Property Focus

New Zealand

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More or Less?

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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 weigh up whether there is a housing shortage.

The month in review (page 2)

> Low interest rates and recent increases in net migration are providing support to the housing market as the bungy-cord kicks in.

Property gauges (page 3)

> Property indicators continue to improve. Home owners and potential buyers are expecting the improvement to continue and are locking mortgage rates in. Fixed mortgage rates are lifting as the underlying cost of funds rise in anticipation of a general lift in interest rates as the economy recovers.

Economic backdrop (page 5)

> There is a lot of tension within the economy. A better feel-good factor has developed of late – both globally and domestically. Confidence is a powerful dynamic that can take hold quickly and unleash pent-up demand. The housing market is very influential in this regard. Against this backdrop we still see a balance sheet constraint for NZ.Inc as very influential and it is untenable to imagine NZ borrowing and spending its way out of a debt-fuelled jam. We are not buying into a V shaped recovery but are torn between a bathtub with waves, and explicit double dip. If housing does lead us out, the latter looks inevitable.

Mortgage borrowing strategy (page 6)

> In the current steep yield curve environment we continue to favour keeping our borrowing profile short. While there is no doubt at some stage borrowers will end up paying more as circumstances change, in an environment where the yield curve is set to remain positive sloping on average, your average cost of borrowing across the cycle will be lower by targeting short-term rates.

Feature article – The binding constraint? (page 8)

> Two views are emerging towards the property market. The first focuses on a perceived supply-demand situation creating a mini-price boom. The second focuses on a balance sheet constraint for NZ.Inc and likely steps by policymakers to restrain how far the property market (prices) can lift. We are firmly siding with the latter as the more binding influence.

Key forecasts (page 11)

The month in review

Low interest rates and recent increases in net migration are providing support to the housing market as the bungy-cord kicks in.

Eyeing up another slice of the cake.

> **REINZ housing data – July.** Seasonally adjusted house sales volumes rose a further 4.6 percent in July to be up 34 percent on a year ago and to the highest levels since November 2007. Median days to sell (seasonally adjusted) fell to 36 days, the lowest since September 2007. Median house prices held steady at $340,000 or flat on a year ago.

Less is more.

> **Net Migration – June.** Another solid monthly net migration inflow was recorded in June, with a seasonally adjusted 1,730 people arriving. This follows net increases exceeding 1,500 for the past five months and takes the 12-month total to 12,515 and the 3-mth annualised level to an impressive 25,680. The latter is broadly unchanged from May's level. The number of permanent departures was broadly unchanged from the level recorded in May and is hovering around similar levels recorded in early 2004, although departures to Australia continues to fall. Interestingly, the big move in the month was a reasonable fall in the number of permanent arrivals.

> **Mortgage rates**. Fixed-rate mortgage rates posted further rises over the month. The latest rise was in response to the improving data and sentiment, which has brought forward expectations of a down stream interest rate tightening increasing the underlying cost of funds. A similar impact has occurred in Australia, with the ripple effects from improving conditions on that side of the Tasman beginning to be felt here.

Mortgage lending goes on a diet.

> **Mortgage Lending – June.** RBNZ data shows total household claims rising just 0.1 percent in June following a 0.4 percent increase in May. Considering the rebound seen in housing market activity, this appears to be a reasonably soft result. Non-bank financials continue to reduce the size of their balance sheets, with total household claims by this sector contracting a further $200m in the month to the lowest levels since October 2005. On the whole, despite a pick up in housing market activity, credit growth remains subdued highlighting a de-leveraging dynamic that is still very present.

Last notch in the belt?

> **Building Consents – June.** Residential consent issuance fell 9.5 percent, driven by a drop in apartment consents. Excluding apartments the level of consent issuance rose 3.0 percent. The level of consent issuance remains at exceptionally weak, with levels last seen in the 1970s.

Assessment

The NZ economy looks to be emerging from recession and a recovering housing market – off lows – has been a key feature of the improvement. Support continues to emerge from low interest rates as previously high fixed rates roll-off and migration gains (less New Zealanders leaving). However, challenges remain with the unemployment rate moving up from 5 to 6 percent in the June quarter – a movement never seen before. Moreover, mortgage rates continue to rise and it’s clear that borrowers are now “paying” for the certainty that locking in for long-term can bring.

Debate towards the housing market is raging on two levels. Is it a case of a perceived housing shortage set to force up prices? Or will steps by policymakers and the balance sheet constraint for NZ.Inc prove more binding? We are firmly siding with the latter.

Property gauges

Property indicators continue to improve. Home owners and potential buyers are expecting the improvement to continue and are locking mortgage rates in. Fixed mortgage rates are lifting as the underlying cost of funds rise in anticipation of a general lift in interest rates as the economy recovers.

We use eight 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.

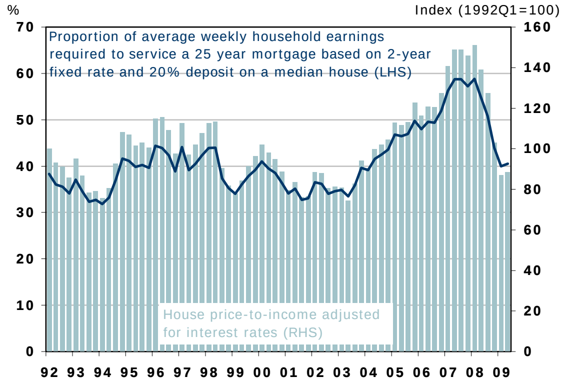
> **Liquidity.** We look at growth in Private Sector Credit relative to GDP to assess the availability of credit in supporting the property market.

> **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.

The bottom line from today's numbers is that yes, migration is a positive for the economy and will provide support to both the housing market and spending, and in particular the Auckland region. However, some uncertainty remains whether the recent size of these net migration gains can be maintained. Nevertheless, migration is a reason (along with signs of stabilisation in other pockets) that suggest the RBNZ is on hold.

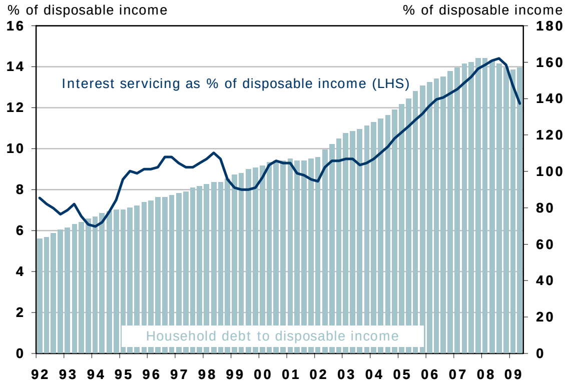
Indicator	Level	Direction for prices	Comment
Affordability	Troughed?	↔	Housing affordability hasn't felt this slim for a number of years. With record low interest rates could affordability be anything else?
Serviceability / indebtedness	Deflating	↓	The first losses are the easiest. But still a way to go.
Interest rates	Inching up	↔/↓	Moving up a dress size.
Migration	Consolidating	↑	A moment on the lips, a lifetime off the ships.
Supply-demand balance	One sided	↔/↑	The scales don't lie – at least when looking at the static as opposed to cumulative picture.
Consents and house sales	Glimmer of hope	↔/↑	Improving house sales is starting to rub off onto consent issuance.
Liquidity	Still a way to go	↓	Liquidity is still in the positives but given its lagging nature don't expect this to continue.
Globalisation	A long drop	↓	Expect a prolonged session on the treadmill.
On balance		↓	**Join "wait-watchers" and get the results you want.**

Housing Affordability



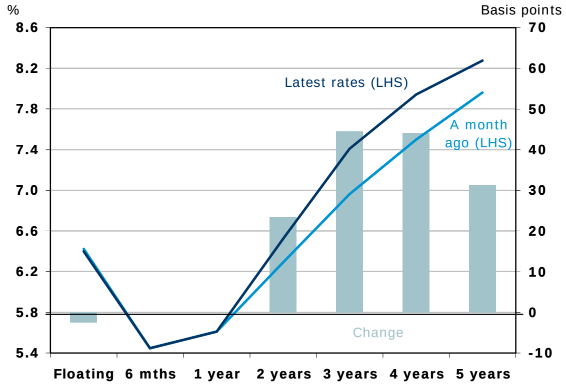
Sources: ANZ National Bank, Statistics NZ, REINZ, Reserve Bank

Serviceability and indebtedness



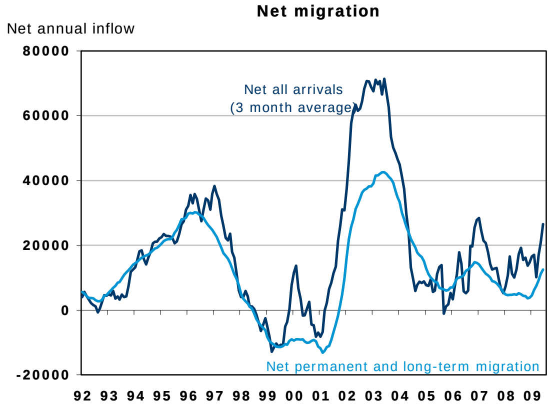
Sources: ANZ National Bank, Reserve Bank

New customer average residential mortgage rate



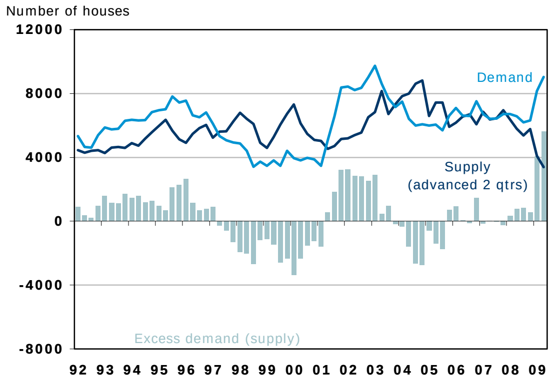
Sources: ANZ National Bank, Reserve Bank, www.interest.co.nz

Net migration



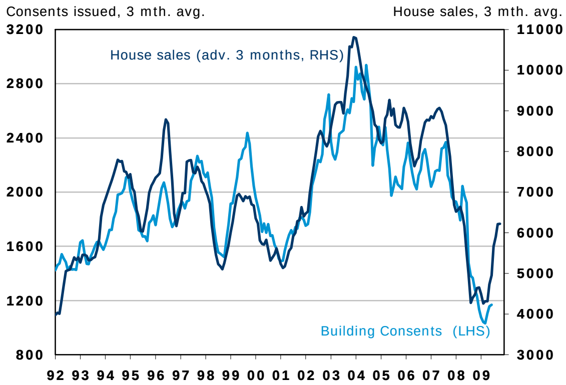
Sources: ANZ National Bank, Statistics NZ

Housing supply-demand balance



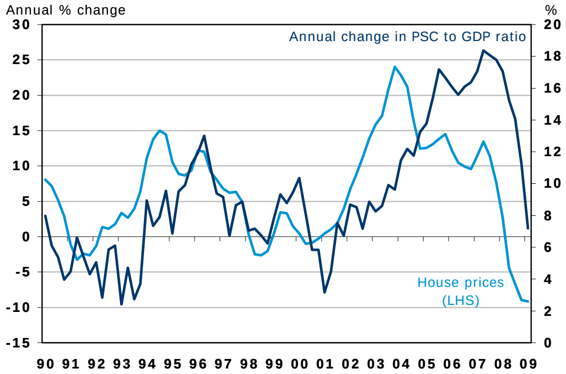
Sources: ANZ National Bank, Statistics NZ

Building consents and house sales



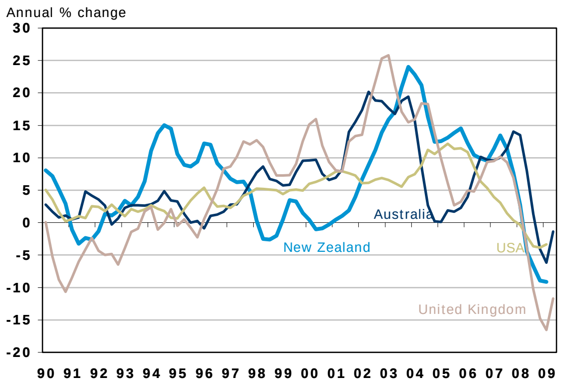
Sources: ANZ National Bank, Statistics NZ, REINZ

Liquidity and house prices



Sources: ANZ National Bank, QV, Reserve Bank

House price inflation comparison



Sources: ANZ National Bank, QV, Nationwide, Bloomberg

Economic backdrop

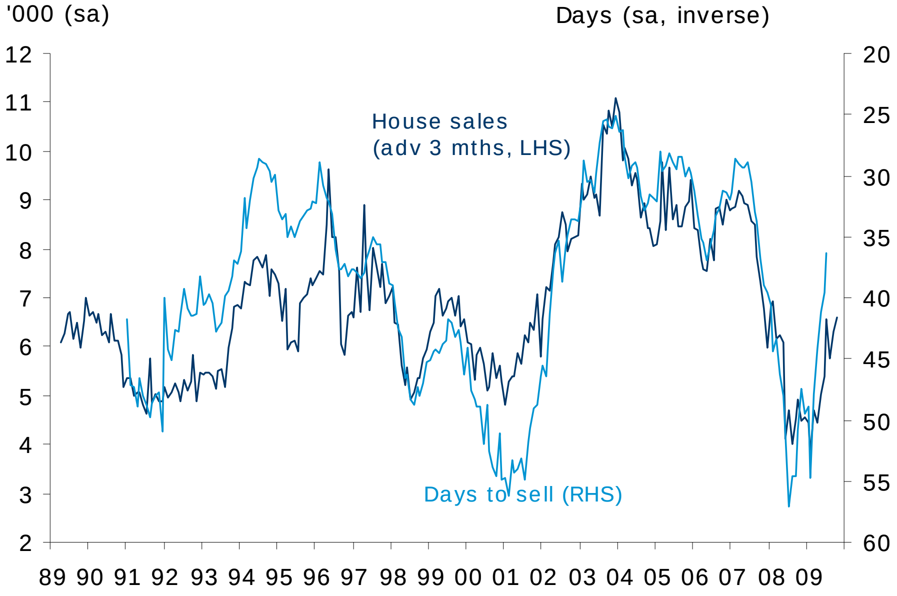
There is a lot of tension within the economy. A better feel-good factor has developed of late – both globally and domestically. Confidence is a powerful dynamic that can take hold quickly and unleash pent-up demand. The housing market is very influential in this regard. Against this backdrop we still see a balance sheet constraint for NZ.Inc as very influential and it is untenable to imagine NZ borrowing and spending its way out of a debt-fuelled jam. We are not buying into a V shaped recovery but are torn between a bathtub with waves, and explicit double dip. If housing does lead us out, the latter looks inevitable.

Our core economic view

The economic tone is undoubtedly improving. Whether it be credit markets, equities, commodities, or "soft" data, all are registering a better spring in their step. Economic sentiment is also improving and can be a powerful dynamic, especially during the early stages of an economic recovery. The lift in confidence is welcome. But it must be acknowledged that the improvement in all of the economic indicators is coming off an extremely weak base. And we have yet to see firm evidence of recovering final demand around the globe.

Domestically, we expect the June quarter will be the end of six quarters of consecutive economic decline. A recovering housing market has been a key source of support for the economy. Attention is now turning to the quality and robustness of the recovery. Clearly all sectors and regions are not rowing in the same boat. While in some areas (real estate sales) and regions (Auckland), prospects are improving, in others (dairy and rural aligned regions) the recession is only starting.

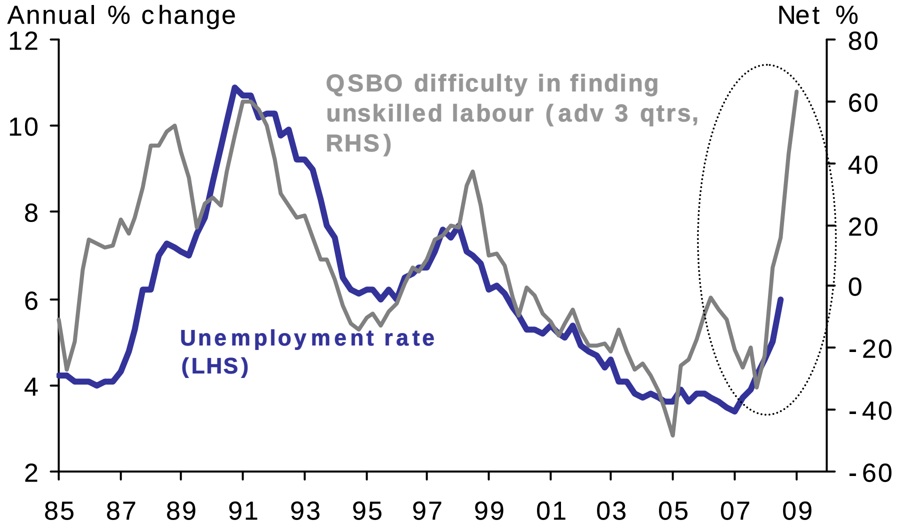
House Sales vs Days to Sell



Sources: ANZ National, REINZ

The domestic economy is leading the recovery. This is a natural response to policy stimulus and support that has been put in place. However, we continue to hold reservations regarding the sustainability of such a recovery. It needs to be an earning sector recovery and clearly that is a way off.

A host of key structural gauges, such as the current account deficit and household savings rates, are telling NZ.Inc to save for tomorrow as opposed to spend for today. But of course we need some spending to be moving forward, and this is where we see a lot of tension within the entire economic system.



We are not buying into the hype of a V shaped recovery. The challenges are simply too great. This leaves a choice between the bathtub (with waves) and a "W" shaped cycle. Choosing one over the other is really a question of semantics. Momentum, once unleashed, is a powerful dynamic and the economic cycle is as much about getting a feel for behaviour as it is about the economic fundamentals. And there is no doubting a better feel-good factor is developing, despite the unemployment rate moving up sharply. With each passing day it seems more money is being lured out after taking refuge on the sidelines. A lot of this seems to be premised on a quick return to 'normal' conditions, which in turn, is being interpreted as the way things were in 2006/07, prior to the financial crisis. We fundamentally disagree with such a definition of normal. If the housing market does indeed lead us out, then brace for the double-dip on the other side.

Sounds rough? It's not. A lot we see happening is positive. Productivity is improving. Firms are getting back to basics. Asia provides real opportunity for NZ.Inc. The problem, or fear, is that our historical fixation with housing gets in the way of what we know needs to happen and we end up going through a deeper adjustment because of it. A strong housing market needs a strong economy. Medium-term sustainability and performance of the housing market now critically depends on reducing our fixation with housing, and focusing on investing in the real economy instead.

Mortgage borrowing strategy

In the current steep yield curve environment we continue to favour keeping our borrowing profile short. While there is no doubt at some stage borrowers will end up paying more as circumstances change, in an environment where the yield curve is set to remain positive sloping on average, your average cost of borrowing across the cycle will be lower by targeting short-term rates.

Our view

Nothing has changed over the past month to alter our core economic view.

> The economy continues to face an elongated adjustment process.

> Borrowers need to accept structural changes across the economy, including the return to a more positive and upwards sloping yield curve.

> The Reserve Bank's July assessment was notable for its commitment to keeping the OCR lower for longer.

There is no doubt improving sentiment towards the housing market is challenging perceptions towards an elongated adjustment process for the economy, and the idea that short-term rates could remain low for sometime. Talk of a housing shortage is adding fervour to the market. While we respect these nuances and recognise the supply-demand issue in the likes of Auckland, in our eyes the issue is overblown. As noted last month there is no aggregate housing shortage, and even if there was we'd argue that it is superseded by bigger picture issues including the economy-wide debt constraint and poor external position (refer page 8). These are the binding constraints, and we expect housing activity into the Christmas period to stabilise as opposed to extend (after removing seasonal influences).

Our breakeven table (refer our May edition for a full description) is presented below. All breakeven rates are higher than current rates, so the decision for borrowers is really about making the most of near-term cash advantages, whilst remaining mindful of not giving it all back (and then some) a few years down the track. At some stage there will be the odd year where you end up paying more. But what the table shows is that short-term rates would need to rise very aggressively for you to lose on average. Such a rise is at odds with our core economic view.

Fixed Mortgage Rate		Break-evens			
Term	Current	in 6mths	in 1year	in 18mths	in 2years
6 months	5.45%	5.55%	7.27%	7.93%	8.68%
1 year	5.50%	6.41%	7.60%	8.30%	9.10%
18 months	6.09%	6.92%	7.96%	8.71%	9.18%
2 years	6.55%	7.36%	8.35%	8.86%	9.35%
3 years	7.40%	8.05%	8.77%	9.14%	9.47%
4 years	7.95%	8.46%	9.00%		
5 years	8.30%				

Part of the reason for the steepness in the curve is structural changes occurring around the globe and in New Zealand. The issues for borrowers are that certainty comes with a cost in a positive sloped yield curve environment, and flexibility and cash-flow benefits contain risks. But there is one aspect to the latter that is also overlooked. The more people that end up floating, or on short-term rates, the greater potency monetary policy will have when the RBNZ does decide to raise rates. All else equal this will mean short-term rates should not have to increase as far.

Feature comment – The binding constraint?

Two views are emerging towards the property market. The first focuses on a perceived supply-demand situation creating a mini-price boom. The second focuses on a balance sheet constraint for NZ.Inc and likely steps by policymakers to restrain how far the property market (prices) can lift. We are firmly siding with the latter as the more binding influence.

Overview

There is growing speculation that a shortage of housing will lead to another mini housing boom. We've commented before that we don't think a housing shortage exists when we look at cumulative housing investment over more than a decade.

But like most analysis it depends on the assumptions used. Change the assumption and you get a different answer.

What if we accept there is a housing shortage? Does it follow that a mini-boom will follow? If there is a shortage of something then surely the price will go up. This seems logical enough.

There is no doubting that supply-demand is influential, but we are wary of making it the anchor underpinning our view towards the housing market. Certainly we see it as a reason for volumes, such as consents, to lift, but not necessarily prices. No one was pointing to supply-demand measures as a reason for the market to correct between 2004 and 2007 when there was clearly excess supply, so it seems ironic for them to now become the overarching factor or binding constraint on the outlook.

There are a number of aspects to the story that we struggle with.

> **It overlooks the fact that the housing adjustment this time is primarily a land price adjustment,** of which there is no shortage (excluding Auckland). We have yet to see the ripple effects of the speculative development boom in reverse. On a lot of development land, there is no price, because there is no bid! We don't see that changing any time soon. As we reported in our 13 July issue of *Market Focus*, over a third of all listings for property on Trade Me are sections!

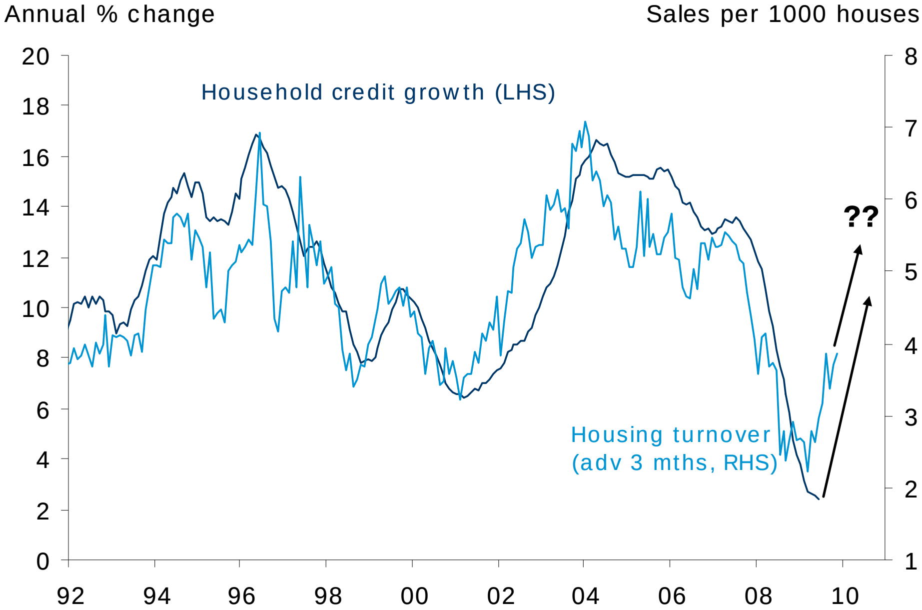
> **Policymakers will not let another mini-boom take place.** In fact we are already seeing the impact of the Reserve Bank's new liquidity requirements for banks, which have pushed up interest rates. This will act as a natural handbrake. As speculation of a housing upturn extends so, it seems, do calls for regulatory constraints, such as a capital gains tax on housing or tighter restrictions on bank lending. Of course this is nothing against the housing market *per se.* It simply recognises that a housing led recovery and even greater debt accumulation will only create further problems down the track for the economy. The Reserve Bank made it pretty clear in their June *Monetary Policy Statement*: a borrow and spend style recovery will invoke a harsher adjustment down the track. The challenge is to get volumes (consents) to lift without seeing the same for prices.

> **Supply-demand is not the binding constraint at present for housing – the need for the economy to de-leverage and correct a massive external imbalance is.** For the housing market (prices) to take off again, credit growth needs to rise sharply, which would mean the current account deficit was rising again. In a de-leveraging world we

struggle to make sense of that. Nor do we think rating agencies or policymakers would idly watch it happen. Fitch Ratings have NZ on negative outlook, and look set to downgrade if the external position does not improve.

That does not mean supply-demand is not relevant. It certainly is an important fundamental over time. Building consents will lift somewhat in response. But our judgement at present is that prices will/should not do the same given the credit nature of global circumstances and NZ's indebtedness. Both building consents and real estate listings (the often quoted shortage measures) are heavily influenced by credit and the willingness to take on debt. This is either to build or to trade up your house. Let's face it, when you buy a house, you are normally "trading up" via taking on more debt, and households are circumspect about that at present given the job market backdrop, a situation not likely to change soon. In the meantime, factors such as a rise in the number of people per house, as school-leavers stay at home for longer, and the renovations market will act to mitigate the supply-demand situation. The supply-demand situation is highly relevant, we'd just not characterise it as binding at present.

Household credit growth and housing turnover



Sources: ANZ National, RBNZ, REINZ, Statistics NZ

We should not forget the scenario painted by the Reserve Bank in their June *Monetary Policy Statement*, where they looked at what could occur should an ongoing build-up of imbalances persist, led by a rebound in house prices and a much stronger pick-up in spending. While economic growth is stronger in the near-term, the external imbalances that result lead to increased vulnerability, causing foreign investors to demand a higher premium to keep funding NZ's lifestyle. In this scenario, the adjustment ultimately occurs as the piper is paid, but the economy ends up smaller and living standards lower as a result.

Nonetheless, we respect housing nuances and it's a fine line between stabilisation and reflation. The self-interest part of us (we are a bank and own property!) hopes it's the latter. But the macroeconomist in us struggles with it despite NZ's fixation with housing. If we are wrong, then brace for a deeper correction down the track.

Fitting with the balance sheet constraint view will require house sales to stabilise and days to sell rise as more listings come on the market into year-end. More listings seem to be appearing at present in line with the normal spring season, and we fully expect this to dampen the "shortage price premium" being talked about in the market. This is a critical area we are watching, and no doubt the Reserve Bank as well, to maintain lower-for-longer views towards the OCR. For our view to be ratified and the balance sheet constraint to be dominating, we need to see the housing market stabilise (prices) as opposed to extend into Christmas.

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
550	741	760	779	798	817	837	856	876	896	917	937	958	979	1000
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 July 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	0.2	2.9	156	(-6%)	51	The median time to sell is the shortest since 2007
Auckland	4.5	2.6	2,079	(+3%)	32	Annual house price growth proves rich in calories
Waikato/BOP/Gisborne	-1.5	1.0	1,007	(+7%)	48	Median house sale price the highest in twelve months
Hawke's Bay	-3.7	1.2	264	(+11%)	46	Do these make my monthly bump look big?
Taranaki	5.7	3.1	185	(-7%)	31	No will-power when it comes to house-buying.
Manawatu-Wanganui	-4.1	-1.3	345	(+5%)	36	Median time to sell a house dropped to a two-year low
Wellington	-0.3	0.6	752	(+2%)	34	The most sales in one month since November 2007
Nelson-Marlborough	-0.6	3.9	254	(+9%)	41	3-month change in house prices was the strongest
Canterbury/Westland	-1.0	0.2	993	(+5%)	33	Median sale price hit its highest level this year
Otago	-7.1	-1.8	283	(+8%)	36	The three monthly rate of price growth beats temptation
Central Otago Lakes	-27.3	1.4	101	(+2%)	91	Annual percent change in house prices is slim pickings
Southland	10.5	2.1	176	(+5%)	32	A double-digit increase in annual house price growth
NEW ZEALAND	0.0	1.2	6,601	(+5%)	36	The housing recovery is beyond reasonable doubt

Key forecasts

	Actual			Forecast						
Economic indicators	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10
GDP (Ann Avg % Chg)	1.7	0.2	-1.0	-2.0	-2.5	-2.2	-1.5	-0.6	0.3	1.1
CPI Inflation (%)	5.1	3.4	3.0	1.9	0.9	1.9	1.9	2.0	2.2	2.6
Unemployment Rate (%)	4.3	4.7	5.0	6.0	6.3	6.7	7.2	7.5	7.6	7.5

	Actual			Forecast (end month)						
Interest rates	Jun 09	Jul 09	Latest	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10	Mar 11
Official Cash Rate	2.7	2.7	2.5	2.5	2.5	2.5	2.5	2.5	3.0	4.0
90-Day Bank Bill Rate	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	3.6	4.5
Floating Mortgage Rate	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.4	6.9	7.9
1-Yr Fixed Mortgage Rate	5.7	5.6	5.6	5.6	5.6	5.7	5.7	5.7	6.3	6.9
2-Yr Fixed Mortgage Rate	6.3	6.3	6.5	6.5	6.5	6.6	6.6	6.8	7.2	7.6
5-Yr Fixed Mortgage Rate	8.0	8.0	8.3	8.3	8.5	8.5	8.5	8.7	8.9	9.0

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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.

NEW ZEALAND 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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