

PERSPECTIVE

NATIONAL BANK INSTITUTIONAL CORPORATE & COMMERCIAL



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GREAT RELATIONSHIPS SHINE AT TIMES LIKE THESE

Like the seasons, the business environment moves through cycles.

Right now, we've come to the end of a cycle of strong growth. The short-term outlook is for weaker demand and ongoing volatility in the world's financial markets until at least the end of this year. Businesses need to adjust to the increased risks that come with operating in a volatile market, and to position themselves to build wealth as the cycle turns up.

We're proud of our strong and enduring relationships with customers. Our Relationship Managers are the key with autonomous decision making on issues that other banks still send to head office.

When the business climate is booming, relationships are easy. But it's the challenging times, like now, when great relationships really show their value. We've outlined ways we can help you adjust to the new environment in this issue of Perspective.

Like all relationships, two-way communication is the key to a great banking relationship. If your Relationship Manager understands your business position, then he or she will be in a position to offer the best assistance from our many resources.

The maths of relationships is very simple – you get out what you put in. Now is a time when The National Bank has a lot to offer business people. Invest some time in your relationship with us, you may be pleasantly surprised by what you get back.

NIGEL WILLIAMS

Managing Director
Institutional Corporate & Commercial



SHOW ME THE MONEY: NAVIGATING FOR THE NEW CASH FLOW ENVIRONMENT

These times are a reminder that profit doesn't equal cash flow. But good cash flow management can certainly have an impact on the bottom line. Right now cash is king and deposits are earning strong returns, but for an increasing number of businesses, liquidity is the issue.

We should expect the current easing business environment to extend into 2009. Credit will continue to cost more and become more difficult to obtain. Doing business in this environment can be challenging but it also presents fresh opportunities and calls for a different approach to cash management.

Find opportunities in your cash flow cycle

Many businesses will find opportunities to maximise returns in their cash flow management. National Bank provides cash management specialists to assist companies find ways to better match the cycle of cash-in with the cycle of cash-out. With a little judicious management, many businesses have found that they can save thousands over the long term.

Maximise your deposits strategy

Having a more deliberate deposits strategy can also help companies maximise financial earning power. Deposit strategies are not just for companies that have large cash assets for long periods. Any company with significant monthly movements in cash can also look for ways to

maximise the interest earned by their short-term cash assets.

Relationship Managers have had many conversations with customers over recent months about the opportunity to boost income by committing deposit funds for relatively short periods. Premiums over on-call rates have led some customers to consider term deposits of between 14 and 90 days as an alternative.

See page 3 for how one National Bank customer is benefiting from a smart deposit strategy.

Prepare for opportunities with liquidity planning

Liquidity management is also important in the current environment. Credit is harder to come by than it has been over the past few years. Some companies have put in place pre-approved lines of credit as a liquidity management strategy. Their motivations vary; some anticipate the need to ride out a temporary dip in revenue as demand drops off. Others may be preparing themselves so they can move fast as opportunities to purchase assets or other businesses arise. As the cycle progresses and more companies need cash, we're likely to see more urgent asset sales. There could be well-priced opportunities for those with an eye for a strategic purchase.



Cameron Bagrie

ECONOMIC OUTLOOK: TOUGHER TIMES WILL SET THE SCENE FOR GROWTH

IT'S BEEN A TUMULTUOUS TIME FOR THE GLOBAL FINANCIAL MARKET, AND THE IMPACT IS OBVIOUSLY NOW SHOWING ON THE NEW ZEALAND ECONOMY, WRITES THE NATIONAL BANK'S CHIEF ECONOMIST, CAMERON BAGRIE.

The problem is that the transition to a more normal and healthy credit environment is going to take time and involve a fair degree of volatility.

So when, and how, does it all settle down? Macro conditions need to stabilise and the market needs to regain its confidence. Cash will not be put to work until confidence improves. This is a process that is likely to take time.

High cost of credit

The cost of credit is likely to remain high for some time. Financial intermediaries are paying more, so that means borrowers will too. Unfortunately for the New Zealand economy, the timing couldn't have been worse. We are now clearly seeing the housing slowdown filter into the general economy, and notably via small to medium sized businesses, a large portion of which are directly or indirectly exposed to the property market.

A slow adjustment

A key difference between this cycle and previous turns is where all the leverage resides. As the credit market tightens, the real economy must

de-leverage (reduce borrowings or increase assets) in line with what is happening in the financial system. As this is largely a household story, the de-leveraging is likely to be slow and elongated as precautionary savings are rebuilt. This means economic weakness is likely to last for a while.

Weak domestic demand

The housing market has come to the end of an up-swing, exacerbated by the ripple effects of finance company difficulties and commodity price increases. Watch out those businesses that are linked to the domestic economy – both spending and housing sides. However, those that have been cautious and are patient until late in the cycle will invariably get presented with opportunities as stressed pockets are forced to liquidate.

Light at the end of the tunnel for exporters

For exporters, the picture is a little more encouraging, although right now it may be difficult to see the light at the end of the tunnel. The current adjustment should see the value of

our currency re-rated downwards – although this has been a long time coming.

In summary, the outlook for the rest of 2008 is challenging as the global markets ride out the current adjustment. The end result will be a more robust environment for business and economic growth – but until then, get ready for more volatility in the financial markets, high interest rates and weaker domestic demand.

Amongst all the hurly burly, we also need to be mindful of a couple of dynamics. First, what we are going through is a standard business cycle. Booms are invariably followed by consolidation as the economy slows. Second, the adjustment will involve a major shift in growth within the economy. For too long, New Zealand has been reliant upon spending sides of the economy. The next few years will be underpinned by sectors exposed to generating earnings. The baton change will be painful in some areas but opportunistic in others.



Giorgio Canderle
General Manager and Finance Manager, Police and Families Credit Union

MAKING DEPOSITS WORK HARDER BOOSTS BOTTOM LINE

BY ADOPTING A SMART BUT SIMPLE APPROACH TO MANAGING ITS DEPOSITS, THE POLICE AND FAMILIES CREDIT UNION ADD THOUSANDS OF DOLLARS TO ITS BOTTOM LINE.

The deposit programme for the credit union, which has 19,000 members and assets of more than \$60 million, is operated Deputy General Manager and Finance Manager, Giorgio Canderle. The National Bank is the union's lead bank for term deposits.

Mr Canderle, who is responsible for investing a cash fund of \$18 million, says the credit union looks to maximise returns by taking a dollar cost averaging approach to managing its deposits.

"For liquidity purposes we break our investments down into equal tranches and have them maturing every second or third week, spread out over the whole year, up to 12 months in advance," Mr Canderle says.

"We don't try and ride the highs and lows of the interest market and have all our money turning over at the same time, rather we try and average out the returns."

Mr Canderle says common sense prevents him from being a purist in his approach. "If there is an obvious opportunity, a special rate that is way out of line from where the market is trending, we won't say 'no'," he says.

While the credit union generally fixes its investments for six to twelve months to maximise its return while retaining flexibility, Mr Canderle

says he will look at shorter terms depending on the interest rate trends.

"I have a formula I use to extrapolate trends and analyse if it's better to take a three month investment, capitalise the interest and reinvest rather than taking a six month term. At regular intervals through out the year, my National Bank cash manager and I test the assumptions of the model and its outcomes. This analysis assists me in the making of investment decisions."

Mr Canderle says.

By tightly managing its deposits, the credit union is aiming to make its money work harder and boost the union's bottom line.

"What it means is that at the end of each month we can enhance the overall returns by earning an extra few thousand dollars on our investments, it all adds to the bottom line and enables us to enhance the benefits we offer members."

Mr Canderle says.

National Bank cash management specialists help customers manage transactional banking and deposit funds. Legacy and trust management is another area we can help customers who need to balance security with flexibility. Contact your Relationship Manager to find out more.



INTRODUCING TIM SMYTH

The National Bank's new Corporate Banking Regional Executive for Auckland

Making it easier for businesses to have greater access to senior bankers is a priority for The National Bank's new Regional Executive for Auckland, Tim Smyth.

Tim, who was appointed in February, has responsibility for a team of seven corporate relationship managers operating from Taupo north.

"What I want to do is broaden and add depth to our relationship with our corporate customers in the top half of the North Island and make sure that our customers' funding and banking transaction needs are being met in the widest possible sense".

"My team place a lot of emphasis on the quality of its banking relationships. Many of our customers have a strong affinity with The National Bank, but this needs to be constantly refreshed. Senior management making the effort to be accessible is a big part of that." Tim, 49, has had nearly a quarter of a century of experience in the banking industry both in New Zealand and across the Tasman. "I started with UDC in 1983 and spent five years at the real nuts and bolts end of business arranging financing deals for trucks, tractors, printing presses and the like."

Tim also spent fifteen years working in Capital Markets in Auckland, Wellington and Melbourne, followed by a period in a specialist financing role.

Immediately prior to taking up his current position he was a senior Relationship Manager for The National Bank.



Nigel Gaudin

HELP YOURSELF TO A BIGGER SLICE OF THE PIE

Looking for a flexible investment option with a good risk return profile and tax advantages?

If so, then New Zealand's first readily accessible Portfolio Investment Entity (PIE) investment, the National Bank Call Fund is worth considering.

As a PIE fund, income from the investment is taxed at your prescribed investor rate to a maximum of 30%, making it attractive to anyone on the top marginal income tax rate, The National Bank's Head of Deposits, Nigel Gaudin says.

"If you are on the 39% rate, the Call Fund's current return of 8.10% per annum provides the same after tax return as a bank account paying 9.30% per annum before tax," Nigel says.

"And you can invest in or withdraw from the Call Fund in a similar way that you would with your savings and transaction accounts. The Fund is integrated with our existing banking systems meaning your investment is readily accessible via Internet, phone or at any National Bank branch," Nigel says.

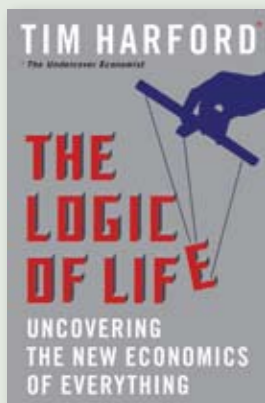
While there is a minimum investment requirement of \$5,000, there's no fixed term requirement and no entry, exit or management fees. Income from the Call Fund is distributed quarterly.

Visit www.nationalbank.co.nz for more information or speak to your Relationship Manager.

A copy of the Investment Statement (and application form) and a disclosure statement prepared under the Securities Markets Act 1988 are available from www.nationalbank.co.nz or from any National Bank branch, or phone 0800 80 11 88.

Important information

ANZ Investment Services (New Zealand) Limited is the issuer/manager of the National Bank Call Fund. The National Bank of New Zealand, part of ANZ National Bank Limited is the distributor of units in the Fund. Units in the Fund do not represent deposits or other liabilities of ANZ National Bank Limited. An investment in the Fund is subject to investment risk, including possible delays in repayment and loss of income and principal invested and is not guaranteed by any person. The rate of return is subject to change without notice.



WIN 'THE LOGIC OF LIFE'

We're interested in your thoughts on the issues we've raised in this issue of Perspective. Drop us a line with your comments, or ideas for other topics you'd like us to cover in future issues.

Four respondents will be drawn at random to receive a copy of the 'Undercover Economist', Tim Harford's new book 'The Logic of Life'.

With this book Tim Harford aims to persuade us that the most apparently illogical choices comply with economic logic, always taking account of future costs and benefits. His anecdotes throw new light on buyer behaviour.

To enter the draw to win 'The Logic of Life' email perspective@nbnz.co.nz with your comments by 15 August 2008.



The National Bank
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