

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.

Review of guaranteed NBDT entity

Entity Name:	South Canterbury Finance Ltd
Assessment date:	May 2009
Assessed by:	A Hemphill
Trustee	Trustee Executors [1] _____ P]
Guaranteed Deposits	\$1,875m (30,763)

Ownership

100% - Southbury Group (Allan Hubbard holds 70% shareholding).

Key People: Allan Hubbard – Chairman, Lachie McLeod – CEO, [1] _____] - CFO

Estimated Loss in the event of company failure

- The estimated net claim under the DGS is unchanged at between \$350M - \$500M

Movement

- Guaranteed Deposits increased \$50M
- Loan Book increased \$20M
- “other assets” increased \$20M
- Exposures to the largest 6 borrowers increased \$18M
- Loans with interest capitalising increased \$33M
- Related party lending increased \$10M

- Trustee queried on the \$37M “Tax Asset” reported in Dec 08 financials and where these assets are reported in the monthly returns.

Risk ranking

- Low levels of capital.
- High level of related party lending
- Diminishing Loan book quality
- Concentration / Large exposure risk – 81% of the loan book has loan sizes > \$1M
- Modest levels of provisions

Entity to remain High end of Medium risk.

Recent announcement

During July, Standard & Poor's placed SCF BBB- rating on "CreditWatch negative", implying a 50:50 chance of a downgrade in the next three months. The rating action followed SCF's announcement of a loss of \$37M during the fiscal 2009 year due to a material provisioning expense of \$58M – this provision is not yet evidenced for the RB monthly returns to 31 May 09.

S&P further commented that SCF's decision to shift its holdings of liquid assets from cash to higher risk and high-yield investments had increased the risk profile of the company and weakened its liquidity.

Review of guaranteed NBDT entity

Key Graphs

