

The Treasury

South Canterbury Finance Limited Information Release

Release Document

April 2011

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- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

From: Andrew Hemphill [1]
Sent: Wednesday, 4 November 2009 3:19 p.m.
To: John Park
Subject: [seemail] scf analysis
Attachments: SCF analysis.pptx

John – see attached.

From: Andrew Hemphill
Sent: Wednesday, 4 November 2009 1:09 p.m.
To: Peter Wilding
Subject: [seemail] scf analysis

Peter,

Further to our discussions last week – I've made a start on some of the analysis – I think this is the direction we wanted to take.

Andrew

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SCF analysis

1/. Current position

1. Risk weight for the loan book is calculated utilising the NBDT framework but relying on various assumptions based on known asset classes and known security types. 76% of the loan portfolio is secured by either 2nd mortgage or a PPSR charge.
2. Dairy Holdings, Sth Island Farms and Helicopters Inc recorded at book value.
3. Other assets include ~\$80m of NZX listed investments (risk weighted at 600%)

Asset	Book value	Risk weight	Risk weighted asset value
Cash	\$90m	20%	\$20m
Loan Book (less \$80m of recognised loss provisions)	\$1,630m	160%	\$2,610m
Dairy Holdings, Sth Island Farms, Helicopters	\$254m	350%	\$890m
Other assets	\$235m	435%	\$1,020m
	\$2,210m		\$4,540m

Op risk requirement	\$600m
Total risk weighted assets	\$5,140m
Required regulatory tier 1 capital (8%)	\$410m

Current shareholding	
Ordinary shares(100%)	\$130m
Preference shares (25%)	<u>\$30m</u>
	\$160m

Capital requirement	~\$250m
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Concerns

- Current loan loss provisioning of \$80m is insufficient according to KordaMentha and RB's own estimates – KM believe an additional \$120m of provisions are required.
- Other investment assets are unlikely to be reported at true market value.

SCF analysis

2/. Assets recorded at market value

1. Loan book value adjusted by revised loss provisions estimates. (DDTO's view that provisions could potentially increase by a further \$200m)
2. Dairy Holdings, Sth Island Farms and Helicopters Inc recorded at market value as per KM estimates.
3. Other investment assets reduced by \$30m – estimate.

Asset	Market value	Risk weight	Risk weighted asset value
Cash	\$90m	20%	\$20m
Loan Book (less \$120m of recognised loss provisions)	\$1,510m	160%	\$2,420m
Dairy Holdings, Sth Island Farms, Helicopters	\$220m	350%	\$770m
Other assets	\$200m	435%	\$870m
	\$2,020m		\$4,080m

Concerns

- Company likely to be insolvent based on estimates of market value

Op risk requirement	\$600m
Total risk weighted assets	\$4,680m
Required regulatory tier 1 capital (8%)	\$375m

Current shareholding	
Ordinary shares(100%)	\$30m
Preference shares (25%)	\$m
	\$30m

Capital requirement	~\$375m
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SCF analysis

3/. Company sells assets – resultant position

1. SCF have indicated that they are endeavouring to sell Dairy Holdings, Sth Island Farms and Helicopters Inc.
2. KM estimate these assets should realise \$220m, Book value \$254m

Book value

Asset	Market value	Risk weight	Risk weighted asset value
Cash	\$345m	20%	\$70m
Loan Book (less \$80m of loss provisions)	\$1,630m	160%	\$2,610m
Other assets	\$235m	435%	\$1,020m
	\$2,210m		\$3,700m

Op risk requirement	\$600m
Total risk weighted assets	\$4,300m
Required regulatory tier 1 capital (8%)	\$344m
<u>Current shareholding</u>	
Ordinary shares(100%)	\$130m
Preference shares (25%)	\$30m \$160m
Capital requirement	~\$185m

Market value

Asset	Market value	Risk weight	Risk weighted asset value
Cash	\$310m	20%	\$60m
Loan Book (less \$120m of loss provisions)	\$1,510m	160%	\$2,420m
Other assets	\$200m	435%	\$870m
	\$2,020m		\$3,350m

Op risk requirement	\$600m
Total risk weighted assets	\$3,950m
Required regulatory tier 1 capital (8%)	\$315m
<u>Current shareholding</u>	
Ordinary shares(100%)	\$30m
Preference shares (25%)	\$m \$30m
Capital requirement	~\$285m

SCF analysis

3/. Company sells assets + impaired property finance loans – resultant position

1. SCF hold \$380m of property development loans – we estimate that 40% of these are secured by 2nd mortgage
2. We assume that the \$80m of provisions SCF recognise would be recorded against these assets – providing a net value of \$300m. We also assume that the \$120m of provisions KM recommended were also recorded against these assets. – providing a net value of \$260m.

Book value

Asset	Book value	Risk weight	Risk weighted asset value
Cash	\$645m	20%	\$130m
Loan Book	\$1,330m	115%	\$1,530m
Other assets	\$235m	435%	\$1,020m
	\$2,210m		\$2,680m

Op risk requirement	\$500m
Total risk weighted assets	\$3,180m
Required regulatory tier 1 capital (8%)	\$255m
<u>Current shareholding</u>	
Ordinary shares(100%)	\$130m
Preference shares (25%)	\$30m \$160m
Capital requirement	~\$95m

Market value

Asset	Market value	Risk weight	Risk weighted asset value
Cash	\$570m	20%	\$115m
Loan Book	\$1,250m	115%	\$1,435m
Other assets	\$200m	435%	\$870m
	\$2,020m		\$2,420m

Op risk requirement	\$500m
Total risk weighted assets	\$2,920m
Required regulatory tier 1 capital (8%)	\$233m
<u>Current shareholding</u>	
Ordinary shares(100%)	\$30m
Preference shares (25%)	\$m \$30m
Capital requirement	~\$205m