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

[2] 9(2)(b)(i) - to protect trade secrets

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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: Douglas Widdowson [1]
Sent: Wednesday, 6 May 2009 3:20 p.m.
To: John Park; Kathryn McBride; Peter Wilding; Stephen Revill; Craig Murphy
Cc: Andy Wood; Joanna Gordon
Subject: [SEEMAIL] [SENSITIVE] Sector Report for finance companies, building societies and

Attachments: Sector Report FC January 2009 to
[Other attachments not relevant to release]

John

As promised, the sector report on finance companies, building societies and credit unions in the DGS as at the end of February.

Regards

Doug

Sector Report – Finance Companies

January 2009 to February 2009

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

Executive Summary

- New guaranteed retail deposits are being used to fund new lending as opposed to last month where funds were being used to repay non guaranteed deposits and other creditors with the balance being deposited with Banks.

- South Canterbury Finance appears to be almost single handily driving the entire sector in terms of new lending for the month having lent $113m for the month or 94% of the net increase in receivables for the sector.

- Asset quality continues to deteriorate on the back of generally deteriorating economic conditions as evidenced by increasing total arrears up 90bpts to 8.4% of the book and impaired assets plus 90 day + arrears up 60bpts to 11.8% of the book.

- Of concern is the negative trend in provisions as a percentage of impaired assets plus 90 day + arrears. This percentage has dropped from 19.3% (adjusted refer note below) to 12.7% indicating that new provisioning is not keeping pace with the increasing levels of impaired assets.

- The sectors financial performance was generally stable in the month with a recovery in lending margin from 3.4% to 3.9% but an increase in the OPEX to total revenues from 24% to 27%. Of note is that cash flows from operations have moved from negative to positive and the reliance on cash flows from financing have reduced significantly.

- The sector generated NPBT of $30m for the quarter although 12 of the 28 entities made losses. The loss making entities were generally the smaller higher risk entities apart from Allied Nationwide.

- Two new entities were reported on in February being Rockforte Finance and[3] ese entities with guaranteed deposits of $2m and $9m have minimal impact on the sector results overall.

Analysis

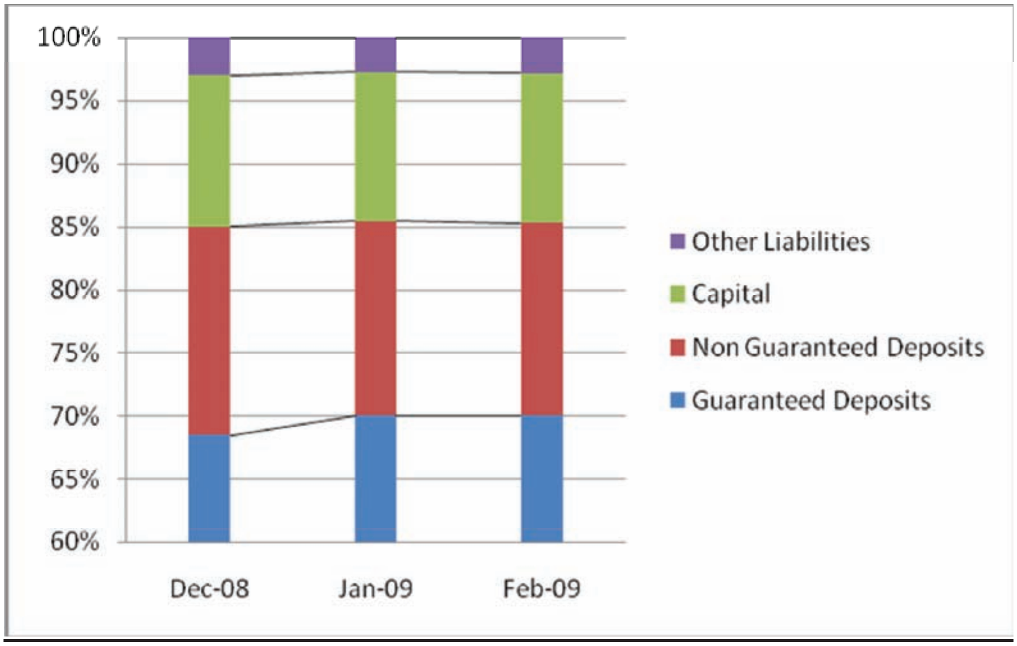
1. Fund Flows

- The sector generated circa $129m of cash flow principally sourced from:
  - Increase in guaranteed deposits $72m
  - Decrease in liquid assets $26m

- The funds generated were principally used to:
  - Increase the loan book by circa $120m
    - New lending was mainly driven by SCF $113m (property development & commercial) & Equitable $24m (property investment)

2. Changes in Liability Structure

There was minimal change in the liability structure for the sector for the month.



3. Liquidity

Liabilities

- Deposits increased by $72m over the month.
- Funding lines decreased by $12m over the month
- The weighted average maturities remained stable:
  - Retail deposits maintained a circa 12 month weighted average maturity.
  - Funding line average weighted maturity decreased from 19 months to 18 months.

Assets

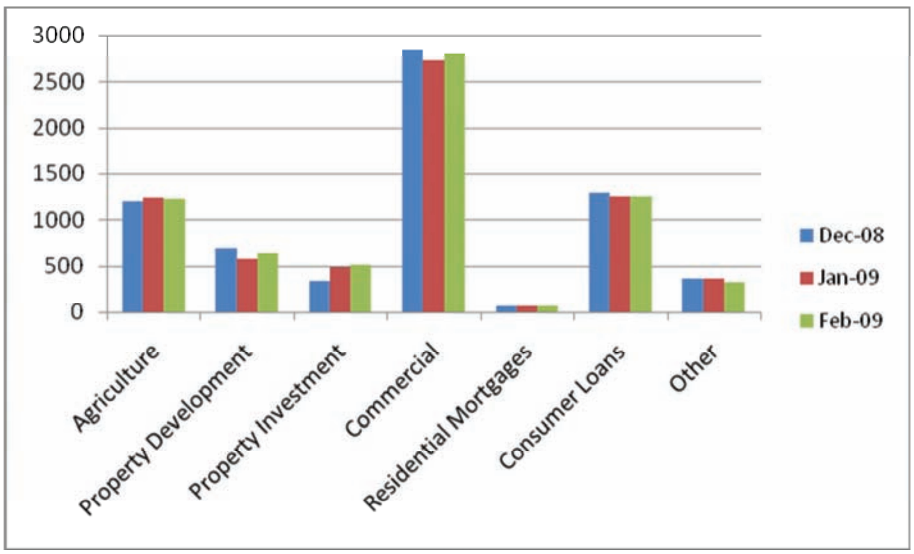
- Total loans increased by $120m for the month.
- The weighted average maturity for the loan book decreased from 29 to 25 months.

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 67% to 63%.

5. Changes in Lending Sectors



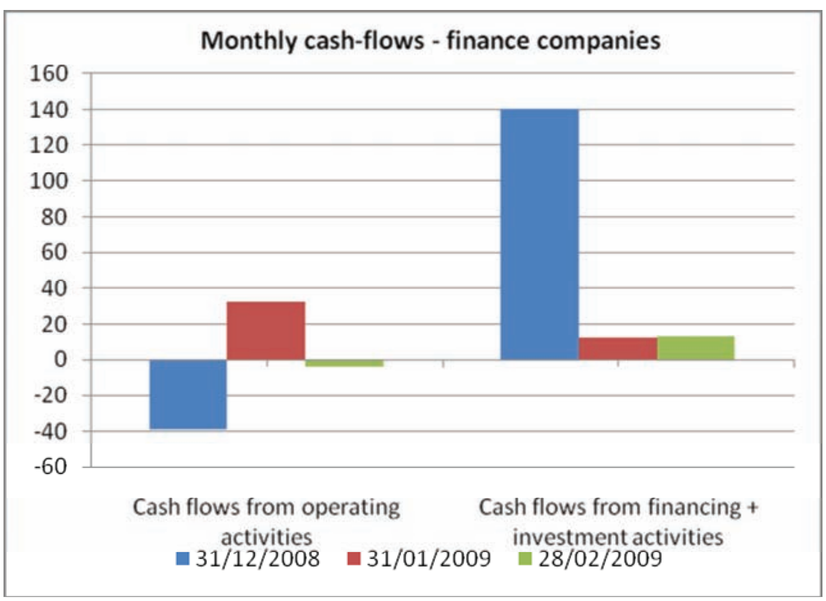
Generally the finance companies exposure to the various lending sectors remains stable.

6. Asset Quality

- There has been deterioration in asset quality over the month as evidenced by increases in total arrears, impaired assets and 90 day + arrears (up 90bpts & 60bpts respectively)
- Provisions to impaired assets and 90 day + arrears has deteriorated from 19.3% to 12.7% (last month provisions were compared to impaired assets only and reported at 24%) indicating that new provisioning is not keeping pace with the increasing levels of impaired assets.
- Transactions with capitalised interest have increased (50bpts) whilst related party transactions have decreased (80bpts)

7. Performance

- The net interest margin over the sector recovered from 3.4% to 3.9%.
- OPEX to total revenues increased from 24% of total revenues to 27% of total revenues.
- The sector generated NPBT of $30m for the quarter although 12 of the 28 entities made losses. The loss making entities were generally the smaller higher risk entities apart from Allied Nationwide.
- Distributions increased over the month from $2m to $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 changes

	($m)
Inflows	
Increase in guaranteed deposits	72
Increase in non guaranteed deposits	2
Increase in capital	16
Increase in other liabilities	13
Decrease in liquid assets	26
Total monthly inflows	**129**
Outflows	
Increase in loan book	120
Increase in other assets	9
Total Monthly Outflows	**129**

Liquidity

Deposits	Amount ($m)	Monthly Change ($m)	Monthly Change (%)	Weighted Average Term (months)
Call	519	↑1	0	0
Term	5,189	↑72	↑1	12
Funding Lines	1,524	↓12	↓1	↓18
Total	**7,232**	**↑62**	**0**	**13**

Loans	Amount ($m)	Monthly Change ($m)	Monthly Change (%)	Weighted Average Term (months)
Call	1,794	↑116	↑7	0
Term	5,028	↑3	0	↓25
Total	**6,822**	**↑119**	**↑0**	**25**

Lending Sectors

Sector	Exposure ($m)	Change ($m)	Change (%)
Agriculture	1,224	↓15	↓1
Property Development	637	↑58	↑10
Property Other	505	↑23	↑5
Commercial	2,799	↑76	↑3
Residential	71	↑4	↑6
Consumer	1,255	↑6	↑0
Other	331	↓31	↓9
Total	**6,822**	**↑121**	**↑2**

Asset Quality

	(%)	Change
Total Arrears/Book	8.4	↑90bpts
Arrears (90 days +) & Impaired Assets/Book	11.8	↑60bpts
Capitalised Interest Loans/Book	7.6	↑50bpts
Related Party Loans/Book	3.3	↓80bpts
Provisions/Impaired Assets + 90 day + arrears	12.7%	↓660bpts

Performance

	Jan 09 (%)	**Feb 09 (%)**	**Change**
Interest Margin	3.6	3.9	↑
OPEX/Total Revenues	24	27	↑
Distributions	$2m	$5m	↑