



An unchained melody

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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 we present a graphical summary of the pulse of the housing market as we head into 2010.

The month in review (page 2)

- > We noted last month that the housing market was losing momentum, and this trend has continued. Official data is showing a slowdown in mortgage lending over the end of last year, which has extended to weaker approvals to date. With property tax changes for housing in the pipeline, we expect more of the same over the coming months.

Property gauges (page 3)

- > The housing market has been cooling for three months. More recent RBNZ weekly housing loan approval data suggests that a further loss of momentum occurred in February. A rise in emigration to Australia could be a further negative factor for the housing market.

Economic backdrop (page 5)

- > The economic recovery remains patchy, but we'd still characterise it as being on track. The missing ingredients to a self-sustaining recovery remain investment and employment. While we expect both to progressively come to the fore, a backdrop of de-leveraging means a more lagged response relative to historical experience, resulting in a slower recovery process. We characterise the cycle as navigating "a bathtub with waves" and we fully expect more ups and downs.

Mortgage borrowing strategy (page 6)

- > A loss of momentum across the economy supports our view that the RBNZ has time on its side and will be in no rush to raise the Official Cash Rate soon. That said, we do expect rates to move up over 2010, but the relative cost of choosing a long-term fixed rate gives little incentive for borrowers to move into fixed rates in anticipation.

Feature article –the property market in pictures (page 7)

- > We present a graphical analysis of several key variables that are connected to the real estate market and add a brief interpretation of their reading at this juncture in the economic cycle.

Key forecasts (page 11)

The month in review

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You never open your eyes anymore when the open home is on your lips.

And there's no construction like before in builders fingertips.

They're trying hard not to grow it, (baby).

But baby, baby I loan it...

We've lost that lived in feeling.

- > **REINZ housing data – January.** House sales fell 17 percent in January, based on our seasonally adjusted estimates. This is the largest monthly fall since March 2008. Adjusting for the size of the housing stock, housing turnover, which had been recovering off extreme lows since early last year and is close to the lows reached in early 2009. Days to sell was steady at 36 days (seasonally adjusted), while the stratified house price inched up 0.3 percent in January, according to our seasonally adjusted estimates. The stratified house price measure has been around the same level since October last year.
- > **SNZ Building Consents – December.** The number of building consents dropped 2.4 percent in December. The decline in ex-apartment consents was less stark at -1.4 percent. This is a volatile series, and we won't be reading too much into it at this stage. We still expect building consents to recover over the first half of this year, and for residential investment to stage a strong cyclical rebound. Commercial consents have held up, due to government related activity (hospitals, education buildings etc). Private commercial consents remain weak, and we expect the trend to continue. This sets the stage for weakness in non-residential investment over the first half of the year.
- > **RBNZ Mortgage Lending – December.** Housing credit growth posted a 0.2 percent increase in December. Combined with a flat outturn for November, this confirms that the pace of lending has slowed from a string of 0.3 percent monthly rises since July.
- > **RBNZ Weekly Housing Loan Approvals – Early February.** Housing loan approvals data collected by the RBNZ have been very slow over the year to date, much lower than in previous years. They suggest that after a recent strong run, the housing market is pausing for a break.
- > **The Prime Minister's Speech at the opening of Parliament –** The PM's much anticipated speech outlined the Government's programme for 2010. The main points regarding taxation included: a potential rise in GST to 15 percent, lower income tax, the ruling out of a land tax and capital gains tax but the flagging of ceasing depreciation allowances to property investors. Details remain scant but the message is clear – changes are afoot.

Assessment

House prices may still be up 7.7 percent on a year ago but the market is now slowing rapidly. The initial rebound was a response to low interest rates, but what is becoming clear is that in an environment of subdued credit growth and de-leveraging, the market does not have the capacity to kick on. With pending changes to the tax treatment of housing, 2010 is shaping up to be a challenging year.

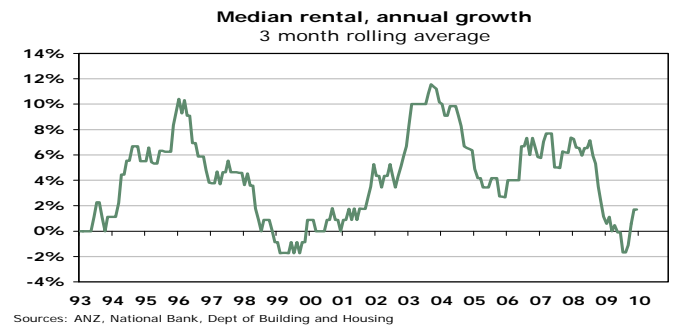
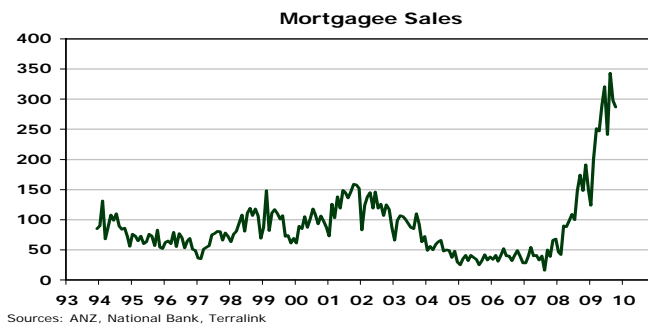
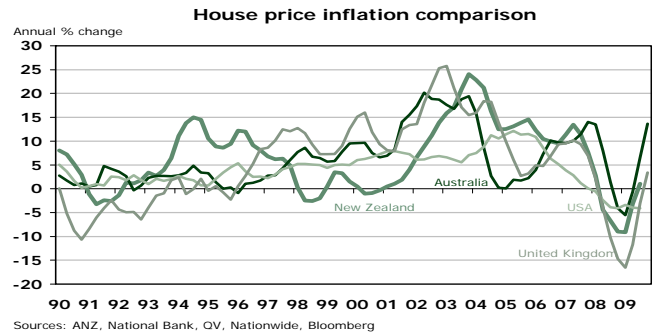
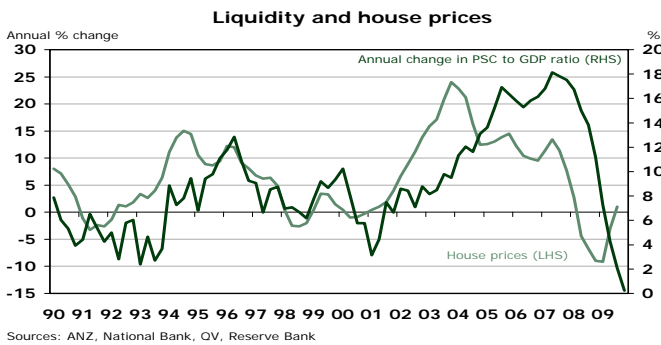
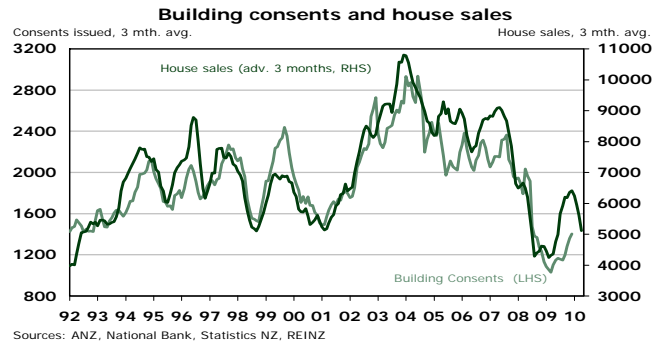
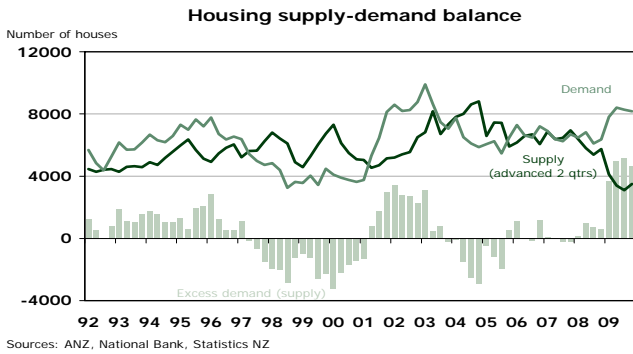
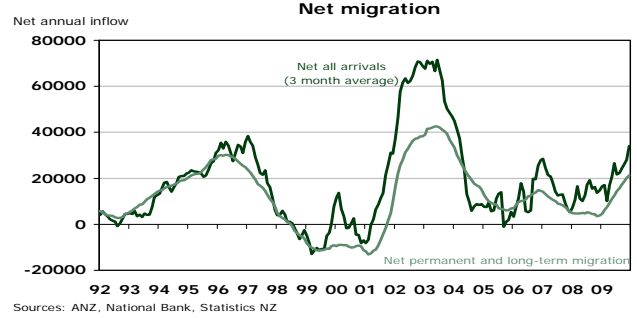
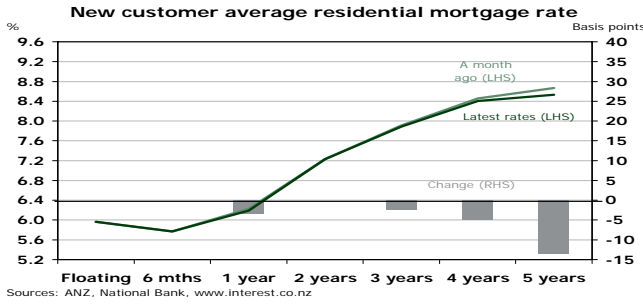
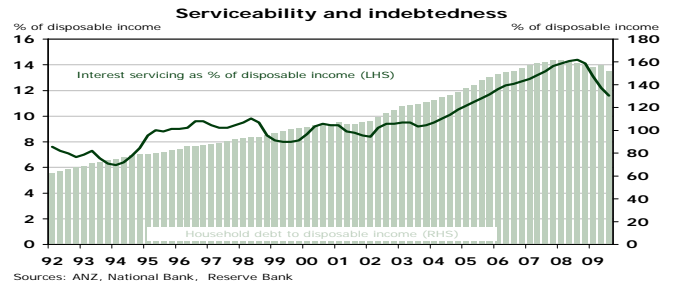
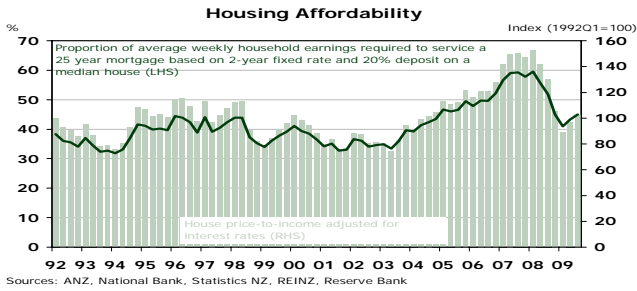
Property gauges

The housing market has been cooling for three months. More recent RBNZ weekly housing loan approval data suggests that a further loss of momentum occurred in February. A rise in emigration to Australia could be a further negative factor for the housing market.

We use ten gauges to assess the state of the property market, and for signs that changes 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	↔	Back to more normal levels but on a slippery slope.
Serviceability / indebtedness	High but easing	↓	Improving.
Interest rates	Nudging up	↔/↓	Some action at the longer end of the curve.
Migration	Building	↑	A source of increasing population that needs to be housed.
Supply-demand balance	One sided	↔/↑	A wide gap that's starting to narrow.
Consents and house sales	Glimmer of hope	↔/↑	House sales plummeted while consents are lifting off a low base.
Liquidity	Still a way to go	↓	Credit remains a constraint.
Globalisation	A deep hole to recover from	↓	Passed the worst but still a long way to go.
Mortgagee sales	Off its high	↓	Off its high but remains elevated.
Median rent	Ticked up	↓	A modest rise.
On balance		↓	Jittery times ahead.



Economic backdrop

The economic recovery remains patchy, but we'd still characterise it as being on track. The missing ingredients to a self-sustaining recovery remain investment and employment. While we expect both to progressively come to the fore, a backdrop of de-leveraging means a more lagged response relative to historical experience, resulting in a slower recovery process. We characterise the cycle as navigating "a bathtub with waves" and we fully expect more ups and downs.

Our core economic view

The New Zealand economy remains on track for further recovery in 2010. Business confidence is up and financial conditions are supportive. **But let's put the rebound in perspective.** While cyclical factors are strongly supportive, any rebound is coming after a prolonged downturn (the "base effect") and positives are tempered by negative structural factors – the most critical being joblessness and indebtedness. So **any recovery is not going to feel like one.** A recovery without jobs is a recovery without spending, and it's only made worse if households elect to pay down debt. The latter (and an improving household savings rates) is a pre-condition for a self-sustaining recovery. But in the meantime the process itself leaves the economy void of strong cyclical momentum.

We have already a raft of sub-par economic indicators in 2010. The unemployment rate has risen, housing has lost momentum and retailing remains patchy. We're not getting overly excited by this loss of momentum. We were at the conservative end anyway and **our core view of the recovery process can be characterised as a "bathtub with waves" shaped cycle:** ups and downs over the coming year.

Recent ructions around the globe are illustrative of structural headwinds. There is no doubting that the tone of global data is improving (albeit off a low base). But recovery is moving policymakers closer towards implementing the so-called exit strategies, structural changes to cap leverage and of course populist decisions (as opposed to leadership decisions) risk coming to the fore in some regions. Governments have also taken on significant debt over the past 18 months, and are now being forced to cut spending, raise taxes and reduce benefit entitlements. Governments can no longer be relied on to support growth, and are now looking for payback. Markets are looking at 2011, and are questioning whether there has been sufficient de-leveraging for policy support to indeed be unwound. In the meantime it's a tug-of-war between equity markets, whose valuations are partly based on expectations of extended stimulus, but policy stimulus that must cease at some stage if lessons have been learnt. We fully expect such tensions to manifest in continued volatility.

Turning back to New Zealand, apart from a somewhat uncertain and fragile global scene, the missing ingredients to a self-sustaining recovery remain investment and employment. While we expect both to progressively come to the fore, a backdrop of de-leveraging means a more lagged response relative to historical experience. So while we are comfortable with a "positive" outlook over 2010, we are also of the view that this cycle is "different". The term "this time is different" is typically uttered after each downturn, and rebounds have tended to show otherwise. This time around, the combination of household indebtedness and pending structural change give us a lot of confidence that this recovery process is indeed "different".

Mortgage borrowing strategy

A loss of momentum across the economy supports our view that the RBNZ has time on its side and will be in no rush to raise the Official Cash Rate soon. That said, we do expect rates to move up over 2010. However, the relative cost of choosing a long term fixed rate gives little incentive for borrowers to move into fixed rates in anticipation.

Our view

Once again we find ourselves sticking to our familiar script of favouring short-term rates.

The major news over the month has been the loss of momentum across the economy. A sharp lift in the unemployment rate, rapidly weakening housing activity and patchiness across the economy in general has all but eliminated talk the RBNZ could be raising the Official Cash Rate (OCR) any time soon. We concur with this, and being at the more conservative end on the growth front anyway see little reason to reassess following the run of poor data: the consensus was simply too optimistic.

We still expect the OCR to move up in 2010. Despite softening in momentum, there are still grounds for an eventual rise in interest rates. Momentum across the economy is slowly improving, inflation pressures are still apparent in some pockets and rates (the OCR) do sit at exceptionally low levels, so there is a natural bungee-cord dynamic at work. However, given the loss of momentum and weakness in the labour market, we see June as being the earliest the RBNZ could consider raising rates. At present we're giving serious thought to the prospect of the RBNZ taking a complete holiday for 2010. This reflects a degree of discomfort we have towards the global scene, patchiness we are seeing locally and flow-on from headwinds including commercial property over the year ahead. But at this stage it's musings and where the risk profile resides as opposed to our central view.

For borrowers, patience remains the order of the day. Nuances in previous borrower strategies still apply.

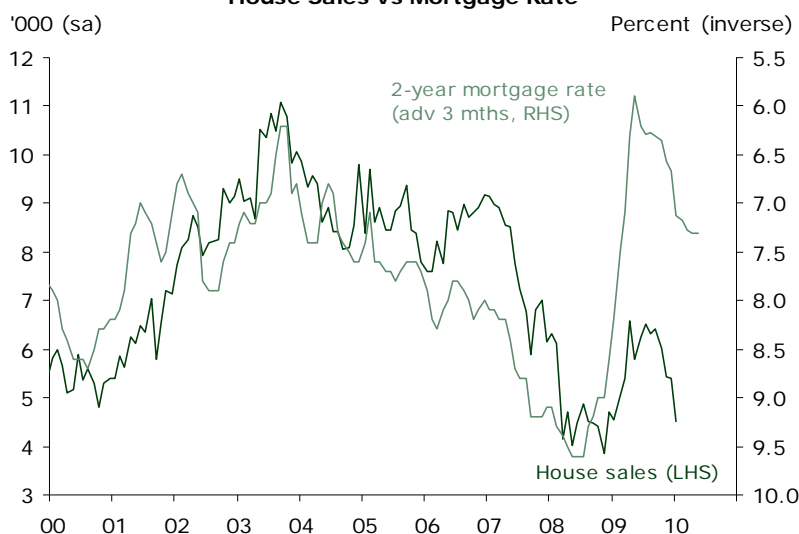
- **Long term fixed rates contain a funding (read deposit war) premium.** This has steepened the curve (i.e. increased the gap between short and long term rates) and is not set to disappear any time soon. This means great deals for investors at the long end of the curve but the reverse for borrowers. This doesn't mean borrowers should shun longer-term rates, it all depends on individual circumstances. But you need to accept that locking in certainty now carries significant additional cost.
- **The OCR will move up at some stage, but will remain low relative to history.** With the curve so steep, short-dated borrowing is flavour of the day. This will of course give monetary policy considerable traction when rates do move up, which carries the implication that the RBNZ will not need to raise them as much. To break even on a 3 year rate of 7.99 percent, you would have to see the floating rate (currently 5.69 percent) average 7.99 percent over the next 3 years. If the RBNZ hike the OCR by 25bps per quarter starting in June, that would amount to 275bps of rate hikes in total over the next 3 years. If floating rates moved in step, they would rise to 8.44 percent. However because this occurs only gradually, the average floating rate over that time is only 7.07 percent – much less than the 3 year fixed rate. We doubt the housing market could sustain 275 basis points of hikes, hence our preference for floating rates.

Feature article –the property market in pictures

We present a graphical analysis of several key variables that are connected to the real estate market and add a brief interpretation of their reading at this juncture in the economic cycle.

In this commentary, we look at the current pulse of the housing market. As the old saying goes, ‘a picture paints a thousand words’, so we’ll keep the text short and let the charts do most of the talking.

House Sales vs Mortgage Rate



Sources: ANZ, National Bank, REINZ, RBNZ

Mortgage rates hit an 11-year low early in 2009. The real estate market responded with a rise in the number of sales.

Mortgage rates have since moved higher, particularly for longer fixed rates. Partly as a consequence of this, the number of house sales has fallen over recent months. More recent RBNZ weekly housing loan approval data suggests that the slump may not be a one-off.

House Sales vs Days to Sell

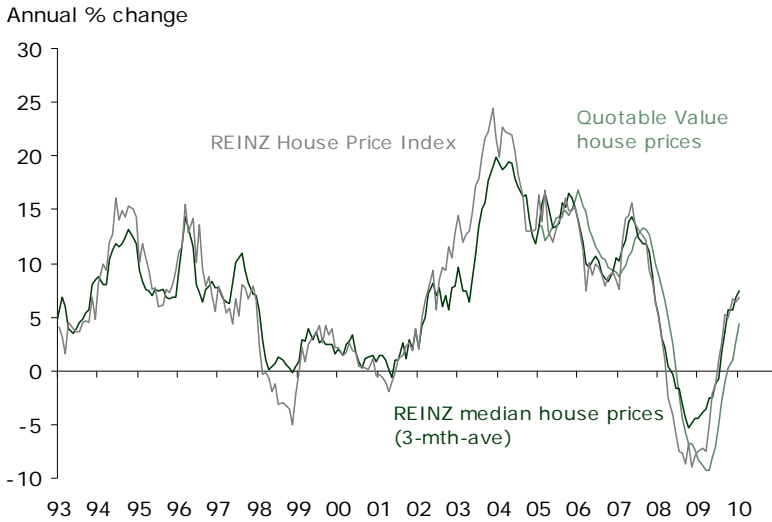


Sources: ANZ, National Bank, REINZ

Last year the property market posted a solid rebound in sale numbers, which also translated into a reduction in the median time to sell.

However, figures since October indicate that the property market has cooled. The most recent data for January has seen a sharp slowing in the number of sales (down 17 percent monthly s.a.), whereas the median days to sell was unchanged.

REINZ and QV House Prices

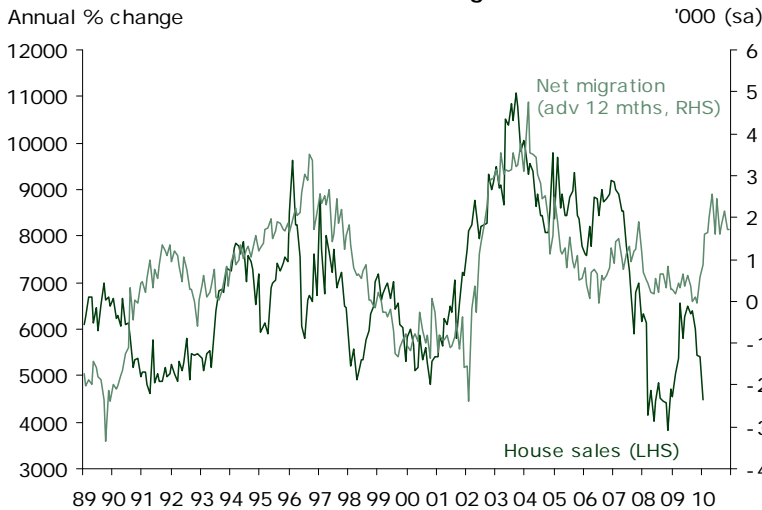


Sources: ANZ, National Bank, REINZ, Quotable Value

The REINZ house price index registered a 0.3 percent seasonally adjusted monthly fall in January. Prices have been virtually static since October. Compared to a year earlier they have risen nearly 7 percent.

In the December *Monetary Policy Statement*, the RBNZ forecast house prices to rise by 12 percent by March 2010, and a further 2 percent by March 2011. Data to date indicate the house price slowdown is likely to have occurred sooner than the RBNZ would have expected at that time.

House Sales vs Net Migration

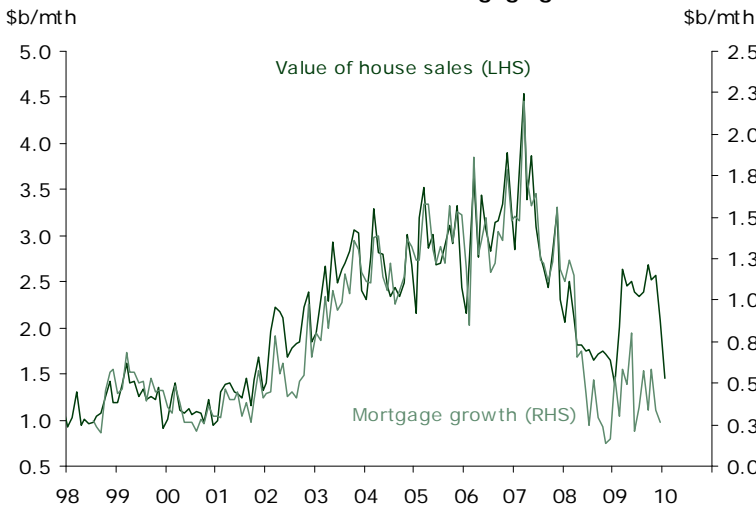


Sources: ANZ, National Bank, REINZ, Statistics NZ

Net migration is a key variable to keep an eye on. Recent migration data has strengthened, and this will have a positive influence on the demand for housing.

Much of the strength of recent net immigration is attributable to a low number of PLT departures. Over 2010 and beyond, we expect to 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.

Value of house sales and mortgage growth

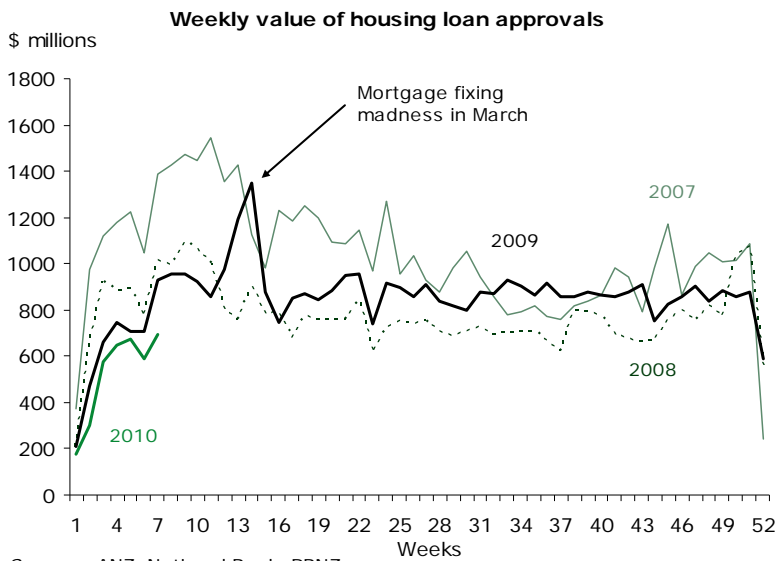


Sources: ANZ, National Bank, REINZ, RBNZ

Lower mortgage lending rates have rekindled activity in the housing market, but a major constraint is the availability of credit.

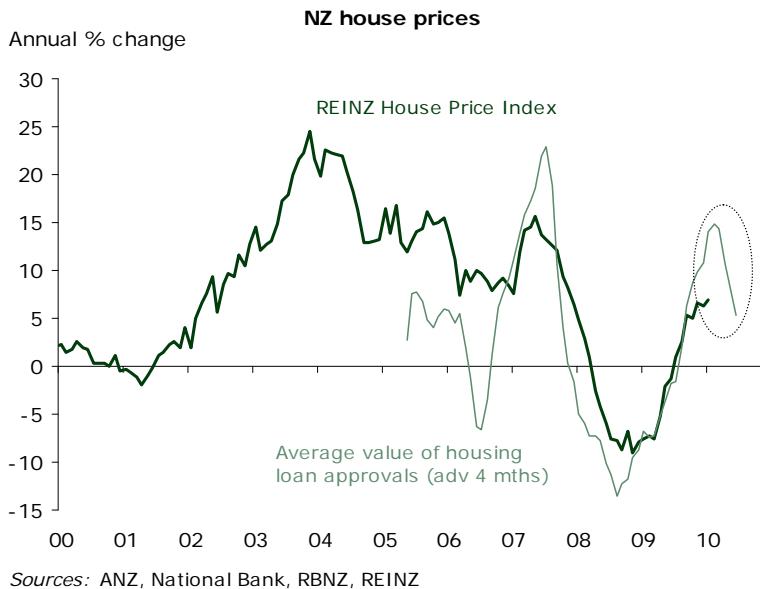
This constraint will be helping to allay part of the RBNZ's fears over resurgent house prices, flowing through into consumer spending.

The question of whether the divergence between credit growth and housing activity closes, and how, is still an open question. To date, household credit growth has been subdued.



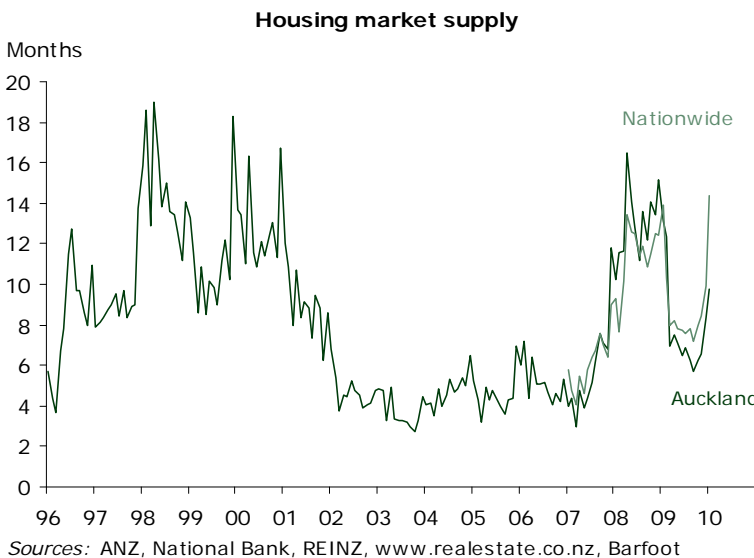
One of the more timely indicators of the real estate market is a weekly series of housing loan approvals collected by the Reserve Bank of New Zealand.

The level of lending for housing traditionally dries up over the first few weeks of the calendar year. 2010 is off to a very weak start, compared to the previous three years that the data has been collected.



The rate of increase in the average value of housing loan approvals has turned.

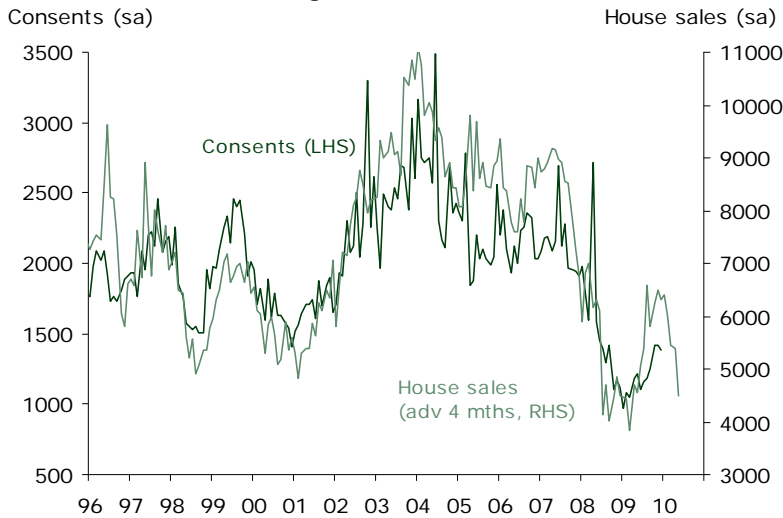
While the historical relationship with house prices is not the best, it has given decent leads on turning points. Based on this, the house price increases of late may be close to coming to an end. Although still early days, there is a growing prospect that the housing market goes through a "W" shaped cycle.



New property listings eased slightly in January. However, as the actual number of nationwide sales were low the stock of listings increased to their highest since early 2009.

Based on January sales, it would take more than 14 months to clear the number of properties for sale nationwide. For Auckland, available listings climbed to around 10 months of sales.

Building Consents and House Sales

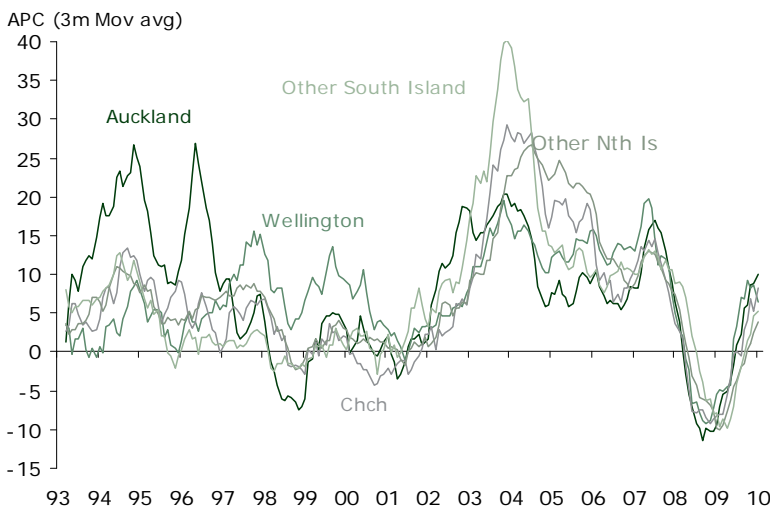


Sources: ANZ, Statistics NZ, REINZ

The pick-up in building consents appears to have stalled. This is likely to be a consequence of much lower housing turnover and a higher stock of existing houses for sale.

The prospect of higher interest rates (on top of the increases already seen in longer dated rates), a possible pick-up in emigration to Australia and a still weak labour market will continue to be major headwinds facing the housing market.

House Price Growth by Region (Annual % Change)

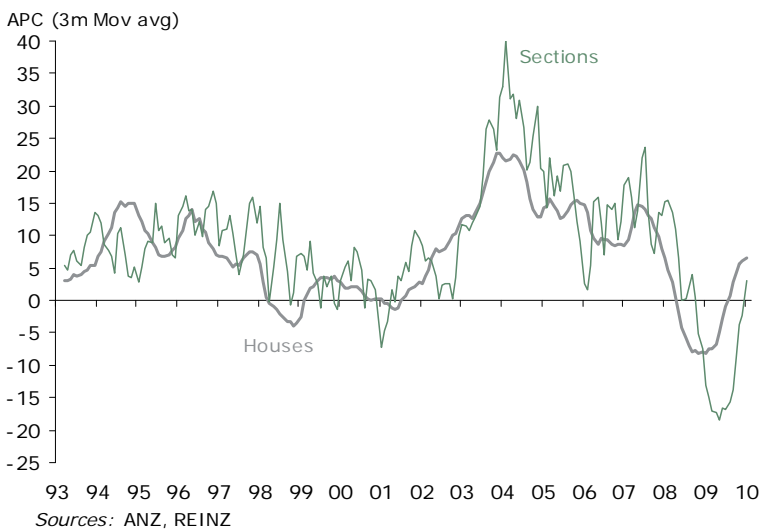


Sources: ANZ, REINZ

The REINZ stratified house price index is also compiled on a broad regional basis: the three largest cities and the remainder of each island.

All of the five regions have posted a strong rebound from the softness reported in 2008/09. Currently, the fastest growing region is Auckland, hitting a double-digit rate of increase of 10.1 percent. Wellington peaked at 9.3 percent in October and has since eased back to 6.4 in January.

House vs Section Price Growth (Annual % Change)



Sources: ANZ, REINZ

A stratified section price index is also reported by the REINZ. Section prices are typically a lot more volatile than house prices, as the opposite chart shows.

The aggregate section price series has only just returned to positive territory, after plunging to a low of -19 percent in May 2009.

Statistical Annex

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

Mortgage Size (\$000)	Mortgage Rate (%)														
	5.75	6.00	6.25	6.50	6.75	7.00	7.25	7.50	7.75	8.00	8.25	8.50	8.75	9.00	
100	145	149	152	156	159	163	167	170	174	178	182	186	190	194	
150	218	223	228	234	239	244	250	256	261	267	273	279	284	290	
200	290	297	304	311	319	326	333	341	348	356	364	371	379	387	
250	363	371	380	389	398	407	417	426	435	445	455	464	474	484	
300	435	446	456	467	478	489	500	511	522	534	545	557	569	581	
350	508	520	532	545	558	570	583	596	610	623	636	650	664	677	
400	580	594	608	623	637	652	667	682	697	712	727	743	758	774	
450	653	669	684	701	717	733	750	767	784	801	818	836	853	871	
500	725	743	761	778	797	815	833	852	871	890	909	928	948	968	
550	798	817	837	856	876	896	917	937	958	979	1000	1021	1043	1064	
600	870	891	913	934	956	978	1000	1022	1045	1068	1091	1114	1137	1161	
650	943	966	989	1012	1036	1059	1083	1108	1132	1157	1182	1207	1232	1258	
700	1015	1040	1065	1090	1115	1141	1167	1193	1219	1246	1273	1300	1327	1355	
750	1088	1114	1141	1168	1195	1222	1250	1278	1306	1335	1364	1393	1422	1451	
800	1160	1188	1217	1246	1274	1304	1333	1363	1393	1424	1454	1485	1517	1548	
850	1233	1263	1293	1323	1354	1385	1417	1448	1480	1513	1545	1578	1611	1645	
900	1306	1337	1369	1401	1434	1467	1500	1534	1567	1602	1636	1671	1706	1742	
950	1378	1411	1445	1479	1513	1548	1583	1619	1655	1691	1727	1764	1801	1838	
1000	1451	1486	1521	1557	1593	1630	1667	1704	1742	1780	1818	1857	1896	1935	

Housing market indicators for January 2010 (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	12.0	3.0	108	(-9%)	47	A single-digit drop in sales but double-digit rise in prices
Auckland	6.6	1.0	1,568	(-19%)	30	The second fastest location to sell a house in January
Waikato/BOP/Gisborne	5.3	1.1	651	(-13%)	48	The average selling price hit an 18-month high
Hawke's Bay	7.5	5.7	160	(-14%)	46	The strongest rate of price growth over the past 3 mths
Taranaki	4.2	5.0	222	(-3%)	42	The smallest decline in sale numbers was noted here
Manawatu-Whanganui	12.4	-1.2	131	(-16%)	33	The second strongest annual rise in house prices
Wellington	3.7	-2.6	531	(-10%)	36	Posted the largest price drop over the last three months
Nelson-Marlborough	11.6	3.6	174	(-11%)	36	All indicators close to or above national average
Canterbury/Westland	12.1	2.7	610	(-23%)	34	The seasonally adjusted median sale price hits a high
Otago	17.9	1.1	53	(-37%)	62	Prices up but sales down and a long time to sell
Central Otago Lakes	-9.6	1.4	174	(-25%)	35	The only region to register an annual drop in prices
Southland	4.2	-2.0	109	(-28%)	26	Where you find the shortest time to sell a house
NEW ZEALAND	7.8	1.5	4,501	(-17%)	36	The real estate market paused for a breather in January

Key forecasts

Economic indicators	Actual			Forecast						
	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11	Sep 11
GDP (Ann Avg % Chg)	-2.1	-2.2	-1.5f	-0.3	0.8	1.8	2.2	2.4	2.5	2.8
CPI Inflation (%)	1.9	1.7	2.0	1.9	2.0	1.6	2.7	3.0	3.3	3.1
Unemployment Rate (%)	6.0	6.5	7.3	7.5	7.5	7.3	7.0	6.9	6.8	6.7
Interest rates	Actual			Forecast (end month)						
	Dec 09	Jan 10	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	2.75	3.25	3.75	3.75	4.25	4.75
90-Day Bank Bill Rate	2.8	2.8	2.7	2.8	3.2	3.7	4.1	4.1	4.9	5.1
Floating Mortgage Rate	6.9	5.8	6.0	6.2	6.5	7.0	7.5	7.5	8.0	8.5
1-Yr Fixed Mortgage Rate	6.1	6.1	6.2	6.3	6.7	6.9	7.0	7.1	7.8	8.0
2-Yr Fixed Mortgage Rate	7.1	7.2	7.2	7.3	7.5	7.7	7.8	8.0	8.6	8.7
5-Yr Fixed Mortgage Rate	8.7	8.7	8.5	8.6	8.7	8.7	8.9	9.0	9.2	9.3

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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