Property Focus
New Zealand
September 2009

The Darling Buds of September

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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 give an overview of the 2009 ANZ Property Investment Survey.

The month in review (page 2)

> As the weather improves in the run up to Christmas, spare a thought for the real estate market. On the sunny side of the street, leading real estate indicators are bathed in sunshine. While on the shady side of the road, things are decidedly cooler, with the lagging and coincident indicators still detecting a chill in the air.

Property gauges (page 3)

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Economic backdrop (page 5)

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Mortgage borrowing strategy (page 6)

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Feature article – ANZ Property Investment Survey (page 7)

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Key forecasts (page 10)

The month in review

As we head into summer, it's not only the days that are warming up.

As the weather improves in the run up to Christmas, spare a thought for the real estate market. On the sunny side of the street, leading real estate indicators are bathed in sunshine. While on the shady side of the road things are decidedly cooler, with the lagging and coincident indicators still detecting a chill in the air.

> **REINZ housing data – August.** House sales fell 1.9 percent in August, bur remain 40 percent above the level of a year ago. Selling prices continue to recover smartly, with the traditional median house price measure rising 5.1 percent from a year ago (up 2.6 percent for the stratified Housing Price Index). Days to sell fell to 33 days (seasonally adjusted) and ensures solid bidding for good quality stock on offer.

With globalisation, some would say our border is "*open all hours*".

> **Net Migration – August.** Net migration posted another solid increase, with arrivals exceeding departures by 1,610. For the 12-months to August, the net migration gain was 15,642. On a 3-month annualised basis, the net gain is a more impressive 22,920. Low levels of New Zealanders choosing to depart, combined with a recovery in the number of permanent arrivals, are the key drivers of the net migration gains.

A touch of frost remains around the building sites.

> **Value of Building Work – June quarter.** The volume of residential construction work contracted 6.5 percent in June - the seventh consecutive quarterly decline. The level of residential construction activity is now a third off its peak in September 2007.

> **RBNZ Monetary Policy Statement - September 2009 -** The OCR was left unchanged at 2.50 percent. We continue to see policy remaining on hold well into 2010 and the currency being the key relative price mechanism that must adjust to ensure the sustainability of any recovery. When the tightening does eventually begin, it will be in 50bp clips.

Del-boy's lending practices are fit for *only fools and houses.*

> **RBNZ Mortgage Lending – July.** Household lending rose 0.3 percent in July. Preceding this were monthly outturns of 0.2, 0.4 and 0.1 percent. So it's still pretty sedate and hardly indicates a rapid turn. In many ways it looks at odds with increasing euphoria and perception towards the housing market.

Pop Larkin's homemade "whine" is improving with age but the commercial brew has an unpleasant taste to it.

> **Building Consents – July.** Total residential consents rose 5 percent, while the figure excluding apartment consent issuance rose by 11 percent. The levels of both series are still very low by historical standards, but it does now look like things are stabilising and are beginning to turn around. However, when looking at commercial consent issuance, the trend is pointing south. With residential investment set to begin to recover later this year but non-residential or commercial construction looking weaker, the net effect is that the construction industry will remain subdued for a time yet.

Assessment

The property market is improving courtesy of migration trends and policy stimulus. After a prolonged recession, stimulating the interest rate sensitive sectors, and seeing a subsequent response, is consistent with a conventional business cycle. The big uncertainty at present is to what degree the market can push on. On the face of it, increased near-term demand + lack of listings = firmer prices. However, there are clearly other dynamics at work. Credit growth remains subdued, which means de-leveraging remains a dominant theme. Homeowners appear unwilling to change houses (as this normally involves taking on more debt) so the supply-shortage is not just a reflection of excess demand, but wider forces.

Property gauges

The majority of our key gauges of the property market continue to improve. A turnaround in household sentiment has resulted in borrowers wishing to lock in longer fixed mortgage rates ahead of an anticipated monetary policy response to growing economic momentum.

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.

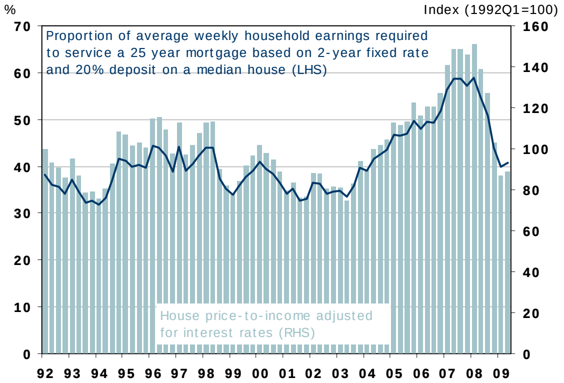
> **Liquidity.** We look at growth in Private Sector Credit relative to GDP to assess the availability of credit in supporting the property market.

> **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.

We compared the similarities between the current pick up in house prices and a similar improvement in the last cycle (in 1998/99), and noted that prices in the previous cycle eased off this far through. Could we well see a repeat? Maybe, but of course, back then we had negative net migration. Nevertheless, if the Australian economy continues to improve, then more New Zealanders may decide to dust off their plans to shift across the ditch, so who knows? They say history never repeats but it does rhyme.

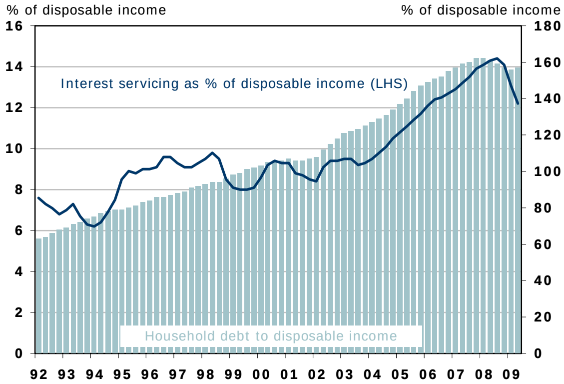
Indicator	Level	Direction for prices	Comment
Affordability	A low	↔	Housing affordability is back to "fair" levels.
Serviceability / indebtedness	High but deflating	↓	A bit more pocket money for the kids to spend at the sweet stall.
Interest rates	Moving up	↔/↓	The sausage-shaped mortgage curve is starting to sizzle.
Migration	Building	↑	More volunteers arrive to man the trestle-tables.
Supply-demand balance	One sided	↔/↑	Demand well ahead of supply in the cake stand.
Consents and house sales	Glimmer of hope	↔/↑	House sales are the winner of the lucky dip.
Liquidity	Still a way to go	↓	Sunk to the bottom, a bit like a shoddily made jar of marmalade.
Globalisation	A deep hole to recover from	↓	Pre-loved, trash and treasure of the white elephant stall.
On balance		↓	**Fingers-crossed your number comes up, once the chocolate wheel stops spinning.**

Housing Affordability



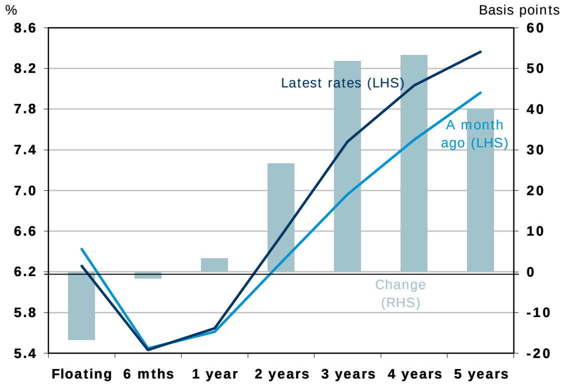
Sources: ANZ National Bank, Statistics NZ, REINZ, Reserve Bank

Serviceability and indebtedness



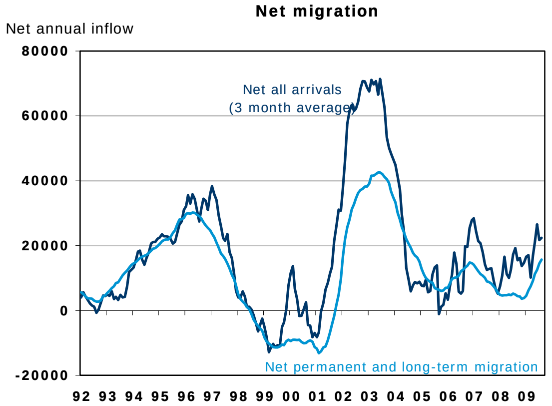
Sources: ANZ National Bank, Reserve Bank

New customer average residential mortgage rate



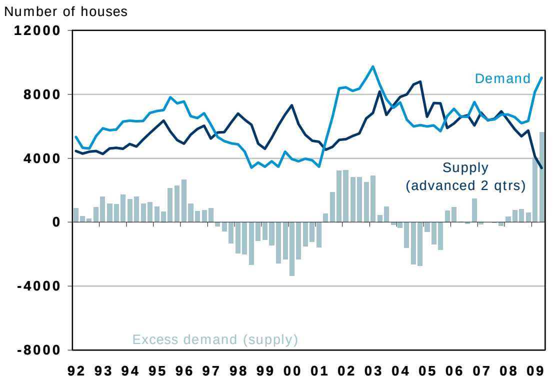
Sources: ANZ National Bank, Reserve Bank, www.interest.co.nz

Net migration



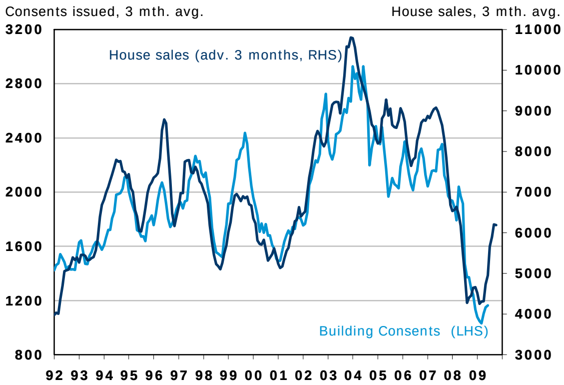
Sources: ANZ National Bank, Statistics NZ

Housing supply-demand balance



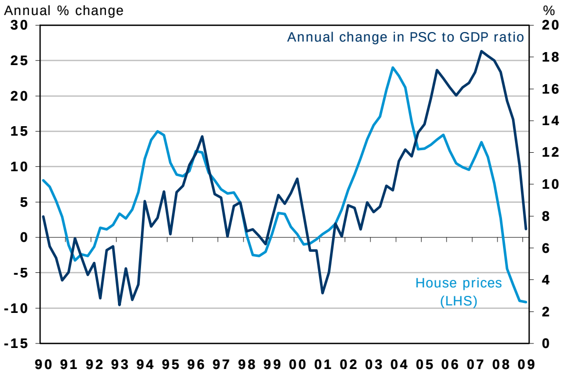
Sources: ANZ National Bank, Statistics NZ

Building consents and house sales



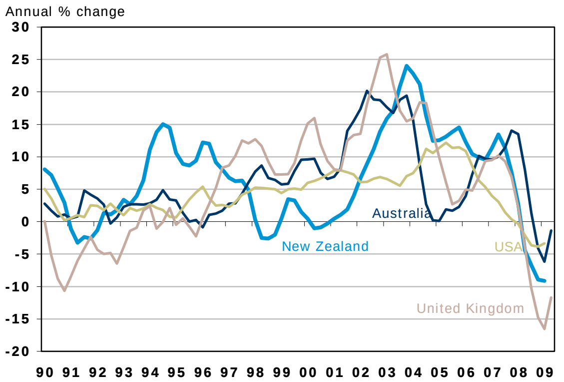
Sources: ANZ National Bank, Statistics NZ, REINZ

Liquidity and house prices



Sources: ANZ National Bank, QV, Reserve Bank

House price inflation comparison



Sources: ANZ National Bank, QV, Nationwide, Bloomberg

Economic backdrop

The New Zealand economy is emerging from recession. However, continued debate surrounds the durability of any expansion. While any improvement needs to acknowledged and respected after such a long recession, imbalances in the economy still prevail and need to be resolved before the foundation for economic prosperity is in place.

Our core economic view

There is no denying the better tone to recent economic data. This improved feel-good factor is permeating, as business and consumers feel more optimistic. Key lead indicators have returned to positive territory, no doubt assisted by the simple response of having more people on the ground in the form of improving migration. History shows that confidence can quickly become self-fulfilling as pent-up demand is unleashed.

An improving tone is also apparent around the globe. It seems the global recession is but a bad memory, and positive growth is upon us once again. The Q2 GDP numbers around the globe have by and large been better than expected, with the emerging Asian economies rebounding strongly after the pasting they took in Q4 last year and Q1 this year. They did it before during the Asian crisis, so perhaps we should not be too surprised if they are able to pull it off again.

The attention-getting “Armageddon” story is now turning towards the inevitable recovery, and in particularly its sustainability. Optimists are pointing towards the historical experience, improving data trends and policy stimulus, which are all looking consistent with a V shaped cycle; that is a strong recovery after a deep recession.

At the other end of the spectrum are those that remain wary of tensions within the global system. It would be somewhat ironic if the US economy (and NZ) managed to borrow and spend their way to recovery and emerge from a debt-fuelled consumption jam via taking on more debt. Each policy solution such as quantitative easing (printing money), record low interest rates, nationalisation and record fiscal stimulus is, in many ways, simply deferring issues as opposed to addressing them. How do you print money without risking inflation and having to hike interest rates aggressively down the track? What about the moral hazard issues that various bailouts are now creating? Weakness in household balance sheets is simply being transferred to the Government sector balance sheet, but of course it is the former that will have to pay the money back at some stage.

Policymakers have of course done the correct thing: when faced with the risk of Armageddon it is quite appropriate to throw the text-book out the window. Pragmatism needs to prevail and they needed to act aggressively. But with the global environment stabilising, attention is turning to various exit strategies for fear of creating or exacerbating imbalances down the track. The bottom-line is simple: there is no free lunch. Aggressive stimulus has simply averted the extreme downside scenario. The path forward is all about doing some hard yards. It is notable to see all central bankers talking very guardedly in terms of the outlook.

As the NZ economy emerges from recession, we’re more inclined side with a W recovery, as opposed to a V or U shaped cycle. Timing on the second leg remains uncertain. But abstracting from this, the real spirit of our economic view is one of a lower average trend rate of growth for the next five years. There will be growth, but it will be less than what we have been accustomed to over the 1990s, as the economy digs in and does some hard yards.

Mortgage borrowing strategy

The RBNZ has reiterated their earlier stance of keeping the OCR at or below current levels until late next year. Hence, short dated rates will remain the cheapest part of the curve for some time. We continue to favour keeping the borrowing profile short. Those fearful of earlier or more aggressive rate hikes by the RBNZ can consider fixing a portion for 2-years for some certainty.

Our view

The Reserve Bank of New Zealand's statement two weeks ago validates our strategy of sticking to floating rates or fixing for short durations. The economy may be emerging from recession, but there is still considerable uncertainty over the path of the recovery and in the words of the Governor, *"we have a hell of a long way to go".*

With the RBNZ confident that inflation will remain well contained within their target band over the medium-term (they are inflation targeters after all), they are in no hurry to start raising the OCR. The bank's latest forecasts have the OCR rising from late next year. We concur.

We mentioned last month that part of the reason for the steepness in the yield curve is due to structural changes around the globe and in New Zealand. The past two weeks have again reinforced this message, with the mortgage curve steepening a tad further, as some banks lowered their floating and six month rates while raising their longer term mortgage rates. Borrowers need to get used to a new environment where the slope of the yield curve is set to stay positive, meaning those who want certainty of repayments will need to pay a premium for the privilege.

While it can be somewhat unnerving for some to be exposed to floating rates, it is important to fully appreciate the risk/reward trade-off. Our break-even table below can be a useful guide (refer to our May edition for a full description). With the RBNZ not looking to raise rates until late next year, the short end of the curve will stay anchored at current low levels. This will provide obvious cash flow advantages, but the real message to borrowing in an upwards sloping yield curve environment is that if you want certainty, it's going to come at a price. With so much tightening priced into the forward curve and the curve so steep, we wouldn't be inclined to go beyond 2 years if indeed you need such certainty.

Fixed Mortgage Rate		Break-evens			
Term	Current	in 6 mths	in 1 year	in 18mths	in 2 years
6 months	5.45%	5.55%	6.67%	8.13%	8.68%
1 year	5.50%	6.31%	7.60%	8.40%	9.10%
18 months	6.03%	6.92%	7.96%	8.78%	9.18%
2 years	6.55%	7.36%	8.35%	8.91%	9.35%
3 years	7.40%	8.05%	8.77%	9.18%	9.47%
4 years	7.95%	8.46%	9.00%		
5 years	8.30%				

Feature article – ANZ Property Investment Survey

The 2009 Property Investment Survey is the sixth annual survey of property investors that the ANZ has conducted. Investors remain confident property values are to grow far in excess of income over the coming five years.

The Investors and their Portfolios

For each of the past six years, the ANZ, in conjunction with the NZ Property Investors Federation (NZPIF), have conducted a survey to gleam a better understanding of property investors, the profile of the portfolios held and several other issues related to property investment. We report on the more interesting findings from this year's survey.

Over 1,000 property investors completed this year's questionnaire. The survey consists of questions relating to investors' property portfolios, their use of property management, their investment strategy, sources of information available to investors and lastly the Property Investors' Association.

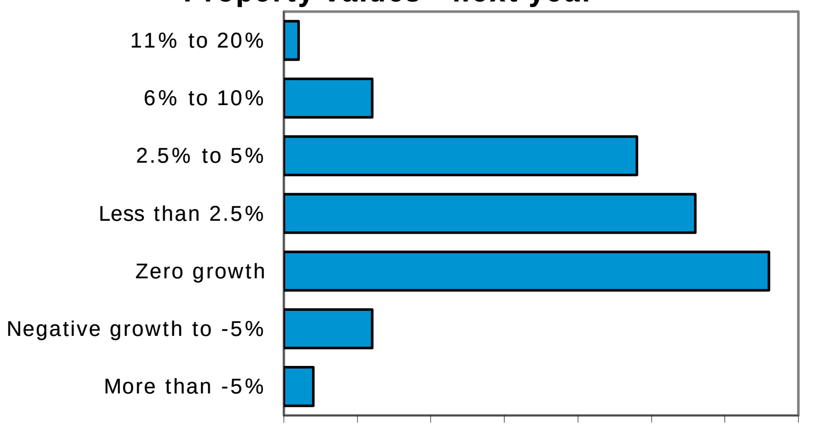
Key Points from the 2009 survey

> The majority of investors were small scale property investors. Eighty-two percent of respondents owned up to 6 properties, with two thirds of these investors owning up to 3 properties. Eighteen percent of the respondents were full-time investors, with a third of these, also classified as traders, owning 10 or more properties.

> Nearly 1 in 2 property investors have structured their current properties as a Loss Attribution Qualifying Company (LAQC). This is more so for medium investors, which have their properties set up as a LAQC (56 percent) versus full-time investors who are more likely to be set up as a company (19 percent).

> While a third of property investors expect a zero gain in rental growth over the next year, a majority of property investors are expecting a rise in property values in the coming year. Over a quarter of property investors surveyed expect property values to grow by up to 2.5 percent. Nearly the same number again expect property value to grow by up to 5 percent over the year ahead. A very similar forecast profile for rental growth is expected by the respondents next year.

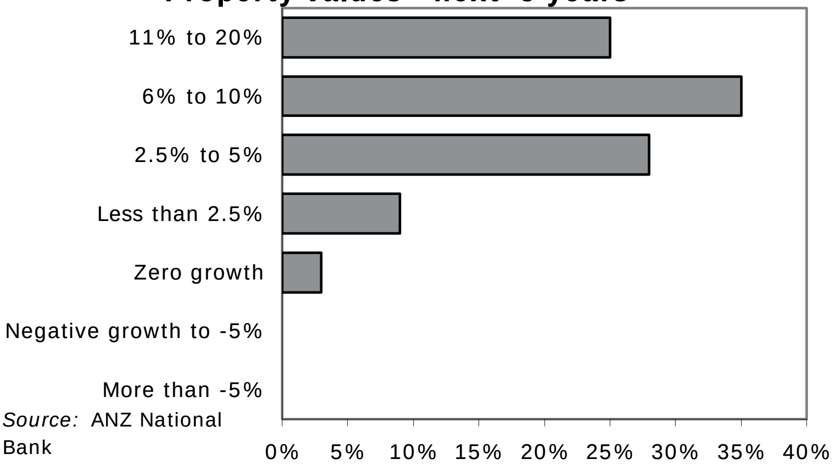
Property values - next year



Source: ANZ National Bank

> Looking out over a five year horizon, on average investors expect there to be positive growth of between 6 and 10 percent, per annum. Over a third of respondents are expecting a rise in property values in this bracket in five years time. A quarter of respondents expect an even stronger increase of up to 20 percent per annum over the next five years. The increase in property values that investors are expecting is in excess of the anticipated increase of incomes over the next five years. With this sort of expectation seemingly so ingrained in the New Zealand investor psyche, it is easy to see why real estate ownership is so prevalent and it dominates the household balance sheet.

Property values - next 5 years

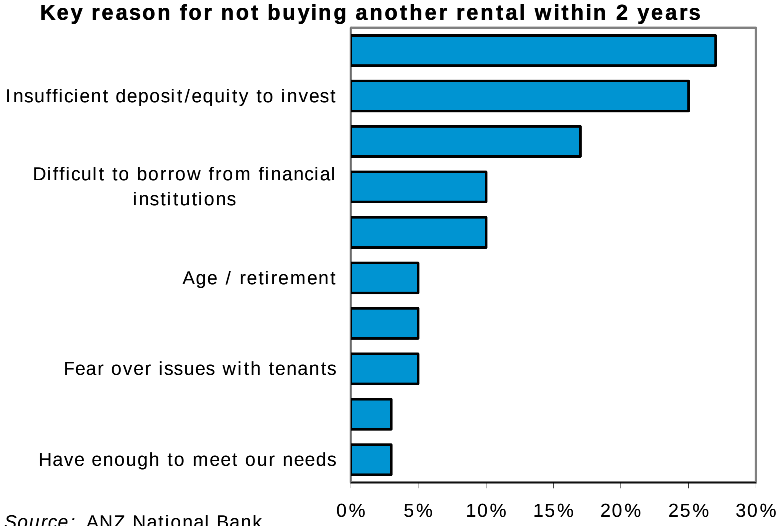


Source: ANZ National Bank

> As with the one year ahead expectations of rental growth, the expected growth profile was very similar to the growth expected in property values over the next five years.

> Just under half of investors plan to purchase another property within the next year. Uncertainty over the economic outlook was the key reason why 1 in 4 investors not planning on purchasing another property in the next two years. A quarter of investors reported an insufficient deposit or equity to invest as a stumbling block to purchasing another property, 17 percent expected minimal capital gains and 10 percent cited difficulty in borrowing from financial institutions.

Key reason for not buying another rental within 2 years



Source: ANZ National Bank

> Newspapers are the preferred source of information for almost half of investors (46 percent). This is followed closely by the NZ Property Magazine, which is preferred by 4 out of 10 investors.

> Four in ten of the property investors currently use a property manager, and a further two in ten would consider using one. Geographical location and the cost are the two key factors when deciding who to use as a property manager.

> Nine out of 10 investors indicated that they intend to hold onto their properties for the longer term. Twenty eight percent expect to renovate or develop and continue to hold the property, with 8 percent expecting to sell after renovating.

The Upshot

Looking to the future, investors appear somewhat wary in regard to the economic outlook although also quietly confident. However, this wariness does not seem to apply to average expectations towards house price growth, with historical trends expected to by-and-large repeat going forward.

While this sort of dynamic is not unexpected, it still leaves us pondering the endgame. A continuation of historical house price trends will see affordability deteriorate – particularly when interest rates rise to compensate, the debt servicing burden rises and the nation's indebtedness increases. While debate will surround whether these sorts of benchmarks are "binding" or not, and when they could become "binding", there is clearly a limit as to how far such measures extend.

Policymakers are talking openly about investors fascination with the property market and how unbalanced this leaves NZ.Inc. This is not a slur on property itself. It is rather a reflection of its dominance in the household balance sheet and consequential high level of indebtedness for NZ.Inc, which does leave the economy vulnerable. Every economy needs a strong property market. But a sustainable mix requires the former to drive the latter, as opposed to the reverse.

Already we are seeing minor "rule" changes such as the new liquidity regime being imposed on banks (which is driving up deposit rates and hence long-dated borrowing rates) and of course the more the housing market strengthens the greater the calls for a capital gains tax or land tax. Rather ironically it may well be a case of the stronger the property market performs, the closer we will move towards more active steps to rein in forward looking expectations. We expect some active debate before year-end.

For further details of the survey, please refer to the September issue of the NZ Property Investor magazine.

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 August 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	3.5	1.4	135	(-10%)	66	Median days to sell is twice the national average
Auckland	6.3	0.4	2,147	(+3%)	30	Sale prices lift to the joint highest for the past 18 mths
Waikato/BOP/Gisborne	0.5	2.1	888	(-10%)	45	Days to sell improves to the best in two years
Hawke's Bay	-4.5	1.2	211	(-13%)	44	Median sale price drifts to a three-year low of $253k
Taranaki	15.0	6.3	174	(-5%)	41	House prices here have posted the strongest annual gain
Manawatu-Wanganui	-9.1	-1.4	328	(-4%)	35	The median sale price is well down on a year ago
Wellington	5.3	1.5	686	(-7%)	32	Sale prices have lifted to their highest since early 2008
Nelson-Marlborough	-0.9	2.6	224	(-11%)	34	The 3mth rate of change is ahead of the NZ benchmark
Canterbury/Westland	1.7	2.0	974	(-1%)	29	The region with the fastest time to sell a house
Otago	2.6	1.0	308	(+7%)	34	A large monthly rise in house sales was recorded here
Central Otago Lakes	-6.5	1.8	102	(+2%)	76	Number of sales in triple digits for 2nd straight month
Southland	5.3	5.7	146	(-16%)	37	Largest fall in sale numbers following a surge in July
NEW ZEALAND	5.1	1.4	6,405	(-2%)	33	A lift in sale prices coincided with a listing shortage

Key forecasts

	Actual			Forecast						
Economic indicators	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10	Mar 11
GDP (Ann Avg % Chg)	1.7	0.2	-1.0e	-2.0	-2.5	-2.2	-1.5	-0.6	0.3	1.1
CPI Inflation (%)	5.1	3.4	3.0	1.9	1.2	2.1	2.0	2.2	2.1	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	Jul 09	Aug 09	Latest	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10	Mar 11	Jun 11
Official Cash Rate	2.7	2.7	2.5	2.5	2.5	2.5	3.0	4.0	4.5	5.0
90-Day Bank Bill Rate	2.8	2.8	2.8	2.8	2.8	2.8	3.6	4.5	5.0	5.5
Floating Mortgage Rate	6.4	6.4	6.1	6.1	6.1	6.1	6.6	7.6	8.1	8.6
1-Yr Fixed Mortgage Rate	5.7	5.6	5.6	5.8	5.9	5.9	6.6	7.1	7.5	7.7
2-Yr Fixed Mortgage Rate	6.4	6.5	6.6	6.6	6.7	6.8	7.4	7.7	7.9	8.1
5-Yr Fixed Mortgage Rate	8.1	8.3	8.4	8.4	8.4	8.5	8.9	9.0	9.0	9.1

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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.

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- 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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