

01 March 2010

John Whitehead
Secretary to the Treasury
The Treasury
1 The Terrace
WELLINGTON

Dear Mr Whitehead

**Extended Crown Retail Deposit Guarantee Scheme
Application by South Canterbury Finance Ltd (SCF)**

This letter relates to an application for entry into the extended Crown retail deposit guarantee scheme ('the Scheme'). It has been provided to assist the Treasury in the exercise of its discretion to offer, or refuse to offer, entry into the extended Scheme.

Following enquiry to Trustee Executors (TEL) we have received confirmation that SCF:

- has eligible debt securities on issue;
- is in the business of borrowing or lending, or providing financial services, or both;
- carries out a substantial portion of their business in New Zealand, and
- does not primarily provide financial services, or lend to, related parties and/or group members.

With regard to the 'Policy Guidelines for the Extended Scheme', TEL have provided advice that as at 19 February 2010 (refer letter attached dated 23 February 2010) that it is not aware of any information on which it could reasonably form an opinion that SCF has not been able to meet its payments as they fall due or maintain solvency, or has breached or is likely to breach in a material respect the financial covenants contained in its current trust deed or any preceding trust deed in place over the last twelve months.

In this regard, we draw your attention to page two of the trustee's letter which details a heightened awareness of potential adverse conditions facing SCF and the potential for the trustee's opinion to alter in the very near term.

As at 26 February 2010 the Reserve Bank is not aware of any breach by SCF of prudential regulations currently in force under Part 5D of the Reserve Bank Act 1989.

Prudential regulations in respect of minimum capital adequacy and limitations on related party lending are not yet in force. However, based on monthly information supplied by SCF under the existing retail deposit guarantee scheme, we have

estimated that SCF's position in respect of these prudential regulations as at 31 December 2009 is:

- tier one capital 1.6% (proposed minimum 8%)
- exposure to related parties 250% of equity (proposed maximum 15%)

Note that these estimates are based on a set of assumptions regarding risk weighted assets and definition of related parties and accordingly are only indicative of the entity's projected compliance. A further assumption is made that the information on which the estimates are calculated is inclusive of all assets and liabilities within the charging group.

There are currently no prudential regulations in respect of liquidity requirements in force, however we attach the weekly liquidity reporting provided to the Bank from SCF to assist with your analysis. Additionally, please find attached the Bank's latest assessment of SCF including historical data of selected key risk indicators.

Finally, please note that in late January we had discussions with Sandy Maier, the CEO of SCF, on the company's situation including potential recapitalisation strategies. It is our understanding that the company had similar discussions with Treasury officials at that time and that since then, your officials have been kept informed of ongoing developments by the company and its advisors. Accordingly, we consider it unlikely that we have any additional information that would be relevant to the exercise of your discretion.

Yours sincerely

[Withheld under s.9(2)(a)]

Head of Prudential Supervision

Entity Name:	South Canterbury Finance Ltd
Assessment date:	Dec 2009
Assessed by:	[Withheld under s.9(2)(a)]
Trustee	Trustee Executors [Withheld under s.9(2)(a)]
Guaranteed Deposits	\$1,712m (27,499)

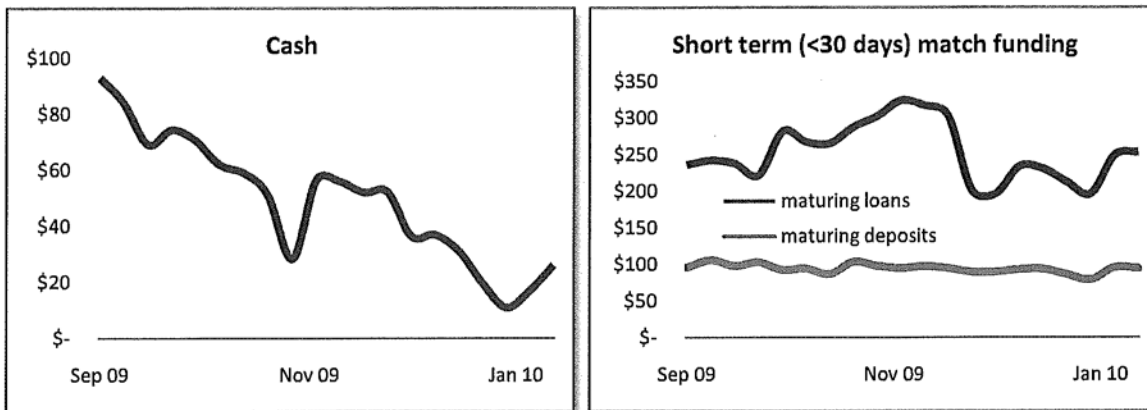
Ownership

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

Key People:

Allan Hubbard – Chairman, Sandy Maier – CEO

Liquidity



As at 19th February 2010, SCF held ~\$120m of liquid assets. In addition, the company had ~\$320m of loans that were either due or due to be repaid within 30 days - The majority of these loans are thought to be illiquid however, given a high proportion of these loans reported as "on call". It would not be unreasonable to estimate that a maximum of \$50m of these loans would successfully repay.

During the same period (less than 30 days), SCF have ~\$140m of deposits either on call or due for repayment. Based on the current reinvestment rate of ~45%, we would anticipate that their financial commitments will be ~\$75m. In addition to these commitments, we are aware that SCF will have ~\$20m of payments due under the USPP repayment arrangement due in the near term.

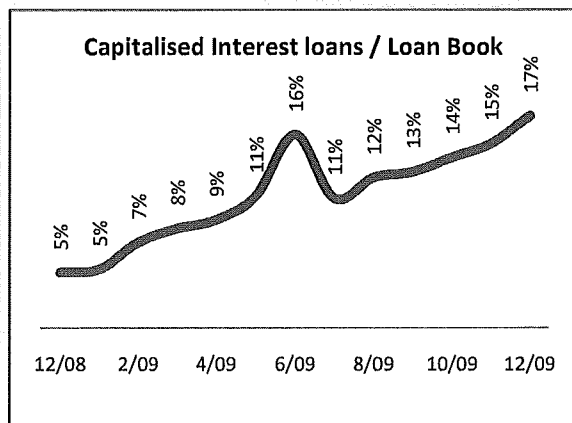
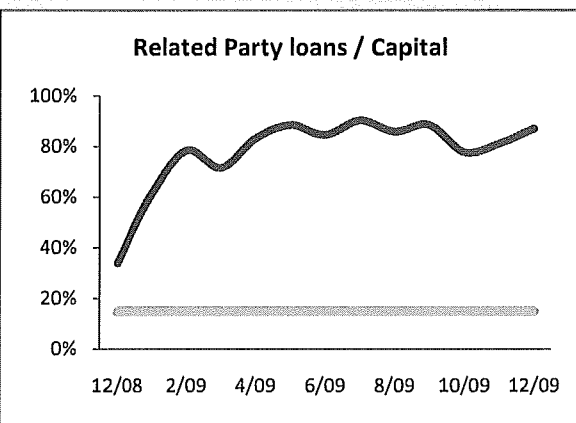
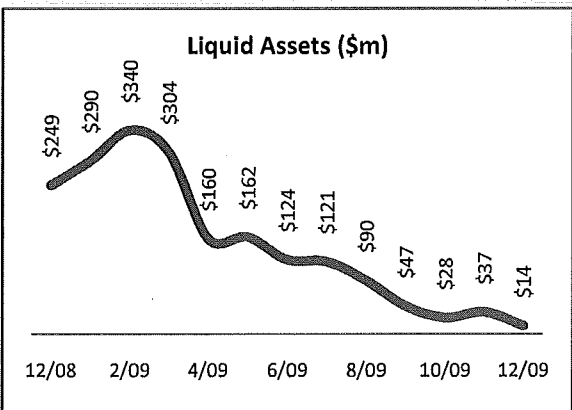
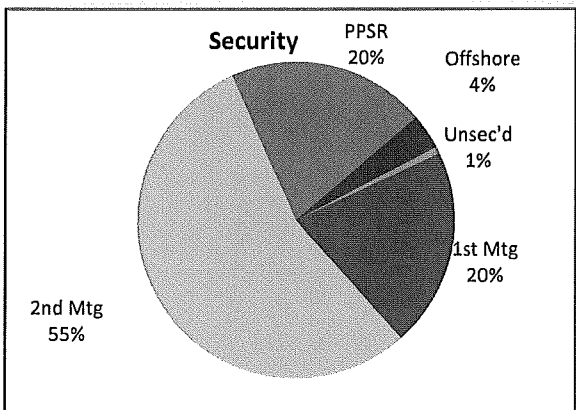
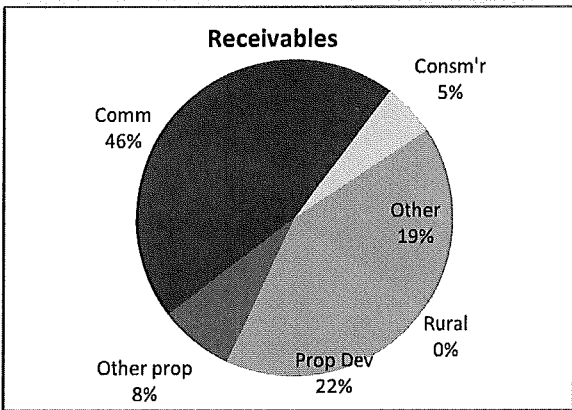
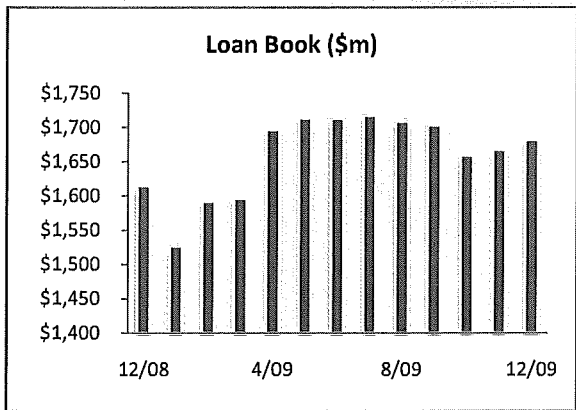
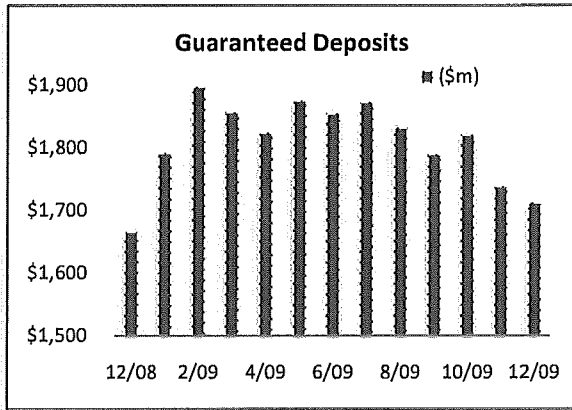
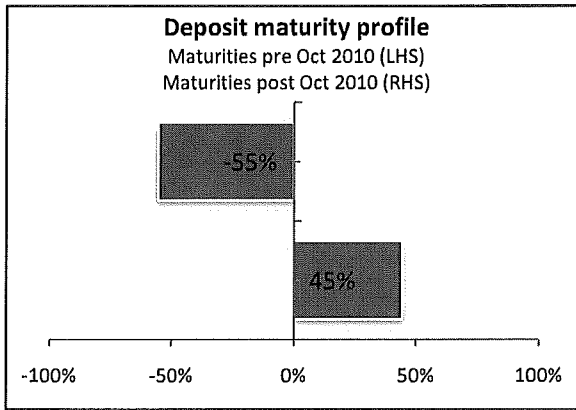
SCF liquidity position appears severely stressed; it would appear that SCF are reliant of high levels of new funding or higher levels of reinvestment to meet their liquidity needs.

Given the current profitability performance, SCF cannot be expected to meet their liquidity requirements from existing cashflows.

Estimated Loss in the event of company failure

- The estimated net claim under the DGS has been adjusted to between \$500m - \$550m.

Key Graphs



Weekly liquidity reporting template
South Canterbury Finance

\$Million

	19-Feb-10	12-Feb-10	5-Feb-10	29-Jan-10	22-Jan-10	15-Jan-10	8-Jan-10	1-Jan-10
Liquid assets as at Friday								
Registered bank deposits and securities	120.110	115.555	79.245	43.015	32.785	25.737	16.740	10.580
Other assets convertible into cash	0.506	0.506	0.506	0.506	0.506	0.506	0.506	0.506
Total liquid assets	120.616	116.061	79.751	43.521	33.291	26.243	17.246	11.086

Undrawn committed funding lines (standby facilities)

	-
--	---

Financial assets maturity profile as at Friday

At call (inc overdrafts, EFTPOS/cheque accounts and 1 day call)

0-1 month (to exclude revolving facilities callable at 1 months notice)

1-2 months

2-3 months

3-6 months

Other maturities

Total Assets

	216.109	207.205	199.153	139.950	144.461	132.155	146.060	130.359
	103.683	104.720	126.420	133.558	108.205	121.368	103.207	66.215
	197.539	192.591	181.060	129.473	86.987	82.882	101.931	90.610
	49.035	26.932	49.652	97.995	199.324	213.092	178.542	86.694
	246.187	271.007	278.554	273.671	257.095	247.312	197.460	285.720
	824.341	855.990	856.199	913.147	880.138	883.910	879.826	951.910
Total Assets	1,636.895	1,658.445	1,691.037	1,687.794	1,676.211	1,680.720	1,607.027	1,611.508

Retail Debenture maturities as at Friday

At call (EFTPOS/cheque savings accounts and one-day call deposits)

0-1 month

1-2 months

2-3 months

3-6 months

Other maturities

Total retail funding

	19.848	20.314	22.878	22.581	24.220	23.225	22.051	19.637
	124.752	126.440	56.677	60.768	69.602	71.418	73.604	59.544
	70.546	59.275	59.807	58.324	47.940	50.245	55.198	73.772
	98.340	96.121	73.236	63.982	67.080	59.738	55.475	49.457
	311.499	317.123	408.122	405.883	399.088	397.018	387.357	367.800
	1,255.386	1,259.403	1,257.121	1,263.312	1,264.822	1,268.000	1,260.661	1,289.309
Total retail funding	1,880.372	1,878.677	1,877.840	1,874.849	1,872.751	1,869.644	1,854.346	1,859.519

Total wholesale / non-retail funding maturities as at Friday

	35.000	35.000	35.000	35.000	35.000	35.453	47.000	46.963
--	--------	--------	--------	--------	--------	--------	--------	--------

Term deposit reinvestment rates for week ending Friday

Retail term deposits re-invested in the past week

Retail term deposits maturing in the past week

New re-investment rate %

	8.287	8.083	2.850	11.262	6.219	3.131	9.793	5.807
	18.214	14.537	4.965	20.643	15.226	7.206	19.737	19.340
New re-investment rate %	45.50	55.61	57.41	54.56	40.85	43.45	49.62	30.03

New Call Funding

New Term Funding

	0.058	0.098	0.003	0.110	0.314	0.088	0.265	0.271
	6.754	8.720	11.011	7.993	6.811	8.995	2.451	9.504