	9%	172	890
Consumer	76	5%	8,974	8
Southbury & Related	104	6%	3	34,667
	1,687	100%	10,898	155

  - The Company has not yet provided a reconciliation between the above gross portfolio balances that it provided for our review and the net loan balance recorded in its preliminary balance sheet (per its 28 August 2009 release).
  - There appear to be differences but we do not have sufficient information to enable us to undertake a reconciliation.

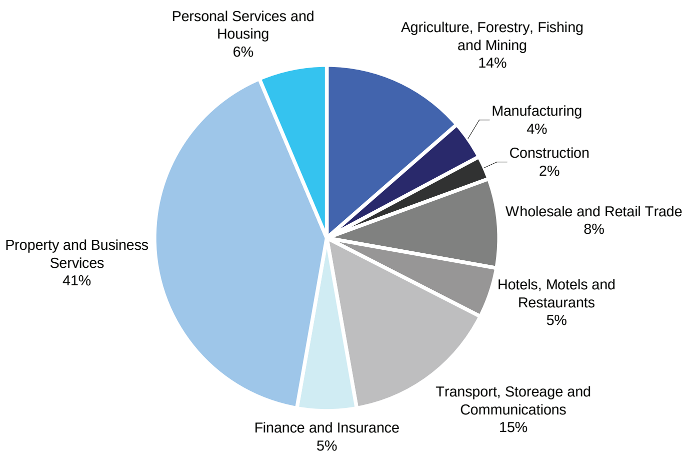
- SCF use the ***Sovereign*** loan reporting system – this system incorporates $1.5 billion of the total loan book. In addition, to this core reporting system, SCF's loan systems include a B stock ledger and a C stock ledger.
  - The B stock ledger ($139 million) is comprised of the 36 loans managed directly by Allan Hubbard loans. Most have been included within the Sovereign system, but excluded are loans to Southbury Group Limited ($82m), Southbury shareholders ($22m) and a related party business loan ($12.5m).
  - The C stock ledger ($80 million) is primarily a property book in Australia that is managed via a separate excel reporting format.

- SCF has a higher exposure (both in terms of loan value and number) to Canterbury than any other region. Lending in Canterbury totals 38% of the book by value; the next largest exposures by region are to Auckland ($259 million) and Otago/Southland ($187 million).
- The loan book grew by over $1 billion over the past five years. The ***Property and Other Business Services*** category doubled in size:



5. Loan Portfolio at 30 June 2009 (cont.)

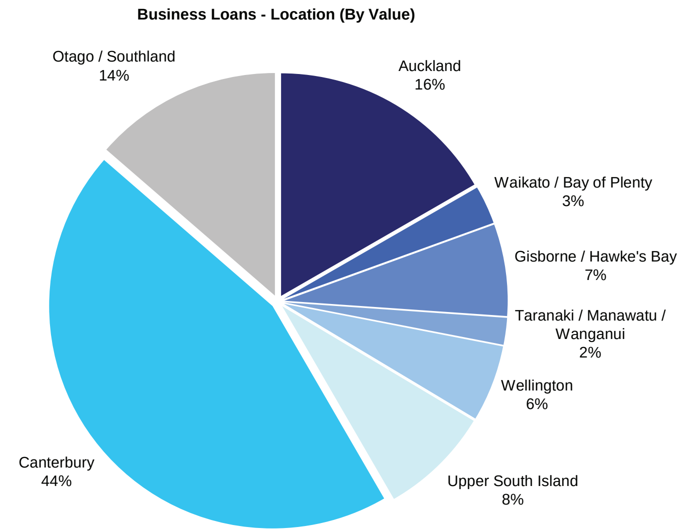
- ***Property and Business Services*** is therefore now the largest sector:



- SCF does not employ a risk grading framework but advises that it has been developing one for some time.
  - SCF is accordingly not complying with best practice for loan books of this size and nature.
  - The lack of a risk grading framework makes it extremely difficult to assess the loan portfolio in its entirety and prevents us from being able to provide an overview of credit quality.
- Detail on each loan category is provided below. Potential impairment is discussed at section 7.

5.2 Business Loans – $554 million (33% of total)

- The business lending sector has been a traditional focus for SCF.
- The Company lends to a wide range of businesses throughout NZ but predominantly in the South Island (particularly Canterbury south, which comprises approx. 60% of the business book).



- Loans are typically for business expansion and acquisition, funding of working capital lines, guarantees for trade facilities.
- Loan terms are generally for 2 to 3 years and most customers are provided with a term loan or revolving credit facility. Our review supports the assumption that loans are commonly rolled-over on expiry.

5. Loan Portfolio at 30 June 2009 (cont.)

- Loans are spread over a wide range of sectors. The largest are wholesale trade, finance and insurance, accommodation/restaurants and transport.

Business Category	TOTAL Value ($000's)	No	Value %	No %
Accommodation and Restaurants	63,903	155	12%	14%
Agriculture, Forestry and Fishing	38,342	109	7%	9%
Communication Services	5,596	10	1%	1%
Construction	11,937	132	2%	11%
Cultural and Recreational Services	3,419	31	1%	3%
Education	961	2	0%	0%
Finance and Insurance	90,410	35	17%	3%
Health and Community Services	15,319	17	3%	1%
Household	3,252	60	1%	5%
Manufacturing	47,732	88	9%	8%
Mining	15,678	4	3%	0%
Personal and other Services	6,986	40	1%	3%
Property and Business Services	49,273	106	9%	9%
Retail Trade	42,236	219	8%	19%
Transport and Storage	60,233	91	11%	8%
Wholesale Trade	86,609	49	16%	4%
	541,887	**1148**	**100%**	**100%**

- There are a number of large loan exposures in the business sector but the largest concentration is in the $150k or less category (71%):

Loan Value	Number of Loans	Balance ($000's)	Avg Loan ($000's)
<=150,000	819	32,966	40
150,001 - 500,000	185	48,000	259
500,001 - 1,000,000	63	43,292	687
1,000,001 - 5,000,000	58	130,139	2,244
5,000,001 - 10,000,000	13	96,940	7,457
> 10,000,000	10	190,551	19,055
	1,148	**541,887**	**472**

- Historically SCF has been a lender to small business (management comment that this has been their "bread and butter" business) but in the last two to three years the Company has committed a significant part of its balance sheet (12% of the total loan portfolio) to larger "corporate" style loans. This has created liquidity issues within the book.

Borrower	$ million	Maturity Date
		29-Aug-2009
		24-Apr-2012
		14-Apr-2010
		1-Jul-2012
		1-Apr-2011
		28-Nov-2010
		15-Jul-2009
		1-Oct-2009
		16-Apr-2010
		6-Jan-2010

  – Two of these loans are related party exposures.

5. Loan Portfolio at 30 June 2009 (cont.)

- had repaid its loan by the date of this report. There has been a history of repayment and readvances.
- We are advised NZ Woolscourers repaid on 28 August 2009.
- We suspect that the other borrowers will have difficulty repaying their loans on their due date.
  - SCF has very little ability to pursue repayment of the loans because they are structurally subordinated.
  - In the current environment it is very unlikely that the other borrowers will be able to refinance. This problem is common across the *Business* book.

- 33% of the business loans by value mature in 24 months or more but those that mature within two years still suffer from liquidity issues:

Loan Maturity	Number of Loans	Balance ($000's)	Number %	Balance %
Matured	127	82,472	11%	15%
< 6 Months	209	136,435	18%	25%
6 to 12 Months	131	65,375	11%	12%
12 to 24 Months	216	76,234	19%	14%
>=24 Months	465	181,370	41%	33%
	1,148	541,887	100%	100%

- A general security agreement is the prime security:

Security Type	TOTAL Value ($000)	No	Value %	No %
GSA	275,956	493	50%	43%
Undefined	145,909	439	26%	38%
1st Registered Mortgage	60,151	91	11%	8%
2nd Registered Mortgage	72,415	126	13%	11%
	554,430	**1,149**	**100%**	**100%**

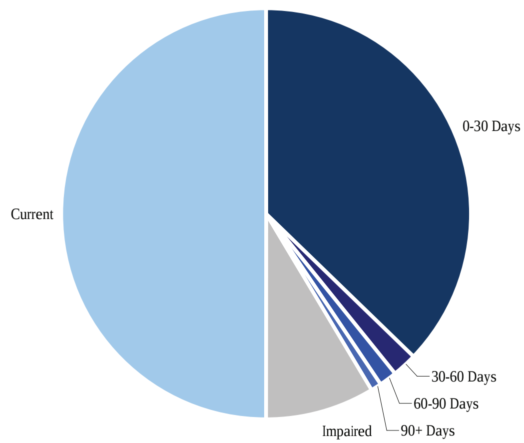
- The Company's system does not record whether the GSAs are first or subsequent ranking.
- The 'undefined' category shown below is a default category; SCF advised that this is for any security not including a general security agreement or a mortgage and includes specific security agreements (for example, security over stock or shares).

- Only 20% of the book is amortising, which creates a mismatch between SCF's funding profile and the principal it will have available for repayment:

Loan Type	TOTAL Value	No	Value %	No %
Interest Only	217,420	292	40%	25%
Interest & Principal	115,902	675	21%	59%
Term Loan (Reducing Interest)	9,443	7	2%	1%
Within 1 Month of Maturity	38,711	33	7%	3%
Interest Paid < Interest Charged	57,042	39	11%	3%
Interest Capitalised	66,704	33	12%	3%
Expired Loans	36,666	69	7%	6%
	541,887	**1,148**	**100%**	**100%**

5. Loan Portfolio at 30 June 2009 (cont.)

- 13% of the ***Business*** portfolio is in arrears:



- The above characteristics and the findings of our individual loan reviews support the assumption that the ***Business*** portfolio is largely illiquid.
  - 35% (by value) is comprised of "corporate" advances that are unlikely to be repaid on maturity.
  - Only 20% of the advances (by value) are on amortising terms.
  - 13% of the portfolio is in arrears.
- It appears that a large number of borrowers are likely to service their loans but SCF could not recover its principal if it called for repayment on maturity. We are aware that loans are often rolled on maturity for this reason.
- This would be consistent with our impression that the loans are generally written to second or third tier borrowers who do no meet the credit, security or risk criteria of mainstream lenders. When combined with the geographic concentration noted above, this suggests there may be some regional impact if SCF ceased lending to this sector.
- These characteristics complicate analysis of future cashflows. Realisations from this book are likely to depend on the strategy that the Company's overall strategic direction, including its ability to continuing rolling loans as opposed to seeking repayment.

5.3 Property Loans

- SCF's total exposure to property loans is similar in size to the business sector at $540 million.
- For the purposes of this analysis we have separated the total Property portfolio into two categories:
  - Australia exposures ($80 million), which are discussed at section 5.7. These exposures are not managed in SCF's loan system so we cannot extract and aggregate the same level of data for them.
  - Other loans to domestic borrowers ($460 million), which are discussed in this section.
- The loans within this category are typically second or third tier property assets or borrowers that do not meet the criteria to obtain funding from first tier financiers.
- Typically loans are development for lending or secured over land held for future development. Property development includes residential subdivisions, residential and commercial building and rural residential subdivisions.
- As would be expected for lending of this nature, the book is concentrated in exposures of greater than $1 million:

Loan Value	Number of Loans	Balance ($000's)	Avg Loan ($000's)
<=150,000	49	3,039	62
150,001 - 500,000	43	12,044	280
500,001 - 1,000,000	23	16,141	702
1,000,001 - 5,000,000	47	103,484	2,202
5,000,001 - 10,000,000	8	54,408	6,801
> 10,000,000	14	271,069	19,362
	184	**460,185**	**2,501**

- We have recommended impairment provisions against all the largest loans in this category or categorised them as being at risk of impairment. These loans comprise 60% of the total *Property* book:

Name	$ million	Maturity Date	Description
	[3]	23-Oct-2011	
		24-Sep-2009	
		1-May-2011	
		26-Nov-2009	Hotel So, Christchurch
		22-Dec-2009	2nd mtges over various assets
		17-Dec-2012	Shopping mall purchased from Hubbard interests
		1-Aug-2009	Hilton Denarau (fully impaired)
		12-Jul-2009	
		30-Jul-2009	Southland Farm
		1-Apr-2011	
		30-Sep-2009	Hamilton subdivision
		20-Apr-2009	Lifestyle blocks, Mangawhai
		1-Aug-2009	
		22-May-2010	

- The maturity profile shows that 87% of the book has a contracted maturity date of less than 24 months but this is largely irrelevant as the actual maturity profile (i.e. based on the likelihood of SCF being repaid) will be very different:

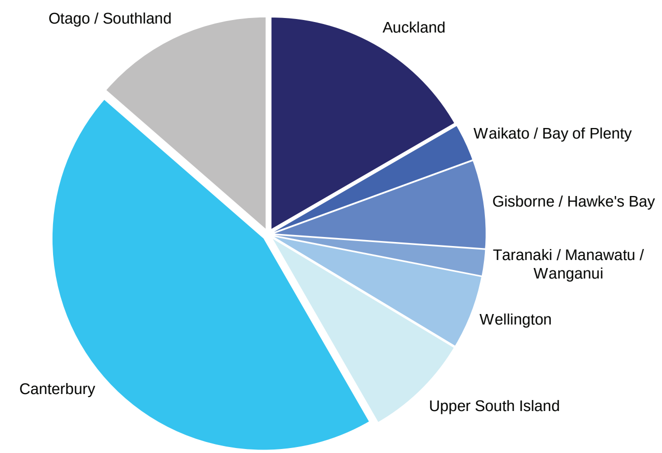
Loan Maturity	Number of Loans	Balance ($000's)	Number %	Balance %
Matured	49	132,376	27%	29%
< 6 Months	68	169,026	37%	37%
6 to 12 Months	24	30,033	13%	7%
12 to 24 Months	12	68,552	7%	15%
>=24 Months	31	60,198	17%	13%
	184	460,185	100%	100%

5. Loan Portfolio at 30 June 2009 (cont.)

- A negligible portion of the portfolio is on amortising terms:

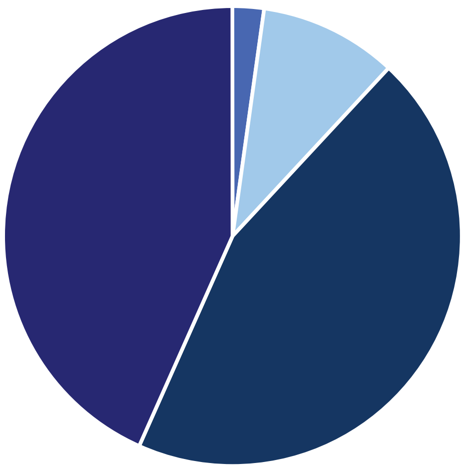
Loan Type	TOTAL			
	Value	No	Value %	No %
Interest Only	104,372	60	23%	33%
Interest & Principal	4,268	27	1%	15%
Term Loan (Reducing Interest)	675	1	0%	1%
Within 1 Month of Maturity	101,656	16	22%	9%
Interest Paid < Interest Charged	10,087	13	2%	7%
Interest Capitalised	180,963	38	39%	21%
Expired Loans	58,164	29	13%	16%
	460,185	184	100%	100%

- There book has a reasonable geographic spread of risk



- The predominance of second mortgage securities creates particular risk around liquidity and impairment:

5. Loan Portfolio at 30 June 2009 (cont.)



- Consistent with the pressure that the sector is under (particularly for second and third tier financiers such as SCF), this category contains the largest portion of impaired, illiquid and at-risk loans.

5.4 Plant & Equipment Loans (Face Finance)

- Plant and equipment lending involves lending to businesses operating in the transport, aviation and contracting industries.
- 53% of the portfolio is amortising with the balance being on interest only terms:

Category	Value	No	Value %	No %
ExpiredLoan	1,370	12	1%	3%
finalmonthma	730	4	0%	1%
FixedInt	271	3	0%	1%
IntOnly	115,407	44	44%	11%
MatIntOnly	3,468	5	1%	1%
P&I	120,340	317	46%	81%
ReduceInt	18,208	4	7%	1%
	259,794	389		

- Loans less than $150,000 make up the largest band by number at 69%, which provides a reasonable spread of risk):

Loan Value	Number of Loans	Balance ($000's)	Avg Loan ($000's)
<=150,000	268	10,702	40
150,001 - 500,000	58	16,885	291
500,001 - 1,000,000	18	12,029	668
1,000,001 - 5,000,000	28	61,624	2,201
5,000,001 - 10,000,000	12	78,358	6,530
> 10,000,000	5	80,198	16,040
	389	259,794	668

5. Loan Portfolio at 30 June 2009 (cont.)

- Reflecting a common loan term of 3 years, 71% of the loans by value have a maturity of greater than 24 months:

Loan Maturity	Number of Loans	Balance ($000's)	Number %	Balance %
Matured	20	1,751	5%	1%
< 6 Months	43	1,065	11%	0%
6 to 12 Months	54	20,261	14%	8%
12 to 24 Months	107	52,816	28%	20%
>=24 Months	165	183,901	42%	71%
	389	259,794		

- Arrears are low, with the gross value of loans in arrears equating to 2% of the gross loans outstanding for the portfolio:

Days in Arrears	Value	No	Value %	No %
30-60 Days	421	6	0%	2%
60-90 Days	229	3	0%	1%
90+ Days	446	3	0%	1%
Impaired	4,918	18	2%	5%
Arrears	**6,014**	**30**	**8%**	**2%**
< 30 Days	29,514	94	11%	24%
Current	224,266	265	86%	68%
	259,794	**389**		

- In general, the *Plant and Equipment* loans have been written within credit policy and on terms that are not unusual for a book of this nature.
- The loan book appears to be well administered and origination processes appear reasonable.

5.5 Rural Loans

- The rural book of $153 million represents 9% of SCF's loan portfolio.
- SCF has a long standing presence in the New Zealand rural lending market. SCF provides a range of products to this sector, from term loans for land use changes through to seasonal funding arrangements. These loans cover all forms of rural activity, from sheep and beef to dairy farming.
- Predominantly SCF is a second funder to its borrowers, often providing working capital facilities or financing for specific assets or issues.
- Loans greater than $5 million make up 68%, presenting a material concentration risk as there are only nine borrowers.

Loan Value	Number of Loans	Balance ($000's)	Avg Loan ($000's)
<=150,000	96	4,391	4,391
150,001 - 500,000	34	8,787	8,787
500,001 - 1,000,000	18	12,181	12,181
1,000,001 - 5,000,000	15	39,424	39,424
5,000,001 - 10,000,000	6	39,578	88,674
> 10,000,000	3	49,095	16,365
	172	**153,457**	**892**

Borrower	$ million	Maturity Date
	[3]	8-Apr-2010
		19-Jun-2010
		1-Jul-2009
		17-Oct-2010
		22-May-2012
		1-Dec-2009
		30-Nov-2010
		30-Jan-2010
		30-Jun-2010

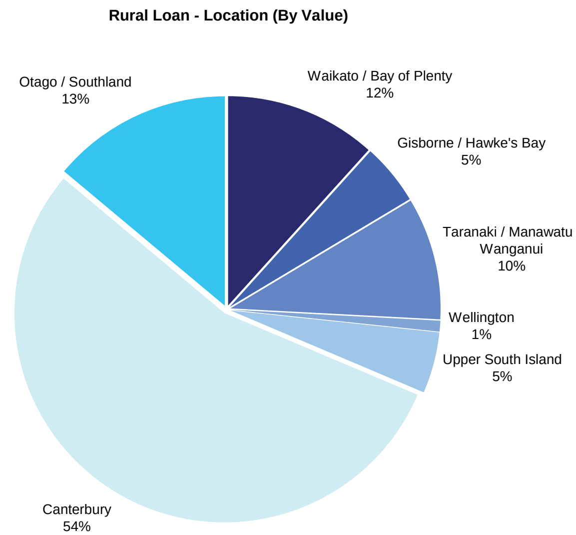
5. Loan Portfolio at 30 June 2009 (cont.)

- Given the industry sector and land & buildings security, the short maturity profile of the rural book is surprising but reflects the nature of SCF's lending to the sector as a second tier financier and often providing short term funding as a bridge to an asset sale or refinancing by a trading bank.

Loan Maturity	Number of Loans	Balance ($000's)	Number %	Balance %
Matured	26	27,758	15%	18%
< 6 Months	29	25,528	17%	17%
6 to 12 Months	33	63,560	19%	41%
12 to 24 Months	31	21,465	18%	14%
>=24 Months	53	15,146	31%	10%
	172	153,457		

- Matured loans comprise 18% by value and are evidence of many of the short term lends not achieving their original exit strategy.
- The maturity profile should not be taken as an indication that the borrowers could repay on expiry.

- Similar to the business sector, there is a heavy concentration of rural loans in the South Island (54% in Canterbury, 72% South Island).



5. Loan Portfolio at 30 June 2009 (cont.)

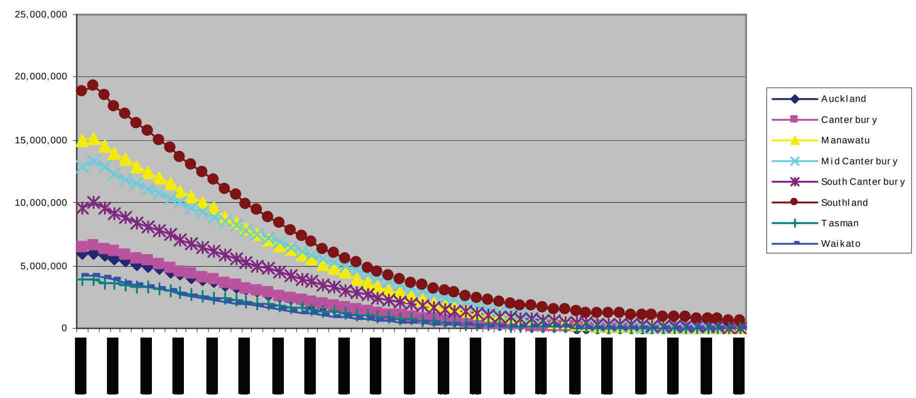
5.6 Consumer Loans

- The consumer loan portfolio includes approx. 9,000 personal loans averaging $8,500 – 94% are for less than $20k:

Loan Value	Number of Loans	Balance ($000's)	Avg Loan ($000's)
<=5,000	3,777	10,173	3
5,001 - 20,000	4,661	45,096	10
20,001 - 100,000	532	16,104	30
100,001 - 200,000	7	1,058	151
200,001 <=	1	3,965	3,965
	8,978	76,397	9

- The loans are for various purposes, including financing cars, boats, home improvements and personal activities.
- Selected car and boat dealers also originate loans on behalf of SCF in a number of regions, on a recourse basis, which exposes the Company to some default risk.
  - As is common in these arrangements, SCF does not assess the credit quality of the borrower, relying instead on the dealer's assessment and its right to claim any defaults from the dealer.
  - A retention arrangement is in place to cover potential defaults, which are currently lower than the average default rate for the entire book (1.2% vs. average 1.8%).
- 61% of the borrowers (by number) are from Canterbury/Otago/Southland.

- The average loan term is approx. 42 months. Recent growth in the book drives a maturity profile that sees over 50% of the loans having more than two years to run (although the book is not very seasoned):



- The book has only been in its current configuration for approximately three years. Our analysis therefore only covers that period.
- In general, the consumer loan book appears to be written within policy and well managed:
  - Administration is centralised in Christchurch.
  - Reasonable collection processes are in place.
  - Reasonable credit and provisioning processes are in place.
  - Information about the book is readily available and of a high standard.
  - Cashflow from the book (at between 7% and 9%) is comparatively strong. This suggests that the book could be reduced to below $8 million within three years.

5. Loan Portfolio at 30 June 2009 (cont.)

5.7 Australian Property Book

- SCF has been involved in the Australian property market since 2005. The total exposure is approx. NZ$80m, comprising 27 clients (average loan size of $2.96m).
- These loans are not managed within the Sovereign loan system so they are not included in the industry category analysis that is contained in preceding sections.
- The loan book has a very short maturity profile. All loans (with the exception of one that has a 2011 maturity) expire within the next 12 months.
- The loans are commonly second-ranking on investment property or property development.
- Most of the funding opportunities have been sourced via Miles Anderson of Gray & Perkins, a Sydney law firm.
- In a number of credit submissions, significant reliance appears to have been placed on the assessment and experience of Miles Anderson in the credit process, yet he was also remunerated for introducing deals to SCF. In many instances, Gray & Perkins are a co-lender.
- This book is now essentially in work-out mode with no new loans written since early 2009. This appears to be an appropriate strategy.

5.8 Southbury

- We consider the total exposure to Southbury to be $104 million:
  - Direct Southbury loan exposure of $82 million at 30 June 2009; and
  - Loans to Southbury shareholders (McLeod, Sullivan, Nattrass, Borland and McDonald) funding their Southbury holdings, of $21.9 million. The loans to McLeod and Borland comprise 90% of this total.
- These loans sit on the "B stock" ledger and as such are managed directly by Allan Hubbard. SCF does not maintain a loan file for this exposure.
- The Southbury loan increased significantly between 31 December and 30 June 2009. It appears that SCF may have advanced funds to Southbury to enable it to meet its repayment obligations to its own financiers.
- SCF holds what we are advised is a first ranking GSA over Southbury as security for its advance.
- We have not been provided with financial information on Southbury for 30 June 2009, as Mr Hubbard advised that it would not be prepared until Scales Corporation has finalised its result in October 2009.
- We were however advised that its significant assets are:

Asset	Ownership	Key Activities	Debt to SCF
Scales Corporation	Majority		None
Helicopters (NZ)	100%	Operates helicopters in Australia, Antarctica, New Zealand and Laos	$101m (approx.)
SCF	100%	Finance Company	n/a

- Mr Hubbard has advised that Southbury owes $45 million to ANZ Bank, repayable in two tranches:

KordaMentha

5. Loan Portfolio at 30 June 2009 (cont.)

  - $5 million on 30 September 2009; and
  - $40 million on 30 June 2010.
- We understand that ANZ holds a second ranking GSA over Southbury and has collateral security of five farms and four commercial properties that are owned by Hubbard family interests.
- SCF's loan is also repayable on 30 June 2010. Its advances from ANZ expire on the same day.
- Southbury will have to sell all its assets or raise funds from another financer to enable it to meet these repayment obligations.
- We have not sighted loan agreements for the shareholder loans but:
  - We understand that they are secured over the shareholders' equity in Southbury; and
  - The Company's 2008 annual report notes that they are not on commercial terms.

5.9 Related Party Lending

- Based on the records provided to us, Related Party lending totalled $210.5 million at 30 June 2009.
  - This schedule is not necessarily complete, as we have not yet been provided with the Company's disclosures for its 30 June 2009 financial accounts. Those disclosures will confirm the amount of related party lending.
- We have reviewed the loan book and identified a further $56 million of loans that are not technically Related Party advances but which could be considered to have a related party aspect (i.e. in an economic sense they are not to arms-length third parties):
  - Two loans to Dairy Holdings shareholders;
  - Two loans to entities in which SCF or Allan Hubbard have interests; and
  - One loan to an entity which is a joint venture partner with SCF on a Christchurch property development.
- It is not possible to include a list of the entities that may technically be classified as related parties because the Companies Office records Mr Hubbard as being a director of some 500 entities:
  - Mr Hubbard has advised that the only entities that pay him directors' fees are South Canterbury Finance, Helicopters (NZ), Dairy Holdings and Scales Corporation.
  - Mr Hubbard has also advised that he believes that "most of the entities are non-trading or dormant".
- We have however, to the extent possible, identified related party loans within the loan portfolio.

5. Loan Portfolio at 30 June 2009 (cont.)

[3]

6. Loan Management Systems and Processes

6.1 General Account Conduct

- As part of the loan review process, we have reviewed SCF's Business & Commercial Lending Credit Policy. Our loan reviews suggest a general lack of full compliance with all aspects of the credit policy.
- Credit Submissions:
  - A standard 'front page' credit submission is used that provides a summary of the borrower, loan request, guarantors, security, LVR, loan details (including type, term and interest rate), and the approval process. In most cases, the credit submission was held on the client file, however the level of analysis supporting an approval was often limited.
  - The credit submission includes a table showing the required number of approvers. In general, credit submissions had the required number of signers (refer below for variations to approvals) but there were many instances when they did not.
  - There were a number of instances where a loan or security was varied during the documentation process but did not appear to have the requisite approvals.
  - Similarly, a number of loan top-ups occurred that did not appear to meet the top-up policy.
- Whilst, in most instances a credit submission was sighted, the level of information and analysis supporting the lending approval was deficient:
  - Regularly, lending approvals were based on being an "asset" lend; that is, repayment would come from an asset sale; or, at a more basic level, the lending decision was based on the secured asset having sufficient value to repay the loan if the security had to be enforced. However, as we note below, these asset lends were often not supported by independent valuation evidence.
  - The level of analysis to demonstrate a borrower's ability to service their loan payments and make regular repayments from cash flow were inadequate (and often absent).
- There is no risk grading framework. The absence of a risk grading framework creates significant impediments to the effectiveness of management and governance structures:
  - Credit quality is a subjective judgement on origination of a loan. There is no standard against which credit assessments can be made on a consistent basis.
  - It is not possible to dissect the book to understand the risk profile of the Company's lending from time-to-time. This significantly limits management's ability to control risk by changing origination policies and targets.
  - It is not possible to recognise changes in the risk profile of the loan portfolio over time and redirect resource accordingly. For example, it will be difficult to devise a policy that defines when loans should be transferred to more intensive loan management.
  - It is not possible to identify trends that might indicate problems in individual origination teams, loan products, industries or security types.
  - Provisioning analysis is extremely difficult. As is discussed at section 7.3, this is particularly true for the assessment of collective provisioning.
- Security Value Assessment:
  - The credit policy has a list of acceptable securities and typical discounts on the various asset classes. In general, the credit submissions contain a simple loan to value ratio calculation and while discounting of assets was not common, the LVR calculation was always highlighted.
  - LVRs were regularly close to or above the credit policy guidelines but were signed off as part of the approval process.

6. Loan Management Systems and Processes (cont.)

- In many instances, SCF's loan ranked behind a prior lender. The credit policy requires the LVR calculation to include the priority amount (not just the current exposure) but this practice was not always followed.
- Where property is used as collateral, it was not common to sight a recent registered valuation on the file.
- In the case of rural exposures, the Loan Manager (typically, an experienced rural banker), would make their own assessment of value. In other instances, the LVR was based on valuations over 12 months old.
  - It is not uncommon in the industry for the security value on rural exposures to be assessed by experienced in-house personnel.
  - It appears however that the Company adopted optimistic assumptions to derive their analysis.
  - We are aware also that it is not uncommon for registered valuations to be obtained when LVRs are high or the security being offered is not first ranking (as is common in SCF's loan portfolio).

- Security Documentation:
  - SCF generally instructs an external legal firm to prepare loan and security documentation and a solicitor's certificate or equivalent solicitor's letter was sighted, acknowledging that the required documentation process had been completed.
  - Generally the loan and other security documents on file matched the security document summaries.
  - In most cases, personal guarantees were taken where the borrower was a company.
  - It appeared as though PPSR registrations were completed, where appropriate.
- Generally there is a very low level of consideration of exit strategies. A reasonable portion of the loan portfolio is now illiquid as a result.
- Covenants and Monitoring:
  - There was a general lack of financial covenants on any file. This will make it extremely difficult for SCF to identify potential problems before they reach a critical stage.
  - Negative covenants were often included (for example: no payment of dividends without consent, no asset transfers).
  - Given the absence of reporting/financial covenants, scheduled loan monitoring was largely non-existent.
  - While the lack of covenants was a concern, it was apparent from our discussions with the Loan Managers they had regular contact with their problem accounts (though file notes/call memos on this contact was limited).
- Southbury & Related Exposures
  - The loan is effectively managed by the borrower.
- A number of loans were reviewed where it appeared SCF was approached by the customer as a "last resort" lender in situations where advances were required within a short timeframe. This "urgency" exacerbated deficiencies in the credit process. Whilst these loans above were approved, in a number of instances an approver would express reluctance to support.
- A number of loans were reviewed where a member of the Board or senior management were close to the borrower and/or had originated the loan. It may have been appropriate for them to remove themselves from the credit chain in these instances.
- A number of loans under the B Stock Ledger managed directly by the Chairman, Alan Hubbard, had limited or no information on the credit file therefore we were unable to review the credit process.

6. Loan Management Systems and Processes (cont.)

- It appears that SCF has been attempting to transfer management to its own personnel over time but this has not been completed.

- Loans are not transferred amongst managers after origination. When loans become problem accounts this has led to those problems not being elevated early enough or impairment provisions not being adopted when necessary.
- While there were deficiencies in the credit process, there was evidence of some very good loan managers through the quality of their credit submissions.
- In summary:
  - An inappropriate level of analysis of borrowers at origination. Lack of covenants and regular monitoring will prevent the Company from identifying at risk files and taking action to mitigate its position.
  - Lack of independent valuation evidence, either at origination or subsequently, is inappropriate.
  - No risk grading framework, which makes analysis of book (especially for provisioning) extremely difficult.
  - Lack of exit strategies when writing loans compromises liquidity. In many cases there are no realistic exit strategies, particularly for business loans.
  - Directors and other related parties appear to be involved in loan management and lending decisions outside the credit chain.
  - Some loans were managed directly by Allan Hubbard, including the Southbury loan.

6.2 Problem Account Management

- Historically, there has been no “asset management” team and problem accounts have been managed within the business.
- An asset management team was established in April 2009 and has initially assumed responsibility for 34 property loans.
- The approach has been to conduct an independent review of the loan (including impairment analysis), agree a strategy that SCF will pursue and report against targets on a monthly basis. This is a common operating strategy for asset management units.
- Whilst the company has recognised that it needs an asset management unit, there are a significant number of other loans that need to be transferred. This includes business loans.
- SCF advises that it recognises that the asset management team needs to be resourced with:
  - Experienced staff with the ability to liaise at a senior level into the trading banks, given the volume of exposures on which SCF ranks second to other lenders;
  - A broad range of skills, not just focused on property; and
  - Specialised sectoral skills to deal with loans across al industry categories.
- SCF has also confirmed that it will implement a policy to establish boundaries to define when loans will be transferred to asset management. This will be difficult without a risk grading framework.
- This area will likely be a key focus for SCF over the medium-term, given the economic environment and the particular characteristics of its loans.

7. Potential Impairment

7.1 Company's Impairment Provision

- The Company has adopted additional impairment provisions at 30 June 2009 totalling $106 million, $66 million of which related to its Loan Receivables (net of an allowance for $25 million for a further underwrite from Mr Hubbard):

	$ million
Bad Debts Written-Off	16.5
Loan Impairment Provisions	49.1
Loan-related Provisioning	65.6
Impairment on Shares & Investments	5.8
Investments Write-Off	35.0
Total Impairment Charges	106.4

  – The Company has not yet provided a detailed reconciliation of its revised provisioning so we have necessarily derived this analysis from the high-level information it has been able to present.

- This has resulted in total provisions against the loan book of $73.8 million (being the total gross provision of $98.8 million net of Mr Hubbard's further $25 million underwrite), comprised as follows:

	$ million
Specific Provisions	79.8
less Allowance for Mr Hubbard Underwrite	(25.0)
Net Specific Provisions	54.8
Collective Provision	19.0
Total Net Impairment Provision	73.8

  – Mr Hubbard's underwrite is discussed at section 7.4.

  – We have netted that underwrite against specific provisions because it is available to cover losses on individual loans, as they occur. It cannot therefore be called at this time.

- The Company cannot yet provide a schedule of bad debts written-off, which should logically reduce the net impairment provision. Accordingly, we do not separate provisions and bad debts in this report but we understand that SCF has made high-level adjustments to its financial accounts so the net balance is presented in its balance sheet.

- Our view on potential impairment, which is discussed below, differs to the Company's.

- It is important to recognise that:

  – Our provisioning analysis is based on the information that is contained on the Company's files and circumstances as they were on the date of our review, for the loans that we reviewed. We have not been able to undertake a thorough review of each of the borrowers.

    - That information was often incomplete or out of date. In particular, there was a lack of valuation evidence and a lack of recent financial information.
    - We have not independently audited or verified the source information.
    - The Company had not previously undertaken impairment analysis on a number of the files that we reviewed.

  – The quality of the analysis undertaken on origination was often poor. This affects our ability to review the current position and assess how that may have changed over time.

  – Our provisioning analysis relates only to the loans that we reviewed. The provision on the sample we reviewed may inherently be larger the remainder of the book (in relative terms)

7. Potential Impairment (cont.)

- Economic conditions are currently very uncertain. The nature of the loan book is such that there must be a reasonable level of downside risk on its borrowers' performance and therefore its exposures.
- The losses that the Company might suffer on its exposures will be driven by the strategies that it adopts in relation to the loans. Liquidity pressures may drive the Company to adopt short-term realisation strategies, which will drive sub-optimal outcomes.

7.2 Specific Impairment

- From our loan reviews, we believe that specific impairments might total $139 million, concentrated within the property book (59%), across 313 loans:

	Total	Specific Impairment		
$ million	Portfolio	Company	KordaMentha	% Total Port.
Business	554.5	14.2	18.9	3%
Property	542.1	49.8	81.3	15%
Rural	153.0	7.4	12.7	8%
Southbury	103.9	0.0	20.0	19%
Plant & Equipment	260.0	5.0	5.0	2%
Consumer	76.0	1.0	1.0	1%
Miscellaneous		2.1		
	1,689.5	79.4	138.9	8%

  - Our specific impairment is not an IFRS-compliant provision.
  - The Company has not provided a schedule detailing the final $2.1 million of specific provisions, classified as ***Miscellaneous*** in the above table.
  - The Company also has not provided a detailed reconciliation of its impairment provisions at 30 June 2009 so we have adjusted information previously provided to reconcile with that announced on 28 August 2009. There is a small reconciliation difference of approx. $300k as a result.
- We have arrived at this estimate after reviewing 206 loans. The coverage of our reviews within each loan category is summarised at Appendix F but the total review constituted 76% by value of the total portfolio.
- We believe that a specific impairment provision is required on 114 of the 206 loans we reviewed.

7. Potential Impairment (cont.)

- The remaining 199 loans (i.e. of the total of 313 against which a provision has been adopted) were mainly small consumer loans that SCF had already provisioned in accordance with its policy.

- In general, our estimate has been derived by following a structured process:
  - Loans have been reviewed against the criteria set out in our Scoping Letter dated 15 July 2009. Appendix G details these criteria.
  - We have assessed the need for a specific impairment provision where a file exhibited risk characteristics or characteristics indicating the potential for default
  - Our assessment of the requirement for a specific provision is based on objective evidence:
    - Valuation evidence and discounts against valuations where they are outdated;
    - Evidence obtained from comparisons with recent transactions;
    - Financial or other information provided by the borrower;
    - Market information; and
    - Information obtained through our experience in dealing with similar issues.
- The difference between our estimate and that adopted by the Company arises primarily from differences of opinion in relation to:
  - The value of collateral; or
  - The potential for default to arise and the actions that the lender might subsequently take.
- There are:
  - 29 loans for which we have adopted a provision and the Company has not; and
  - 85 loans for which we and the Company disagree about the appropriate value of the provision.
- Attached at Appendix H is a full schedule of the loans against which we have adopted a specific provision, showing the provision we have adopted and that which the Company has assigned.
- It has been difficult to assess a provision for the Southbury loan due to the absence of detailed financial information at 30 June 2009. We have therefore adopted the following assumptions, which derive a value estimates that suggests that the shareholder loans may not be collectible (on the assumption that the shareholders could not repay them from other sources).
  - HNZ is sold through the transaction described to us;
  - SCF's value is very uncertain in its current position and therefore it is appropriate to assume it has no value for current purposes; and
  - Scales is the only remaining asset, which we have assessed based on a multiple of earnings.

7. Potential Impairment (cont.)

7.3 Collective Provisioning

- SCF has not historically adopted a collective provision but it agreed that it would be appropriate to do so in the current environment.
- SCF's collective provision at 30 June 2009 is $19 million.
  - The Company has not yet been able to provide detail on the rationale for this provision.
- We believe that the collective provision should take account of:
  - Lack of independent valuation evidence and covenants.
  - At risk files identified through our file review, which are discussed below.
- The absence of a risk grading system makes analysis extremely difficult but ordinarily higher provisions would be applied against the riskier portion of the book (i.e. a lower risk grade attracts a higher provision).
  - The absence of a risk grading system also makes it difficult to identify an "event" against which a collective provisioning requirement can be triggered. We consider the classification of a loan as "at risk" to be such an event.
- It is very difficult to assess what the collective provision should be on the portion of the book that we consider to be at risk (refer below). Recent history supports the assumption that 3% (being the provision we believe it would be appropriate to apply to the remainder of the book) would be too low but 40% would be too high:

Basis	Percentage	$ million
Specific Provisioning Ratio	40%	$93m
Mid-point	19%	$43m
Collective on Unimpaired	3%	$7m

- We believe that conservatism is appropriate in the current environment and on that basis we assume that the provision should be at the mid-point of the above range.

At- Risk Loans

- We have categorised as at-risk loans that exhibit characteristics that indicate there is potential for future default:
  - Second mortgage assets. There is a high risk of significant loss on such assets if first mortgagees take action. We are aware of a developing trend for first mortgagees to take such action in the current environment.
  - Repayment is dependent on factors outside the Company's control.
  - There are early indications of declining performance. The lack of covenants on the loans means that the Company will not necessarily identify declining performance until it translates into payment default.
  - Loans for which we have concerns about the value of security but there is no objective evidence against which to measure impairment.
- The largest volume of at-risk exposures sits within the ***Property*** book but they are spread also over the ***Business*** and ***Rural*** portfolios:

$ million	Total Portfolio	Gross Value Impaired Loans	Gross Value Unimpaired	Gross Value At Risk	At Risk as % of Unimpaired
Business	555	63	491	74	15%
Property	542	323	219	149	68%
Rural	153	35	118	9	8%
Other (inc. Southbury)	440	86	354		
Totals	1,689	508	1,181	233	20%

- If a risk grading framework were in place, these loans would sit at the lower end of the scale and would therefore be subject to more intensive management.

7.4 Total Potential Provision

- Aggregate provisioning is extremely sensitive to the collective provision.
- We believe that under different scenarios impairment provisions could have totalled $209 million ($110 million higher than the provisions the Company has adopted):

<table>
<tr><th>$ million</th><th>Company</th><th>Low</th><th>Mid</th></tr>
<tr><td>Specific</td><td>80</td><td>139</td><td>139</td></tr>
<tr><td>Collective - at risk (say)</td><td rowspan="2">19</td><td>10</td><td>40</td></tr>
<tr><td>Collective - unimpaired (say)</td><td>25</td><td>30</td></tr>
<tr><td>Total</td><td>99</td><td>174</td><td>209</td></tr>
</table>

- Mr Hubbard has executed a further $25 million underwrite agreement, which entitles the Company to call on him to cover any capital losses on advances by granting the Company ownership of further farming interests. We understand that he has advised management that this is the final equity support he is prepared to provide.
  - The underwrite limits SCF's recourse to assets owned by Northwind Ltd, an entity that is owned by Mr and Mrs Hubbard.
  - We understand from SCF that Northwind assets are farms that it either wholly or partially owns, all of which have debt to other financiers.
  - If those assets are insufficient to cover up to $25 million in losses on loans, SCF will have no ability to recover any deficit.
  - The Company has not provided any information to support the value of the underwrite. SCF has however advised that it is satisfied that Northwind has $25 million of assets.

7. Potential Impairment (cont.)

- These levels of provisioning would have resulted in breaches of the Company's Trust Deed, as equity would have reduced to between $126 and $161 million:

$ million	Low	High
Equity at 30 June 2009	211	211
Potential Additional Provisioning	(75)	(110)
Revised Equity (pre-underwrite)	136	101
Underwrite Allowance	25	25
Revised Equity (post-underwrite)	161	126
Equity Reqd for Trust Deed Compliance	175	175
Surplus / (Deficit)	(14)	(49)

- We assume that the underwrite provided by Mr Hubbard is worth $25 million but we have not been provided with any evidence to support that.
- We do not believe that this is necessarily a worst case ("fire sale") scenario.
- In adopting these provisions, we have assumed that workout strategies will be implemented over a reasonable period, where it is economic to do so. In our experience, it is important however to be careful to ensure that any elongated workout strategy does not become uneconomic in comparison to the return that could be available in the shorter-term and the Company's cost of funds.

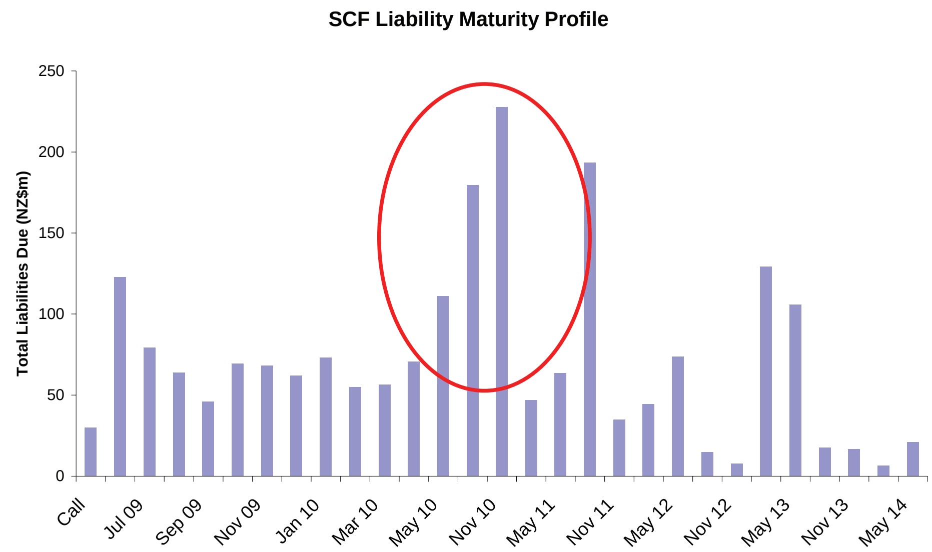
- On 25 August 2009 SCF had net available funds of $55 million, after allowing for the $20 million that is held on trust for the benefit of investors who advanced funds since Monday 17 August 2009:

Institution	Available	Trust	Total
BNZ	10.0		10.0
ANZ	20.0	20.0	40.0
Westpac	25.3		25.3
Other	0.3		0.3
	55.6	20.0	75.6

- The Company has agreed with the Companies Office that it will not allot any investments post 17 August 2009. We do not know how long this arrangement must remain in place but it shortens the Company's short-term liquidity profile as it cannot access either new or reinvested funds.
- The Company cannot draw on the Standby Credit Facility that has been provided by BNZ and CBA. We suspect this facility will be cancelled.

  The Company has been realising its listed stocks and bonds to support liquidity but the remainder of its asset base is largely illiquid or subject to terms that do not enable the Company to accelerate repayment.

- The illiquidity of the asset base contrasts with the sharp increase in the Company's repayment obligations from the middle of 2010, leading into the expiry of the original term of the Crown Guarantee:

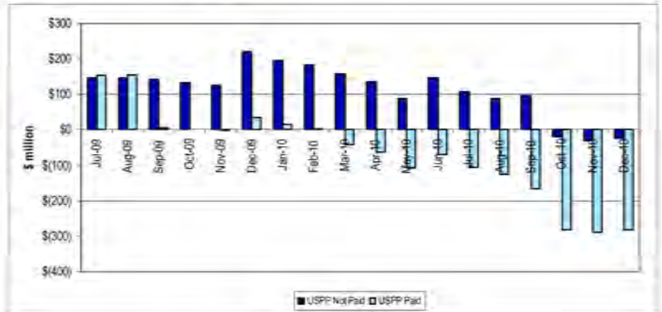


NB: Chart plots quarterly repayments so the original expiry date of the Crown Guarantee falls within the November 2010 quarter

– This graph includes the repayment of the USPP

- SCF's liquidity model shows that the status-quo is not sustainable, assuming:
  - 40% reinvestment rate, which sees the Company repaying approximately $600 million between 1 August 2009 and 31 October 2010.
    - The reinvestment rate may improve in the near-term with the extension of the Crown Guarantee but it has recently been 45% despite the fact that depositors could have reinvested for 12 months and still be covered.
    - This suggests that other factors may be driving their decision.
  - Sale of SCF's farm assets (equity in Dairy Holdings and South Island Farms):
    - Dairy Holdings on 30 June 2010, for book value [redacted]; and
    - South Island Farms in two transactions, 50% on 30 June and 31 December 2010 for book value (total [redacted]).
  - Net loan receivables ranging between $4 and $9 million per month between 1 August 2009 and 31 October 2010. No receipts are forecast from approximately $450 million of the loan portfolio, which the Company uses as a proxy for its illiquid or distressed assets.
  - Listed saleable securities are sold down over the first six months. We believe it possible that some may not be saleable and SCF may therefore have to hold them to maturity.
  - Helcicopters NZ is sold in December 2009, generating approximately [redacted] This entity is controlled by Southbury so its shareholders will have to execute this sale.
    - [redacted] repayment of the preference shares that SCF holds.
    - [redacted] repayment of SCF's loan to HNZ.
    - [redacted] refinancing of SCF's helicopter lease book.
  - No fresh equity.

- On this set of assumptions, SCF would run out of cash in October 2010 if the USPP were not called, or immediately if the USPP noteholders demand repayment (as is their right)



  - We believe that the opening cash position in this projection may be between $320 and $50 million too high.
  - The Company is revising its model to assess the impact but that work is not yet complete.
- In reality, the Company would not be able to repay the noteholders so an event of default would arise under its Trust Deed. The Trustee would then need to decide how best to protect his investors' position.
- It is in response to this reality that the Company has embarked on its restructuring and recapitalisation programme, which is discussed at section 9.

9. Company's Strategy

- The analysis in the previous section supports the assumption that the Company must take action if it is to survive.
- The need for a cash injection is immediate.
- There are a number of stakeholders that need to be managed to enable the Company to execute a strategy to prevent its failure:
  - Regulatory Authorities:
    - Ministry of Economic Development / Companies Office.
    - Securities Commission.
    - NZX.
  - The Treasury, particularly given that the Company's survival strategy relies on further support from the Government.
  - Reserve Bank.
  - Trustee.
  - US Private Placement noteholders, who, we understand, are currently agitating to be repaid.
  - SCF's existing board.
- The company established an Advisory Board that was tasked with devising and executing a strategy to secure SCF's survival:
  - Ξ(CFO);
  - Ξ (a confidante of Mr Hubbard and a partner at Hubbard Churcher);
  - Ξ (CEO Scales Corporation).
- Stuart Nattrass was a member of this body but he has now resigned as a director.
- The Advisory Board appeared to appreciate the seriousness of the Company's position, in that they recognised:
  - The business has $1 billion of assets that are illiquid. Consequently the balance sheet needs to be restructured.
  - There is a very serious level of impairment across the loan book.
  - The Company has lost the confidence of the capital markets.
  - The Company requires an equity injection in the near-term and most likely access to equity in the future. The existing shareholder does not have the capacity to rectify the Company's capital problems.
  - Management and Governance has to be restructured.
  - There are a range of parties who could cause the business to fail in the very short-term.
- The advisory board was being assisted by three key advisers:
  - Cameron & Partners for strategic advice and to negotiate with Government.
  - Deloitte for modelling.
  - Bell Gully for legal advice.
- The recovery strategy that is explained in this section was developed by these advisers and the Advisory Board.
- Southbury has however recently advised that it has appointed its own advisers: Forsyth Barr and Harmos Horton Lusk. It is not clear what role they will be playing in SCF's restructuring.
- We understand however that the Advisory Board has now been disbanded.

9. Company's Strategy (cont.)

- Whilst the Advisory Board's strategy was appropriate, it is unfortunate that the work it was undertaking did not commence considerably earlier, as the Company now has a very short window within which to find a solution.
- We do not know whether Southbury and SCF's board support this strategy or whether the advisers will embark on a different strategy.
- It will be critical to ensure that all of the Company's key stakeholders support the same strategy and that the chosen strategy will address the Company's issues in an appropriate timeframe.

9.1 Advisory Board's Strategy

- We have reviewed a draft report that has been prepared by Cameron and Partners, which we understand was also to be presented to the Government, that summarises the Advisory Board's strategy.
- The three key planks of that strategy are stated as being:
  - Equity injection;
  - Restructuring the balance sheet to remove non-core assets.
  - Improving governance and management structures.
- The Advisory Board believed SCF will need to participate in a wider consolidation of the industry but this objective can only be secondary.
- The Company's ultimate objective under this strategy was to become a registered bank. There are obviously a large number of changes that would have to occur first.

Equity Injection - $100 to $150 million over 12 months

- SCF advises that it has been negotiating with an equity investor for the past four to six weeks. It will not divulge the identity of the investor to our firm but we understand that the Government is aware of their identity.
- We have not sighted a terms sheet for the equity investment but the Cameron & Partners report notes that the investment is conditional on:
  - The USPP noteholders not seeking repayment. SCF has asked the Government to extend the Crown Guarantee to cover these noteholders or, in essence, buy-out the noteholders' position. SCF notes that it believes that the Crown Guarantee might otherwise be called.
  - Agreeing details of the restructuring plan. What this involves is not defined.
  - Understanding details of the related party loan divestment programme.
  - Ensuring that the structure maximises SCF's tier 1 capital position.
  - Completion of due diligence. We are not aware of there being any definition around what this will entail.
  - Agreeing documentation.
- The proposal is highly conditional, if these are the terms. There appears to be a lack of definition around the milestones that need to be met before funds flow.
- In particular, our review supports the assumption that the Company may not satisfy normal due diligence requirements.
- These conditions will have to be addressed or better defined in the short-term, to enable a proper consideration of the likelihood of the investment being made.
- SCF has advised that the investor will also require:
  - Board representation, which would drive a restructuring of SCF's governance and potentially assist the Company to appoint independent directors.
  - Restructuring of management personnel and processes, including:
    - Loan origination;
    - Credit approval;

9. Company's Strategy (cont.)

  - Loan management; and
  - Impairment analysis.

Balance Sheet Restructuring

- The Company's analysis has identified $1.3 billion of core assets and $963 million of non-core assets that SCF intends to liquidate.
- We suspect that this may be a very high-level breakdown. The definition seems to have been driven by an ideal as to what the Company's sustainable business model will be going forward.
- We suspect that the *Business* category contains a volume of advances that would not logically sit within a go-forward strategy but it would be extremely difficult to identify what those are.
- The Company's projections assume that it can exit the majority of the $963 million of non-core assets at net book value (i.e. net of impairment allowances) by 31 December 2010.
- Cameron and Partners assume that the Non-Core property advances will be exited in three tranches, annually over the next three years. There is no explanation as to how this will be achieved but this is likely to be extremely challenging.
- The analysis also assumes that the Related Party exposures will be repaid in December 2009. Southbury and its shareholders have not yet committed to a strategy that would achieve that but they will have to do so in the very short-term if the target date is to be met.
- The assumption that these objectives can be achieved are critical to the success of the Company's strategy.

$ million (per Cameron and Partners)	30-Jun-09
Assets to be Liquidated	
Shares & Bonds	119.0
Property	12.0
Farm Assets	142.9
Scales Corp Shares	[3]
Helicopter NZ Sale	[3]
Other	80.6
Assets to be Liquidated	**[3]**
Core Advances	
Consumer	76.9
Rural	151.6
Property	96.5
Plant & Equipment	266.2
Business	554.9
Leases	17.9
Core Advances	**1,164.0**
Non-Core Advances	
Property	415.2
Related Party	151.5
Provisions	-74.5
Leases	86.8
Non-Core Advances	**579.0**
Other & Cash	155.7
Total Assets	**2,283.4**
Core Assets	**1,319.7**
Non-Core Assets	**963.7**

9. Company's Strategy (cont.)

Longer-Term Objectives

- The modelling that Deloitte has prepared for the Company projects that SCF will have sufficient liquidity to meet its obligations, provided the following four key assumptions are achieved:
  - $150 million in equity is injected by the end of 2009;
  - The USPP noteholders do not seek repayment;
  - The balance sheet restructuring that is outlined in the preceding section proceeds; and
  - Investor confidence is maintained, such that the reinvestment rate remains above 55%. Inherently this likely requires SCF to remain eligible for the Crown Guarantee scheme.
- There are many other assumptions but at this stage they may be less critical to SCF's liquidity profile.
- Deloitte's modelling projects that from 30 June 2010 the Company will comply with the capital adequacy rules for a bank:

Qtr End	Capital Adequacy Ratio
30-Sep-09	-5.15%
31-Dec-09	-3.61%
31-Mar-10	-2.96%
30-Jun-10	2.61%
30-Sep-10	4.82%
31-Dec-10	7.81%
31-Mar-11	8.12%
30-Jun-11	9.91%

- Conversely the modelling projects that the Company will not comply with the NBDT regime capital before a three to five year period.

Government Support

- The Company has asked for the Government's support to enable it to achieve this strategy.
- In particular, SCF has asked the Government to:
  - Extend the Crown Guarantee to cover the USPP noteholders, to avoid the repayment obligation (or facilitate some other solution to this issue);
  - Ensure that the Crown Guarantee continues to cover investor stock to maintain investor confidence.

9.2 Summary

- The Company has developed a strategy to address its problems very late. It is now under material pressure from a number of parties.
- At this stage, the equity raising process appears to be on highly conditional terms. There remains significant uncertainty about the Company's ability to secure the equity it requires and much more detail needs to be provided before stakeholders can be certain that the longer-term restructuring plan (which is critical to the Company's long-term survival) is viable.
- At our high range of provisioning, the Company would have underlying equity of between $100 and $130 million (between $45 and $75 million below the level required under its Trust Deed at 30 June 2009).
- When combined with the issues around the Company's loan management and origination processes, it is difficult to see why an equity investor would be prepared to inject fresh capital from this base, unless that were part of a strategy to enhance the equity investor's own position.
- The recovery plan is now complicated by the concerning resignation of two directors last week, particularly given one of them (Mr Nattrass) was the

9. Company's Strategy (cont.)

directors' representative on the Advisory Board, and the disbanding of the Advisory Board that was driving the restructuring strategy..

- It is not yet clear:
  - whether the board continues to support the strategy that the Advisory Board had developed;
  - what role Southbury's advisers are to play in SCF's restructuring;
  - whether Southbury supports the strategy that the Advisory Board was executing or is embarking on a different strategy.
- These matters need to be confirmed as soon as possible.

10. Crown Guarantee

- The Company estimates that $1,841 million owing to 38,096 investors is covered by the guarantee, if it were to default within the guarantee period:

Product ($ million at 8 July 2009)	No of Investments	No of Individual Investors	Gross Investment
Secured Debenture Stock	45,838	30,908	1,549
Unsecured Deposits	1,178	1,017	30
2010 Bonds		`	100
2011 Bonds		3,031	125
2012 Bonds		3,140	125
less Investments >$1m			(52)
less Non-Resident Deposits			(33)
less Related Party Deposits			(3)
Total Potential Crown Gtee Exposure		38,096	1,841

- The revised terms of the Crown Guarantee only provide coverage for each individual investor up to $250k. There are 591 such investors who are owed a total of $317 million. This would leave approximately $169 million not covered by the guarantee.
- 390 of those investors who are owed $220 million have deposits maturing before the revised expiry date of the Crown Guarantee. It must be considered likely that they will realign their deposits to bring them under the $250k cap.

Appendix A – Restrictions & Engagement Letter

Restrictions

This report is not intended for general circulation, nor is it to be reproduced or used for any purpose other than that outlined above without our written permission in each specific instance.

We do not assume any responsibility or liability for any losses occasioned to any party as a result of the circulation, publication, reproduction or use of this report contrary to the provisions of this paragraph.

In preparing this report we have relied on information provided to us by others, particularly information that is contained in the Company's loan files and its unaudited 30 June 2009 financial results. We have not independently audited or verified that information. We reserve the right (but will be under no obligation) to review this report and if we consider it necessary to revise the report in light of any information existing at the date of this report which becomes known to us after that date.

Certain analysis in this report relies on a draft financial model that was provided to us by the Company, which was prepared by Deloitte. That model is in draft and KordaMentha has agreed that neither it nor any other party to whom outputs of the model are provided will have any claim against Deloitte whatsoever in respect of any matter relating to the model.

The information provided to us included forecasts of future revenues and expenditures, profits and cashflows, prepared by the company. Forecasts by their very nature are uncertain, particularly in the current economic environment, and some assumptions inevitably will not materialise. Therefore the actual results achieved may vary significantly from those in the forecasts.

15 July 2009

PRO51019

Jeremy Corban
The Treasury
1 The Terrace
WELLINGTON

Email:[1]

Dear Jeremy

South Canterbury Finance Ltd ("SCF" or "Company") – Scoping Document

1. Introduction

The Agreement for Inspection and Related Services requires us to submit a Scoping Document, which is to be agreed with The Treasury.

We have prepared this Scoping Document in that context, by reference to the key issues that the Letter of Appointment ("LOA") requires our report to address. The key matters considered in this scoping document include:

- Key tasks and workstreams;
- Specific matters we will consider within each workstream;
- Resourcing; and
- Potential timing and cost.

Each is discussed below.

2. Key Tasks & Workstreams

The key issues referred to in the LOA can be separated into a number of key workstreams:

- Overview information;
- Loan book review;
- Liquidity factors; and
- Restructuring initiatives.

The attachment at Appendix 1 shows how we have categorised the specific key issues contained in the LOA.

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Each workstream is discussed below. Please note that, in accordance with the timetable / milestones set out at section 5, we will provide a preliminary high level report on a number of these matters before submitting detailed reports progressively as workstreams are complete.

2.1 Overview Information

- The company profile information will be collated from SCF's annual reports, discussions with SCF's senior management and our own research from publicly available information sources.
  - For this purpose, unless The Treasury advises otherwise, we will use the definition of Related Party that is contained in the Crown Deed of Guarantee (Non-Bank Deposit Taker) between the Crown and SCF dated 19 November 2008 ("Crown Guarantee").
  - Our review will include analysis of historical compliance with the terms of funding agreements, the Trust Deed and, for the period that the Company has been covered by it, the Crown Guarantee.
- In addition, our review will focus on:
  - Asset writing strategy: confirming that a strategy is in place that fits with SCF's funding and liquidity management strategies, and through the loan reviews confirming that loans are written in compliance with this strategy.
  - Funding strategy: confirming that a strategy is in place and advising the key planks of that strategy, risks around it and its fit with SCF's likely funding requirements.
  - Trust Deed: confirming key requirements under the Trust Deed, the Company's compliance monitoring framework and its current and forecast compliance with those key requirements.
  - Reserve Bank regulatory framework: confirming SCF's implementation plan for compliance with the Reserve Bank requirements and any areas of potential non-compliance.
  - Business Model: by reference to SCF's current business plan, summarising SCF's strategic direction and key targets for the following financial year.
  - Governance Model: providing summary information on governance structures, their fit with the Securities Commission's Corporate Governance in New Zealand – Principles and Guidelines, summary biographical information on each director, details of the board's succession planning and the manner in which the board operates. We will base this information on discussions with the directors and our review of historical board minutes and board reports. Compliance with the Reserve Bank governance requirements will be addressed under that head.
  - Identifying particular sectors or regions that may suffer if SCF were to cease business, by highlighting lending concentrations and, if possible, comparing SCF's activity within sectors or regions to sector and regional statistics available from other large New Zealand financial institutions and publicly available information.
- By reference to the Company's financial statements and asset registers, we will identify any other assets of significance (i.e. excluding loan receivables) and provide summary information on their characteristics and the Company's future intentions with respect to them (if any).

2.2 Loan Book Review

- In general, our review aims to establish whether loans are being managed within credit policy and if active management commences at an appropriate time.
- Our loan book review will include consideration of the following key factors:
  - Date and amount of initial advances, and amounts and reasons for subsequent advances.

  - The level and quality of information obtained to support credit applications and whether conditions precedent were met.
  - Whether credit submissions are held on file and the required approvals were obtained.
  - Arrears currently outstanding and repayment strategies.
  - Whether the loan has proceeded in accordance with the original strategy and, if not, the current strategy.
  - Whether signed loan documentation is held and identification of any variances to standard documentation.
  - Comparing the security held (as recorded on file) to the credit approval and identifying whether solicitors' certificates were obtained to confirm that the security is in place.
  - Whether covenants were set in accordance with credit policy, are tested regularly and action is taken on non-compliance.
  - Details of the most recent valuation of security and, if relevant, the date of the last valuation, the valuer who prepared it, the basis on which it was prepared and whether it complies with the valuation instructions. In particular, we will aim to identify any variance between the current state of the security and the valuation basis.
  - Evidence of regular client visits and monitoring of the account (receipt of management accounts, financial forecasts, etc).
  - Prior ranking charges and their impact on the Company's exposure.
  - Adequacy of impairment provisions.
  - Potential cashflow (both advances required and likely repayments), to assist with liquidity analysis.
- Based on our extensive experience in reviewing loan books in assignments of this nature, this data set helps to identify issues with specific loans and key themes across the loan book (e.g. general loan management practices, etc).
- In addition to the specific matters noted in the LOA, we will aim to review loans sufficient to achieve the following parameters (with an appropriate materiality threshold):
  - Top 25 loans (by value, aggregated for borrower groups).
  - All loans in arrears.
  - All loans against which an impairment provision has been adopted or a write-off has occurred.
  - All loans on the problem account watchlist.
  - All related party exposures.
  - All loans for which the loan to valuation ratio has been assessed at greater than 90%.
  - Sufficient loans to achieve reasonable coverage of the book by value, for each industry category (as defined by the Company), on a material basis (i.e. relative to the type of exposure and the weighting of the total book).

- Section 3 discusses the proposed scope of the loan review (i.e. loan book coverage) in detail.

2.3 Liquidity Factors

- We will review SCF's most recent financial statements (audited and management) and its current financial forecasts to provide the information sought on liquidity. Detailed discussions will also be required with the Finance Director and board.

- The level of parent support available will have to be assessed through discussion with and information from Southbury Group Ltd ("SGL"). We presume this information will be forthcoming, as we will be unable to provide this analysis if it is not.
- We will review all agreements between SCF and its funders to identify the matters that are outlined in the LOA. It may be difficult to establish whether additional bank funding is available.

2.4 Restructuring Initiatives

- Our analysis of the Dairy Holdings Ltd restructuring will aim to provide an overview of the complete flow of funds, the resulting impact on SCF's key financial metrics and its forecast compliance with the trust deed, Reserve Bank requirements, the Crown Guarantee requirements and bank facility terms. A detailed explanation of the transaction will be obtained from SCF and (ideally) from SGL.
- We will also analyse any other restructuring proposals that the Company is contemplating (assuming we are informed of them).

3. Loan Book Review – Scope & Coverage

- For the purposes of our review we have separated the loan book into two high-level categories:
  - Household loans, which are a consumer finance product. There are 9,009 borrowers who owe a total of $79.7 million.
  - All other loans allocated into 17 industry categories. There are 1,857 loans with a total value of $1,413 million.

Household Loans

- In our experience, due to the volume of loans, their relatively small size and their common characteristics, it is best to review consumer finance books by reference to key historical metrics, such as default / delinquency rates, monthly arrears, nature of security, etc.
- These metrics produce a data set that can be used to assess the adequacy of a lender's general provision for the specific book. We also compare that data set to data sets we have collected from books of a similar nature and to the systems and processes that the Company has in place to manage repayment / arrears.
- Through this process we will also make an assessment of the appropriateness of the lender's policy and procedures for general provision analysis.
- Accordingly, this review will not follow the detailed process that is outlined at section 2.2 above, as we do not believe that is necessary for a book of this nature. We have however identified four specific loans in this category that will follow that review process, due to their size and characteristics.

Other Loans

- SCF groups its remaining 1,857 loans (total value $1,413 million) into 17 industry categories.
- We will sample test loans within each category, under the framework set out at section 2.2.
- Our initial sample set aims to provide a reasonable sample by value within each category, relative to the potential risk characteristics of that category, the relativity of each category to the total loan book and the number of loans within each category that sit within the specific review criteria (i.e. arrears, provisions, etc).

- Due to the large number of loans and, in many cases, their relatively small value we have at this stage decided that it is not cost or time effective to achieve a high coverage of loans by number within each category.
- The initial sample set of 215 loans provides 72% coverage (by value) of the total remaining loan book (i.e. excluding the Household loans):

$000	Total Book				Initial Sample Set			
Category	Value	No	Value%	No%	Value	No	Value %	No %
Accommodation, Cafes and Restaurants	79,779	174	5%	2%	48,878	17	61%	10%
Agriculture, Forestry and Fishing	213,992	380	14%	3%	110,439	42	52%	11%
Communication Services	5,823	13	0%	0%	5,280	2	91%	15%
Construction	33,381	197	2%	2%	22,692	14	68%	7%
Cultural and Recreational services	3,931	42	0%	0%	2,829	10	72%	24%
Education	1,035	4	0%	0%	778	1	75%	25%
Electricity, Gas and Water Supply		1	0%	0%		-	0%	0%
Finance and Insurance	92,690	43	6%	0%	83,051	9	90%	21%
Government Administration and Defence	7	1	0%	0%		-	0%	0%
Health and Community Services	15,330	20	1%	0%	13,359	4	87%	20%
Manufacturing	61,768	111	4%	1%	47,531	12	77%	11%
Mining	16,940	10	1%	0%	11,891	2	70%	20%
Personal and other Services	7,573	58	1%	1%	4,532	4	60%	7%
Property and Business Services	494,846	279	33%	3%	416,525	57	84%	20%
Retail Trade	43,856	257	3%	2%	13,321	7	30%	3%
Transport and Storage	243,346	210	16%	2%	165,930	19	68%	9%
Wholesale Trade	98,976	57	7%	1%	67,905	2	69%	4%
Total (exc. Household)	1,413,274	1,857			1,014,940	202	72%	11%
Household	79,681	9,009			5,466	4	7%	0%
Total Book	1,492,956	10,866			1,020,406	206	68%	2%

- This is only the initial sample set. The sample set will change as:
  - We receive further information from the Company, including weekly arrears schedules and information on related party exposures (which we have not yet received).
  - We review loans within each category. Our reviews may indicate general compliance, in which case we may reduce the sample size for a particular category, or general non-compliance or other issues that justify a wider sample set for a category.
- The time needed to undertake each loan review is a key variable in the cost and milestone projections provided below.

4. Resourcing

- To complete this assignment efficiently we have established two project teams:

Role	Loan Review	Other Matters
Partners	[1]	
Team Leader		
Managers		
Analysts		

  - We may increase or decrease the size of these teams as our review progresses.
  - We may change the composition of these teams as our review progresses, depending on the resource and experience required.
- All staff have been involved with previous reviews of a similar nature.

5. Timing & Key Milestones

5.1 Commencement & Final Completion

- We commenced the assignment on 13 July 2009 with on-site work in Timaru. The distribution of the Company's loan files is such that we will need to work on-site at a number of locations.
- We will aim to have completed all workstreams by late August 2009, based on the current scope of work. Timing will change if the scope of work changes.
- We will need a large amount of information from SCF and access to its personnel. Our ability to complete the assignment in a timely manner will be dependent on SCF providing ready access to all the information and personnel required.

5.2 Key Milestones

- As requested, we will submit reports progressively on completion of each workstream.
- We cannot provide a view on future liquidity until the loan review process is complete. We will however provide regular updates on liquidity, if requested.
- We will separate our report on ***Overview*** information into two stages, as we will be unable to comment on some matters until we have completed our review:

  Stage 1 We will aim to report on Reserve Bank regulatory impacts, SCF's governance model, sectors or regions impacted if SCF ceased lending and summary info on other assets.

  Stage 2 Other ***Overview*** matters (or any we discover we cannot report on in stage 1) and, if necessary, amendments or updates on matters addressed in the stage 1 report.

- Our initial milestone targets are as follows:

Initial Target Date	Workstream
17 July 2009	Report on urgent matters identified by Treasury
31 July 2009	First stage report on Overview information
14 August 2009	Second stage report on Overview information
14 August 2009	Report on Loan Review findings / matters
14 August 2009	Report on Restructuring initiatives
21 August 2009	Report on Liquidity factors

- The key variables that might affect our ability to achieve this timetable are likely to include:
  - The time required to complete the reviews of the loan files identified in our initial sample set. To a large degree this will depend on the quality and completeness of the Company's loan management files and systems.
  - The Company providing information we require, and access to key personnel, in a timely manner. In particular, the scope of work requires us to comment on Southbury Group but we have no direct mandate to obtain the necessary information. Our ability to provide meaningful comment will depend on Southbury's cooperation.
  - The issues we uncover during our review, which may necessitate additional or more detailed work.
- We will keep The Treasury updated on our progress against this timetable through the *Regular Reporting* framework discussed below.

5.3 Regular Reporting

- We propose a weekly update with relevant staff from The Treasury, to discuss progress. We recommend this be on a Friday afternoon and would appreciate it if a time could agreed as soon as possible.
- We will of course notify The Treasury immediately if we identify any urgent issues during the course of our review that we believe require urgent attention.

5.4 High-level Estimate of Potential Cost

- You have asked us to provide a high-level estimate of the potential cost of each stage of the assignment.
- It is very difficult to provide such an estimate at an early stage, given that we have not yet been able to assess the quality and completeness of the Company's information or the length of time required to complete the loan review. We also do not yet know what issues we will uncover during the review.
- We have however provided a high-level estimate, which is subject to change and excludes GST and disbursements:

Workstream	Est Potential Cost (exc. GST & disb.)
Southbury	$55,000 - $65,000
Overview	$70,000 - $80,000
Loan Review	$140,000 - $160,000
Restructure	$55,0000 - $65,000
Liquidity	$50,000 - $60,000

  - We understand that the Company is contemplating other restructuring proposals so we have assumed that they will be reviewed. The number and scope of those proposals will determine the final cost and timing for that workstream.
  - Where relevant, we have only allocated to this assignment 50% of the cost of any workstream that is also included in the scope of our work for BNZ.
- As agreed, we will charge fees on a time and cost basis at the contracted rates so the final cost of the review will be driven by the actual number of hours spent working on the project.
- We propose to issue invoices at the end of every month for work undertaken in the prior month and on completion of the scope of work.

- We will advise The Treasury of our fee accrual every 14 days and immediately if we believe for any reason that the total cost of the assignment will exceed by more than 10% the aggregate of the estimates provided above. We will also provide information on accrued at any time cost on request.
- Please let us know if you have any queries about this cost estimate, as it may be possible to amend the scope of work to change the cost of any particular workstream.

We understand that Treasury needs to countersign this letter so it forms part of the Agreement for Inspection and Related Services. Accordingly, please return a countersigned copy of this letter to us at your earliest conveniences.

Yours sincerely

[1]

Partner

Signed for and on behalf of the Treasury:

____
Signature

____
Name

____
Date

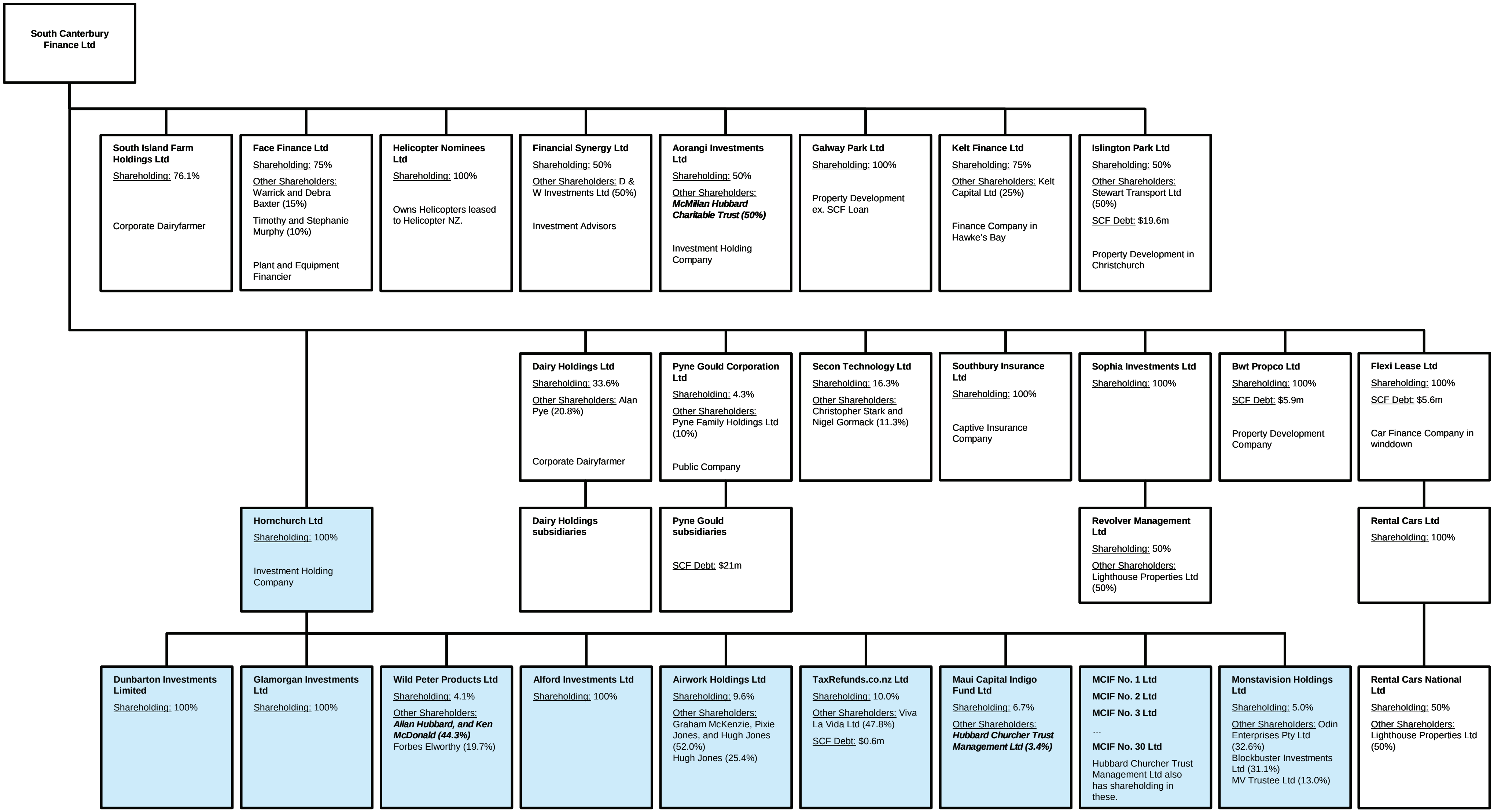
APPENDIX 1

Abbreviation	Category
OV	Overview
R	Restructuring Initiatives
LR	Loan Book Review
LQ	Liquidity Factors

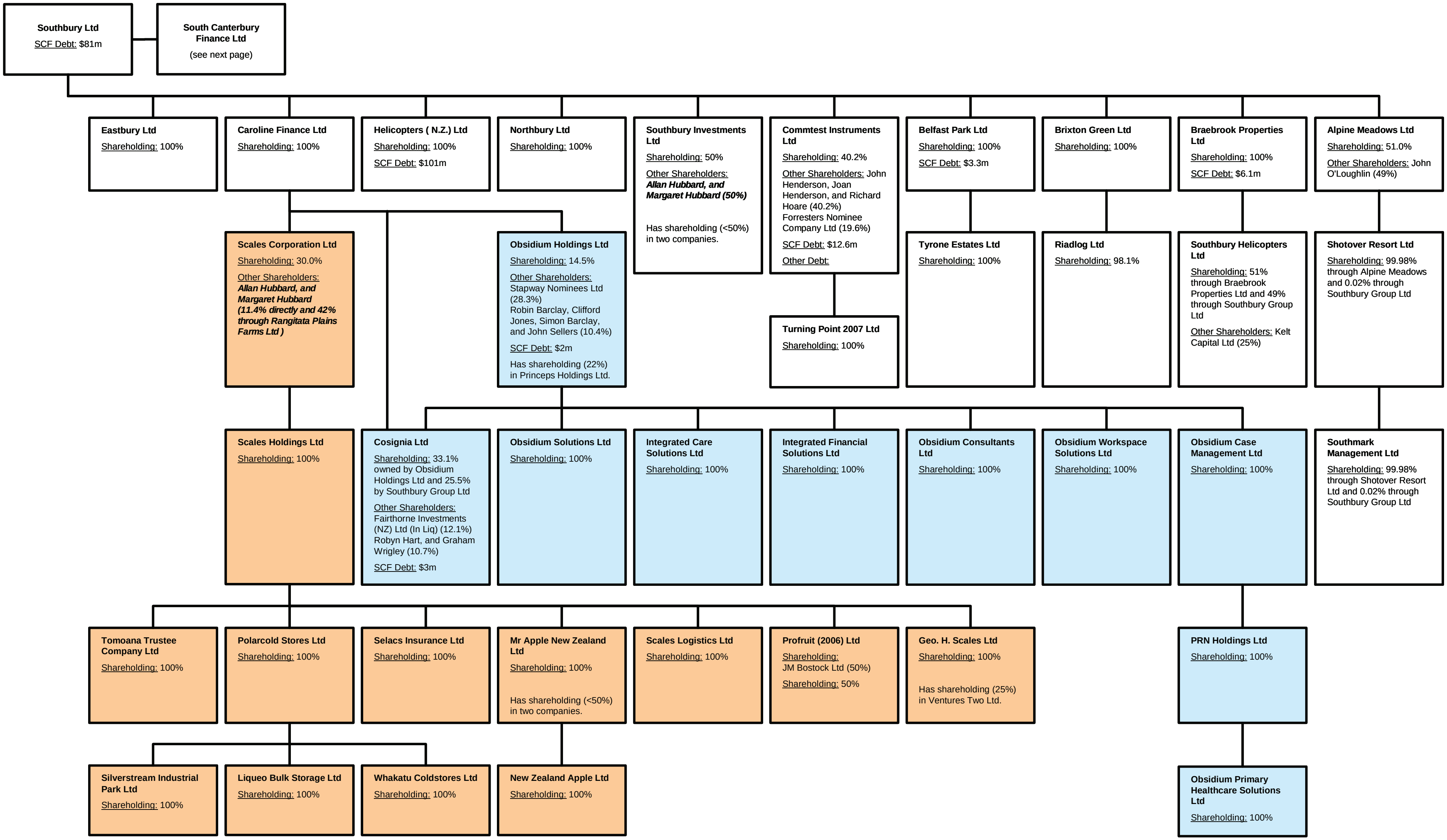
General Business Practices	
• Prepare a company profile of SCF, its shareholders, key staff, directors and related parties (listed investments, or listed shareholders etc)	OV
• Prepare a company profile of SCF's corporate metrics over the past three years in six monthly intervals.	OV
• Review SCF in 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.	OV
• Outline what steps are being taken to reorganise SCF to improve its liquidity and financial stability.	R
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".	LR
• 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.	LR
• 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.	LR
• 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.	LR
• Review the arrears, past due and impaired assets and provisioning across the portfolios.	LR

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

Appendix B – SCF Structure Chart



Appendix B – SCF Structure Chart (cont.)



Appendix C – Trust Deed Covenants

- Prior Charges shall not exceed 7.5% of Total Tangible Assets.

	30 June 2007	30 June 2008	31 December 2008
Required	7.5%	7.5%	7.5%
Actual	0.2%	0.6%	0.6%
Compliance	yes	yes	yes

- Aggregate book value of equity securities held not to exceed 100% of Shareholders' Funds.

	30 June 2007	30 June 2008	31 December 2008
Required	1.00	1.00	1.00
Actual	0.55	0.33	0.54
Compliance	yes	yes	yes

- Total Liabilities (excluding Total Contingent Liabilities) will not exceed 12x Shareholders' Funds.

	30 June 2007	30 June 2008	31 December 2008	30 June 2009
Required	12.00	12.00	12.00	12.00
Actual	7.03	6.73	7.65	8.10
Compliance	yes	yes	yes	yes

- Exposure to any single group (excluding banks) shall not exceed 35% of Shareholders' Funds

	30 June 2007	30 June 2008	31 December 2008
Required	35%	35%	35%
Actual	26.5%	20.0%	32.7%
Compliance	yes	yes	yes

- The aggregate of: First Ranking Stock; Second Ranking Stock; Total Contingent Liabilities secured by First Ranking Security Stock; and Prior Charges will not exceed The aggregate of: 98% of Total Readily Realisable Investments; 92% of Total Secured Receivables; 85% of Total Unsecured Receivables; 70% of Total Real Property; and 70% of Total Other Tangible Assets.

	30 June 2007	30 June 2008	31 December 2008
Required	1.00	1.00	1.00
Actual	0.93	0.92	0.95
Compliance	yes	yes	yes

- Total Contingent Liabilities shall not exceed 150% of shareholders funds.

	30 June 2007	30 June 2008	31 Decmeber 2008
Required	150%	150%	150%
Actual	9.8%	7.7%	7.8%
Compliance	yes	yes	yes

Appendix D – US Private Placement Covenants

- Liens not to exceed 7.5% of Consolidated Total Assets (similar to the Trust Deed).

	30 June 2007	30 June 2008	31 December 2008
Required	7.5%	7.5%	7.5%
Actual	0.2%	0.6%	0.6%
Compliance	yes	yes	yes

- Consolidated Equity must be greater than 4% of Consolidated Total Assets.

	30 June 2008	31 December 2008	30 June 2009
Required	4%	4%	4%
Actual	12.5%	11.5%	10.1%
Compliance	yes	yes	yes

- Non-Performing Assets must be less than 7% of Consolidated Total Financial Assets.

	30 June 2008	31 December 2008	30 June 2009
Required	7%	7%	7%
Actual	4.2%	7.1%	22.5%
Compliance	yes	no	no

- Consolidated Equity + Loan Loss Reserves must be greater than 300% of Non-Performing Assets.

	30 June 2008	31 December 2008	30 June 2009
Required	300%	300%	300%
Actual	444%	249%	75%
Compliance	yes	no	no

- Loan Loss Reserves must be less than 2% of Consolidated Total Assets.

	30 June 2008	31 December 2008	30 June 2009
Required	2%	2%	2%
Actual	1.1%	1.0%	2.0%
Compliance	yes	no	no

- Capital Adequacy Ratio must be greater than 9%.

	30 June 2008	31 December 2008	30 June 2009
Required	9%	9%	9%
Actual	17.3%	16.3%	14.0%
Compliance	yes	yes	yes

Each quarter, the Renewal Rate Ratio must be greater than 85%. This is the ratio of the Liquidity Amount divided by outstanding Secured Debenture Stock. The Liquidity Amount in any period is defined as:

- The amount of outstanding Secured Debenture Stock at the beginning of that period; ***less***
- Secured Debenture Stock maturing in that period; ***plus***
- Secured Debenture Stock inflows during the period; ***plus***
- The aggregate amount of other borrowings received by SCF over the period

	30 June 2008	31 December 2008	30 June 2009
Required	85%	85%	85%
Actual	112%	108%	109%
Compliance	yes	yes	yes

Appendix E – BNZ / CBA Facility Covenants

- EBIT must be greater than 1.2x Interest & Financing Costs for any 12 month period.

	31 Dec 2008	31 Sep 2008	31 March 2009	30 June 2009
Required	1.20	1.20	1.20	1.20
Actual	1.54	1.20	1.22	0.79
Compliance	yes	yes	yes	no

- For each quarter, Total Liquidity will not be less than the greater of (i) 8% of Gross Receivables; and (ii) 75% of Retail Debenture Stock due to mature in the next 3 months less Gross Receivables due to be paid over the same period.
  - SCF had a liquidity buffer of $430 million as at 31 December 2008, which is expected to reduce to $224 million as at 30 June 2009.

Appendix F – Loan Review Coverage by Criteria

$ million	Total				Total			
	Value	No	Value %	No %	Value	No	Value %	No %
Business	555	1,149	33%	11%	376	79	68%	7%
Property	540	211	32%	2%	446	72	83%	34%
Rural	153	172	9%	2%	102	24	67%	14%
Southbury	104	3	6%	0%	104	1	100%	33%
Plant & Equipment	260	389	15%	4%	160	29	62%	7%
Consumer	76	8,974	5%	82%	4	1	5%	0%
Total	**1,687**	**10,898**			**1192**	**206**	**71%**	**2%**

Appendix G – Loan Review Criteria

Loan Book Criteria

- Date and amount of initial advances, and amounts and reasons for subsequent advances.
- The level and quality of information obtained to support credit applications and whether conditions precedent were met.
- Whether credit submissions are held on file and the required approvals were obtained.
- Arrears currently outstanding and repayment strategies.
- Whether the loan has proceeded in accordance with the original strategy and, if not, the current strategy.
- Whether signed loan documentation is held and identification of any variances to standard documentation.
- Comparing the security held (as recorded on file) to the credit approval and identifying whether solicitors' certificates were obtained to confirm that the security is in place.
- Whether covenants were set in accordance with credit policy, are tested regularly and action is taken on non-compliance.
- Details of the most recent valuation of security and, if relevant, the date of the last valuation, the valuer who prepared it, the basis on which it was prepared and whether it complies with the valuation instructions. In particular, we will aim to identify any variance between the current state of the security and the valuation basis.
- Evidence of regular client visits and monitoring of the account (receipt of management accounts, financial forecasts, etc).
- Prior ranking charges and their impact on the Company's exposure.
- Adequacy of impairment provisions.
- Potential cashflow (both advances required and likely repayments), to assist with liquidity analysis

Appendix H – Schedule of Specific Provisions

Region	Borrower	Sector	Loan Value	SCF prov	KM prov
Manawatu	[c]	Household	26,291	13,741	13,741
Manawatu		Property and Business Services	1,310,653	-	700,000
Canterbury		Construction	306,429	180,661	306,429
Canterbury		Manufacturing	430,619	501,862	501,862
Southland		Property and Business Services	115,893	87,604	87,604
Auckland		Property and Business Services	2,398,286	2,394,871	2,398,286
South Canterbury		Agriculture, Forestry and Fishing	656,662	146,641	146,641
Waikato		Property and Business Services	1,308,266	500,000	500,000
Canterbury		Manufacturing	12,308,462	665,000	665,000
South Canterbury		Property and Business Services	11,994,011	2,030,000	11,994,011
Southland		Agriculture, Forestry and Fishing	76,260	52,135	52,135
Wellington		Agriculture, Forestry and Fishing	4,393,408	3,489,121	2,000,000
Manawatu		Property and Business Services	2,484,643	350,000	1,300,000
Wellington		Property and Business Services	5,863,960	-	1,000,000
Manawatu		Property and Business Services	121,064	121,064	121,064
South Canterbury		Property and Business Services	2,186,377	-	Future
Manawatu		Retail Trade	112,025	- 46,557	1
Auckland		Mining	4,818,568	800,000	-
Southland		Manufacturing	5,306,751	500,397	500,000
Canterbury		Property and Business Services	1,803,757	-	400,000
Waikato		Property and Business Services	295,333	100,210	100,210
Waikato		Retail Trade	194,839	123,051	123,051
South Canterbury		Agriculture, Forestry and Fishing	101,780	59,986	59,986
Canterbury		Manufacturing	87,424	87,424	87,424
South Canterbury		Agriculture, Forestry and Fishing	5,633,667	-	750,000
South Canterbury		Agriculture, Forestry and Fishing	271,574	-	278,000
Canterbury		Construction	64,190	64,174	64,174
Canterbury		Property and Business Services	31,455,849	-	5,000,000

Appendix H – Schedule of Specific Provisions (cont.)

Region	Borrower	Sector	Loan Value	SCF prov	KM prov
South Canterbury		Property and Business Services	23,193,502	23,193,502	23,193,502
Waikato		Agriculture, Forestry and Fishing	26,317	-	26,317
Canterbury		Property and Business Services	4,087,963	200,000	480,000
Auckland		Property and Business Services	408,499	408,499	408,499
Auckland		Retail Trade	521,042	519,901	521,163
South Canterbury		Agriculture, Forestry and Fishing	1,985,386	1,985,386	1,985,386
Auckland		Household	705,293	-	350,000
Canterbury		Retail Trade	20,606	20,668	20,668
Auckland		Accommodation, Cafes and Restaurants	33,108	33,108	33,108
Auckland		Property and Business Services	13,922,291	-	1,000,000
Auckland		Finance and Insurance	1,989,498	850,000	850,000
Manawatu		Property and Business Services	560,872	560,748	560,748
South Canterbury		Agriculture, Forestry and Fishing	1,126,660	80,000	183,000
Otago		Property and Business Services	1,480,285	1,480,285	1,480,285
Auckland		Household	16,402	16,402	16,402
Otago		Property and Business Services	7,375,308	1,500,000	2,500,000
Southland		Property and Business Services	15,101,687	-	3,500,000
Wellington		Property and Business Services	3,189,610	1,300,000	1,300,000
Auckland		Transport and Storage	146,482	138,208	146,482
Canterbury		Property and Business Services	212,983	- 288,637	1
Waikato		Wholesale Trade	414,304	284,104	284,104
Manawatu		Property and Business Services	1,425,782	400,000	400,000
Waikato		Construction	314,384	64,384	64,384
Auckland		Personal and other Services	101,878	104,506	104,506
Canterbury		Accommodation, Cafes and Restaurants	7,949,867	2,000,000	2,500,000
South Canterbury		Agriculture, Forestry and Fishing	1,598,674	-	1,200,000
Waikato		Retail Trade	270,692	200,692	200,692
Waikato		Accommodation, Cafes and Restaurants	433,171	183,171	183,171
Auckland		Personal and other Services	87,807	87,807	87,807

Appendix H – Schedule of Specific Provisions (cont.)

Region	Borrower	Sector	Loan Value	SCF prov	KM prov
Manawatu	[3]	Manufacturing	11,294	11,294	11,294
Waikato		Retail Trade	247,735	247,735	247,735
Southland		Property and Business Services	2,711,283	1,200,000	1,100,000
Waikato		Agriculture, Forestry and Fishing	36,435	36,435	36,435
Auckland		Agriculture, Forestry and Fishing	44,741	33,192	33,192
Tasman		Manufacturing	292,290 -	295,190 -	295,190
Manawatu		Agriculture, Forestry and Fishing	89,491	60,491	60,491
South Canterbury		Agriculture, Forestry and Fishing	248,832	-	248,000
Auckland		Accommodation, Cafes and Restaurants	164,704	164,703	164,703
Manawatu		Property and Business Services	1,944,156	515,000	500,000
Manawatu		Household	2,315 -	3,735	1
South Canterbury		Agriculture, Forestry and Fishing	906,895		150,000
Waikato		Accommodation, Cafes and Restaurants	227,920	239,971	239,971
Tasman		Accommodation, Cafes and Restaurants	502,260 -	697,230	1
Wellington		Property and Business Services	6,963,473	-	1,000,000
Waikato		Finance and Insurance	38,255	38,320	38,320
South Canterbury		Agriculture, Forestry and Fishing	11,678,543	-	500,000
South Canterbury		Retail Trade	1,361,828	-	542,000
Waikato		Accommodation, Cafes and Restaurants	126,416	76,416	76,416
South Canterbury		Property and Business Services	461,717	234,794	234,794
Tasman		Accommodation, Cafes and Restaurants	521,163	110,000	110,000
Otago		Agriculture, Forestry and Fishing	3,116,848	1,408,706	1,618,706
Wellington		Property and Business Services	13,825,975	2,000,000	2,000,000
Southland		Property and Business Services	3,596,929	-	300,000
Auckland		Transport and Storage	420,235	415,233	421,000
Waikato		Property and Business Services	1,117,528	197,528	198,000
South Canterbury		Construction	108,468	107,685	107,685
Auckland		Property and Business Services	269,942	269,942	269,942
Manawatu		Property and Business Services	2,125,524	500,000	1,000,000

Appendix H – Schedule of Specific Provisions (cont.)

Region	Borrower	Sector	Loan Value	SCF prov	KM prov
South Canterbury	[3]	Transport and Storage	14,594,172	2,500,000	5,000,000
Southland		Property and Business Services	830,805	70,000	70,000
Waikato		Construction	65,527	67,477	67,477
Auckland		Health and Community Services	49,807	49,807	85,000
South Canterbury		Property and Business Services	41,736,075	5,500,000	5,500,000
Tasman		Accommodation, Cafes and Restaurants	2,734,173	-	234,000
Manawatu		Cultural and Recreational Services	107,190	41,377	41,377
Kelt Finance		Property and Business Services	1,263,816	-	120,000
Canterbury		Wholesale Trade	455,666 -	97,557	1
Manawatu		Property and Business Services	222,985	222,985	222,985
Canterbury		Construction	19,876	19,736	19,736
Kelt Finance		Property and Business Services	587,784	-	100,000
Canterbury		Property and Business Services	10,321,025	1,000,000	2,200,000
Auckland		Transport and Storage	48,666	47,370	47,370
Auckland		Wholesale Trade	134,303	107,659	107,659
Canterbury		Property and Business Services	1,388,665	-	300,000
Canterbury		Property and Business Services	1,935,341	750,000	750,000
Otago		Personal and other Services	87,179	87,179	87,179
Auckland		Accommodation, Cafes and Restaurants	159,283	158,761	158,761
Southland		Retail Trade	23,008	23,008	23,008
Auckland		Retail Trade	45,844	45,844	45,844
Kelt Finance		Agriculture, Forestry and Fishing	3,384,628	-	3,384,628
Auckland		Construction	2,858,299	2,500,000	2,830,000
Canterbury		Accommodation, Cafes and Restaurants	789,316	322,161	322,161
Southland		Accommodation, Cafes and Restaurants	21,841	21,791	21,791
Waikato		Retail Trade	140,251	140,211	140,211
South Canterbury		Property and Business Services	19,615,724		2,000,000
Tasman		Transport and Storage	339,732	339,731	339,731

Appendix H – Schedule of Specific Provisions (cont.)

Region	Borrower	Sector	Loan Value	SCF prov	KM prov
Plant & Equipment			259,764,362	5,000,000	5,000,000
Consumer			76,165,218	1,000,000	1,000,000
Australia			80,075,641	3,000,000	5,000,000
Southbury			103,900,000		20,000,000
Totals			757,956,787	77,332,949	138,862,259