

Outlook

APRIL – JUNE 2009

THE NEWSLETTER OF MARAC | COMMERCIAL EDITION

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Term Deposit
Special Offer

8.50%
p.a.

for 3 years with
interest quarterly.

Phone MARAC on freephone 0800 26 27 22
for an Investment Statement.
MARAC Term Deposits are first ranking*
Secured Debenture Stock.

*Subject to permitted prior charges
(currently none) and claims given
priority by legislation.
Minimum investment is \$1,000.
Rates subject to change.

Top tips for business and asset financing



If you're planning a purchase to save costs or increase productivity, or you're thinking about a strategic investment to position your business for future success, whatever your goal, you will be looking at finance. It's important to get the best finance structure to suit your business. Here are some tips to help you make the right finance decision.

1. Buy now or wait?

Goods and machinery in New Zealand are currently well-priced, but the fall in the Kiwi dollar means the price of newly imported goods may rise by up to 20% in the short term. If you plan to purchase equipment in the next year, it may be more cost effective to buy now rather than later.

2. Can you afford it?

Look at your business' monthly outgoings to check that it can comfortably meet the repayments. Over the past year, interest rates have come down significantly – making loan repayments easier to manage. You can use the calculator on our website www.marac.co.nz to work out your repayments.

3. Fund assets in the right way

Apply for the right type of loan. If you are buying an asset, it makes sense to use the asset as loan security and leave bank lines free. If you need to ease cash flow or free up working capital faster than your overdraft can allow, then an invoice finance facility may be best for your business

(see page four for further information). Take advantage of flexibility in the loan conditions, for example, seasonal payments or revolving credit. These can save interest and help you better manage cash flow.

4. Demonstrate the asset's value

New plant and equipment can help to boost productivity while saving on repair and maintenance costs. Show how this will happen with your planned purchase.

5. Be honest and upfront

Your credit and payment history is taken into account, so keep up monthly payments on loans and utilities to keep your credit history clean. If you have a mark on your credit history, explain the circumstances so these can be taken into consideration.

6. Provide current information

Last year's accounts no longer give an accurate picture of your business, so make sure that your application and records are current and complete. Having contracts in place for work will also provide reassurance. If you also provide current cash flow forecasts with supporting notes, this will assist in having a quick and informed decision made.

7. Be flexible

If you're unable to borrow the amount your business needs, ask what may help to have your loan approved. This may include taking a smaller loan, putting down a bigger deposit or providing additional loan security.

8. Ask for a top up

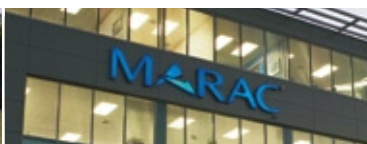
If you have an existing loan still secured by an asset and have built up good equity, ask to increase the loan or extend the term before taking out a new loan.

9. Consider consolidating

The advantages of debt consolidation include reduced management by only having one lender to deal with, the opportunity to extend your term and ease the monthly repayments, as well as the possibility to restructure your loan to purchase a new asset that your business needs.

Mike Fickling

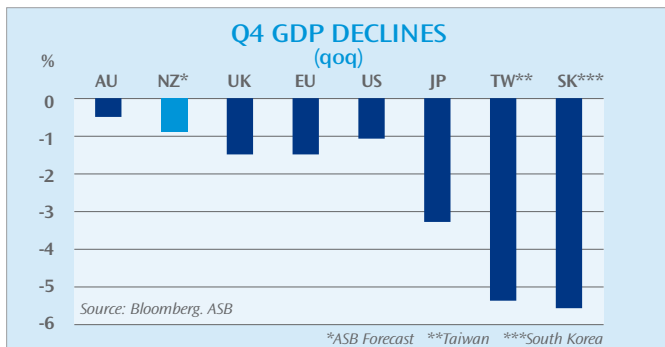
Manager – Commercial



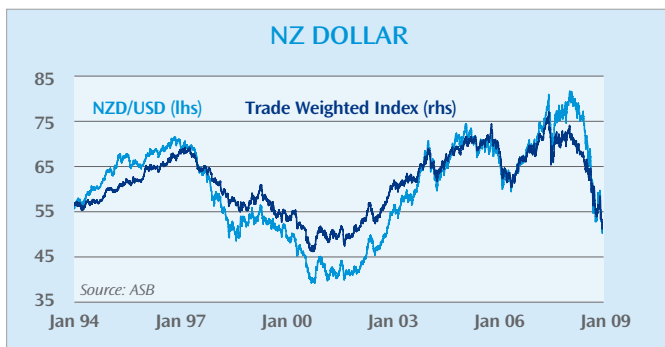
MARAC

This too will pass

The title of this Economic Outlook is from a tale retold by Abraham Lincoln. It is essentially a reminder that the good times will not last forever. But it also serves as a reminder that hard times also come to an end. This year we may need to keep reminding ourselves that hard times do come to an end. The economic outlook for 2009 is grim: we see a good chance of the New Zealand economy remaining in recession over the whole of 2009 before recovery takes hold. In the last couple of months it has become increasingly apparent that the global fallout of the credit crunch will be severe. Already we have seen Q4 GDP falls of 1.5% in the UK, 3.3% in Japan, 1% in the US and 5.6% in South Korea. The slowdown is being described as the worst since the Second World War. For New Zealand's main trading partners, which are weighted to the developed world, it is conceivable they could collectively shrink over 1% this year.



With this bleak global backdrop, an already-weakened New Zealand economy will feel the shockwaves. It may not come with the abruptness that industrial Asia is currently experiencing, but it is likely to be noticeable over the course of the year. In response, we are seeing a lot of action being taken. The RBNZ has slashed the Official Cash Rate (OCR) from 8.25% to 3%, and New Zealand's fiscal stimulus is set to be quite significant. Further fiscal initiatives are likely to be announced and chosen to maximise their bang for buck. Neither the RBNZ nor the Government can stave off further downturn in 2009. However, their actions will take some of the edge off. The NZD has also fallen dramatically over the last six months. This combined with low interest rates and the government stimulus, will provide the seeds for recovery in 2010.



In late 2008 the recession in New Zealand intensified and became more broad-based as the year progressed. We do see some light at the end of the tunnel, and we expect growth will gradually resume over 2010 as the world works through its financial issues.

Export volumes fell steadily over 2008, and the outlook for the export sector right now is tough. Non-pastoral exports will decline sharply over 2009 as world demand slumps, with manufactured and services exports exposed. The lower exchange rate will eventually provide some offset to weak global demand, as it has in other downturns.

Despite lower interest rates, demand in the housing market remains weighed down by weak confidence and increased employment uncertainty. House prices fell in 2008, and we expect further declines throughout 2009.

After struggling over much of 2008, households received a timely cash injection from falling interest rates, falling petrol prices and tax cuts. Nonetheless, consumer confidence and retail spending remains comparatively weak. We expect growth in consumer spending to remain weak over the next few years, as households focus more on saving.

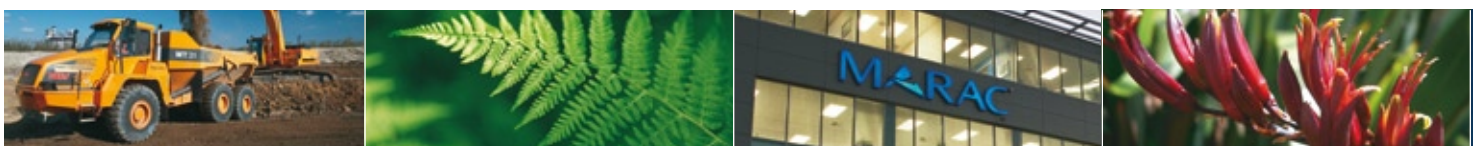
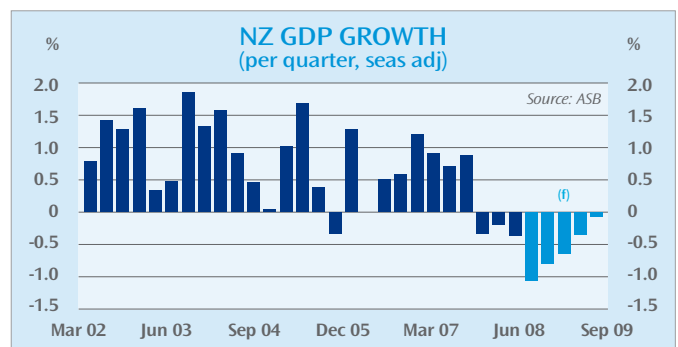
Many businesses are under extreme pressure, reflected in business confidence plummeting to its weakest levels in the Quarterly Survey of Business Opinion's (QSBO) 1970-onwards history. The weakness is broad-based, with businesses reporting falling levels of activity and falling profitability, investment plans being cut back and employment numbers having to be cut by more than previously anticipated. The combination of current uncertainty, falling demand, falling profitability and the lower exchange rate are a triple threat to business investment plans. However, providing some offset to the decline in business investment will be Government investment through a range of infrastructure projects.

Employment through to the end of 2008 was surprisingly resilient; however the pendulum is swiftly swinging in the other direction. Businesses under extreme pressure have an increased focus on reducing costs, including reducing head-count, either through active layoffs, or through attrition and a hiring freeze. By the end of 2009, we expect the number employed in the labour force to be down 3.7% on last year's levels. As a result the unemployment rate will near 7.5% in mid-2010, from a low of 3.4% in December 2007.

At this moment, the outlook may seem dire, but economies can recover over the next year if the huge stimulus packages undertaken around the world take hold and stimulate business investment and consumer spending. Stimulus of this magnitude has no equal in the modern era. We are living in extraordinary times.

Chris Tennent-Brown

New Zealand Economist
Commonwealth Bank of Australia (CBA)



MARAC produces a solid result in challenging market

With the media focusing on the global recession, I'm pleased to deliver some positive news. For the six months to 31 December 2008 MARAC performed well with net operating income at \$32.0m and net operating profit before tax of \$10.0m. Net profit after tax was \$7.0m, compared to \$13.5m last interim period. These are pleasing results given the challenging economic conditions. MARAC's prudent management continues to see us succeed through the ups and downs, as we have done for the last 55 years. Here are some highlights from our half-year result.

Lending

All our lending divisions have worked hard to maintain MARAC's position in the marketplace and achieved good results. Finance receivables, comprising 69% business and consumer loans, 11% property investment loans, and 20% property development loans, dropped only slightly to \$1.3bn, just \$42.0m below the levels at June 2008.

Business - *lending on business, plant and equipment, property finance.*

The last six months have seen a reduced demand for new finance as many New Zealand businesses have elected to defer capital expenditure. MARAC has maintained a high profile with its customers, looking to work even more closely with them during these times. We believe this will place MARAC in a strong position when the inevitable upturn arrives.

Consumer - *lending on motor vehicle, marine and leisure, insurance, leasing.*

A number of competitors, including two of the larger players GE and GMAC, exited this market. This has created an opportunity for MARAC to gain significant market share and has translated to good volumes of new applications since November.

Funding and liquidity

Liquidity (the amount of cash we have immediately available) increased to \$340.4m at December 2008, up from \$160.0m in June. This increase has been the result of a deliberate strategy at MARAC and while there is a cost to holding high levels of liquidity, we believe this is a prudent measure in today's market.

MARAC was the first major finance company to be approved under the New Zealand Deposit Guarantee Scheme. This, along with our retail bond issue in July (which raised \$104.2m), has seen retail funding grow to \$794.1m at December 2008, up from \$556.7m in June 2008.

Reinvestment rates are still high. The MARAC PIE Fund was launched in December and has been well received by those seeking to optimise their tax position and increase their returns.

Our Standard & Poor's* 'investment grade' BBB- (Stable) credit rating remains unchanged.

PGC's banking licence application to the Reserve Bank

MARAC's parent company, Pyne Gould Corporation (PGC), is continuing with the detailed work required to support an application for a banking licence. It remains PGC's intention to become the only New Zealand owned publicly listed bank.

Outlook

MARAC's half-year result is solid given the difficult economic environment in which we are operating. We believe this reflects the essential strength of our business, our brand and the support of our customers and investors. Access to finance in the current environment is critical to New Zealand businesses and consumers, and we will continue to identify sound lending opportunities from New Zealand businesses and individuals which meet our credit criteria.

The current market is unlikely to improve markedly in the short term, so we expect results for the full year to 30 June 2009 to be on a par with these interim results.

The strength of the MARAC business means we are well positioned to weather the current recession and take advantage of better times to come.

Alan Williams

Chief Financial Officer

*Standard & Poor's ratings are statements of opinion, not statements of fact or recommendations to buy, hold or sell any securities. Ratings may be changed, withdrawn or suspended at any time. For the latest ratings information please visit www.standardandpoors.com.

Refer a business associate to MARAC and be in to win*

We hope that partnering with MARAC has helped benefit your business. If you have an associate whose business might also benefit from the products and services MARAC has to offer, we'd appreciate you recommending us to them.

As a token of our thanks, both you and your business associate will go in the draw to **win an Air New Zealand Great Mystery Break** for two, for each business loan that is drawn down with us before 30 June 2009 as a result of your referral.*

MARAC offers:

- **Tailored solutions** – We offer flexible financial solutions that take into account the business' circumstances, such as seasonal income fluctuations or a term that mirrors the life of the plant. We also offer fixed and floating interest rates.
- **Best people work for us** – We believe the best people in finance work for MARAC. We have financial services managers in each of our nine offices, with sound local knowledge and years of experience in dealing with many different business types in your region.
- **Genuine personal service** – Service is central to the way we do business. We know time is valuable, so our experienced financial services managers

will meet on-site, regardless of the size of the company. This helps us really get to know the business before we start to discuss finance.

About the Great Mystery Break

You won't know where you're travelling to until you're checking in at the airport. You'll fly Air New Zealand to your mystery destination, where you'll then pick up your transfer or rental car before checking in to your accommodation. Then it's up to you as to what you'd like to do. Go exploring. Or just kick back and relax. It's the perfect way to add a little adventure to your life.

How to get in the draw

- Call or email your financial services manager with the name of your business associate or associates you'd like to introduce us to. Please don't forget to let your contact know that they'll be receiving a call; or
- Have your business associate or associates call your financial services manager direct, and have them quote your name when they call.

So start thinking about who could benefit from partnering with MARAC, and where you might end up if you win the Great Mystery Break.

Mike Fickling

Manager - Commercial

*There is one prize of an Air New Zealand Great Mystery Break for two to be won. See www.marac.co.nz/greatmysterybreak for the terms and conditions.

Access your cash flow quicker

Cash flow is the lifeblood of any company and in the current economic environment, it's more important than ever.

Free up your cash flow

You can release money tied up with your invoiced sales and inject that money back into your business with a MARAC invoice finance facility. A MARAC invoice finance facility can help revitalise cash flow, let you invest in new plant or equipment, cover ad-hoc costs, or maintain and grow your business.

Access up to 80% of your invoiced sales within 24 hours

You can access up to 80% of the value of your outstanding invoiced sales within 24 hours of raising the invoice using our electronic system.

A popular alternative to a bank overdraft

Unlike a bank overdraft, the only security you need to provide is evidence of the money you're owed (invoiced sales) rather than using your personal property. And you don't have to wait for your customers to pay. What's more, the potential amount available to borrow increases at the same rate as your sales, so your growth can fund your growth.

Undisclosed facility

Invoice finance differs to factoring in that it is completely confidential, so your debtors and creditors never know MARAC is involved.

Want further information?

Further information on MARAC's invoice finance facility is on our website www.marac.co.nz.

Contact us

If you'd like to free up your cash flow or discuss how a MARAC invoice finance facility can benefit your business, either talk to your local financial services manager, or contact me on 0800 520 009 or edward.mckeewright@marac.co.nz.

Edward McKee Wright

Manager – Invoice Finance

MEET THE TEAM

Introducing Mike Fickling



We know that you want to deal with people who understand your needs and who can help you find the right finance solution. So this month we're going to introduce you to Mike Fickling, Manager of the Commercial Divisions.

Mike joined MARAC in 1994 and now manages our Commercial divisions. His first position at MARAC was as a financial services manager in Auckland. In that role he built up a good understanding of businesses and a large portfolio of clients – most of which are still with MARAC today.

Mike's career began in the banking industry, initially at a branch level before moving to Wellington to work in foreign exchange. Then came a four-year stint in London, which included a job at Citibank in their interest rate swaps division.

Back in New Zealand, Mike took up a role in collections with AGC Finance, later progressing into a credit role and then a sales position.

Outside of work, Mike is an avid sports fan, either participating or watching from the sidelines. He also loves travelling and experiencing the different cultures of other countries, having visited over 60 countries around the globe.

"At MARAC we pride ourselves on service and I instil this in our financial services managers throughout the country. Building a strong relationship with our clients based on service, industry knowledge and expertise is paramount. We want to build our business on you – our customer – to grow with you in to the future. This represents constant challenges, be it economic, weather, regional or changes within your business. At MARAC we strive to be the best in finance and in all that we do."

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Every effort has been made to ensure accuracy in this newsletter. It is provided on the basis that the items are necessarily generalised and are not a substitute for commercial judgement or professional advice.

Readers are urged:
1. to seek specific advice on any particular matter from a qualified professional person and
2. not to rely solely on this text.

MARAC's ultimate parent is Pyne Gould Corporation Limited. Pyne Gould Corporation Limited does not guarantee any securities offered by MARAC or the return payable thereon.

+ The guarantee scheme applies to MARAC Term Deposits, which are first ranking subject to prior charges (currently none) and statutory claims.

If you would like to know more about the New Zealand deposit guarantee scheme please visit www.treasury.govt.nz