



## Who's got what, under the Xmas tree

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### Summary

- > Our monthly *Property Focus* publication is aimed at providing an independent appraisal of recent developments in the property market. In this issue our chief economist provides some high level thoughts on the year ahead.

### The month in review (page 2)

- > The volume of house sales moved lower in November, ahead of the traditional slowdown over the Christmas period. Conversely, building consents are at last starting to play catch-up, coinciding with fewer Kiwis moving abroad and a stimulatory level of interest rates.

### Property gauges (page 3)

- > To be sure, the housing market responded to the monetary stimulus earlier in the year. However, a constrained flow of credit is now impacting on the second wave of buyer interest.

### Economic backdrop (page 5)

- > An improving economic landscape is being projected, both domestically and abroad. The Reserve Bank could be tightening conditions sooner than we had previously picked. But this is dependent on the economic pulse being maintained into the first half of next year.

### Mortgage borrowing strategy (page 6)

- > We continue to see greater value in short-dated borrowing rates. Yes, we acknowledge rates are set to move up. But too much tightening is presently priced into the fixed lending rates and structural changes means an upward sloping yield curve is here for the foreseeable future.

### Feature comment by the chief economist (page 7)

- > As the door closes on 2009, attention turns to 2010. Our chief economist, Cameron Bagrie, provides some high level thoughts on the year ahead. A key theme for 2010 is not to get caught in the rip of trying to pick near-term influences on the market including jobs, migration and interest rates. Rather we need to get our heads around structural changes that are permeating locally and internationally, and what the "new" normal will look like. We will either embrace it voluntarily or otherwise.

### Key forecasts (page 10)

## The month in review

The volume of house sales moved lower in November, ahead of the traditional slowdown over the Christmas period. Conversely, building consents are at last starting to play catch-up, coinciding with fewer Kiwis moving abroad and a stimulatory level of interest rates.

**Not as many chimneys for Santa to worry about**

> **SNZ Value of Building Work Put in Place - September.** Residential construction volumes fell 5.4 percent, while non-residential construction volumes fell 4.3 percent. We estimate that the construction sector as a whole will detract around 0.2ppts from Q3 GDP growth. It is too early for the recent improvement in building consent issuance to flow through just yet on the residential side. This is more likely to be a 2010 story.

**Rudolph, the red-inked "reinz-deer"**

> **REINZ housing data – November.** After stabilising over recent months, house sales fell 8 percent in November, according to our seasonally adjusted estimates. This follows the 5.6 percent decline in the previous month. The level of house sales remains very low, and consistent with the troughs in previous housing downturns. Days to sell increased a tad, and looking at the traditional relationship with house sales, we can expect this to lengthen. The median house selling price was flat in the month, though the stratified measure posted a 0.2 percent gain in the month to be up 6.6 percent from a year ago.

**O immigrate all ye faithful, joyful and (hopefully RWC) triumphant**

> **SNZ Net Migration – November.** Net migration continues to post respectable inflows, with November seeing a gain of 1,780 people. For the 12-months to November, the total net migration gains exceeded 20,000. Permanent and long-term (PLT) arrivals remain stable, with most of the migration gains being driven by lower departures. Next year, the net migration story will likely be one where we see a pick-up in departures, particularly to Australia (where the unemployment rate is markedly lower than NZ's), leading to lower net migration inflows.

**Joy to the build**

> **SNZ Building Consents – October.** A 12 percent increase in consents in October takes the level of issuance up 27 percent on a year ago. Commercial consents received a boost in October thanks to several sports facilities and an increase in educational buildings. Abstracting from these, underlying commercial consents remain weak. A clear dichotomy has opened up between residential and commercial consent issuance in recent months, where the former has recovered while the latter continues to head lower (October's rise notwithstanding). Going forward, we expect the divergence to intensify. This will see residential investment make a robust contribution to GDP growth over the first half of next year.

**God rest ye merry, gentle-lend, let nothing you dismay**

> **RBNZ Mortgage Lending – October.** Housing credit growth rose 0.3 percent month-on-month. Over recent months the monthly rate of growth has been constrained in a band between 0.2 and 0.3 percent.

## Assessment

The recent dip in house sales could potentially hint at the start of an easing in housing market activity, just at a time when we are starting to get a supply response with a rise in listings and the overall number of houses for sale. The pick-up we are seeing in building consents will only add to the supply side, and should we start to see a rise in emigration to Australia, will result in further houses being put up for sale. The prospect of higher interest rates (on top of the increases already seen in longer dated rates) and a still weak labour market will continue to be major headwinds facing the housing market. If this does eventuate, it will help allay part of the RBNZ's fears over resurgent house prices flowing through into consumer spending.

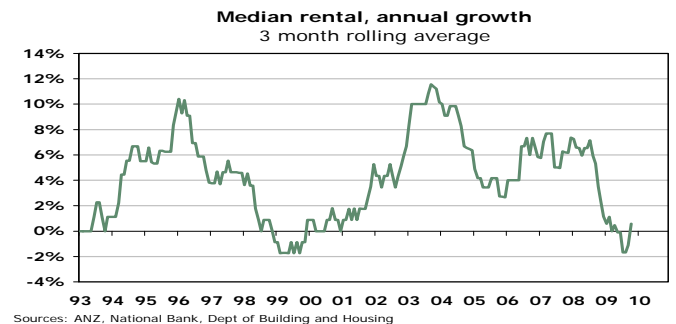
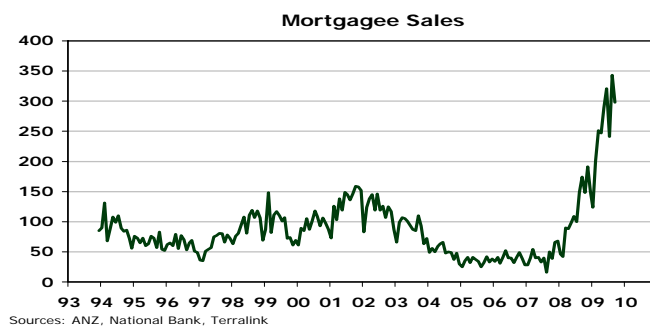
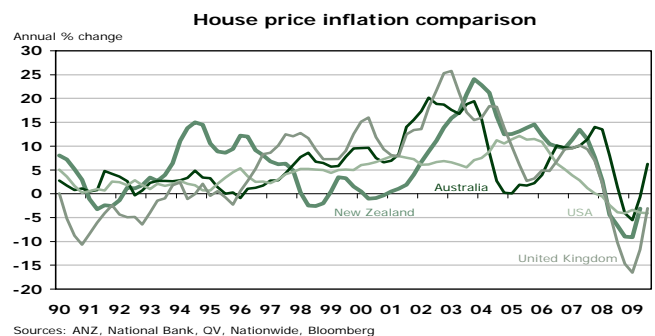
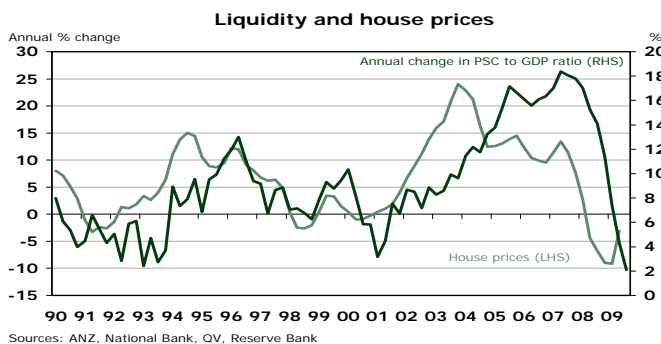
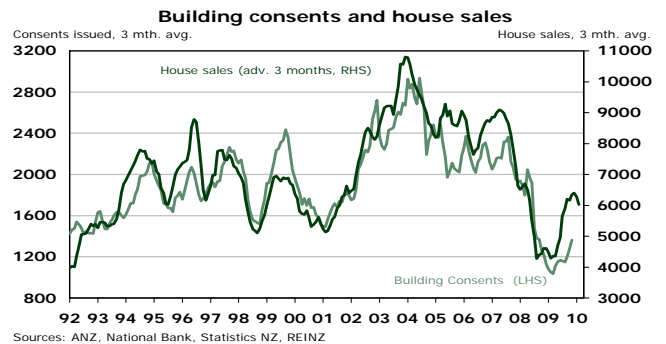
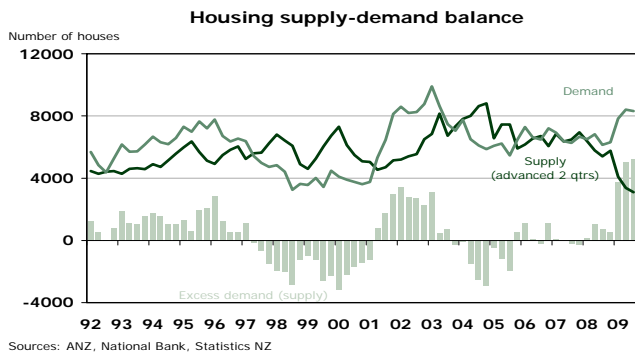
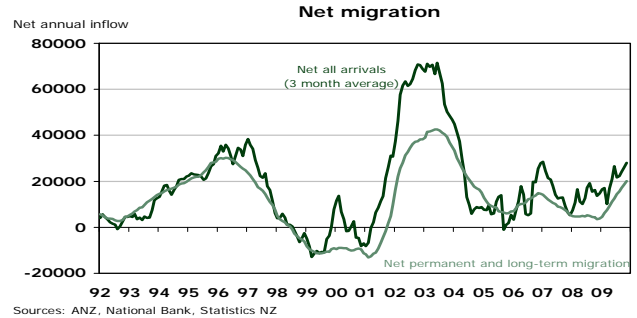
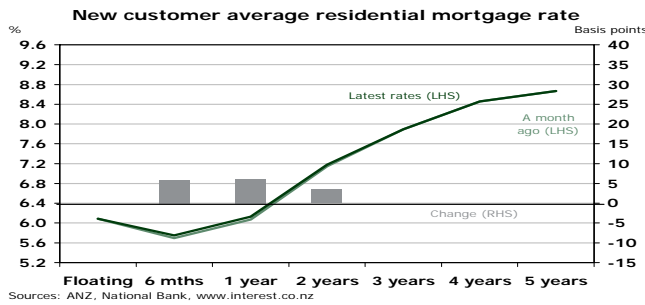
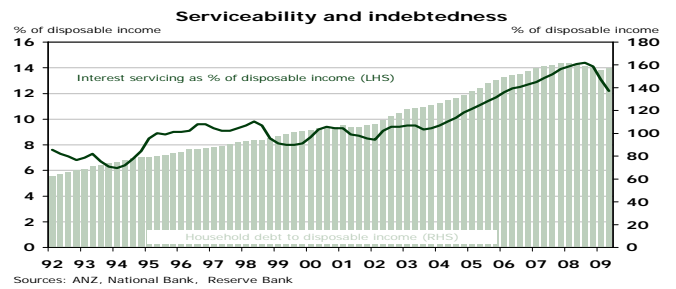
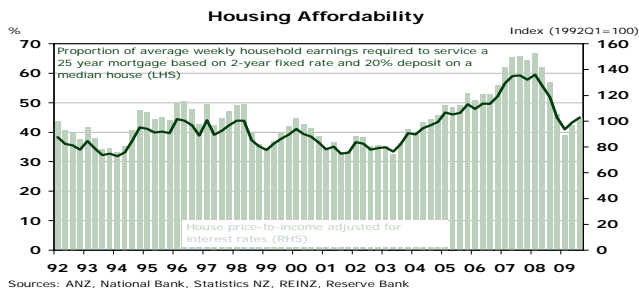
## Property gauges

To be sure, the housing market responded to the monetary stimulus earlier in the year. However, a constrained flow of credit is now impacting on the second wave of buyer interest.

We use ten gauges to assess the state of the property market and whether warning signs are emerging.

- > **Affordability.** For new entrants into the housing market, we measure affordability using the ratio of house prices-to-income (adjusted for interest rates), and mortgage payments as a proportion of income.
- > **Serviceability / indebtedness.** For existing homeowners, serviceability relates interest payments to income, while indebtedness is measured as the level of debt relative to income.
- > **Interest rates.** Interest rates affect both the affordability of new houses and the serviceability of existing mortgage payments.
- > **Migration.** A key source of demand for new housing.
- > **Supply-demand balance.** We use dwelling consents issuance to proxy supply. Demand is derived via the natural growth rate in the population, net migration, and the average household size.
- > **Consents and house sales.** These are both key gauges of activity in the property market.
- > **Liquidity.** We look at growth in Private Sector Credit relative to GDP to assess the availability of credit in supporting the property market.
- > **Globalisation.** We look at relative property price movements between New Zealand, the US, UK and Australia in recognition of the important role that globalisation is playing in NZ's property cycle.
- > **Mortgagee sales.** We look at how mortgagee sales are tracking for an indication of distress in the property market.
- > **Rental growth.** We look at growth in the median market rent as an indication of whether it is a better time to buy versus rent, and how rental yields are shaping up for the property investor.

Indicator	Level	Direction for prices	Comment
Affordability	Deteriorating	↔	Higher mortgage rates are putting a dent in affordability.
Serviceability / indebtedness	High but easing	↓	Improving but more de-leveraging is still to come.
Interest rates	Nudging up	↔/↓	A small lift in fixed rates between 6 months and 2 years.
Migration	Building	↑	Net migration is a growing dynamic.
Supply-demand balance	One sided	↔/↑	A wide gap between the two still persists.
Consents and house sales	Glimmer of hope	↔/↑	House sales fell for the second consecutive month in seasonally adjusted terms, but building consents lifted.
Liquidity	Still a way to go	↓	Liquidity is the measure that is proving to be a constraint.
Globalisation	A deep hole to recover from	↓	Prices have turned the corner, with Australia leading the charge.
Mortgagee sales	Off its high	↓	New record high reached.
Median rent	Ticked up	↓	Back into positive territory, just.
<b>On balance</b>		↓	<b>Feeling the effect of earlier mortgage rate rises.</b>



## Economic backdrop

An improving economic landscape is being projected, both domestically and abroad. The Reserve Bank could be tightening conditions sooner than we had previously picked. But this is dependent on the economic pulse being maintained into the first half of next year.

## Our core economic view

There is no doubting that the New Zealand economy continues to gain forward momentum. Domestically, consumer and business confidence remain at healthy levels and consistent with robust economic growth. Net migration continues to provide underlying support, running at a three-month annualised rate of 23,120 people, compared to less than 1,000 a year ago. Building consents look to be rebounding off extreme lows, which should provide an impetus to growth over the first half of next year. House prices continue to rise, with the median house price rising to fresh highs.

The international scene looks likely to lend support to NZ's growth prospects next year. Economic growth among NZ's major trading partners rebounded strongly, returning to positive territory over the second half of this year, and leading indicators point to an acceleration back towards trend growth next year. Once a major source of downside risk as the global financial crisis was unfolding, the global scene now looks to be a source of upside risk in the year ahead.

The unexpected shift in tone from the RBNZ at the December *Monetary Policy Statement* has a March interest rate hike close to being fully priced in by the market. Admittedly, we have nudged forward our expectations for the start of the tightening cycle from September to June. Yet there is plenty of water to flow under the bridge before then. The shift in the RBNZ's stance is very conditional on how the economy tracks relative to their forecasts over the coming months. The RBNZ was quite explicit with this stating "*It could be that our current projections are overly optimistic or unduly pessimistic. If so, the timing of the removal of stimulus could well be adjusted.*" The RBNZ has given itself an extra level of flexibility to respond to economic developments.

In fact, reading through the entire *Statement*, we actually feel it is a fair reflection of the current state of play within the economy. The RBNZ have acknowledged the improvements in both the domestic and global outlooks. House prices, migration and commodity prices are obviously the big support factors locally. The RBNZ's GDP forecasts have been revised up accordingly. Yet there is still an undertone of cautiousness within their views. House prices are expected to rise further, but not be maintained. A higher NZD is expected to largely offset the benefit of better global growth and higher commodity prices. Households are expected to remain somewhat cautious over their spending decisions. These are views we share.

While further near-term gains in house prices appear likely, we are still not convinced the market will push on strongly over 2010. In fact, weekly RBNZ mortgage approval data shows the number of approvals falling below last year's subdued levels. REINZ data for November shows seasonally adjusted house sales down 8 percent in the month and days to sell a touch higher. The market is not pushing on as some would have us believe. It appears a lack of listings is continuing to support prices, but the increase in the value of home loan approvals also looks to have stabilised of late. Emigration flows to Australia will also be critically important over 2010.

## Mortgage borrowing strategy

We continue to see greater value in short-dated borrowing rates. Yes, we acknowledge rates are set to move up. But too much tightening is presently priced into the fixed lending rates and structural changes means an upward sloping yield curve is here for the foreseeable future.

### Our view

**Interest rates are moving up but there is no need to panic.** Interest rates will gradually rise as the economy starts to move forward again and the Official Cash Rate is sitting at a remarkably low level in the first place. In this environment interest rates will invariably be biased up over 2010. Our favoured borrowed strategy continues to be influenced by three dynamics.

- > **The market is already pre-empting a fairly rapid rise in interest rates.** The market is pricing in around a 70 percent chance of a 25 basis point hike by March and a total of 200 basis points of tightening out until December 2010. Such “expectations” are implicitly now embedded in fixed rates. Our core view continues to centre around a later start to the tightening cycle, and one of smaller magnitude given challenges we continue to envisage.
- > **There are structural changes we remain mindful of.** New liquidity rules now require banks to source more term funding. The longer the term, the typically higher the (deposit) price. If investors expect to receive a higher compensation (yield) for “locking” in for a longer term, then of course borrowers seeking certainty (long-term rates) end up paying the flip-side of this transaction. But these changes also mean a higher cost of funds for banks, and thus lending rates. This means what we consider to be a normal Official Cash Rate will be lower over the coming cycle. The steep sloping yield curve is encouraging more people to float, giving the RBNZ considerable policy traction when they do decide to hike. There will be the inevitable moans when they do, but by getting more policy traction they shouldn't need to raise the OCR as far as previously.
- > **The neutral OCR is lower.** The neutral OCR is a view on where we see the OCR sitting on average over the cycle. Conventional wisdom is that it is 6 percent. Hence people talk about the OCR moving up 3 plus percent from current levels and borrowing rates the same. We disagree with such assessments. A combination of re-priced risk (read margins), higher bank funding costs, and structural changes in the market such as a far greater proportion of borrowing on floating or six month borrowing means the OCR lever should not need to be pulled as aggressively as previously. Indeed, we see the neutral OCR being around 100 basis points lower than the 6 percent wisdom. This of course does not benefit borrowers – a fall in the wholesale rate have been offset by other aspects to leave the retail rate the same. But the key point is that borrowers are not facing situation of double jeopardy where margins are wider and the neutral OCR is the same.

## Feature comment by the Chief Economist

As the door closes on 2009, attention turns to 2010. Our chief economist, Cameron Bagrie, provides some high level thoughts on the year ahead. A key theme for 2010 is not to get caught in the rip of trying to pick near-term influences on the market including jobs, migration and interest rates. Rather we need to get our heads around structural changes that are permeating locally and internationally, and what the “new” normal will look like. We will either embrace it voluntarily or otherwise.

2009 has hardly been an inspiring year, but momentum is building across the economy albeit in a rather inconsistent manner. The residential property market has been the out-performer, responding to low interest rates and given an additional spurt from less emigration. Conversely, the rural and commercial markets remain under pressure. As the door closes on 2009, attention now turns to 2010.

Across the global economy, there is no doubt that challenges remain. This is not your typical credit downturn and recovery story. The typical credit event has centred on the business sector. While aspects of this are apparent in this cycle, this time around it is household balance sheets in need of repair. And when faced with rising unemployment, this looks set to be a protracted process. Hence, policymakers and economists continue to talk in guarded tones about the U, bathtub or saucer shaped recoveries.

Yet, if history is any guide, economists (including myself) will probably end up being wrong. We bank on the rational. One plus one equals two. Two plus two equals four. Or in economic-speak, people’s investment and spending decisions change incrementally and gradually. Yet we all live and operate in a sometimes irrational world. Spending and investment decisions do not change incrementally. There is a tipping point at which it stops and then starts. So one plus one can equal eleven or minus eleven. Pent-up demand can quickly be unleashed when confidence picks up. Hence, economists’ notorious track record at underestimating downturns, as well as the recovery process. This is a dynamic I remain very mindful of.

Probably the most difficult task ahead of us at present is trying to “predict” the behavioural aspect within the economic cycle. Economic trends are about combinations of economics, finance and human behaviour. The difficulty in the current instance is that you have an economy undergoing deep structural change, as we adjust to a new normal. Human nature however, wants to go back and grasp the “old”, as in the way things were pre-crisis. The problem is that the period in the lead-up to the global financial crisis was abnormal, characterised by excesses in risk taking, credit growth and double-digit asset prices, and unlikely to be repeated again. Asset prices grew in excess of nominal GDP simply because credit growth did the same. It was simply a story of gaining more leverage. Think about where loan-to-value ratios used to be 20 years ago compared with now. But of course there is a limit as to how far such dynamics can extend. House prices cannot continue to outstrip income growth, nor can credit growth outpace the underlying growth rate of the economy indefinitely. Yes, it may have for the past twenty years. Inflation supported property prices for the twenty years prior to that (although real houses prices in NZ only rose by just over 1 percent per annum, so it was not a great investment). But both are not normal in terms of where we see the economy heading over the next twenty years.

Policymakers have made it clear that we are not going back to “banking as usual” (G20 communiqué), and the RBNZ Governor Dr Bollard has been

equally specific about NZ not returning to our borrow and spend habits of old. These are powerful words that are just not sinking in. And it is not just the Official Cash Rate that will be used to make sure change occurs. New liquidity rules are just the start. Rather than growth at double the rate of GDP and income, credit growth and house prices should grow in line at most. But with such changes comes big implications for the balance between expected capital gains, and yield and cashflow.

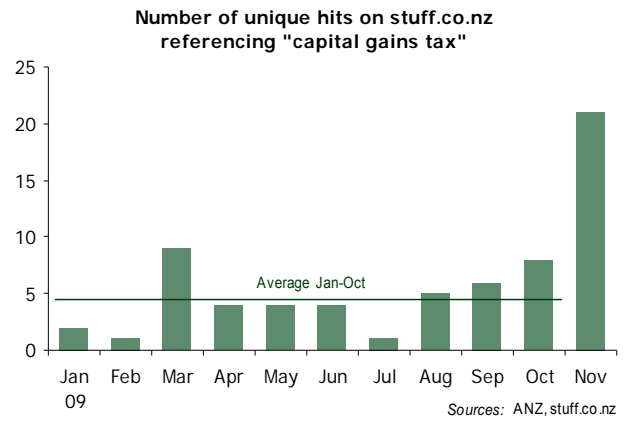
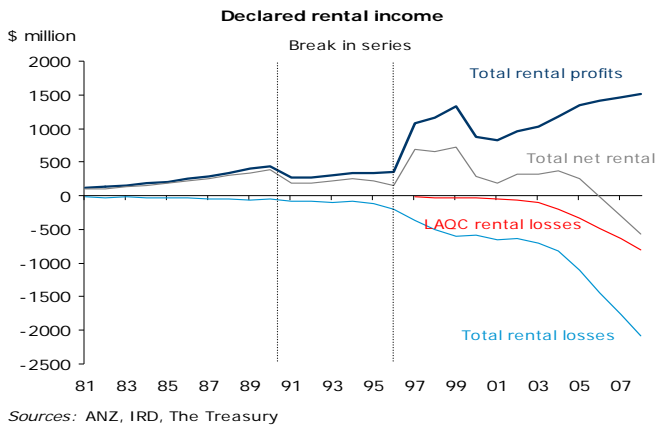
One scribe notes the process of learning as similar to watching a teenager learn from a mistake: faced with two choices, the path chosen is likely to be the one that is most fun and least painful. And so it applies to the general economy in terms of how we "learn". Across the corporate world we see leaders recognising that a step-change is required if NZ's medium-term positive potential is to be unlocked. But that requires a sacrifice up front in terms of earnings, and we all know how conditioned the market, and hence CEO behaviour, can become to hitting those near-term benchmarks. The existing level of government services is unsustainable given the income (tax) base. But where is the hurry to forge ahead with the hard decisions when you are judged in the court of public opinion?

At some stage over 2010 the economy is going to enter a stage I refer to as transition. This will involve not only structural changes from regulators but also the unwinding of various support measures, which means interest rates will at some stage progressively move up. Both are about returning to a more "normal" setting, but they are steps that will involve change and hence a degree of learning.

The only uncertainty at present is whether the process of learning occurs voluntarily (orderly) or it gets forced upon us, which leads to a disorderly adjustment. There is a new normal. If leverage within the system can only grow in line with the economy in general, then cash-flow and yield take on an even more important dimension. The whole behavioural aspect that is inherent in every economic cycle will have a huge say. If 2010 is a tough year, then I'll be euphoric over prospects for the subsequent five. A tough year will tell me the message is sinking in. Balance sheets are being repaired. Savings rates are lifting. Resources are shifting from housing to more productive investment. This is not about denting property. It is about generating the most efficient allocation of capital and having a more diversified portfolio across NZ.Inc as opposed to 75 percent of our assets in the property basket. This is about setting the scene for a sustainable and robust expansion, which in turn makes property a better long-term investment. However, if we set the world on fire in the coming twelve months – with domestic consumption and property at the forefront, and momentum associated with the Rugby World Cup carries us through 2011 (provided we do not exit in the quarter finals or earlier!), then I'd put strong odds on a double-dip in 2012. Indeed we saw something similar post the 1997/98 recession with a second leg down in 2000.

Property investors should also be paying close attention to the spirit of the recommendations coming out of various taskforces and reviews. These include the 2025 taskforce, tax working group, regulatory review commission and capital markets development taskforce. Some are radical and politically unpalatable. But the spirit is clear: there is going to be change, and particularly as the Minister of Finance points out, New Zealand is going to achieve a "step change" in performance. So while we might be quick to rule out a capital gains tax, it is hard not to see some form of change pending. This is not anti-property. Ultimately, changes should be supportive of New Zealand's medium-term prospects in terms of a more efficient allocation of capital and better economic performance. Long-term this is property positive. But in the near-term it seems highly likely the

residential investment sector will get caught in the cross-fire to a degree. When you eye the massive losses that have been cumulating in the rental sector, it is hard to imagine some form of ring-fencing of those losses against personal income not occurring, or some other changes specifically targeted at property.



So as we progress into 2010 and read the media headlines about the economic recovery gaining momentum, just remember that there are still some hard yards to be done and issues to think about. The danger is that we allow ourselves to slip into complacency, learn nothing from the events of the past eighteen months, and return to our old ways. Given New Zealand's huge amount of untapped resources and potential, and the growing importance of Asia, there is a real opportunity to take things by the scruff of the neck and define NZ.Inc for the next fifty years. Or we can settle for the way things as they are but watch our kids depart for richer pastures.

Cameron Bagrie  
Chief Economist

## Statistical Annex

Weekly mortgage repayments table (based on 25-year term)

Mortgage Size (\$'000)	Mortgage Rate (%)													
	5.00	5.25	5.50	5.75	6.00	6.25	6.50	6.75	7.00	7.25	7.50	7.75	8.00	8.25
100	135	138	142	145	149	152	156	159	163	167	170	174	178	182
150	202	207	212	218	223	228	234	239	244	250	256	261	267	273
200	270	276	283	290	297	304	311	319	326	333	341	348	356	364
250	337	345	354	363	371	380	389	398	407	417	426	435	445	455
300	404	415	425	435	446	456	467	478	489	500	511	522	534	545
350	472	484	496	508	520	532	545	558	570	583	596	610	623	636
400	539	553	566	580	594	608	623	637	652	667	682	697	712	727
450	607	622	637	653	669	684	701	717	733	750	767	784	801	818
500	674	691	708	725	743	761	778	797	815	833	852	871	890	909
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600	809	829	850	870	891	913	934	956	978	1000	1022	1045	1068	1091
650	876	898	920	943	966	989	1012	1036	1059	1083	1108	1132	1157	1182
700	944	967	991	1015	1040	1065	1090	1115	1141	1167	1193	1219	1246	1273
750	1011	1036	1062	1088	1114	1141	1168	1195	1222	1250	1278	1306	1335	1364
800	1078	1105	1133	1160	1188	1217	1246	1274	1304	1333	1363	1393	1424	1454
850	1146	1174	1204	1233	1263	1293	1323	1354	1385	1417	1448	1480	1513	1545
900	1213	1244	1274	1306	1337	1369	1401	1434	1467	1500	1534	1567	1602	1636
950	1281	1313	1345	1378	1411	1445	1479	1513	1548	1583	1619	1655	1691	1727
1000	1348	1382	1416	1451	1486	1521	1557	1593	1630	1667	1704	1742	1780	1818

Housing market indicators for November 2009 (based on REINZ data)

	House prices (Ann % change)	3mth % chng	No of sales (s.a.)	Mthly % chng	Avg days to sell (s.a)	Comment
Northland	5.9	1.7	134	(+8%)	59	Selling prices hit an 18-month high of \$341,000
Auckland	10.6	4.2	2,078	(-1%)	33	The strongest annual gain in prices, hitting a new high
Waikato/BOP/Gisborne	5.9	0.7	750	(-2%)	43	The median days to sell shortened to a 2-year low
Hawke's Bay	-6.0	0.9	215	(-5%)	39	The annual change in prices is at an 8-month low
Taranaki	6.5	-0.4	155	(+0%)	43	Taranaki recorded a marked lengthening in time to sell
Manawatu-Wanganui	0.2	3.7	251	(-14%)	37	Monthly sale numbers slid to the lowest since January
Wellington	6.1	3.9	608	(-18%)	31	Recorded a fall in sale numbers, to an 8-month low
Nelson-Marlborough	-3.7	-0.4	184	(-9%)	31	Days to sell improved to the joint second lowest
Canterbury/Westland	3.2	5.0	780	(-18%)	33	Recent house prices gains, but a drop in sale numbers
Otago	7.6	5.0	230	(-5%)	34	The joint strongest rise in prices over past 3 months
Central Otago Lakes	-7.2	3.4	96	(+15%)	63	A rebound in sales, but the weakest annual price growth
Southland	10.3	-5.4	162	(+3%)	26	Back to being the region with the quickest time to sell
NEW ZEALAND	5.2	3.2	5,575	(-8%)	35	Housing market is showing tentative signs of softening

## Key forecasts

Economic indicators	Actual				Forecast					
	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11
GDP (Ann Avg % Chg)	0.0	-1.1	-1.8(f)	-2.0	-1.3	-0.2	1.0	1.9	2.4	2.5
CPI Inflation (%)	3.4	3.0	1.9	1.7	2.5	2.5	2.7	2.1	2.5	2.8
Unemployment Rate (%)	4.7	5.0	6.0	6.5	6.8	7.0	7.1	7.1	7.0	6.9
Interest rates	Actual				Forecast (end month)					
	Oct 09	Nov 09	Latest	Mar 10	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11	Sep 11
Official Cash Rate	2.5	2.5	2.5	2.50	3.00	3.75	4.25	4.75	5.25	5.50
90-Day Bank Bill Rate	2.8	2.8	2.8	2.8	3.6	4.2	4.7	5.2	5.7	5.8
Floating Mortgage Rate	6.9	6.9	5.8	6.0	6.5	7.3	7.8	8.3	8.8	9.0
1-Yr Fixed Mortgage Rate	5.6	6.1	6.1	6.2	6.8	7.2	7.6	8.0	8.4	8.4
2-Yr Fixed Mortgage Rate	6.6	7.1	7.2	7.3	7.6	7.9	8.3	8.7	9.0	9.0
5-Yr Fixed Mortgage Rate	8.4	8.7	8.7	8.7	8.8	8.8	8.9	9.2	9.4	9.4

**DISCLOSURE INFORMATION**

The Bank (in respect of itself and its principal officers) makes the following investment adviser disclosure to you pursuant to section 41A of the Securities Markets Act 1988.

The Bank (in respect of itself and its principal officers) makes the following investment broker disclosure to you pursuant to section 41G of the Securities Markets Act 1988.

**Qualifications, experience and professional standing****Experience**

The Bank is a registered bank and, through its staff, is experienced in providing investment advice about its own securities and, where applicable, the securities of other issuers. The Bank has been selling securities, and providing investment advice on those securities, to customers as a core part of its business for many years, drawing on the extensive research undertaken by the Bank and its related companies and the skills of specialised staff employed by the Bank. The Bank is represented on many bank, finance and investment related organisations and keeps abreast of relevant issues by running seminars and workshops for relevant staff and having its investment adviser staff attend external seminars where appropriate. The Bank subscribes to relevant industry publications and, where appropriate, its investment advisers will monitor the financial markets.

**Relevant professional body**

The Bank is a member of the following professional bodies relevant to the provision of investment advice:

- New Zealand Bankers Association;
- Associate Member of Investment Savings & Insurance Association of NZ;
- Financial Markets Operations Association; and
- Institute of Finance Professionals.

**Professional indemnity insurance**

The Bank (and its subsidiaries), through its ultimate parent company Australia and New Zealand Banking Group Limited, has professional indemnity insurance which covers its activities including those of investment advisers it employs.

This insurance covers issues (including 'prior acts') arising from staff fraud, electronic crime, documentary fraud and physical loss of property. The scope of the insurance also extends to third party civil claims, including those for negligence. The level of cover is of an amount commensurate with the size and scale of the Bank.

The insurer is ANZcover Insurance Pty Limited.

**Dispute resolution facilities**

The Bank has a process in place for resolving disputes. Should a problem arise, you can contact any branch of the Bank for more information on the Bank's procedures or refer to any of the Bank's websites.

Unresolved complaints may ultimately be referred to the Banking Ombudsman, whose contact address is PO Box 10-573, Wellington.

**Criminal convictions**

In the five years before the relevant investment advice is given none of the Bank (in its capacity as an investment adviser and where applicable an investment broker) or any principal officer of the Bank has been:

- Convicted of an offence under the Securities Markets Act 1988, or the Securities Act 1978 or of a crime involving dishonesty (as defined in section 2(1) of the Crimes Act 1961);
- A principal officer of a body corporate when that body corporate committed any of the offences or crimes involving dishonesty as described above;
- Adjudicated bankrupt;
- Prohibited by an Act or by a court from taking part in the management of a company or a business;
- Subject of an adverse finding by a court in any proceeding that has been taken against them in their professional capacity;
- Expelled from or has been prohibited from being a member of a professional body; or
- Placed in statutory management or receivership.

**Fees**

At the time of providing this disclosure statement it is not practicable to provide accurate disclosure of the fees payable for all securities that may be advised on. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

**Other interests and relationships**

When a security is sold by the Bank, the Bank may receive a commission, either from the issuer of a security or from an associated person of the Bank. Whether that commission is received and, if received, its value depends on the security sold. At the time of providing this disclosure statement it is not practicable to provide a detailed list of each security that may be advised on, the name of the issuer of that security and the rate of the commission received by the Bank. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

In addition to the interest that the Bank has in products of which it is the issuer, the Bank, or an associated person of the Bank, has the following interests or relationships that a reasonable person would find reasonably likely to influence the Bank in providing the investment advice on the securities listed below:

- ANZ Investment Services (New Zealand) Limited (ANZIS), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. ANZIS may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- UDC Finance Limited (UDC), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. UDC may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- The Bank has a joint venture relationship with ING (NZ) Holdings Limited (ING). ING and its related companies may receive remuneration from a third party relating to a security sold by the Investment Adviser.

**Securities about which investment advice is given**

The Bank provides investment advice on the following types of securities:

- Debt securities including term and call deposits, government stock, local authority stock, State-Owned Enterprise bonds, Kiwi bonds and corporate bonds and notes;
- Equity securities such as listed and unlisted shares;
- New Zealand and overseas unit trusts;
- Share in a limited partnership;
- Superannuation schemes and bonds;
- Group investment funds;
- Life insurance products;
- Derivative products including interest rate and currency forward rate contracts and options; and
- Other forms of security, such as participatory securities.

**PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY**

If you wish to pay investment money to the Bank you can do this in several ways such as by:

- Providing cash;
- Providing a cheque payable to the relevant product or service provider and crossed 'not transferable'; or
- Making an automatic payment or payment through another electronic delivery mechanism operated by the Bank.

Investment property (other than money) may be delivered to the Bank by lodging the relevant property (for example, share certificates) with any branch of the Bank offering a safe custody service, or by posting (using registered post) the documents or other property to a branch of the Bank, identifying your name, account number and investment purpose.

Any investment money lodged with the Bank for the purchase of securities offered by the Bank, its subsidiaries or any third parties will be deposited in accordance with your instructions, to your nominated

account or investment. Such money will be held by the Bank according to usual banking terms and conditions applying to that account or the particular terms and conditions relating to the investment and will not be held by the Bank on trust unless explicitly accepted by the Bank on those terms. Any investment money or property accepted by the Bank on trust will be so held until disbursed in accordance with your instructions. Any investment property lodged with the Bank will be held by the Bank as bailee according to the Bank's standard terms and conditions for holding your property.

**Record Keeping**

The Bank will keep adequate records of the deposit of investment moneys or property and all withdrawals and dealings with such money or property, using the account/investment number allocated to your investment. You may have access to those records upon request.

**Auditing**

The Bank's systems and operations are internally audited on a regular basis. The financial statements of the Bank and its subsidiaries are audited annually by KPMG. However, this does not involve an external audit of the receipt, holding and disbursement of the money and other property.

**Use of Money and Property**

Money or property held by the Bank for a specific purpose communicated to the Bank (e.g. the purchase of an interest in a security) may not be used by the Bank for its own purposes and will be applied for your stated purpose. No member of the Bank's staff may use any money or property deposited with the Bank, for their own purposes or for the benefit of any other person. In the absence of such instructions, money deposited with the Bank may be used by the Bank for its own purposes, provided it repays the money to you upon demand (or where applicable, on maturity), together with interest, where payable.

**DISCLAIMER**

The Bank does not provide investment advice tailored to an investor's personal circumstances. It is the investor's responsibility to understand the nature of the security subscribed for, and the risks associated with that security. To the maximum extent permitted by law, the Bank excludes liability for, and shall not be responsible for, any loss suffered by the investor resulting from the Bank's investment advice.

Each security (including the principal, interest or other returns of any security) the subject of investment advice given to the investor by the Bank or otherwise, is not guaranteed, secured or underwritten in any way by the Bank or any associated or related party except to the extent expressly agreed in the terms of the relevant security.

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