Property Focus

New Zealand

December 2008

Open partnerships
Open possibilities

A TEMPTING ARRAY FROM THE CARVERY

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Summary

- Our monthly *Property Focus* publication is aimed at providing investors and prospective homeowners with an independent appraisal of recent developments in the property market, as well as our favoured mortgage borrowing strategy. In this issue we feature a regional analysis of house prices.

The month in review (page 2)

- According to the Reserve Bank of New Zealand, the 150 basis points carved off the Official Cash Rate earlier this month has seen interest rates move into "expansionary" territory. More cuts are on the way, given the economic backdrop.

Property gauges (page 3)

- With mortgage rates being sliced in the past month, stand by for an improvement in housing affordability. But such measures have a way to go before they are to return to historical norms.

Economic backdrop (page 5)

- The global economy is now in a synchronised recession, and conditions have yet to stabilise. 2009 is looking to be a tough year on the growth front, and we'd be surprised if the New Zealand economy gets any growth at all. Lower interest rates will support the property market, but we expect a weak economic backdrop, altered risk appetites and a rising unemployment rate to dominate the outlook. Property prices have yet to bottom out.

Mortgage borrowing strategy (page 6)

- Mortgage rates have fallen considerably in the past month, particularly the floating rate and the shorter-term fixed rates. Interest rates are likely to continue to fall as the Reserve Bank cuts the Official Cash Rate a few more times in 2009. We recommend fixing for six months or one year. At some stage in the near future it will be worth extending your fixed rate, but for now, long-term rates are too high, and have yet to fall to attractive levels.

Feature article – Selling price distribution (page 7)

- This month we examine the distribution of REINZ house selling prices by region. The higher house prices in Auckland skews the frequency count towards the higher end of the distribution curve. Waikato/BOP/Gisborne has the greatest number of sales in the selling price bands at the other extreme, while Canterbury/Westland dominates the middle brackets.

Key forecasts (page 12)

The month in review

According to the Reserve Bank, the 150 basis points carved off the Official Cash Rate has seen interest rates move into "expansionary" territory. More cuts are on the way, given the economic backdrop.

The first cut is (not always) the deepest.

> **Reserve Bank of NZ – December Monetary Policy Statement.** The Reserve Bank reduced the Official Cash Rates by an unprecedented 150bps, taking it into what it calls "expansionary" territory at 5 percent. The RBNZ has now cut the OCR a total of 325 basis points. Despite this, the RBNZ is far from done, and further rate cuts have been signalled, though the moves will be considerably smaller. Looking forward, we expect a series of 50 basis point reductions starting in January, ultimately taking the OCR to 3.5 percent by April 2009.

Consent issuance at twenty five year lows.

> **Building Consents – October.** Weakness in residential dwelling approvals caught everyone by surprise, with consent issuance falling to its lowest level on record (in seasonally adjusted terms). The fall is exacerbated when adjusted to a per capita basis, and points to a substantial contraction in residential investment over the coming 12 months. While activity has been very weak, our proxy for construction costs ($/m²) remains elevated. But given the lack of activity, it won't be long before we start to see downward pressure on construction costs, as builders compete for business.

> **Mortgage Lending – October.** Household credit growth for the month of October was 0.2 percent, the lowest rate of growth since this series began in 1991. Compared to a year ago, household credit growth was 6.2 percent, but the more timely 3-month annualised rate was unchanged at 2.8 percent in October.

A big drop in house sale numbers in November.

> **REINZ housing data – November.** Although seasonally adjusted house sales fell 13.1 percent in November (down 45.4 percent on a year ago), the housing market is showing further signs of stability. The key indicator we monitor - the median number of days to sell - improved to 47 days (in seasonally adjusted terms) and has fallen over consecutive months after peaking at a record high of 57 days in July. The median house price has stabilised, and has in fact risen over the past three months to $337,500, although is still down 4.1 percent on a year ago.

> **Value of Building Work – September quarter.** The volume of residential work put in place fell 7.9 percent in September, the fourth consecutive quarterly fall. Volumes are now down 22 percent on a year ago. However, non-residential construction activity is holding up at a better level. Volumes rose by 5.8 percent in the quarter, and are still up 6.9 percent on a year ago.

> **Net Migration – October.** For the second month in a row, net migration was effectively flat. A net 10 people permanently migrated to New Zealand in October, and this fully offsets a net 10 people who permanently left the country in September - the first monthly net fall in migration since July 2005. On an annual basis, net migration sits at 4,329 and although positive, is far from a level that will be overly supportive for the local housing market.

Assessment

We remain a little surprised with the fact that house prices have not yet adjusted further, but this could also be the reason why the level of house sales continues to fall. Looking forward, the number of days to sell continues to be the key gauge and we will be watching the trend closely.

Property gauges

With mortgage rates being sliced in the past month, stand by for an improvement in housing affordability. But such measures have a way to go before they are to return to historical norms.

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.

Measure thy cloth eight times; thou canst cut it but once.

> **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.

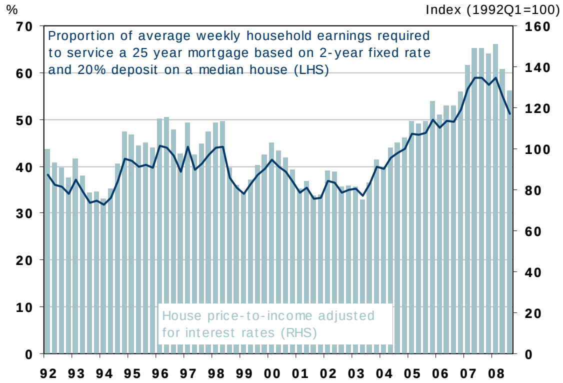
> **Consents and house sales.** These are both key gauges of activity in the property market.

> **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.

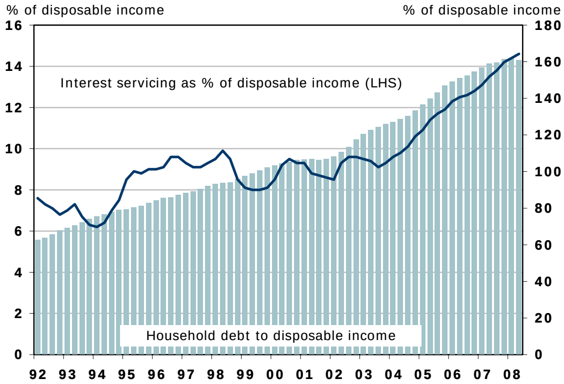
Indicator	Level	Direction for prices	Comment
Affordability	A slow grind down	↓	Housing affordability has improved to the most affordable levels in two years.
Serviceability / indebtedness	Higher	↓	The cost of servicing and indebtedness remains high and is increasing.
Interest rates	Thud	↔	A record cut to the OCR is starting to be reflected in mortgage lending rates.
Migration	Plodding along	↔	Has net migration hit rock bottom yet?
Supply-demand balance	Excess demand	↔↑	Excess demand has developed as housing demand remains largely unchanged, whereas the supply of housing has shrunk.
Consents and house sales	Rock bottom?	↔	Both around levels not seen for 15 years.
Liquidity	Clueless	↓	Back to "old" lending standards.
Globalisation	Testing the negatives	↓	Synchronised in one direction.
On balance		↓	**After taking a body blow at the end of the round, will the real estate market be saved by the OCR bell?**

Housing Affordability



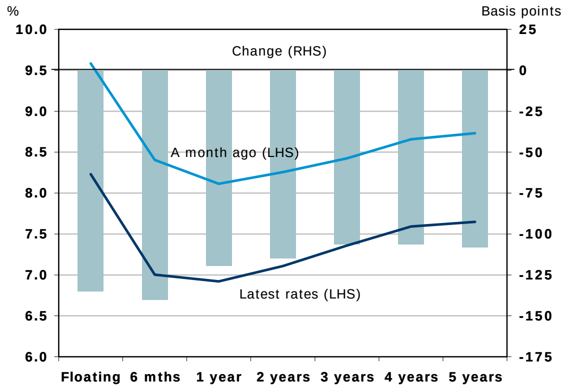
Sources: ANZ National Bank, Statistics NZ, REINZ, Reserve Bank

Serviceability and indebtedness



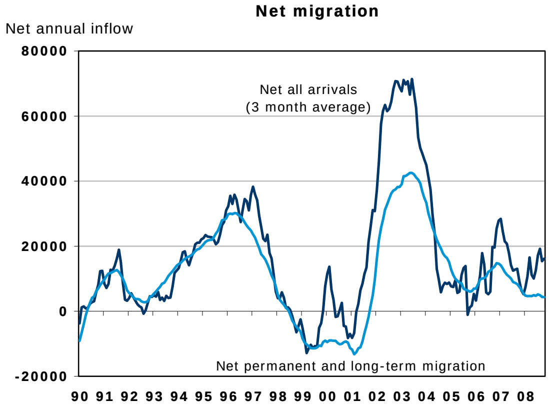
Sources: ANZ National Bank, Reserve Bank

New customer average residential mortgage rate



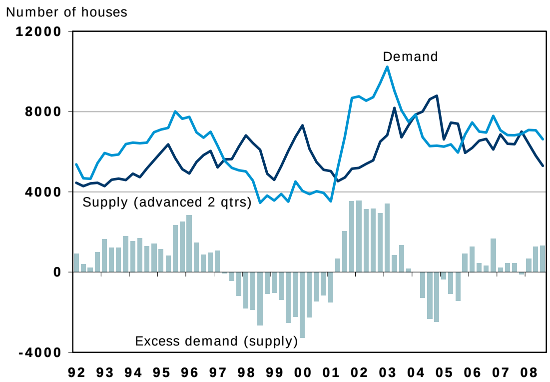
Sources: ANZ National Bank, Reserve Bank, www.interest.co.nz

Net migration



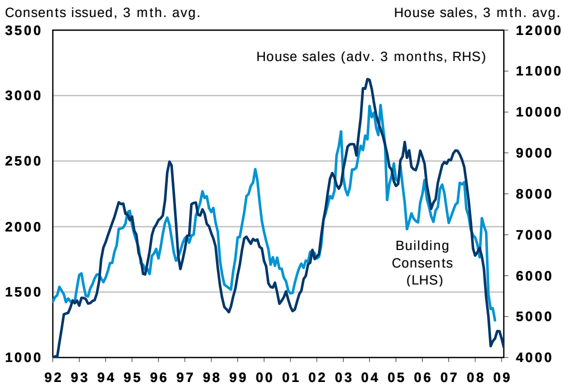
Sources: ANZ National Bank, Statistics NZ

Housing supply-demand balance



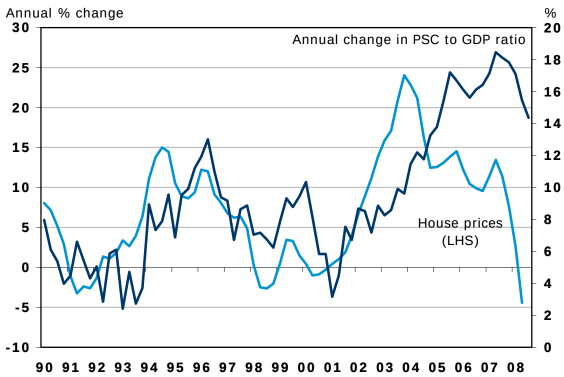
Sources: ANZ National Bank, Statistics NZ

Building consents and house sales



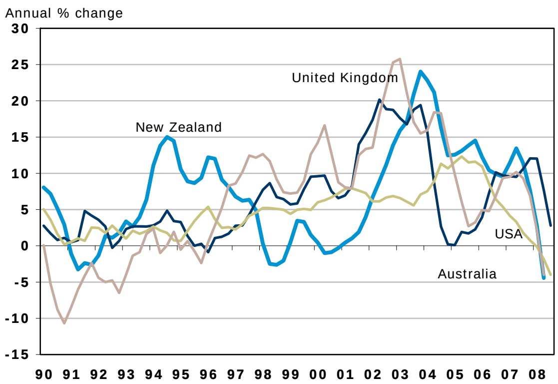
Sources: ANZ National Bank, Statistics NZ, REINZ

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 global economy is now in a synchronised recession, and conditions have yet to stabilise. 2009 is looking to be a tough year on the growth front, and we'd be surprised if the NZ economy gets any growth at all. Lower interest rates will support the property market, but we expect a weak economic backdrop, altered risk appetites and a rising unemployment rate to dominate the outlook. Property prices have yet to bottom out.

Our core economic view

Cut to the chase.

We should not under-estimate the flow-on impact from the global scene. A credit shock and high current account deficit (huge stock of foreign debt) is a nasty cocktail. New Zealand will not be immune to the credit or real economic consequences. We're already seeing the real economic flow-on from the global malaise via a reduction in tourism numbers and poor forward bookings. Commodity prices are falling or in some cases buyers are now simply disappearing. A lower currency is not relevant if no one is buying. Global dairy prices have fallen 43 percent from their November 2007 peak and the risks are clearly for further moves lower. While dairy prices are still around average levels historically, such a price is simply not sufficient to justify what has recently been factored into land prices, or to offset the creep that has been appearing across costs.

The economy has yet to find a base. After contracting over the first half of 2008, the outlook is subdued to say the least. Recent business sentiment surveys suggest a protracted period of weak economic growth, and we believe 2009 will be weaker than 2008. Previous economic slowdowns in NZ have shown that the economy remains choppy and wobbly at the trough, with no clear trend. This cycle will be no different, as NZ navigates through uncertain times. While there is likely to be bounces and rebounds due to technical factors, we actually expect the economy to experience further consecutive quarters of negative GDP growth over 2009. At this juncture it's fair to say there is more downside risk than up.

A weak labour market will dampen real estate market activity in the medium-term.

Consumer confidence looks perkier, but the disconnect between businesses and consumers appears to reside in the still low unemployment rate, which going by forward indicators and anecdotes, is set to rise rapidly in the New Year. A weaker labour market represents the next leg of vulnerability for the domestic economy. The weakness that has occurred in the housing market to date has come at a time when the labour market was still strong and wage growth at record highs. A rapid shift in job security and the likelihood of smaller wage increases over the coming year represents another leg of domestic economic weakness to come. We continue to look for real house prices to drop further, as affordability measures "adjust" to more appropriate levels. Of course this does not take into account the potential for an undershoot just as prices overshot on the other side.

NZ's macro framework is responding rapidly and some shock absorbers are kicking in. Policymakers around the globe cannot be accused of sitting idly by as the global situation deteriorates. There have been unprecedented measures taken by officials in response to this crisis. The same can be said for our own RBNZ who have cut interest rates aggressively we expect more going forward. While welcome and supportive towards the property market, such moves need to be put in perspective. Facing the deepest and most synchronised global recession we have seen in more than two decades, exceptional times call for exceptional responses.

Mortgage borrowing strategy

Mortgage rates have fallen considerably in the past month, particularly the floating rate and the shorter-term fixed rates. Interest rates are likely to continue to fall as the Reserve Bank (RBNZ) cuts the Official Cash Rate (OCR) a few more times in 2009. We recommend fixing for six months or one year. At some stage in the near future it will be worth extending your fixed rate, but for now, long-term rates are too high, and have yet to fall to attractive levels.

Our view

It's clear from our economic view that the RBNZ still hasn't finished cutting the OCR, and we expect to see at least another 1.5 percent of cuts over the next quarter. Of course, we aren't alone in thinking this – the market shares a similar, albeit slightly less aggressive view. As such, the expectation of more rate cuts is already built in to longer-term interest rates, which is one reason why the 1 year rate is lower than the floating rate.

To coin a common infomercial phrase: "but wait, there's more!"

However, because we expect to see more larger OCR cuts than what's priced in to the market, when the RBNZ does announce them, wholesale interest rates are likely to fall. Our analysis shows that as it stands, the market expects the RBNZ to cut by another 125 basis points, spread roughly evenly between January and March. We see this as a minimum expectation – and given the stories we're hearing in our travels around the country, we wouldn't rule out another large cut in January – probably not 1.50 percent, but it could be 1 percent. Much depends on the global environment – if we see a more marked deterioration in the international dataflow over the festive season, it's reasonable to expect the RBNZ to cut by more. But if we see signs of stability, expect a more conservative and considered approach. In that regard, some commentators are pointing to the fact that global share markets are stabilising as a sign that the worst of the credit crunch is behind us. That may well be the case, but we doubt it, and suspect it's a case of sellers taking a breather, rather than a sign that things have changed. Indeed, if recent labour market and retail sales data out of the US, and trade data out of China is anything to go by, the worst is yet to come.

Themes we favour in the current environment

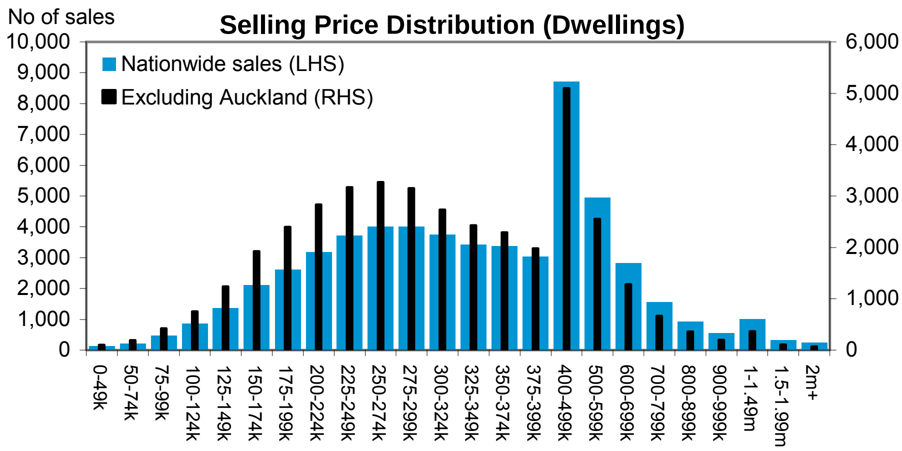
Mortgage rates have fallen quickly, and are likely to continue falling. It is therefore too soon to contemplate fixing for a lengthy term. At around 8 percent, the floating rate is still high, in absolute terms, and in relation to short-term fixed rates. Realistically, this leaves the 6 month and 12 month as the best value terms to select. At the moment both are at 6.99 percent, and are the cheapest rates available, so both make sense from a cost perspective. But with the RBNZ likely to cut the OCR by more than what's factored into market pricing, there is scope for all mortgage rates to continue falling. We therefore favour the 6 month fixed rate. Selecting this term is not only the cheapest, but it is sufficiently short that by the time it matures, interest rates are likely to be lower, by which time it may be appropriate to opt for a much longer term. Similarly, because it is short, if fixed rates fall sooner, and you want to lock in a longer rate, the early repayment cost is unlikely to be large, and will be more than offset by the savings available when selecting a longer, lower fixed rate.

Feature article – Selling Price Distribution

This month we examine the distribution of REINZ house selling prices by region. The higher house prices in Auckland skews the frequency count towards the higher end of the distribution curve. Waikato-BOP-Gisborne has the greatest number of sales in the selling price bands at the other extreme, while Canterbury-Westland dominates the middle brackets.

Overview

Each month the Real Estate Institute of New Zealand (REINZ) present a table which summarises the frequency of house sales over 24 selling price bands, by 12 geographical regions. In this article we look at the selling price distribution of all the houses sold in the 12 months to November 2008. The nationwide summary of this distribution is depicted as the wide bars in the chart below. The narrow bars show the distribution excluding Auckland.



Source: ANZ National, REINZ

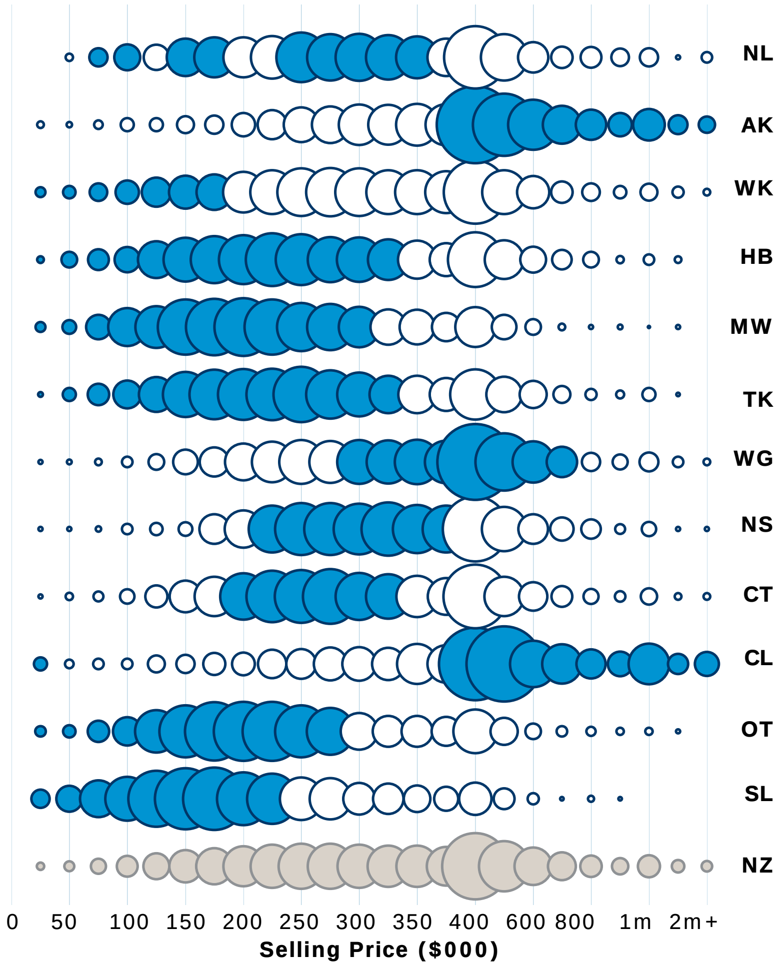
So what does it show?

- **A bulge within the curve.** One of the most obvious features in the above chart is that the distribution of selling prices is not a "normal" bell curve. One factor for this is because the selling price bands are not evenly spaced. Below $400,000 the bands are quoted in range bands of $25,000, while above $400,000 these range bands increase to $100,000. Furthermore, at $1 million and above the bands are in $500,000 ranges. Without access to more detailed data, our analysis contains a large bulge in the distribution curve from $400,000 and a smaller bulge from $1 million.
- **Smoothing out the lumps.** The highest frequency of selling prices is in the $400k-$499k band, with 15 percent of nationwide sales. But this is a reflection of the uneven distribution of the selling price bands mentioned above. One way to remove this distortion is to aggregate the bands into $100,000 ranges. By aggregating the bands into ranges of $100k reveals that the highest frequency (26 percent) is in the $200k-$299k bracket, while the $300k-$399k bracket is not far behind, with 24 percent of nationwide sales. We prefer to stick with the disaggregated distribution, albeit with the bulge, as it provides more information for our analysis.
- **Auckland prices skewed to the top end.** Not surprisingly, house prices in Auckland are heavily skewed toward the higher selling brackets. However, this skews the results toward the top end of the pricing bands.

If Auckland is excluded from the figures, the most frequent selling band is still the $250-$275k price band but the proportion in the brackets below this are increased. Looking at all sales below $300k, the proportion of sales increases from 39 percent to 49 percent, when Auckland's sale numbers are removed.

House sales by sale price bands, 12 months to November 08

The bubble size is proportional to sales within each region, and as such add to 100% for each region. The shaded bubbles represent a proportion greater than the national average.



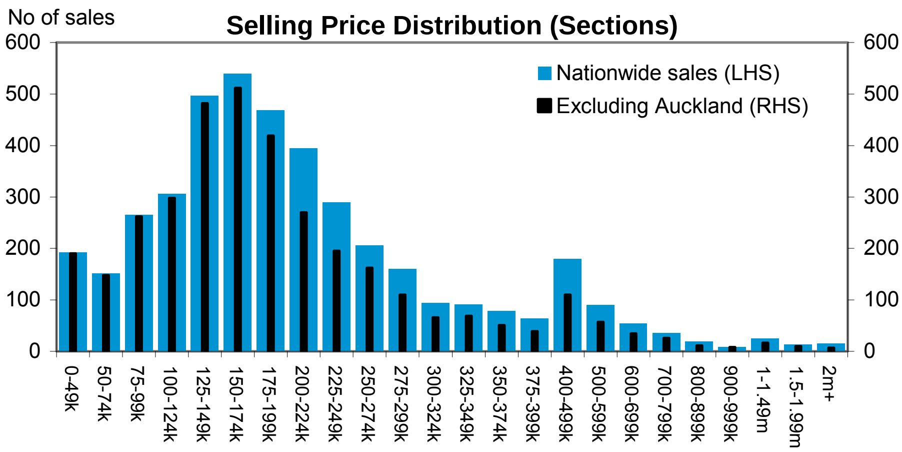
NL=Northland, AK=Auckland, WK=Waikato/BOP/Gisborne, HB=Hawke's Bay, MW=Manawatu-Wanganui, TK=Taranaki, WG=Wellington, NS=Nelson, CT=Canterbury/Westland, CL=Central Otago Lakes, OT=Otago, SL=Southland

Source: ANZ National. REINZ

> **The selling price bands can be broadly divvied up three ways.** Looking at the proportion of sales that each region makes within a price bracket, reveals that three regions account for the highest share across all but one band. Sales in the lower priced bands (up to $149,999) are more frequent in the Waikato-BOP-Gisborne region. Canterbury-Westland has the most frequent sales in the bands ranging from $175,000-299,999. And Auckland has the highest frequency from $300,000 and above. The region to upset the trifecta is Manawatu-Wanganui, which scooped the top share of sales in the $150-175k selling price bracket. Graphically, this would be represented by overlaying all the lines on the graphs on pages 10 and 11, and measuring which region has the highest proportion at each of the selling price brackets. The above graph depicts a different representation. It shows the allocation of sales across selling price brackets, *within* each region.

> **Either end of the country, recorded the extreme distributions of selling prices.** When comparing each region's selling price distribution to the national average, reveals the closest fit to the nationwide profile of house selling prices (the grey bubbles in the preceding chart) was measured in Northland. At the other end of the spectrum (and the other end of the country), Southland has the greatest deviation from the nationwide selling price distribution. This reflects the lowest median sale price across the regions ($165,000 in November 2008, compared to $337,500 for the country as a whole)

> **Section sales have a different distribution to house sales.** When we repeat our analysis using the distribution of *section* prices we get different results. The most frequent sales are in the price range of $150-$175k. The proportion of section sales in Auckland is a lot smaller (i.e., 16 percent of national section sales versus 31 percent of nationwide house sales). The broad groupings over the bands isn't as discrete (i.e. the allocation of regions with the highest frequency of sales within a particular price bracket is spread over 8 regions). With regard to section sales, Canterbury has the closest price distribution to the national benchmark, while Southland retains the distinction of having the greatest deviation from the nationwide norm.



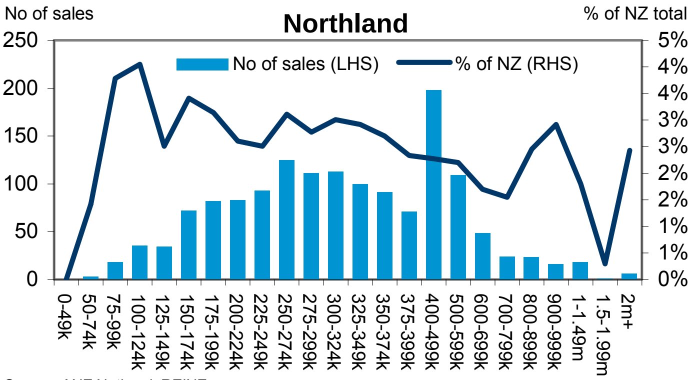
Source: ANZ National, REINZ

The Upshot

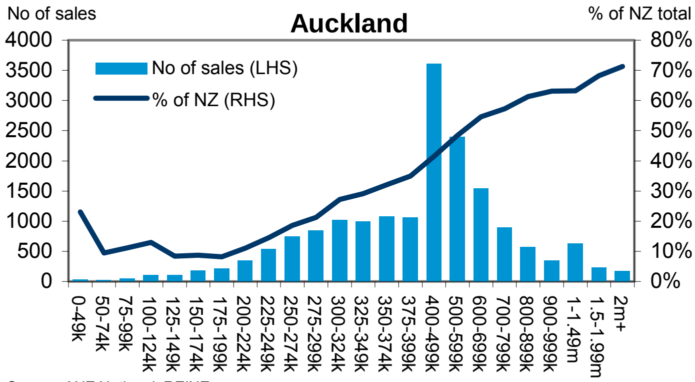
Ideally, we would have liked to have had access to more disaggregated data in our analysis. Nevertheless, even with this shortcoming, it does provide an interesting overview of regional trends.

For example, a little reported feature of the selling price distribution is how high the median sale price is in the Central Otago Lakes region. Here the region tops the median sale price across the regions but the region's share of total house sales in New Zealand is only 1½ percent.

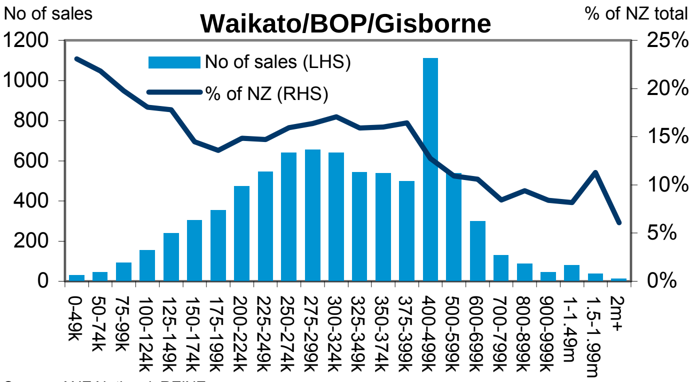
Another feature of the selling price distribution is the prominence of Waikato/BOP/Gisborne and the bottom end of the spectrum. This is despite Southland recording the lowest median sale price. This is because the number of sales in the former region is about five times that of the latter. The dominance of Auckland at the top end is hardly surprising, while Canterbury/Westland being in the middle tier is also not surprising. In general, Canterbury's economic profile (excluding the West Coast) is the nearest to that of NZ as a whole. In saying that, the sales distribution of house prices in Northland and Waikato/BOP/Gisborne is in fact closer to the national profile.



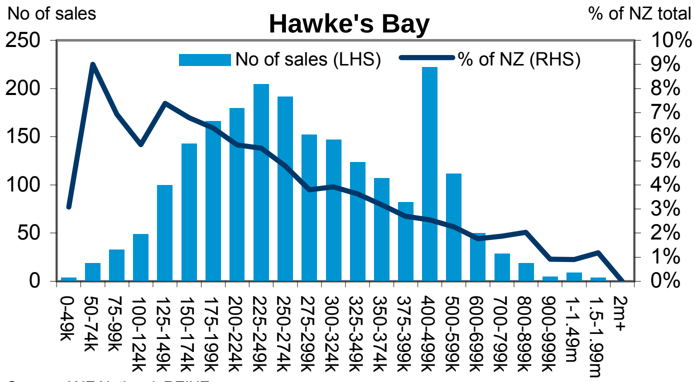
Source: ANZ National, REINZ



Source: ANZ National, REINZ



Source: ANZ National, REINZ



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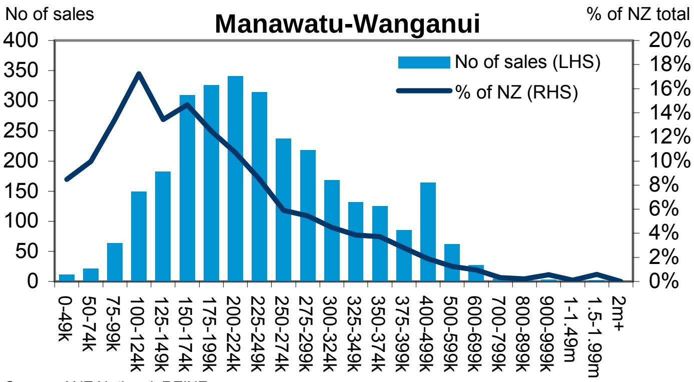

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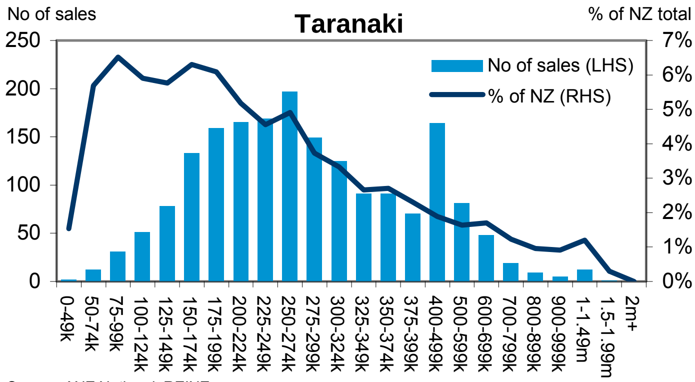
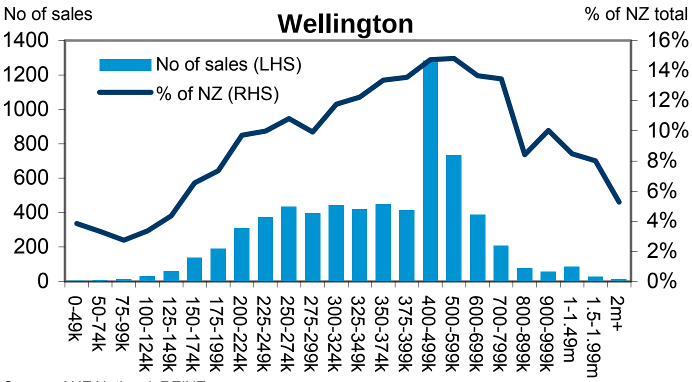


Source: ANZ National, REINZ



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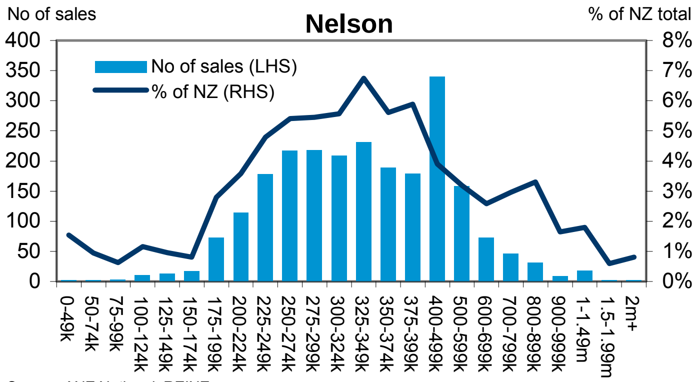

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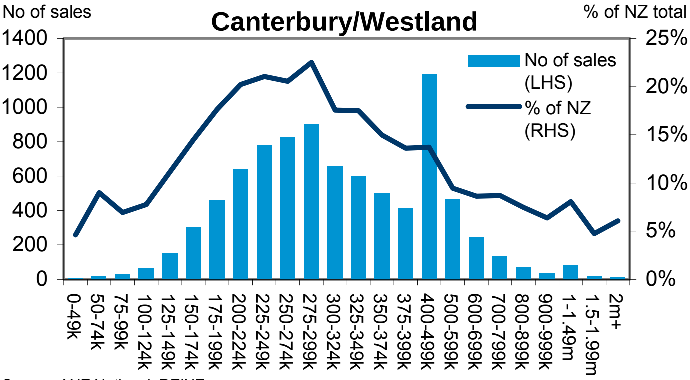

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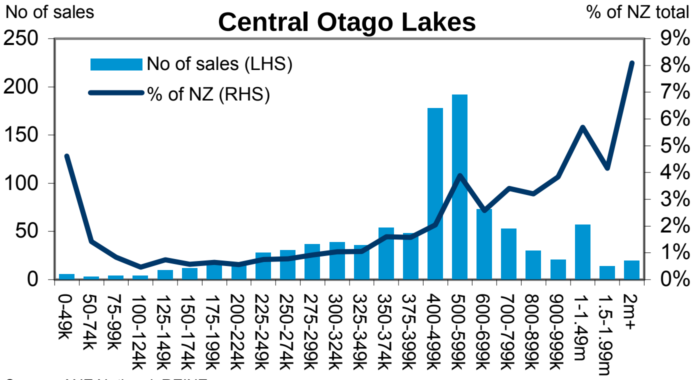

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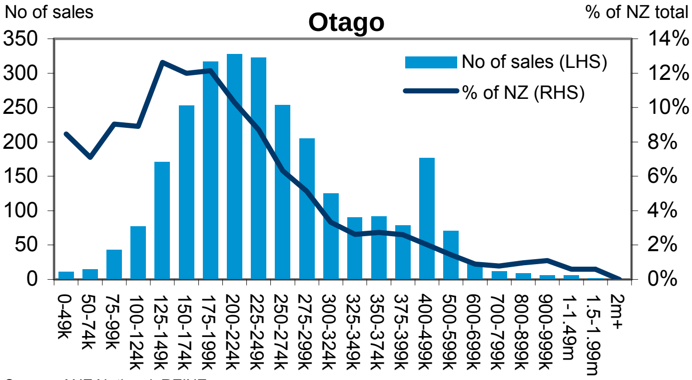
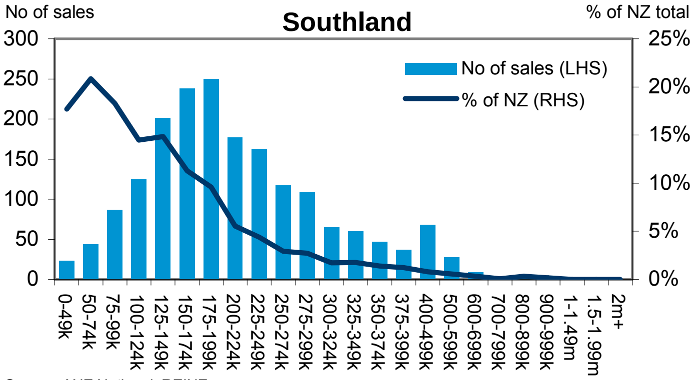
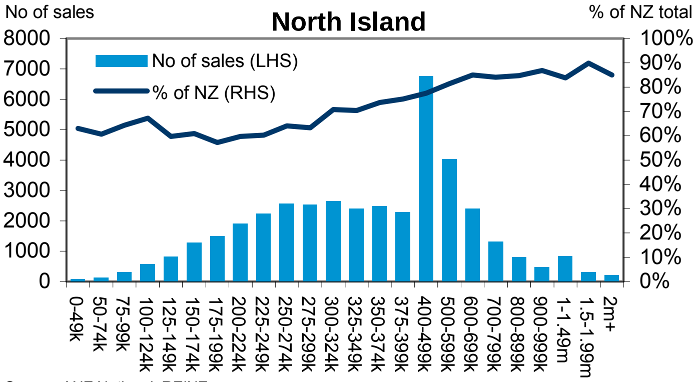


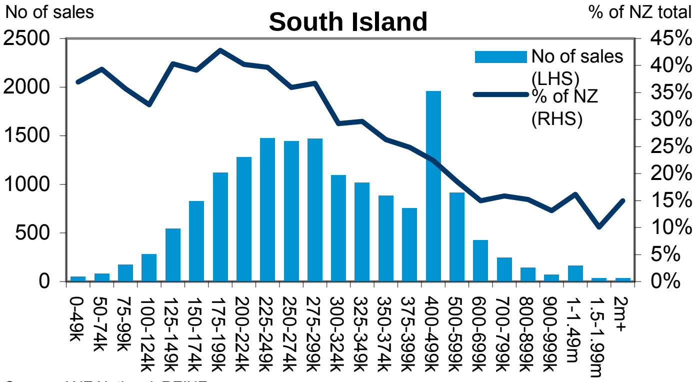
Source: ANZ National, REINZ



Source: ANZ National, REINZ



Source: ANZ National, REINZ



Source: ANZ National, REINZ

Statistical Annex

Weekly mortgage repayments table (based on 25 year term)

Mortgage Size ($'000)	Mortgage Rate (%)												
	5.50	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
100	142	145	149	152	156	159	163	167	170	174	178	182	186	190
150	212	218	223	228	234	239	244	250	256	261	267	273	279	284
200	283	290	297	304	311	319	326	333	341	348	356	364	371	379
250	354	363	371	380	389	398	407	417	426	435	445	455	464	474
300	425	435	446	456	467	478	489	500	511	522	534	545	557	569
350	496	508	520	532	545	558	570	583	596	610	623	636	650	664
400	566	580	594	608	623	637	652	667	682	697	712	727	743	758
450	637	653	669	684	701	717	733	750	767	784	801	818	836	853
500	708	725	743	761	778	797	815	833	852	871	890	909	928	948
550	779	798	817	837	856	876	896	917	937	958	979	1000	1021	1043
600	850	870	891	913	934	956	978	1000	1022	1045	1068	1091	1114	1137
650	920	943	966	989	1012	1036	1059	1083	1108	1132	1157	1182	1207	1232
700	991	1015	1040	1065	1090	1115	1141	1167	1193	1219	1246	1273	1300	1327
750	1062	1088	1114	1141	1168	1195	1222	1250	1278	1306	1335	1364	1393	1422
800	1133	1160	1188	1217	1246	1274	1304	1333	1363	1393	1424	1454	1485	1517
850	1204	1233	1263	1293	1323	1354	1385	1417	1448	1480	1513	1545	1578	1611
900	1274	1306	1337	1369	1401	1434	1467	1500	1534	1567	1602	1636	1671	1706
950	1345	1378	1411	1445	1479	1513	1548	1583	1619	1655	1691	1727	1764	1801
1000	1416	1451	1486	1521	1557	1593	1630	1667	1704	1742	1780	1818	1857	1896

Housing market indicators for November 2008 (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	4.7	5.8	84	(-24%)	77	Longest time to sell a house for the third month running.
Auckland	-5.6	-0.1	1,285	(-6%)	42	Sale numbers have dropped to the lowest on record.
Waikato/BOP/Gisborne	-6.4	-2.7	514	(-22%)	57	The median sale price has slipped to a two-year low.
Hawke's Bay	6.4	2.5	124	(+1%)	67	The median sale price rose to an all time high of $293k.
Taranaki	-5.5	4.1	143	(+2%)	56	The strongest increase in sale numbers over the month.
Manawatu-Wanganui	0.7	0.9	194	(-21%)	55	A large drop in sale numbers from a month earlier.
Wellington	-6.6	-2.2	440	(-10%)	53	Like Auckland, the number of sales hit a new record low.
Nelson-Marlborough	1.7	-1.0	138	(-6%)	45	The median selling price has risen to a nine-month high.
Canterbury/Westland	-4.3	-0.7	553	(-24%)	49	The number of house sales fell sharply from October.
Otago	-5.1	-2.9	164	(-14%)	51	All indicators are weaker than the nationwide average.
Central Otago Lakes	10.5	-7.4	68	(-9%)	50	The strong gain from a year ago has lost momentum.
Southland	-21.1	1.1	116	(-7%)	36	Houses are still selling quickly but at a fire sale price.
NEW ZEALAND	-4.1	-0.7	3,829	(-13%)	47	Showing signs of stability, albeit at a depressed level.

Key forecasts

	Actual			Forecast						
Economic indicators	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10
GDP (ann avg % chg)	3.2	2.6	1.7	0.6	-0.3	-0.9	-1.1	-1.1	-0.7	0.1
CPI inflation (%)	3.4	4.0	5.1	3.6	2.7	2.0	1.5	2.8	3.6	3.4
Unemployment rate (%)	3.7	3.9	4.2	4.7	5.0	5.6	5.8	6.2	6.4	6.6
	Actual			**Forecast (end month)**						
Interest rates	Oct 08	Nov 08	Latest	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10
Call rate	7.5	6.7	5.0	4.0	3.5	3.5	3.5	3.5	3.5	3.5
90-day bank bill rate	7.4	6.2	5.3	4.1	3.8	3.8	3.8	3.8	3.8	3.8
Floating mortgage rate	10.4	8.8	8.1	7.1	6.6	6.6	6.6	6.6	6.6	6.6
1-yr fixed mortgage rate	8.9	7.3	6.9	6.3	6.1	5.9	5.8	5.8	5.8	5.8
2-yr fixed mortgage rate	8.7	7.5	7.1	6.6	6.5	6.5	6.4	6.5	6.5	6.5
5-yr fixed mortgage rate	8.9	8.1	7.6	7.1	6.9	7.2	7.2	7.2	7.2	7.2

NEW ZEALAND 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.

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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