

# Outlook

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## Get quick access to your cash with MARAC invoice finance.

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For more information, please visit [www.marac.co.nz/invoicefinance](http://www.marac.co.nz/invoicefinance) or contact your local Financial Services Manager today on **0800 520 009**.



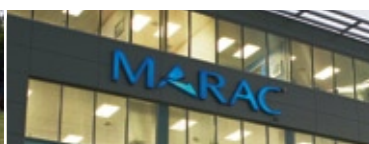
It's hard to believe the first half of 2010 is already behind us. Much has happened over the last quarter – most recently, the national Fieldays. Every year the event becomes more diversified, with innovative plant and equipment, and special offers from suppliers to the agricultural industry.

While New Zealand businesses continue to recover and experience growth, MARAC is also moving in exciting new directions in helping to finance New Zealanders and their businesses. On 1 June 2010 MARAC's parent company, Pyne Gould Corporation (PGC), announced its intention to merge MARAC with Canterbury Building Society and Southern Cross Building Society, with the end goal of becoming a bank. It has always been our intention to attain a banking licence, and it has become increasingly apparent that the best path to achieve this is to build scale and join forces with other organisations. The proposed merged entity will be dedicated to servicing the banking and financial needs of customers in Heartland New Zealand. You can read more about the proposed merger on page 4.

Inside you'll also find an economic outlook article by respected economist Brendan O'Donovan from Westpac, with commentary on New Zealand's position in the global economy. On page 4 we profile one of our team – Keith McCallum from our Auckland office, who is approaching his ten-year anniversary with MARAC. On page 3 you can read about our recent partnership with AA, and we provide an insight into MARAC's unique role in financing the New Zealand mining industry.

If you have any questions about *Outlook*, how we can help you with finance and investment options, or would like to discuss any other matter, please feel free to call the MARAC Commercial Team on **0800 520 009** – we're here to help.

**Mike Fickling**  
Manager - Commercial



MARAC

# ECONOMIC OUTLOOK – A changing world

Throughout the month of May, financial markets worked themselves into a state of anxiety as world equity prices dropped 15% in the month. Numerous factors can explain the bout of angst, including investors having gotten a bit too comfortable about the global recovery story, geo-political risk on the Korean peninsula, worries that Chinese growth may be facing a hard landing and huge concerns around the massive buildup in public sector debt, particularly in Europe.

We have been a bit surprised about the level of investor response to the European sovereign debt crisis. To us, there has been a limited amount of 'news'. A year and a half ago, we knew European banks had made inadequate provisioning for their exposures (particularly to Eastern Europe, the Baltic States, and the PIGS – Portugal, Ireland, Greece and Spain). The parlous state of many European governments' finances (among others) was also well known. Growth prospects for Europe were therefore already considered to be dim. However, overreaction is to be expected in times of brittle nerves.

If New Zealand had been faced with the same set of circumstances (i.e. very weak European, UK and Japanese economic growth) in our not-so-distant past, we would have been severely affected by a drop in demand for our commodities. But the world we now face is a very different one.

New Zealand is now far less dependent on the 'old rich world' than at any time in its past (see Figure 1). Back in 1960, 87% of our physical exports went to the UK, Europe, North America and Japan. Those countries now take less than a third of our exports. In 1960, Asia (excluding Japan) and Australia took 5% of our exports and that has now soared to 55%. The origin of our imports has been going through a similar transformation to that of our export destinations (with 54% of our imports now coming from Asia and Australia).

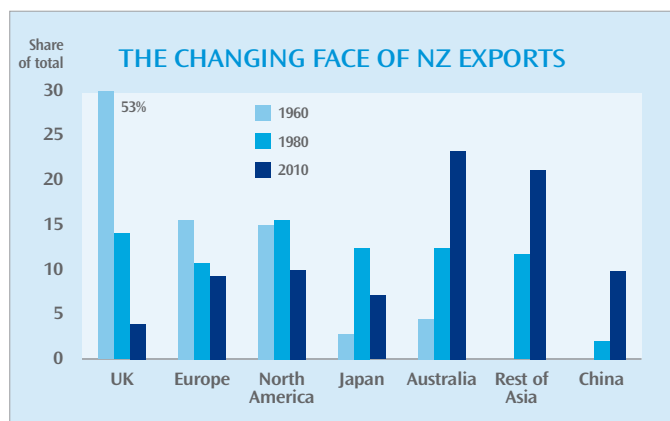


Figure 1

Source: Stats NZ, NZIER

Given that we have hitched our commodity wagon to the developing economy horse, it's natural to ask where world growth is expected to occur. Importantly, the global recovery was never a European growth story. The latest IMF forecasts are for

Euro area growth of 1.0% and 1.5% in 2010 and 2011 respectively. Europe was always going to be a drag on a world growing at an average of 4.0% in 2010.

Consensus forecasts (see Figure 2) are for continued growth out-performance by Asia (excluding Japan) and Australia. We concur. One response to the sovereign debt crisis will be for the developed economies to keep their interest rates at extraordinarily low levels for even longer. Developing economies, in the desire to prevent excessive exchange rate appreciation, have effectively adopted the super-easy monetary policy of the rich world. A prolonged period of negative real interest rates in many Asian economies risks causing asset price bubbles, with negative consequences a number of years down the track if the bubbles grow too large and burst. However, for now, the debt crisis is likely to result in continued low interest rates and high growth in the developing economies.

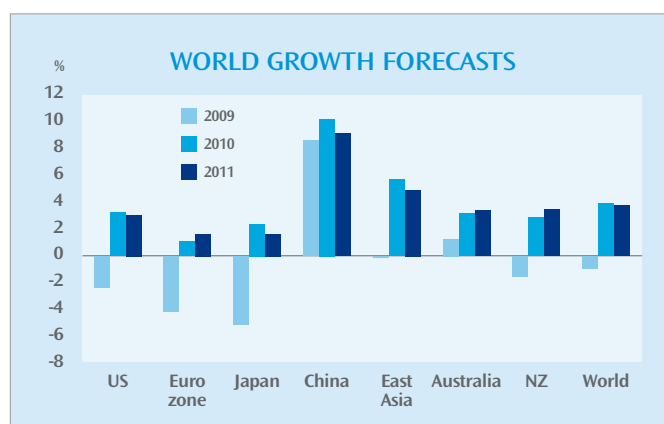


Figure 2

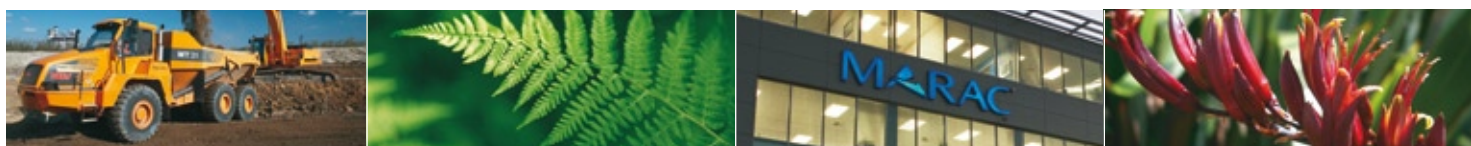
Source: Consensus Forecasts, Westpac

We have been very optimistic about New Zealand's potential export performance for a long time. Our commodity prices are at multi-decade highs, a remarkable achievement just a year and a half past the worst of the global financial crisis and in the midst of the current sovereign debt woes. This latest episode is a good example of New Zealand's new found resilience. We are by no means saying that New Zealand is immune to global shocks. Rather, we are less susceptible to shocks from Europe and North America than we used to be.

By being tied in with the fastest growing region of the world we can enjoy higher average commodity prices and economic growth than we otherwise would have. While we think the demand backdrop will remain favourable for our commodities (barring Global Financial Crisis mark II!), prices will still be swung around by fluctuations in supply. The downside of our new found Asia focus is that when there is a crisis in this part of the world, we will be badly impacted. We don't envisage that happening for years yet. In the meantime, we'll continue to enjoy the ride.

**Brendan O'Donovan**

Chief Economist - Westpac New Zealand



## At the coalface with MARAC

At MARAC, we're proud to offer a range of finance solutions to small and medium-sized New Zealand businesses. Our Financial Services Managers have in-depth knowledge of the industries within their region, so they can work in partnership with the business to tailor a loan that suits each business's needs. In this issue we feature the mining sector, and how we help keep them digging or drilling, whether for coal, gas or other minerals.

### A few facts about the mining industry

Mining is a \$2b industry for New Zealand and brought in \$1.1b of exports in 2009. Mines in New Zealand use an extremely small amount of land (around 4,000 hectares), which is less than 0.015% of the country's total land area. The export value of that land is around \$175,000 per hectare. Interestingly, this is far more productive than dairy farming – which uses 2 million hectares of land with an export value of only \$3,500 per hectare.

The mining sector directly employs about 6,000 people around New Zealand, and the industry also creates many more jobs indirectly for people in related service industries. Jobs in the mining sector are highly productive in terms of their impact on New Zealand's GDP.

### Snapshot of a mining business

Solid Energy's Stockton operation is a coal mine located in the Buller coalfield, north of Westport on the South Island's West Coast. It is hugely important to the local economy, employing 500 workers and providing contract or consulting work to another 200 people. In recent years, Stockton's annual production has run at around 2 million tonnes of high-quality coal, and this is expected to continue for up to 20 years. Up to six trains a day transport the coal through the Southern Alps to Lyttleton Port, where it begins its export journey to Asia's leading steel mills and coke manufacturers.

Stockton, like all other players in the industry, has obligations to minimise environmental impact. For example, to ensure vegetation is renewed after each operation, seeds are collected from the site and then propagated and grown at a number of nurseries, ready to be replanted. Each year the rehabilitation programme covers more than 30 hectares and includes the planting of several hundred thousand native seedlings. All of this needs to be carefully managed and of course, factored in to budgeting and finance needs.



Geotech miners at work at Solid Energy's Stockton operation

### MARAC's role in financing the mining industry

Mining is a highly specialised industry, with different types of mines using a variety of equipment and operating methods. At MARAC we offer a personalised service to our mining customers, working closely alongside them to get to know how their business works and their plans for the future. We can then offer tailored financial solutions to meet their needs – whether that is equipment purchases or leasing, working capital for day-to-day operations, or finance for expansion or new projects.

### What our customers are saying

Based on the West Coast of the South Island, Geotech is a geotechnical contractor specialising in tunnelling and ground stabilisation, with high-end contracting ability in extreme and sensitive work environments. Geotech is currently a key contractor to Solid Energy NZ for the Ridgeline Project at Stockton Mine. Ant Black, Managing Director of Geotech, values MARAC's personalised service and tailored financial products. "As a technical company, Geotech appreciates that the MARAC package extends far beyond fast service, to business mentoring, fresh ideas and general economic advice."

If you would like to talk to someone about financing specialised plant and equipment for your business, call your local Financial Services Manager on **0800 520 009**. We're here to help.

**Mike Fickling**  
Manager - Commercial

## Our joint venture with AA



MARAC and the New Zealand Automobile Association (AA) strengthened their partnership on 1 April 2010, with the AA purchasing a 50% share of MARAC Insurance Limited. This follows a successful vehicle finance partnership established last year between the AA and MARAC.

MARAC Insurance has been providing customers with mechanical breakdown, lifestyle protection and guaranteed asset protection insurance for six years. Under the joint venture, these products are now available to AA Members and AA authorised dealers, with new products and services likely to be added in future.

AA Chief Executive Brian Gibbons commented that the joint venture was an ideal way to take the opportunity to provide a broader range of services to AA Members. "These insurance products are issued by MARAC Insurance, a company trusted by New Zealanders," Mr Gibbons stated. "We believe there will be strong demand for them and it's our goal to develop additional products and services in the future."

Based on the success of the relationship to date, MARAC's parent company PGC has also secured a five-year exclusivity agreement with AA. This creates the pathway to exploring opportunities of offering a range of financial services to AA Members.

# MARAC part of proposed merger to create new 'Heartland' bank

An exciting initiative was recently announced by MARAC's parent company Pyne Gould Corporation (PGC), along with Canterbury Building Society (CBS) and Southern Cross Building Society (SCBS). These three organisations have agreed to explore the potential of a merger that would create a New Zealand-owned company providing a full range of banking and financial services to customers in Heartland New Zealand.

MARAC, being PGC's financial services arm, will be included in the proposed merger. As you are probably aware, our goal over the past couple of years has been to become a registered bank, and consolidation offers a pathway to reach this goal.

The three companies are ideally suited to the proposed new venture. CBS and SCBS have provided residential, commercial and rural customers with financial services and first mortgage facilities for a combined period of more than 200 years. PGC's history stretches back to the 1850s when it started servicing stock and station businesses in Canterbury. In turn, MARAC has serviced the personal and small and medium-business market for almost 60 years.

The proposed merger is a significant opportunity for the three companies to enter the banking marketplace and offer something different from the current large overseas-owned banks. We believe there is a need in the market for more personalised service and greater understanding of the businesses at the heart of New Zealand's economy, and that's what we will be able to offer on a much larger scale than is currently possible through MARAC alone.

## Next steps

The achievement of a banking licence is a significant hurdle and is crucial to the concept being implemented. However, we are confident that the scale and financial resources created by the merger will be sufficient to enable this requirement to be met.

The due diligence process must be completed before a formal proposal can be put to the owners of the merging entities, and this is expected to be finalised later this year. The approval process will involve a number of stakeholders, including shareholders, investors and regulators.

If all goes to plan, the merged entity could begin trading early next year, with a banking application possible by the middle of 2011.

We will keep you fully informed as the plans progress throughout the rest of the year.

## Jeff Greenslade

Chief Executive Officer

\*None of CBS, SCBS, PGC and MARAC are a registered bank, and any merged entity will not be a registered bank until it is registered as such under the Reserve Bank of New Zealand Act 1989.

## MEET THE TEAM

# Introducing Keith McCallum



Keith took up his role of Financial Services Manager with MARAC in 2001, following eight years in a similar role with UDC Finance in Manukau. This experience is strengthened by his first eight years in the industry with AGC in Hamilton, Palmerston North and Wellington, in various roles.

Keith's commercial lending experience is diversified. He's provided finance for plant, equipment, vehicles and machinery to most industries - from transport and manufacturing to funding for commercial properties for owner-occupiers.

Married with a son and daughter, Keith's spare time is taken up with family and sports.

*"The key to success in finance is all about relationships, knowing and understanding my customers' businesses and experience, having worked through various economic conditions, both good and bad. To stand out from other finance companies, MARAC offers a sound history and background, and a focus on providing excellent support and service before, during and after the transaction."*

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