

The Treasury

South Canterbury Finance Limited Information Release

Release Document

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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: Peter Williams [1]
Sent: Friday, 5 June 2009 2:30 p.m.
To: Craig Murphy
Subject: Sector Reports for Finance Companies & Nuilding Societies - March 2009
Attachments: Sector Report FC March 2009.doc *[Not relevant to release]*

Hi Craig

Attached are two of the three sector reports for March 2009.

We will have the Credit Union report over to you on Monday.

Could you please forward these on to the appropriate people at your end.

Cheers

Peter Williams

Senior Risk Analyst
Prudential Supervision Department | Reserve Bank of New Zealand

[1]

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Sector Report – Finance Companies

March 2009

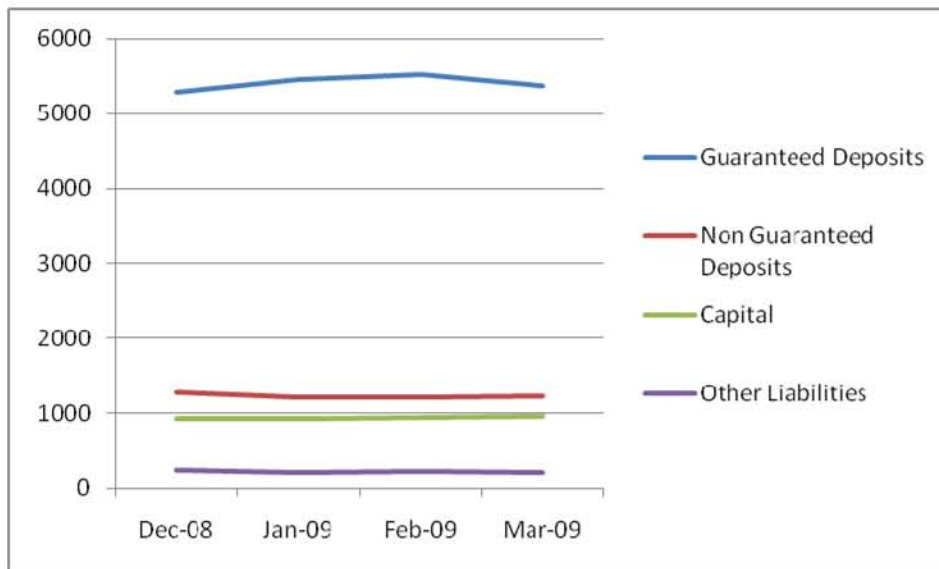
This paper outlines the key changes in the finance company sector over the month of March 2009. It excludes data from Building Societies and Credit Unions.

Executive Summary

- Mascot Finance has been excluded from the reporting cycle as of March 2009.
- There were no new Finance Company entities approved into in the DGS in March 2009.
- The sectors total balance sheet reduced by \$109m over the month.
- Guaranteed retail deposits reduced by \$153m for the month. This is the first time since reporting started in December 2008 that guaranteed deposits have not increased on a month on month basis. Mascot Finance exclusion accounted for \$66m of the reduction (net movement of negative \$87m).
- The reinvestment rate for the month decreased from 71% to 63% contributing to the overall reduction in deposits.
- Liquidity in the sector remained materially consistent.
 - Both the deposit books and loan books reduced in size (\$129m & \$244m respectively).
 - Committed credit lines reduced by \$204m.
 - The weighted average maturity for deposits reduced 1 month to 11 months.
 - The weighted average maturity for committed credit lines reduced by 7 month to 11 months.
 - The weighted average maturity for loans increased from 20 months to 21 months.
- As noted the sector loan book decreased by \$244m however, this was almost entirely driven by:
 - ^[3]
 - The removal of Mascot Finance from the reporting cycle accounted for \$82m of the remaining \$88 reduction.

2. Changes in Liability Structure

There was minimal change in the liability structure for the sector for the month aside from the reduction in guaranteed deposits of \$153m (between Dec 08 & Feb 09 guaranteed deposits increased by \$239m).



3. Liquidity

The sectors loan and deposit books are reasonably match in terms of gross value (deposits \$6,950m and loans \$6,578m).

The deposit book reduced by a net amount of \$129m with 43% of this (\$66m) attributed to the removal of Mascot from the reporting cycle.

There was a \$204m reduction in committed funding lines (\$1,524m to \$1,370m) driven by reductions the funding lines for the following entities:

- [3]
-
-

The weighted average maturity (WAM) for deposits reduced by one month to 11 months and the WAM for committed funding lines reduced from circa 18 months to 11 months on the back of a reduction in the WAM of [3] funding lines.

The sector loan book decreased by \$244m, however as noted this is almost entirely driven by [3] and the removal of Mascot Finance from the reporting cycle (\$82m).

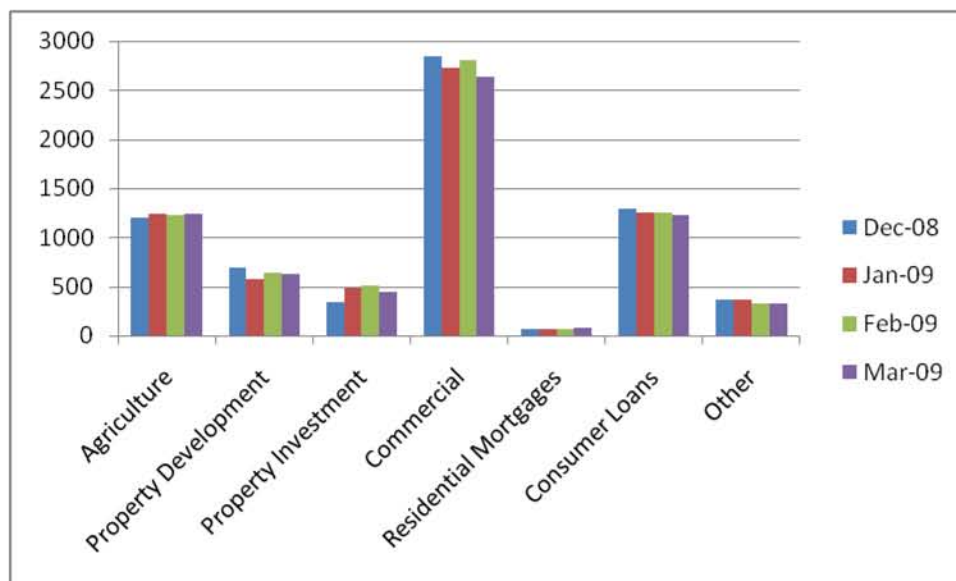
The weighted average maturity for the loan book increased from 20 months (adjusted from prior month) to 21 months.

As stated assets and liabilities are reasonably matched in terms of gross value however liquidity issues present themselves at circa 12 months.

4. Reinvestment Rate

The reinvestment rate for the month decreased from 71% to 63% (the reinvestment rate was reported as a simple average rather than a weighted average last month).

5. Changes in Lending Sectors



Generally the finance companies exposure to the various lending sectors remains stable aside from the impact of^[3] asset reclassification and Mascot's removal in the month.

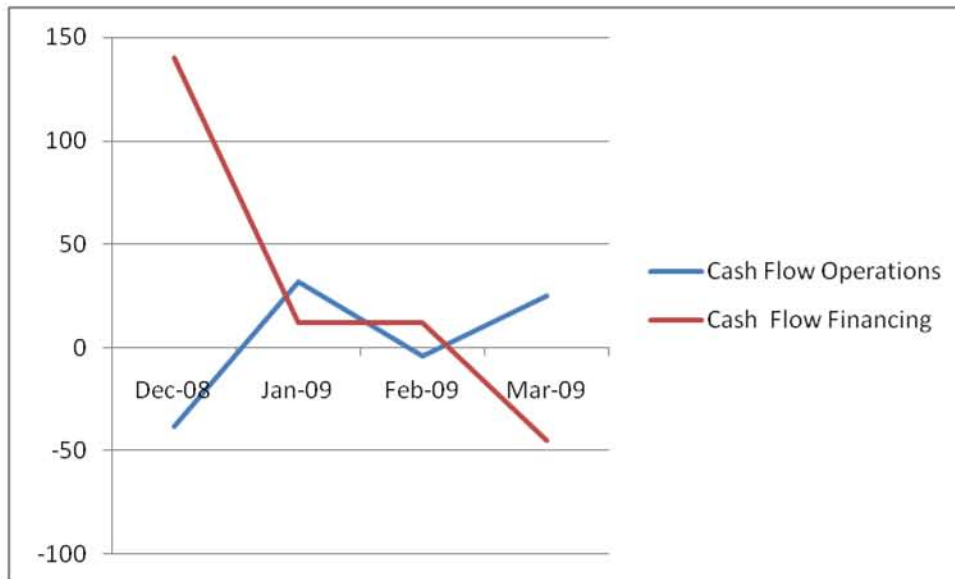
6. Asset Quality

- The sectors asset quality appears to stable to slightly deteriorating on the back of a 30bpt increase in 90 day + arrears & impaired assets to the book.
- Provisions to impaired assets and 90 day + arrears has deteriorated from 12.7% to 10.7% indicating that new provisioning is not keeping pace with the increasing levels of impaired assets.
- Transactions with capitalised interest have increased (10bpts) whilst related party transactions have decreased (110bpts)

7. Performance

- The net interest margin over the sector was stable at circa 4%
- OPEX to total revenues increased from 27% of total revenues to 29% of total revenues – (a possible driver for this is that some entities have a 31/03/09 balance dated and write offs were taken in the March month).

- The NPBT for the sector halved in month from \$11m to \$6m – the key entities driving this decline were ^[3] SCF (as stated the deterioration in financial performance could be linked to bad debt write offs in the month)
- Distributions were stable over the month at \$5m.
- Cash flows from operations have been volatile and tending negative but now appear to be stabilising. When the sector operating cash flows were negative funding was sourced from financing activities, this trend appears to have now abated at the moment.



Appendix A contains supporting information.

APPENDIX A

Reconciliation of key monthly assets & liability changes

	(\$m)
Assets	
Loan Book	↓88
Liquid Assets	↓94
Other Assets	↑73
Total Monthly Change	↓109
Liabilities	
Guaranteed Deposits	↓153
Non Guaranteed Deposits	↑24
Capital	↑29
Other Liabilities	↓9
Total Monthly Change	↓109

Liquidity

Deposits	Amount (\$m)	Monthly Change (\$m)	Monthly Change (%)	Weighted Average Term (months)
Call	515	↓4	↓1	0
Term	6,075	↓125	↓2	↑15
Funding Lines	1,370	↓204	↓13	↓14
Total	7,960	↓333	↓4	↑14

Loans	Amount (\$m)	Monthly Change (\$m)	Monthly Change (%)	Weighted Average Term (months)
Call	1,639	↓155	↓9	0
Term	4,999	↓89	↓2	↑28
Total	6,578	↓244	↓4	↑28

Lending Sectors

Sector	Exposure (\$m)	Change (\$m)	Change (%)
Agriculture	1,236	↑12	↑1
Property Development	631	↓6	↓1
Property Other	444	↓61	↓12
Commercial	2,630	↓169	↓6
Residential	75	↑4	↑6
Consumer	1,230	↓25	↓2
Other	332	↑1	0
Total	6,578	↓244	↓4

Asset Quality

	(%)	Change
30 days + Arrears/Book	4.7	↓50bpts
Arrears (90 days +) & Impaired Assets/Book	12.1	↑30bpts
Capitalised Interest Loans/Book	7.7	↑10bpts
Related Party Loans/Book	3.4	↑10bpts
Provisions/Impaired Assets + 90 day + arrears	10.7	↓200bpts

Performance

	Feb 09	Mar 09	Change
Interest Margin	3.9%	4.0%	↑
OPEX/Total Revenues	27%	29%	↑
Distributions	\$5m	\$5m	0
NPBT	\$11	\$6m	↓