

OCR Crash Test Dummy

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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 the feature article investigates sale-to-listing price differentials across the regions.

The month in review (page 2)

- The property market remains caught in a torrential downpour. The route is extremely slippery and the windscreen wipers are at full speed. Proceed with caution when attempting to navigate supply, valuation, interest rate, credit and migration bends in the road.

Property gauges (page 3)

- Our chopper in the sky reports that traffic is flowing steadily. The one exception has been on the south bound lane, where the time to sell has slowed to a crawl. Once house prices and interest rates click into reverse gear, affordability and serviceability will be freed up.

Economic backdrop (page 5)

- The New Zealand economy is weak. We struggle to see positive growth over 2008. Given the de-leveraging dynamic the economy is embarking on, it will take some time for momentum to recover fully. Internationally, global policymakers continue to face a tough balancing act between credit related malaise and inflation concerns.

Mortgage borrowing strategy (page 6)

- Shortening the duration of borrowing into the 6 month to 1 year buckets remains the favoured strategy at present.

Feature article – Sale-to-Listing Price Differentials (page 7)

- Since the end of last year, the gap between the median price that dwellings are listed at with real estate agents and the final selling price has widened to over 4 percent. It's another sign that sellers are now willing to discount their price expectations in light of the current weakness in the New Zealand real estate market. Given a rising number of days to sell, we expect more of the same.

Key forecasts (page 11)



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The month in review

The property market remains caught in a torrential downpour. The route is extremely slippery and the windscreen wipers are at full speed. Proceed with caution when attempting to navigate supply, valuation, interest rate, credit and migration bends in the road.

- > **REINZ housing data – June.** Although the number of house sales rebounded in June, the underlying tone remains soft. The median time to sell rose sharply to 51 days (seasonally adjusted) from 47 in May and median house prices fell 5k to \$340,000. House prices are now 3.4 percent off their peak from November last year. The more telling figure is the length of time it is now taking people to sell their properties. At 51 days, this is almost three weeks longer than it was at the start of 2007. This suggests that vendors are still yet to fully adjust their price expectations to a slowing market.
- > **Barfoot and Thompson house sales – June.** The seasonally adjusted number of house sales for Auckland rose by 15 percent in June following a 5 percent fall in May. Given the considerable fall in sales activity over the past year, a rebound was likely at some stage. However, it is still far too early to say whether the trough has been and gone. House prices from the Barfoot data show that they are now 7 percent off the early 2007 peak.
- > **Westpac/McDermott-Miller consumer confidence - June.** Consumer confidence fell to its lowest level since December 1991. It is easy to come up with reasons why the NZ consumer may be feeling gloomy about prospects. House values are falling, as are equity markets. Petrol prices are at record highs and the weekly grocery bill is costing more. Combine this with less job security as the unemployment rate ticks up. The survey should include the impacts of the announced personal tax cuts and Fonterra's massive dairy payout, but the gloominess just illustrates that these factors are being dwarfed by the other headwinds facing households at present.
- > **Mortgage Lending – May.** Housing lending growth rose 0.5 percent in May. Annual growth in the series has slowed from double-digit growth rates to 9.5 percent – the first single digit rate of increase in over 5 years. Looking at the more timely 3-month annualised picture, credit growth is 5.2 percent.
- > **Building Consents – May.** Residential consent issuance fell 42.3 percent in May, following the surprising 83.0 percent increase in April. Excluding apartments, consent issuance fell 25.3 percent after a 34.0 percent increase in April. Recent data has been incredibly volatile as a result of the early Easter this year and this makes interpretation difficult. Nevertheless, the underlying trend is weak - particularly when apartments are excluded.
- > **External Migration – May.** There was a seasonally adjusted net inflow of 1,010 people in May - the highest monthly net inflow since November 2006. This has taken the 12-month total to 4,931 people, which is the highest level since the end of 2007. The solid net inflow over the month was solely driven by higher PLT arrivals, with PLT departures remaining largely unchanged.

Assessment

This month's real estate data merely confirms that the housing market remains very soft. To be fair it looks like volumes are stabilising – at low levels – but rising days to sell portend of further downwards pressure on prices. It is median days to sell as opposed to volumes that we tend to focus on. When it stabilises, the same can safely be said for the market.

Moving beyond the property market, it is clear that the slowdown in the economy has broadened significantly. Retailing remains weak, and manufacturing is slowing. Businesses are seeing limited sales growth but rising costs. Sentiment within the labour market remains very weak, and further rises in the unemployment rate may well be the next leg of the housing story.

Road works ahead. Please stop on request.

Sudden dip.

Limited Speed Zone.

Property gauges

Our chopper in the sky reports that traffic is flowing steadily. The one exception has been on the south bound lane, where the time to sell has slowed to a crawl. Once house prices and interest rates click into reverse gear, affordability and serviceability will be freed up.

Slippery surface. Watch your following distance.

We use eight gauges to assess the state of the property market and whether warning signs are emerging.

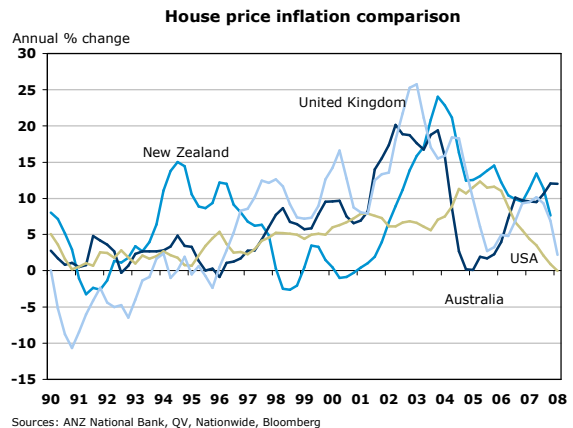
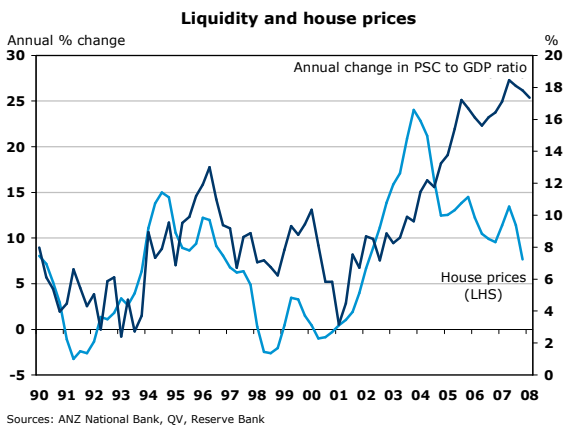
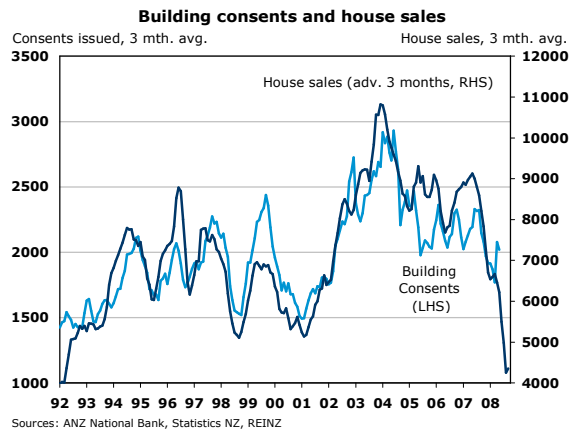
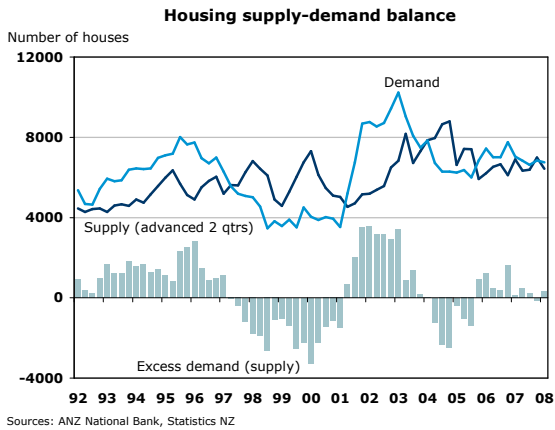
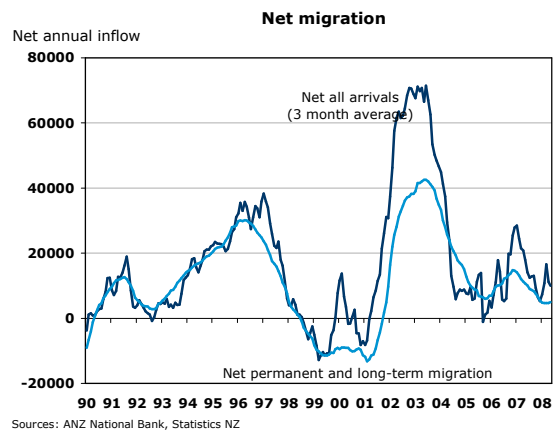
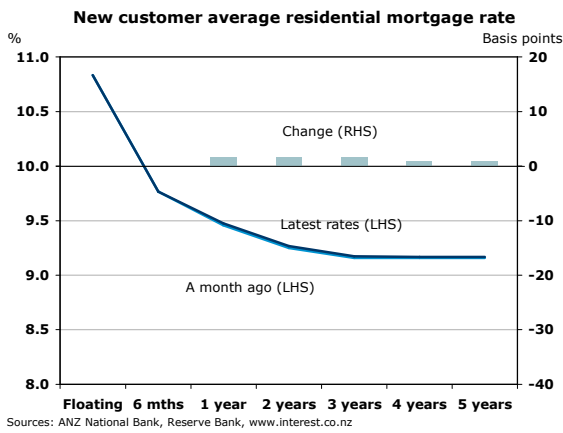
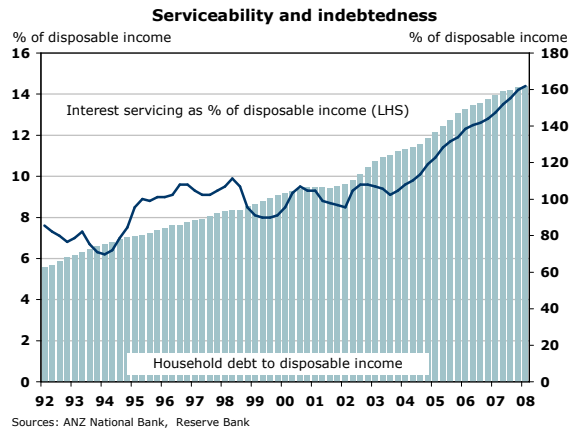
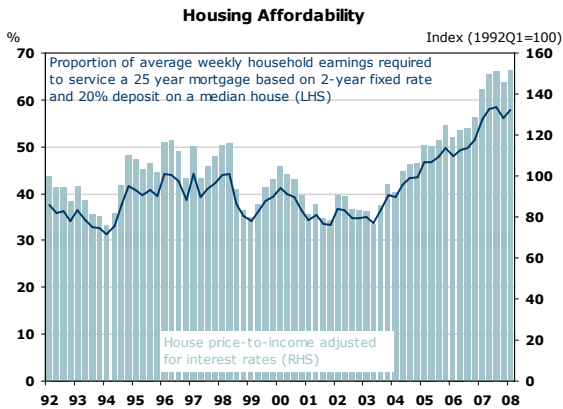
- > **Affordability.** For new entrants into the housing market, we measure affordability using the ratio of house prices-to-income (augmented for interest rates), and mortgage payments as a proportion of income.
- > **Serviceability / indebtedness.** For existing homeowners, serviceability relates interest 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.

Two wrongs don't make a right, but three lefts do.

Most gauges have consolidated or are beginning to weaken. The exception on the downside is house sales, which have plummeted to a sixteen year low. Once house prices follow suit, affordability and serviceability will consequently start to drop as well.

Stalled at the lights.

Indicator	Level	Direction for prices	Comment
Affordability	Expensive	↓	Low overhead clearance in the tunnel of house affordability.
Serviceability / indebtedness	High	↓	Similar to being stuck behind a logging truck on a steady grind upwards, with no passing lane in sight.
Interest rates	High	↔/↓	A sudden dip may lie around the corner!
Migration	Medium	↔	Loading zone replaced with a clearway sign.
Supply-demand balance	Neutral	↔	Traffic is flowing smoothly in both directions.
Consents and house sales	Consents down, sales rebound	↓	A washout has reduced a section of the track down to one lane.
Liquidity	High	↓	A case of liquidity being diagonally parked in a parallel universe.
Globalisation	Not that cheap	↔	Beware of black ice in recessed localities.
On balance		↓	Stick to the 2-second rule.



Economic backdrop

The New Zealand economy is weak. We struggle to see positive growth over 2008. Given the de-leveraging dynamic the economy is embarking on, it will take some time for momentum to recover fully.

Internationally, global policymakers continue to face a tough balancing act between credit related malaise and inflation concerns.

Our core economic view

The economy continues to weaken. Historical data paints a poor picture. Yet it is the messages coming from leading gauges including consumer and business confidence (the weakest we have seen since 1991/92) along with continued weakness in the equity market (another forward gauge) that are most telling.

We are in no doubt the seeds for an upswing and recovery are gradually being sown. The NZ dollar has trended down and sub 80 cents against the Australian dollar is attractive for exporters. Fiscal policy will deliver tax cuts late in the year. We believe the Reserve Bank is set to cut interest rates, although they'd need to fall a long way to have a direct cash-flow benefit to households.

Yet, it is equally clear that the magnitude of the imbalances and headwinds facing the economy including a high current account deficit, material levels of household debt and inflation, imply the adjustment process, and specifically period of de-leveraging we are undertaking, will be a long and drawn out process. Consolidation in the household sector will take time. With the current account deficit standing at 7.8 percent of GDP, it will take a substantial period of weakness in the domestic economy to return the deficit to a more sustainable level. Historically, current account realignment processes have been dominated by contractions in the domestic economy. This cycle looks no different. However a positive aspect is that we'll eventually see a shift in the balance of growth (more earning, less spending). This is essential if the economy and housing market is going to be stronger for longer in five years.

Also, one key to getting the economy going again in a sustained fashion is improved productivity growth. It leads the economic cycle, and while cyclical stabilisation forces such as interest rates, fiscal policy and the currency are material, growth will not take a firm hold until productivity growth picks up. Facing falling sales, and rising costs, we are detecting a sharp change in attitudes across the business sector. There is a far greater focus on costs, extracting efficiency, and driving productivity. This is a pre-requisite to the recovery and a positive dynamic. However, this also means the unemployment rate looks set to turn far more aggressively.

Offshore developments

The global environment continues to deteriorate. While there remain pockets of resilience – particularly in Asia – across developed nations it a familiar picture of weakening momentum. Around the globe the month of June has seen some of the largest declines in equity market indices on record. Credit related malaise (with further concerns in the US) along with global inflation pressure (oil hitting new highs) are a nasty combination for investors to digest. Caution prevails.

Central banks continue to face a tough balancing act as they assess inflation versus credit risks. The past month has seen a swing in sentiment across policymakers. They (both the politicians and central bankers) are on inflation alert. In our eyes, the global growth cycle and policymakers will eventually take care of the tradable component of the Reserve Bank's inflation conundrum. A domestic economy headed backwards will take care of the rest.

**Don't gamble at intersections
– bad calls can be deadly.**

**Getting our kicks,
on Route 666.**

Mortgage borrowing strategy

Shortening the duration of borrowing into the 6 month to 1 year buckets remains the favoured strategy at present.

Our view

With the economy really struggling, there is an inevitability about what needs to happen to interest rates. They need to fall. The more pertinent questions are timing, and magnitude. Inflation remains a huge sticking point on both fronts. The stark reality is that the headline inflation rate is set to push through 5 percent. In that environment it takes a lot of faith in the monetary policy framework, and belief we will not see second-round effects from the near-term blip in inflation, to cut rates.

We believe there is a lot of bravado when it comes to what the pricing intention surveys (traditionally reasonable barometers of future inflation) are telling us. They are moving up simply because profits are moving down. Facing falling sales, businesses are naturally looking to pull the price lever where possible. It's at this juncture that intent will meet reality: if people are not buying, you can hardly put prices up. When we look at the medium-term drivers of inflation, notably growth, wages, and the labour market, they are pointing to an improved (lower) outlook. We just need to get over (or have faith to get over) the hump first.

We're now expecting (praying) the Reserve Bank cuts rates from as the early as the end of the month in what is shaping up as a line-ball decision. Don't get us wrong, the inflation story is real. But equally, and if not more compelling in our eyes, is the reality as to where the economy resides (and property market in particular), sharply slowing credit growth, and a significant jump in the cost of offshore cash (which NZ requires to fund a savings shortfall). Wholesale rates need to fall just to stop retail rates moving up. We equally have a weaker view of the NZ economy, and also where we believe the international economy is headed over the coming year. Whether the Reserve Bank is of a similar view remains a moot point and it may well be a case of them waiting to see more evidence. We would not be surprised if this were the case and our hope rates fall at the end of the month lacks real conviction.

Beyond July, we've pencilled in a couple more reductions in the Official Cash Rate before the end of the year. The big picture is still an overall easing, but we may see three 25 basis point moves then a pause, and a resumption of the same at some stage in 2009 – an implicit acknowledgment that a lot of inflation in the pipeline exists. The Reserve Bank – like all central banks – has a tough path to navigate as it balances a very weak economy, with an inflationary backdrop around the globe.

Whatever path the RB pursues we need to be mindful of a couple of things. First, these are the most challenging times for any central bank in more than 30 years. Second, the housing market tends to perform stronger when inflation is under control, so while high rates are a bitter medicine in the short-term, ultimately it is good for the market down the track. Thirdly, whichever path is chosen (cut now or hold for a while longer) is not without risk. Cut early and you risk further inflation, which means a further growth sacrifice down the track. Cut too late and you risk a severe downturn. So while we'd certainly like to see rates move earlier, it'd be hard to quibble if this does not manifest and caution prevails.

Themes we favour in the current environment

We continue to favour relatively short dated borrowing. The one year part of the curve remains the "sweet" spot, the same as last month.

- > **Borrowers should continue to have a degree of diversification.**
- > **The 1 year part of the curve, and even shorter duration borrowing, looks to be the sweet spot at this juncture.**

Footpath closed. Please use other side.

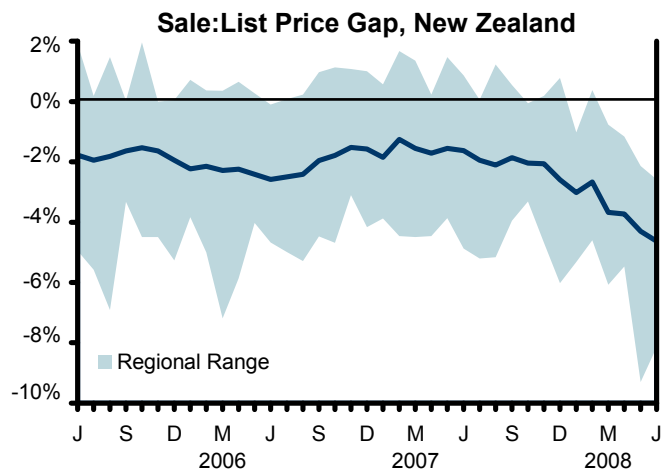
**Heavy Vehicles:
Please No
Engine Brakes
Next 4 km.**

Feature article – Sale-to-Listing Price Differentials

Since the end of last year, the gap between the median price that dwellings are listed at with real estate agents and the final selling price has widened to over 4 percent. It's another sign that sellers are now willing to discount their price expectations in light of the current weakness in the New Zealand real estate market. Given a rising number of days to sell, we expect more of the same.

Each month the Real Estate Institute of New Zealand (REINZ) publish a range of data pertaining to the real estate market. The most widely reported series relate to the number of houses sold, the median price of houses sold price and the median number of days to sell a dwelling. In addition to these, the REINZ also publish the price that dwellings are listed at and the eventual sale price. By comparing the list price to the sales price, we have derived a sale-to-listing price gap. As well as the nationwide figure, the REINZ also release the listing and sale price data by district. The following article is a regional summary of the sale-to-listing price gaps. The thicker line in the chart below shows the nationwide sales-to-listing price gap. In the latest observation the median sale price was 4.6 percent below the median listing price. The shaded area in the chart summarises the highest and lowest sale-to-listing price gaps across the regions.

Caution: Slippery surface when frosty.



So what does it show?

- > The most obvious trend in the chart is that the gap between the listing price and final selling price has been widening. The differential first began to widen further than normal in December last year. Prior to then, the average sale-to-listing price differential was 2 percent. In other words, over this earlier period the median house sales price was typically two percent below the median price that they were listed at. In the latest observation for June this differential has spread to 4.6 percent.
- > A similar trend has prevailed across the regions. The only exception being Hawke's Bay (see the bottom chart on page 9), where the differential between selling and listing prices has narrowed over the past year and a half. During the past 18 months the sale-to-listing price gap has averaged -2.2 percent, while in the 18 months prior to this, the gap averaged -2.4 percent.
- > Another interesting comparison is to identify which regions are frequently under (or over) the national average. Here the stand-out region is Wellington. Over the past three years Wellington has consistently (excluding one month) recorded the narrowest sale-to-listing price gap across the regions. Canterbury has a similar (but not as extreme) track record, with a tighter sale-to-listing ratio than the national benchmark in all but one month.

New road layout ahead.

At the other extreme, the sale-to-listing price gap in the Bay of Plenty has been consistently wider than the national average. Northland's differential has also been wider, with only one occurrence in the past 36 observations that the gap has been narrower than the national benchmark. With only three years of data, explaining why this is so isn't easy. Maybe sellers aren't as informed about trends in the real estate market of their locality. Or perhaps it has been a buyers' market in these regions for the past three years.

The two tables below summarise those districts with the widest and narrowest sale-to-listing price differentials. To avoid wild swings, we have limited this analysis to only those areas with at least 15 sales in the past three months and we have averaged the sale-to-listing ratios over the latest three months. The price differentials presented for individual districts in the table will exceed the regional benchmarks presented in the charts on pages 9 and 10.

Waitara had the smallest sales-to-listing price differential in the three months to June, followed by Central Wellington. As we mention earlier, Wellington is consistently skewed towards the bottom of the table. Such a phenomenon could be explained by a combination of: buyers willing and able to pay a premium; supply shortages relative to demand; sellers more savvy and in tune with market prices; or the region's real estate market being relatively insulated from other parts of the nation and not being distorted by larger swings in the price cycle. It could also be a simple case of some firms (regions) using buyer enquiry as opposed to a set sale price.

The Fast and the Furious.

Ten Largest Sale-to-Listing Price Gaps (avg 3 mths to June 2008)

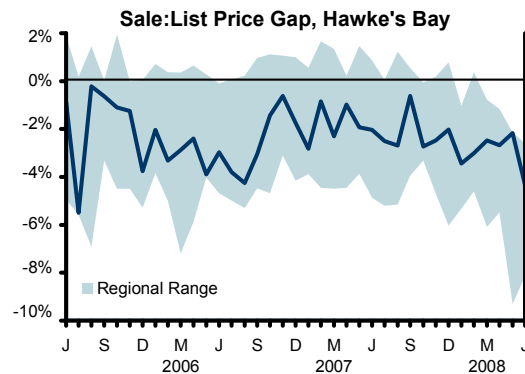
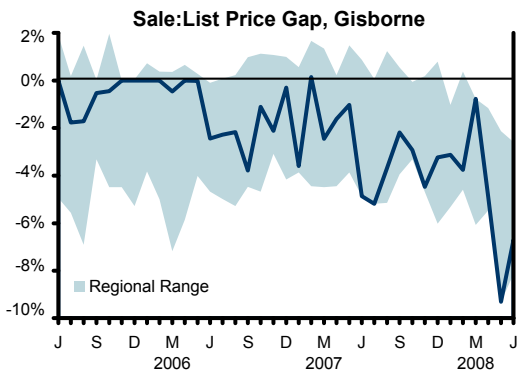
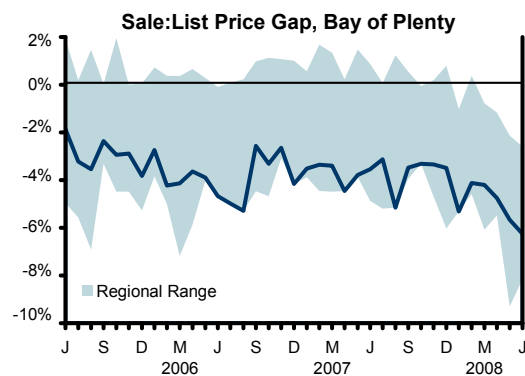
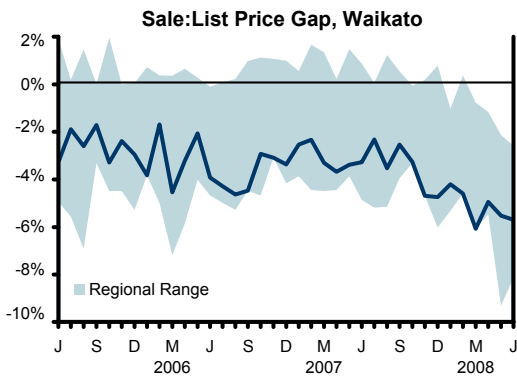
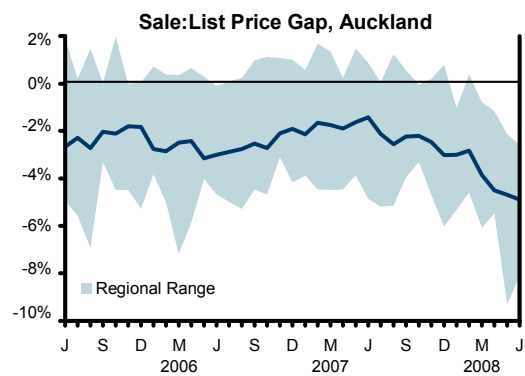
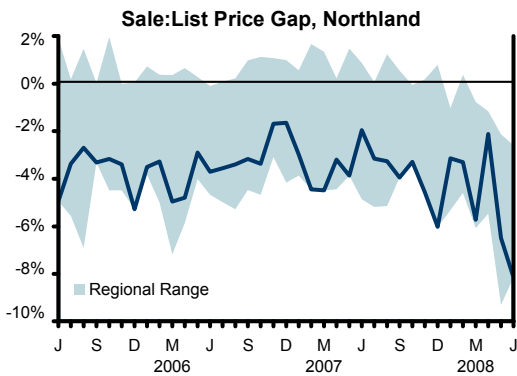
Sale:List Price Gap	District	Region	No. of Sales
-17.7%	Mangonui	Northland	16
-10.8%	Stratford	Taranaki	32
-9.6%	North Otago	Otago	80
-9.3%	Auckland, Islands Of Gulf	Auckland	39
-9.2%	Wanganui	Manawatu-Wanganui	184
-8.7%	Riverton	Southland	25
-8.4%	Te Anau	Southland	15
-8.1%	Rodney North	Auckland	77
-7.9%	Manurewa	Auckland	170
-7.6%	Papatoetoe	Auckland	211

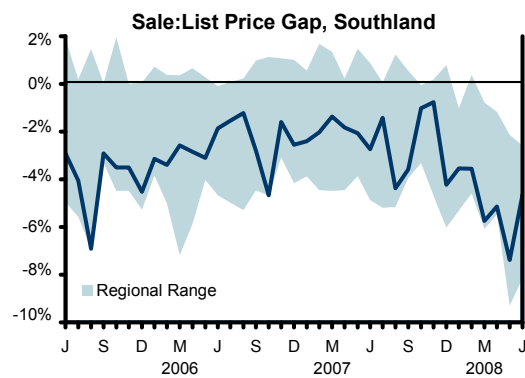
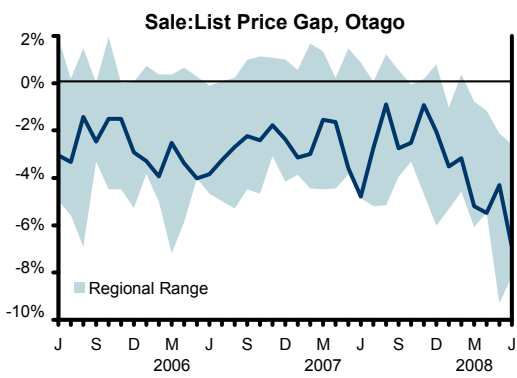
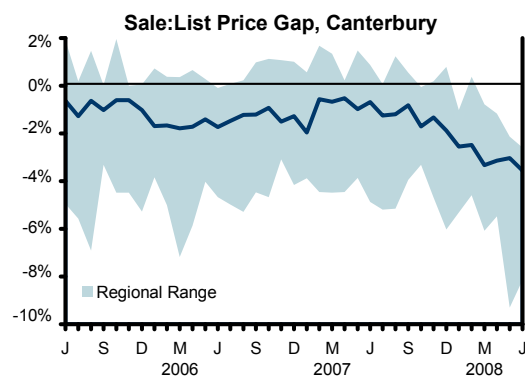
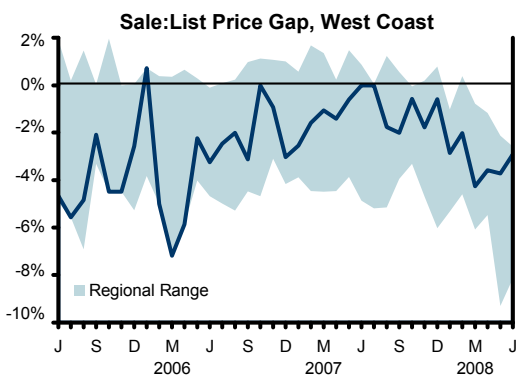
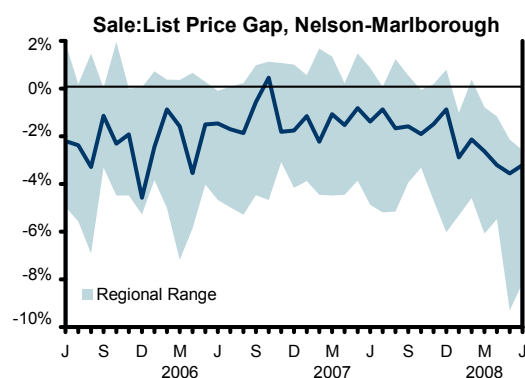
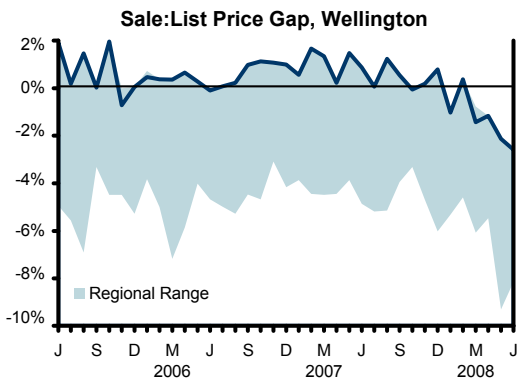
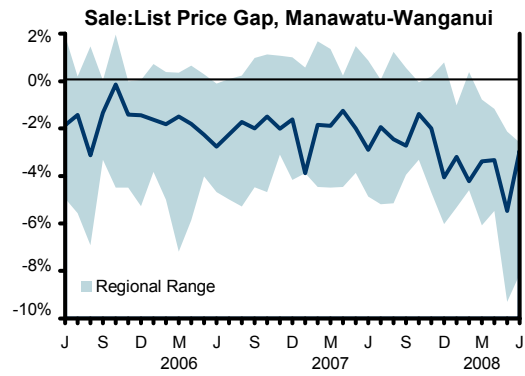
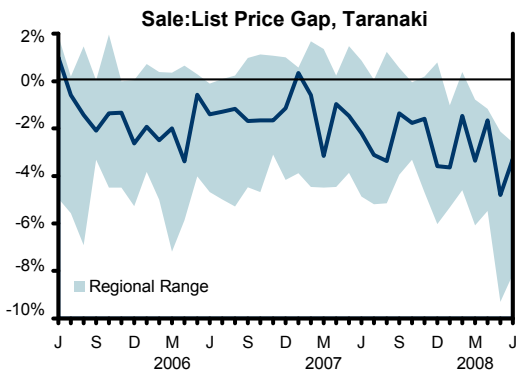
Ten Smallest Sale-to-Listing Price Gaps (avg 3 mths to June 2008)

Sale:List Price Gap	District	Region	No. of Sales
-1.6%	Palmerston North City	Manawatu-Wanganui	267
-1.4%	Richmond	Nelson/Marlborough	54
-1.3%	Christchurch City South	Canterbury	60
-1.1%	Western Wellington	Wellington	104
-1.0%	Christchurch Seaside Hills	Canterbury	30
-0.9%	Winton	Southland	36
-0.7%	Northern Wellington	Wellington	183
-0.6%	Bell Block	Taranaki	39
-0.3%	Central Wellington	Wellington	112
0.0%	Waitara	Taranaki	21

The upshot

The widening gulf between listing and selling prices is one indication of sellers being reluctant to adjust their expectations down, but rather they are holding out in hope that the market will recover. A prime example of this is the lengthening in the median time to sell a house. The gap between the two will stay extended until sellers accordingly adjust their expectations down. Strictly speaking anecdotes suggest the "gap" is wider than the 4.6 percent calculated here. Whether this means both the list price and sell price have both started to adjust is not clear. But we'll be watching this gap over coming months.





Statistical Annex

Weekly mortgage repayments table (based on 25 year term)

Mortgage Size (\$'000)	Mortgage Rate (%)													
	7.50	7.75	8.00	8.25	8.50	8.75	9.00	9.25	9.50	9.75	10.00	10.25	10.50	10.75
100	170	174	178	182	186	190	194	197	201	205	210	214	218	222
150	256	261	267	273	279	284	290	296	302	308	314	320	327	333
200	341	348	356	364	371	379	387	395	403	411	419	427	435	444
250	426	435	445	455	464	474	484	494	504	514	524	534	544	555
300	511	522	534	545	557	569	581	592	604	616	629	641	653	666
350	596	610	623	636	650	664	677	691	705	719	733	748	762	777
400	682	697	712	727	743	758	774	790	806	822	838	855	871	887
450	767	784	801	818	836	853	871	889	907	925	943	961	980	998
500	852	871	890	909	928	948	968	987	1007	1027	1048	1068	1089	1109
550	937	958	979	1000	1021	1043	1064	1086	1108	1130	1153	1175	1198	1220
600	1022	1045	1068	1091	1114	1137	1161	1185	1209	1233	1257	1282	1306	1331
650	1108	1132	1157	1182	1207	1232	1258	1284	1310	1336	1362	1389	1415	1442
700	1193	1219	1246	1273	1300	1327	1355	1382	1410	1438	1467	1495	1524	1553
750	1278	1306	1335	1364	1393	1422	1451	1481	1511	1541	1572	1602	1633	1664
800	1363	1393	1424	1454	1485	1517	1548	1580	1612	1644	1676	1709	1742	1775
850	1448	1480	1513	1545	1578	1611	1645	1679	1713	1747	1781	1816	1851	1886
900	1534	1567	1602	1636	1671	1706	1742	1777	1813	1849	1886	1923	1960	1997
950	1619	1655	1691	1727	1764	1801	1838	1876	1914	1952	1991	2029	2069	2108
1000	1704	1742	1780	1818	1857	1896	1935	1975	2015	2055	2095	2136	2177	2219

Housing market indicators for June 2008 (based on REINZ data)

	House prices (Ann % chng)	3mth % chng	No of sales (s.a.)	Mthly % chng	Avg days to sell (s.a.)	Comment
Northland	-3.9	3.7	101	(+8%)	57	Recent price changes have moved in to the passing lane
Auckland	-2.2	2.8	1,463	(+14%)	50	In pole position of the Nth Island price rise starting grid
Waikato/BOP/Gisborne	-2.8	-3.3	606	(+14%)	58	Sale numbers travelling along a long and winding road
Hawke's Bay	-2.6	-2.0	136	(-16%)	73	Real estate statistics are caught in a game of chicken
Taranaki	-3.8	3.5	145	(+3%)	51	Prices suffered a hard landing after last month's jump
Manawatu-Wanganui	-13.8	-0.4	204	(-7%)	55	Annual house price growth is on the highway to hell
Wellington	-2.3	-2.0	501	(+8%)	47	House prices caught in the queue for a one lane bridge
Nelson-Marlborough	0.0	0.2	165	(+1%)	45	Little change from May sees the region Keep on Truckin'
Canterbury/Westland	-2.0	-4.9	709	(+27%)	53	Sales numbers exceed the heavy vehicle axle weight
Otago	-2.2	-1.1	188	(+6%)	46	Steep downgrade in house prices – trucks use low gear
Central Otago Lakes	22.4	-0.9	72	(-3%)	69	Stay tuned for another episode of Pimp my House Price
Southland	2.7	-3.1	161	(+27%)	38	The number of days to sell a house is on cruise control
NEW ZEALAND	-2.2	0.3	4,469	(+13%)	51	If everything comes your way, you're in the wrong lane

Key forecasts

Economic indicators	Actual			Forecast						
	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10
GDP (ann avg % chg)	3.1	3.0	2.3e	1.6	0.6	0.2	0.4	0.7	1.2	1.7
CPI inflation (%)	3.2	3.4	4.0	5.0	4.7	4.5	3.6	2.9	2.7	2.7
Unemployment rate (%)	3.4	3.6	3.8e	4.0	4.2	4.3	4.5	4.7	4.8	4.9
Interest rates	Actual			Forecast (end month)						
	May08	Jun08	Latest	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10
Call rate	8.3	8.3	8.3	7.8	7.5	7.5	7.3	6.8	6.3	6.0
90-day bank bill rate	8.7	8.8	8.4	8.0	7.9	7.8	7.3	6.8	6.3	6.2
Floating mortgage rate	10.8	10.8	10.7	10.4	10.2	10.2	9.9	9.4	8.9	8.7
1-yr fixed mortgage rate	9.5	9.5	9.4	9.3	9.1	9.1	8.7	8.2	7.8	7.7
2-yr fixed mortgage rate	9.4	9.3	9.2	9.1	9.0	8.8	8.5	8.1	7.8	7.8
5-yr fixed mortgage rate	9.5	9.2	9.1	9.1	8.7	8.6	8.3	7.9	7.7	7.7

DISCLOSURE INFORMATION

The Bank (in respect of itself and its principal officers) makes the following investment adviser disclosure to you pursuant to section 41A of the Securities Markets Act 1988.

The Bank (in respect of itself and its principal officers) makes the following investment broker disclosure to you pursuant to section 41G of the Securities Markets Act 1988.

Qualifications, experience and professional standing**Experience**

The Bank is a registered bank and, through its staff, is experienced in providing investment advice about its own securities and, where applicable, the securities of other issuers. The Bank has been selling securities, and providing investment advice on those securities, to customers as a core part of its business for many years, drawing on the extensive research undertaken by the Bank and its related companies and the skills of specialised staff employed by the Bank. The Bank is represented on many bank, finance and investment related organisations and keeps abreast of relevant issues by running seminars and workshops for relevant staff and having its investment adviser staff attend external seminars where appropriate. The Bank subscribes to relevant industry publications and, where appropriate, its investment advisers will monitor the financial markets.

Relevant professional body

The Bank is a member of the following professional bodies relevant to the provision of investment advice:

- New Zealand Bankers Association;
- Associate Member of Investment Savings & Insurance Association of NZ;
- Financial Markets Operations Association; and
- Institute of Finance Professionals.

Professional indemnity insurance

The Bank (and its subsidiaries), through its ultimate parent company Australia and New Zealand Banking Group Limited, has professional indemnity insurance which covers its activities including those of investment advisers it employs.

This insurance covers issues (including 'prior acts') arising from staff fraud, electronic crime, documentary fraud and physical loss of property. The scope of the insurance also extends to third party civil claims, including those for negligence. The level of cover is of an amount commensurate with the size and scale of the Bank.

The insurer is ANZcover Insurance Pty Limited.

Dispute resolution facilities

The Bank has a process in place for resolving disputes. Should a problem arise, you can contact any branch of the Bank for more information on the Bank's procedures or refer to any of the Bank's websites.

Unresolved complaints may ultimately be referred to the Banking Ombudsman, whose contact address is PO Box 10-573, Wellington.

Criminal convictions

In the five years before the relevant investment advice is given none of the Bank (in its capacity as an investment adviser and where applicable an investment broker) or any principal officer of the Bank has been:

- Convicted of an offence under the Securities Markets Act 1988, or the Securities Act 1978 or of a crime involving dishonesty (as defined in section 2(1) of the Crimes Act 1961);
- A principal officer of a body corporate when that body corporate committed any of the offences or crimes involving dishonesty as described above;

- Adjudicated bankrupt;
- Prohibited by an Act or by a court from taking part in the management of a company or a business;
- Subject of an adverse finding by a court in any proceeding that has been taken against them in their professional capacity;
- Expelled from or has been prohibited from being a member of a professional body; or
- Placed in statutory management or receivership.

Fees

At the time of providing this disclosure statement it is not practicable to provide accurate disclosure of the fees payable for all securities that may be advised on. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

Other interests and relationships

When a security is sold by the Bank, the Bank may receive a commission, either from the issuer of a security or from an associated person of the Bank. Whether that commission is received and, if received, its value depends on the security sold. At the time of providing this disclosure statement it is not practicable to provide a detailed list of each security that may be advised on, the name of the issuer of that security and the rate of the commission received by the Bank. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

In addition to the interest that the Bank has in products of which it is the issuer, the Bank, or an associated person of the Bank, has the following interests or relationships that a reasonable person would find reasonably likely to influence the Bank in providing the investment advice on the securities listed below:

- ANZ Investment Services (New Zealand) Limited (ANZIS), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. ANZIS may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- UDC Finance Limited (UDC), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. UDC may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- The Bank has a joint venture relationship with ING (NZ) Holdings Limited (ING). ING and its related companies may receive remuneration from a third party relating to a security sold by the Investment Adviser.

Securities about which investment advice is given

The Bank provides investment advice on the following types of securities:

- Debt securities including term and call deposits, government stock, local authority stock, State-Owned Enterprise bonds, Kiwi bonds and corporate bonds and notes;
- Equity securities such as listed and unlisted shares;
- New Zealand and overseas unit trusts;
- Share in a limited partnership;
- Superannuation schemes and bonds;
- Group investment funds;
- Life insurance products;
- Derivative products including interest rate and currency forward rate contracts and options; and
- Other forms of security, such as participatory securities.

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

If you wish to pay investment money to the Bank you can do this in several ways such as by:

- Providing cash;
- Providing a cheque payable to the relevant product or service provider and crossed 'not transferable'; or
- Making an automatic payment or payment through another electronic delivery mechanism operated by the Bank.

Investment property (other than money) may be delivered to the Bank by lodging the relevant property (for example, share certificates) with any branch of the Bank offering a safe custody service, or by posting (using registered post) the documents or other property to a branch of the Bank, identifying your name, account number and investment purpose.

Any investment money lodged with the Bank for the purchase of securities offered by the Bank, its subsidiaries or any third parties will be deposited in accordance with your instructions, to your nominated account or investment. Such money will be held by the Bank according to usual banking terms and conditions applying to that account or the particular terms and conditions relating to the investment and will not be held by the Bank on trust unless explicitly accepted by the Bank on those terms. Any investment money or property accepted by the Bank on trust will be so held until disbursed in accordance with your instructions. Any investment property lodged with the Bank will be held by the Bank as bailee according to the Bank's standard terms and conditions for holding your property.

Record Keeping

The Bank will keep adequate records of the deposit of investment moneys or property and all withdrawals and dealings with such money or property, using the account/investment number allocated to your investment. You may have access to those records upon request.

Auditing

The Bank's systems and operations are internally audited on a regular basis. The financial statements of the Bank and its subsidiaries are audited annually by KPMG. However, this does not involve an external audit of the receipt, holding and disbursement of the money and other property.

Use of Money and Property

Money or property held by the Bank for a specific purpose communicated to the Bank (e.g. the purchase of an interest in a security) may not be used by the Bank for its own purposes and will be applied for your stated purpose. No member of the Bank's staff may use any money or property deposited with the Bank, for their own purposes or for the benefit of any other person. In the absence of such instructions, money deposited with the Bank may be used by the Bank for its own purposes, provided it repays the money to you upon demand (or where applicable, on maturity), together with interest, where payable.

DISCLAIMER

The Bank does not provide investment advice tailored to an investor's personal circumstances. It is the investor's responsibility to understand the nature of the security subscribed for, and the risks associated with that security. To the maximum extent permitted by law, the Bank excludes liability for, and shall not be responsible for, any loss suffered by the investor resulting from the Bank's investment advice.

Each security (including the principal, interest or other returns of any security) the subject of investment advice given to the investor by the Bank or otherwise, is not guaranteed, secured or underwritten in any way by the Bank or any associated or related party except to the extent expressly agreed in the terms of the relevant security.

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