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A Spring Cleaning

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 comment on the turmoil around the globe and update our regional demand-supply housing balance measures for data to June.

The month in review (page 2)

- The aggressive interest rate cut by the Reserve Bank in early spring foreshadows the direction for mortgage rates over the next four seasons. Meanwhile, house sales and consent issuance remain in the doldrums.

Property gauges (page 3)

- Following the Reserve Bank's aggressive 50bp cut to the Official Cash Rate, mortgage rates have fallen. House prices have edged down, and accordingly so too has house affordability, as it continues the descent from a recent high. A dark cloud on the horizon is a weaker outlook for the global economy, which will dampen prospects here for a while yet.

Economic backdrop (page 5)

- A patchy period of economic growth can be expected as the economic drivers switch from the spending to the earning side of the economy and the economy continues to "rebalance". Meanwhile, the credit related economic slowdown that began in the US, has spread to other corners of the globe and this presents a key risk for the NZ economy.

Mortgage borrowing strategy (page 6)

- With the RBNZ accelerating and front-loading the easing cycle, the big picture remains tilted towards relatively short-dated borrowing. We continue to recommend targeting a rate of one year.

Comment – Global watch (page 7)

- We've seen a lot of turmoil of late, in what some commentators are saying is the worst financial crisis since the 1930's. We need to be wary of "Chicken Little" style analysis, but NZ will clearly be impacted. While the Reserve Bank is throwing an interest rate lifeline to the housing market, the collective impact on the entire economy is still negative.

Feature article – Housing supply vs. demand balance (page 8)

- We have updated our demand-supply housing balance measures for data to June. In summary, the analysis confirms what is widely acknowledged – it's a buyers market at the moment.

Key forecasts (page 13)



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The month in review

The aggressive interest rate cut by the Reserve Bank foreshadows the direction for mortgage rates over the next 12 months. Meanwhile, house sales and consent issuance remain in the doldrums.

**Don't wait to be told...
you need Palmolive Gold.**

**No hard rubbing with
ReINzSO.**

**Mortgage lending is put
through the wringer.**

- > **RBNZ Monetary Policy Statement – September.** In a surprise move, the RBNZ cut the OCR by 50bps to 7.50 percent. The Bank was quite stark in their assessment about the downside risks to growth, and although near-term inflation is still projected to increase to 4.9 percent this quarter, that is of secondary importance for the time being. The decision to cut so aggressively was all about front-loading the easing cycle. Global growth and credit developments were key to the aggressive move. The RBNZ have pulled down their global growth projections and also see downside risks, particularly from Asia. But it is also credit market developments and some frustration that interest rate relief was not flowing through already, with fixed mortgages (and lending rates to businesses) being kept high by offshore credit costs, that has seen the Bank act more aggressively than expected. By "surprising" the market with a larger move than expected they get a more immediate monetary relief into the economy.
- > **REINZ housing data – August.** House prices are now down 5.7% on a year ago - the weakest annual house price growth since this series began in 1991. They are also off 6.3 percent from their November 2007 peak. Given that the length of time it is taking properties to be sold (56 days in seasonally adjusted terms) is still near historic highs, prices look set to continue to adjust over the coming months. However, this should be the start of the process that eventually sees house sale volumes begin to stabilise and improve. Although sales fell 11.2 percent (s.a.) over August, with vendors now adjusting their price expectations, sales volumes may begin to pick up, as buyers are encouraged back into the market.
- > **Building Consents – July.** Building consents recorded a muted rebound (up 4.7 percent) in July. When apartments are stripped out, the rebound was non-existent. While house sales have shown signs of stabilising recently, the same cannot be said for building consent issuance. Given that the former tends to lead the latter by around 4 months, this suggests we may not see building consent numbers stabilise until later this year. Further declines cannot be ruled out, though the level is already very low by historical standards. The recent pick-up in net migration could yet provide some much needed support but with house prices continuing to fall and construction costs still high, the price signal is not there for builders or developers yet.
- > **Mortgage Lending – July.** Housing lending growth rose only 0.3 percent in July – equalling the lowest monthly increase recorded last month. The more timely 3-month annualised credit growth figure has slowed to a record low (3.6 percent). Annual growth in the series has slowed to 7.9 percent – the lowest rate of increase in 6½ years.
- > **Net Migration – July.** It looks as if the bottom of the net migration inflow has been reached. Earlier this year, we saw the risk of net migration turning negative on the back of the large surge in emigration to Australia. However, the migration data of the past few months has shown signs of stability, though it is too early to be confident that net migration will start to pick up convincingly from here. The country gained a net 850 people in the month, and 5,200 for the year.

Assessment

With the hurdle to one 50bp cut being passed, the hurdle to a follow up will be far lower. The market has been quick to move as the global scene unfolds, and at the time of writing was pricing in an 80 percent plus chance of a follow up 50bp cut by the RBNZ in October. We expect two more 50bp cuts before the end of the year. Having a high cash rate gives the RBNZ plenty of scope to act.

Property gauges

Following the Reserve Bank's aggressive 50bp cut to the Official Cash Rate, mortgage rates have fallen. House prices have edged down, and accordingly so too has house affordability, as it continues the descent from a recent high. A dark cloud on the horizon is a weaker outlook for the global economy, which will dampen prospects here for a while yet.

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

A tidy house for a tidy price.

- > **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.

The RB's "Unilever".

- > **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.

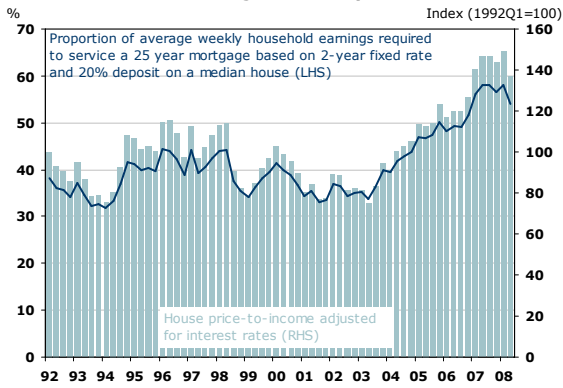
It's chux multi cloth.

- > **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.

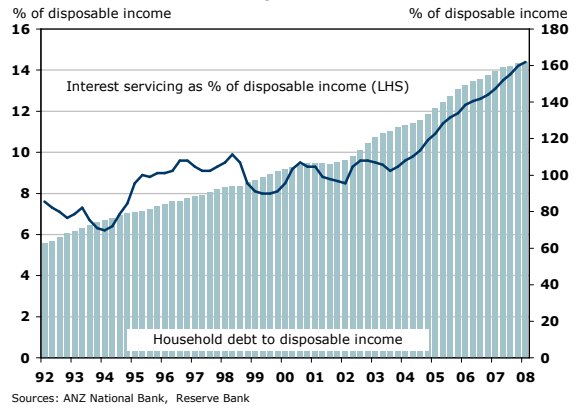
Construction activity will be a drag on growth for the rest of this year, with residential leading the way. What will continue to concern the RBNZ is the still elevated construction cost increases as proxied by our consent value per floor area measure. For the RBNZ to be sure that medium-term inflation will ease, the Bank will want to start seeing construction costs head lower - something which consent issuance is showing no signs of occurring as yet.

Indicator	Level	Direction for prices	Comment
Affordability	Still high	↓	Falling house prices and cheaper mortgage borrowing is starting to give affordability a bit of sparkle, but has a way to go yet.
Serviceability / indebtedness	High	↓	Still needs to be hung on the washing line and given a good beating.
Interest rates	High	↔/↓	The first cob-webs have been brushed away but there are more to remove in the other corners of the room.
Migration	Medium	↔	The vacuum is on blow rather than suck.
Supply-demand balance	Neutral	↔	Is the washing machine half full or half empty?
Consents and house sales	Consents down, sales rise	↔	House sales have been swept under the rug.
Liquidity	High	↓	Liquidity remains high but tightening.
Globalisation	Not that cheap	↓	Global house prices have been tipped down the drain.
On balance		↓	At last the windows are flung open, and we get a breath of fresh air.

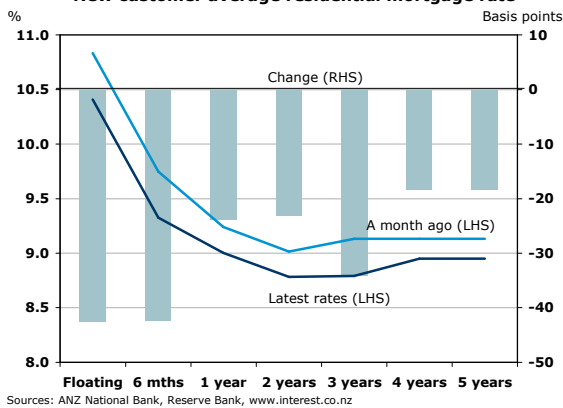
Housing Affordability



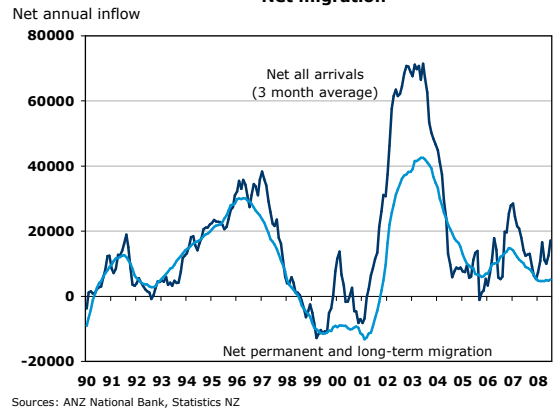
Serviceability and indebtedness



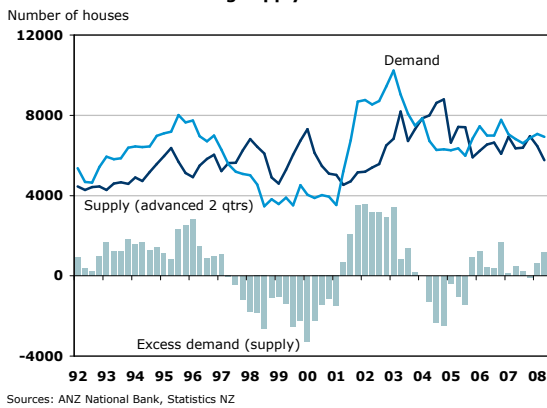
New customer average residential mortgage rate



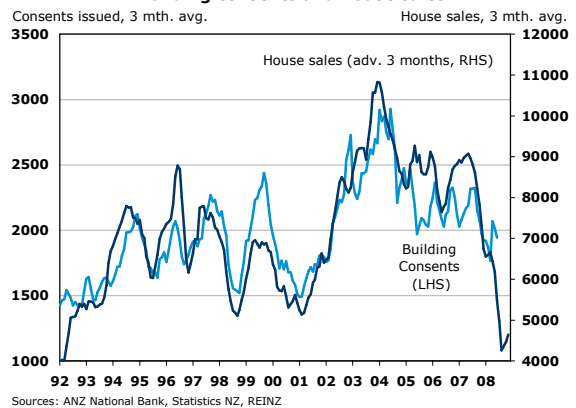
Net migration



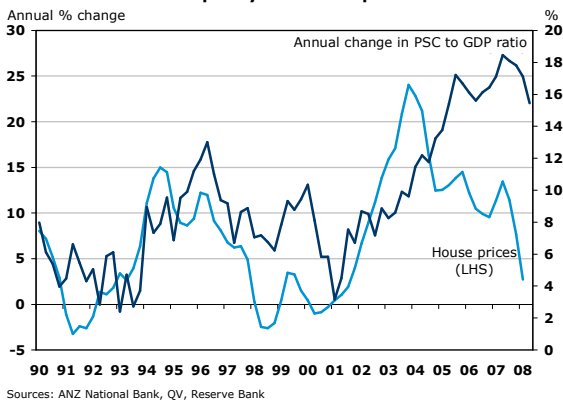
Housing supply-demand balance



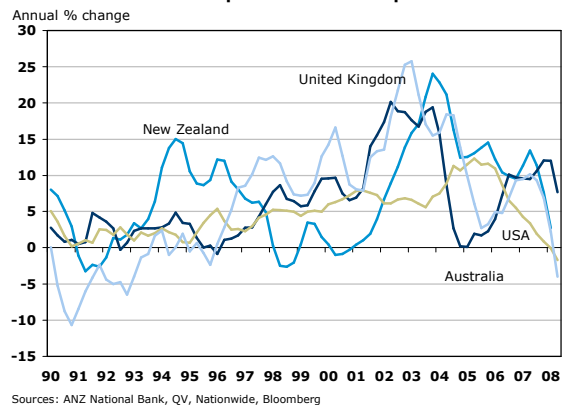
Building consents and house sales



Liquidity and house prices



House price inflation comparison



Economic backdrop

A patchy period of economic growth can be expected as the economic drivers switch from the spending to the earning side of the economy and the economy continues to “rebalance”. Meanwhile, the credit related economic slowdown that began in the US, has spread to other corners of the globe and this presents a key risk for the NZ economy.

Our core economic view

It softens hands while you do the dishes.

The New Zealand economy continues to rebalance. High deposit rates (and lending rates) and recent declines in the currency are simply relative price signals shifting the composition of growth away from the spending side of the economy, to the earnings and export sectors. Such a rebalancing phase was always inevitable, a positive, and required given the lop-sided nature of growth over the preceding five years, and high current account deficit.

You know you're soaking in it.

The weight of data continues to point to very subdued growth. House prices continue to fall, retailing is weak, and we've seen building consents fall to a 20-year low. It's not all one-way traffic and some sectors continue to perform well, but the simple reality is that consumption and residential investment account for two-thirds of the economy, and hence are very big shoes to fill. Encouragingly, we've seen leading indicators such as confidence recover, albeit off precipitous lows, but our suspicion is that this really reflects some natural dead-cat bounce, as people realise the bungy cord is still attached.

Not enough Rexona?

Looking forward, we expect to see a lot of “noise” over the coming months as economic data starts to come in a bit patchy. Abstracting from such noise, the big picture continues to be dominated by rebalancing and of course an elongated period of household de-leveraging. The latter is a key factor underpinning our core forecasts. Previous cycles have typically seen business sector balance sheets in need of repair. Having multiple levers to pull (costs, inventory, investment, employment, margins), business sector de-leveraging has tended to be short and sharp, or a “V” (martini glass) shaped cycle. This time around, it is household balance sheets in need of repair, and the only lever they have to pull is reduced spending. Hence, we are expecting a “soup-bowl” or “saucer” shaped cycle.

In terms of specifics, residential investment is expected to continue to contract, with falls of 12 percent in 2008 and 9 percent in 2009. Announced tax cuts provide some boost to spending, but will not be enough to fully offset cost of living pressures. Further falls in house prices will continue to weigh on homeowners. Two key areas to watch for the economy at present are commodity prices (which are traditionally influenced by the global growth cycle) and tourism. Both will be impacted by recent global events and a weaker global backdrop.

Offshore developments

Where's the soap?

Internationally, growth across Europe looks to have gone backwards, and the UK housing market is looking particularly vulnerable. The picture in the US is also not encouraging. There is growing talk of recession in Japan, and momentum in Australia has stopped. The pace of economic growth in non-Japan Asia is slowing, albeit from a gallop to a canter. Sharp falls in commodity prices of late are bellwether signs of rapidly slowing global momentum.

Yes it does.

There are a lot of commentators (including our own central bank) referring to current events as the biggest financial crisis we have seen since the 1930s. We agree, but are also wary of “Chicken Little” style commentary. Such a dynamic gives the risk profile on our already low-key economic assessment even more downside risk. Page 7 outlines some key areas to watch.

Mortgage borrowing strategy

With the RBNZ accelerating and front-loading the easing cycle, the big picture remains tilted towards relatively short-dated borrowing. We continue to recommend targeting a rate of one year or less.

Our view

The big picture for interest rates is that they are moving lower. Easing cycles are typically relatively large in magnitude (such as 200 to 300 basis points) so the broader view remains tilted towards keeping borrowing relative short in duration. While this certainly carries a cash-flow cost in the near-term, you stand to benefit from the associated pick-up and benefit as interest rates progressively fall. With the RBNZ now cutting rates – and surprising with an aggressive move in September as they front-load the cycle – the broad spirit of this view remains intact.

Looking forward, we now expect the Reserve Bank to cut interest rates by 50 basis points in October and December, taking the Official Cash Rate to 6.5 percent by year end, with further cuts beyond that. When you cross the hurdle, and are prepared to deliver a 50 basis point move, the hurdle to following it up with the same is lower. Interest rate cycles do tend to be orderly up, and the reciprocal down. We'd previously thought the inflation story would see the Reserve Bank continue to lower rates, but at a more cautionary rate. What is happening around the globe at present has put paid to that.

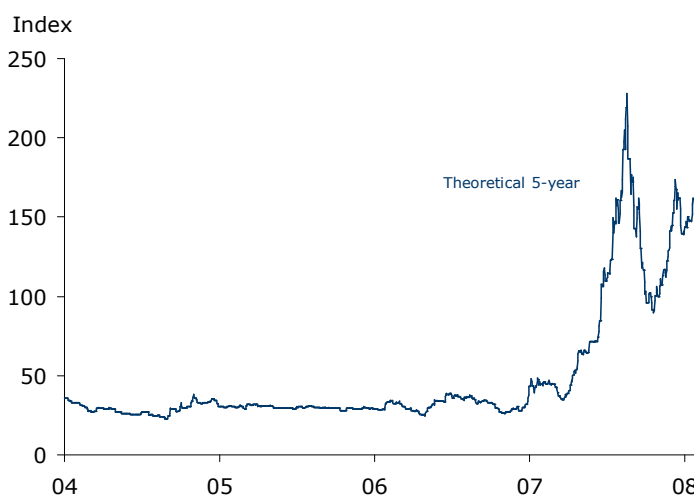
New Zealand is being impacted seriously by offshore events. The chart below details the international price of credit Australasian banks (and hence borrowers) are facing. As a nation, New Zealand runs a current account deficit, and this means we need to access global capital to fund our savings shortfall. While largely a US financial problem, the cost of credit has gone up everywhere. Hence, the Reserve Bank is in effect cutting rates to offset higher international funding costs. We still expect to see 1 and 2 year fixed rates fall over the coming months as the RBNZ cuts more aggressively. But we also expect the pass-through to be muted by what is happening around the globe.

The "Ring of Confidence" smile.

BAM! and the stain is GONE!

Cleans and shines without harsh scratching.

Australian iTraxx



Sources: ANZ National, Bloomberg

Themes we favour in the current environment

Keep the duration of borrowing short, and around one year.

Comment – Global watch

We've seen a lot of turmoil of late, in what some commentators are saying is the worst financial crisis since the 1930's. We need to be wary of "Chicken Little" style analysis, but NZ will clearly be impacted. While the Reserve Bank is throwing an interest rate lifeline to the housing market, the collective impact on the entire economy is still negative.

Cleans like a white tornado.

It's been a tumultuous week across markets. We've seen Lehman Brothers file for bankruptcy, Merrill Lynch taken over by Bank of America, and a Federal Reserve sponsored bail-out of the world's largest insurer. It seems we are now coming to a crescendo. The flow-on effects cannot be understated. Central banks and policymakers are working hard to stabilise markets, but risk appetites are very fragile, and volatility is high.

For NZ, we will be impacted via a number of channels:

- **Global growth will be weaker.** We are now likely to see recessions in the US, Euro zone, UK, and Japan as the flow-on effect from falling asset values, and de-leveraging across the financial system flow into real economies. For NZ, a weaker currency has improved competitiveness, but a weaker global economy will mean less demand for exports.
- **Commodity prices will likely remain under pressure as global demand forces dominant.** The trend across commodity markets remains weak as the global demand and growth story weighs. Momentum in non-Japan Asia remains okay, but certainly not strong enough to fill major gaps across the OECD. While this means petrol prices are easing NZ is a net commodity exporter. However, a falling currency is buffering the flow-on.
- **The cost of global credit will remain high.** The chart on the preceding page tells the story. While largely a US financial problem, everyone is feeling the flow-on effects. NZ needs to borrow a lot of money each year to fund our current account deficit and also the accumulation of previous deficits. Around the globe we've seen credit, swap, and bills-LIBOR spreads widen. So long as we continue to see a lot of uncertainty, the cost of credit will remain high.

Lifebuoy soap helps give better personal hygiene.

The Reserve Bank is throwing an interest rate lifeline to the housing market, and we expect more of the same. While NZ still faces a lot of inflation pressure (which means interest rates should remain high and the property market weak), the Reserve Bank has bigger issues at present. As noted in their *Monetary Policy Statement*, "At this time, we believe it is appropriate to lend more weight to the downside risks associated with the deteriorating global outlook, increased credit pressures, and domestic housing market correction. However, we remain mindful of the risks to inflation." Their decision also reflected "...the tightness of current credit conditions and the time it will take to affect the actual interest rates faced by households and businesses." While this is a welcome and pragmatic approach to policy in what is obviously an unsettling environment, we need to appreciate the reasoning behind such aggressive action; NZ will not be immune from global developments. Encouragingly, we are seeing NZ's macro framework adjust (lower currency and interest rates) which is a positive dynamic. NZ has a high cash rate so the central bank has considerable scope to respond.

Sunlight soap at the end of the tunnel

What do we need to see for conditions to stabilise around the globe? In our minds there are four preconditions. First we need to see full disclosure of all losses, and just like the sharemarket crash of 1987, we see it taking time for all the skeletons to come out of the closet. Second, we need to see US house prices stop falling, which will ease pressure on the US financial system. This looks a late 2009 story. Third, we need to see what is going to replace Fannie Mae and Freddie Mac in the US. Finally, we need to see some sovereign wealth funds enter the market and start buying. To us, that'll be a sign that asset prices now look sufficiently "cheap".

Feature article – Housing supply versus demand balance

We have updated our regional demand-supply housing balance measures for data to June. In summary, the analysis confirms what is widely acknowledged – it’s a buyers market at the moment.

"Fish for dinner, Jean?"

We monitor two simple gauges to highlight supply-demand balance within the property market and across the regions. Firstly, on the supply side, we monitor the ratio of building consents to economic growth within a region. If consents are growing faster than baseline demand within the region, it is indicative of excess supply, and of course the converse applies. Secondly, we analyse the ratio of house sales to consents. This is another supply-demand balance measure with an up-tick in the ratio indicating excess demand, and a fall below trend suggesting a supply glut pending.

So what do the gauges show?

As the chart below depicts, the housing supply-demand balance across the regions can be broadly grouped into three clusters:

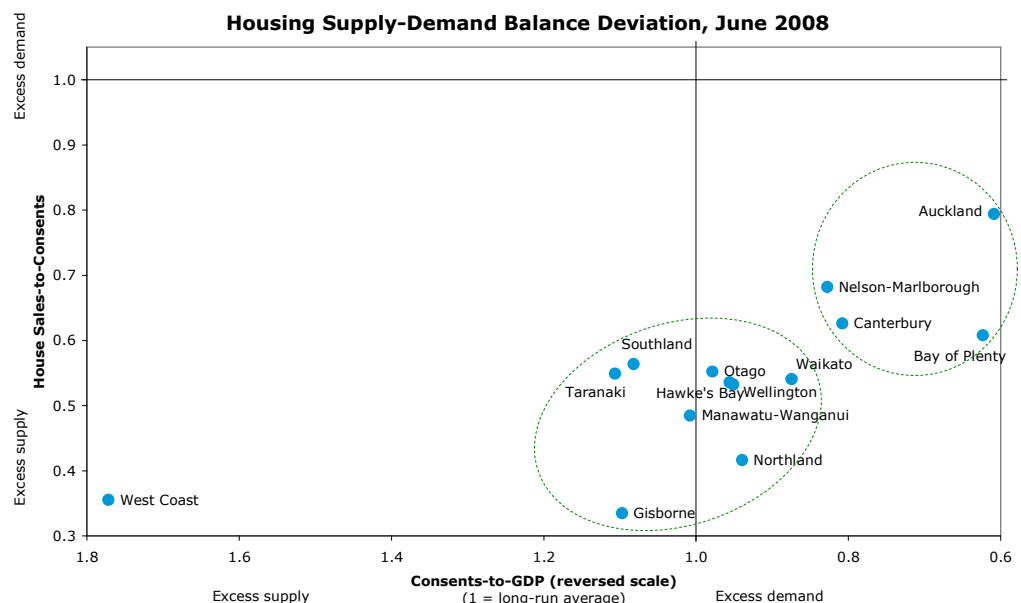
"That was last night, Mum."

- > The West Coast is on its lonesome with an extraordinarily large excess of housing.
- > Auckland, Nelson-Marlborough, Canterbury and the Bay of Plenty, where the two measures are indicating conflicting levels of housing supply.
- > The remainder of the nation, where ratio of sales to consents is low but the demand side ratio is close to balance.

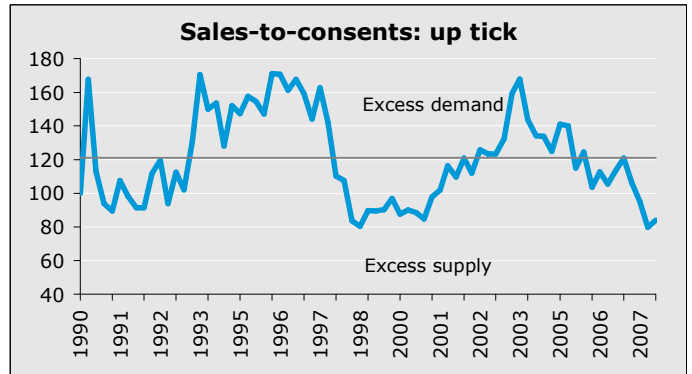
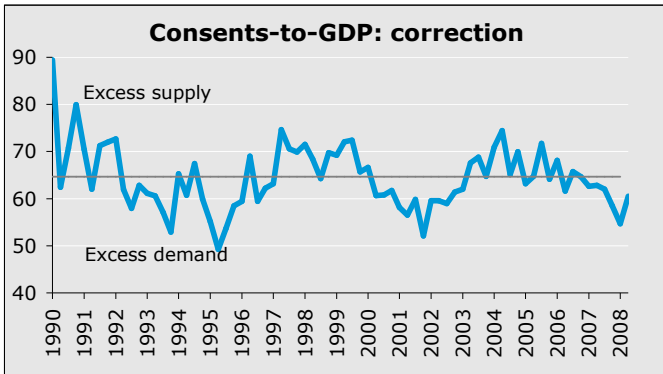
The upshot

"Some smells do linger."

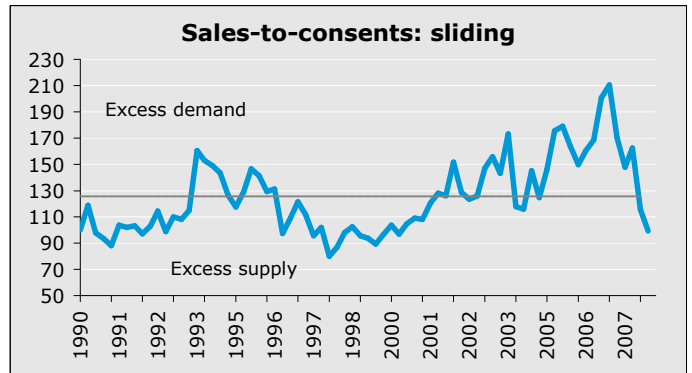
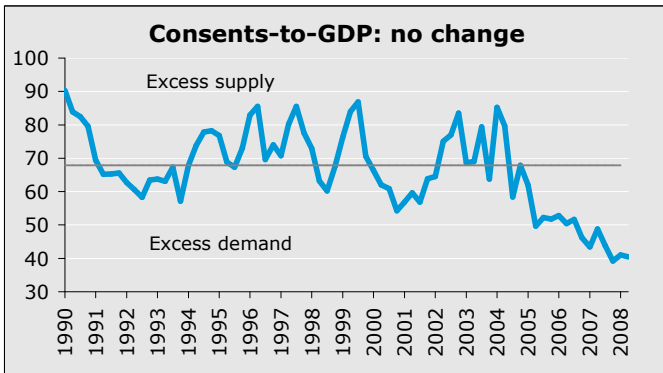
The chart below confirms what is widely acknowledged and that it is a buyers market across all of New Zealand. Much more so in the West Coast, which is poles apart from the rest of the nation. Another noticeable feature is that since our last analysis, the ratio of house sales to consents has slipped into an excess of supply across all of the regions (i.e., a downward movement for a majority of the regions in the chart below). Given that the housing market may still correct further, expect a Western movement in the plotted points in the next update.



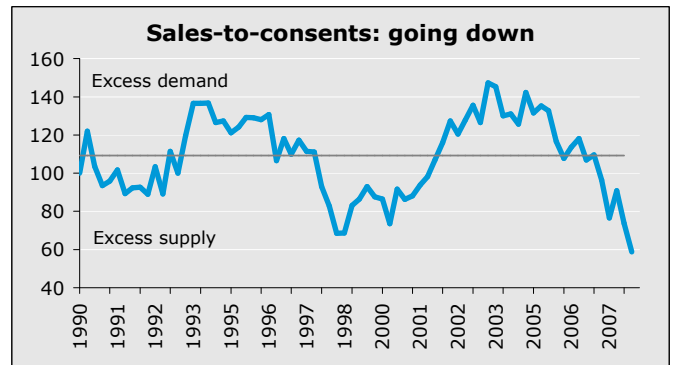
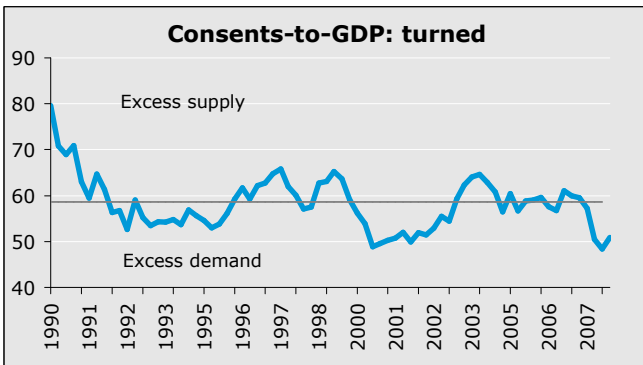
Northland



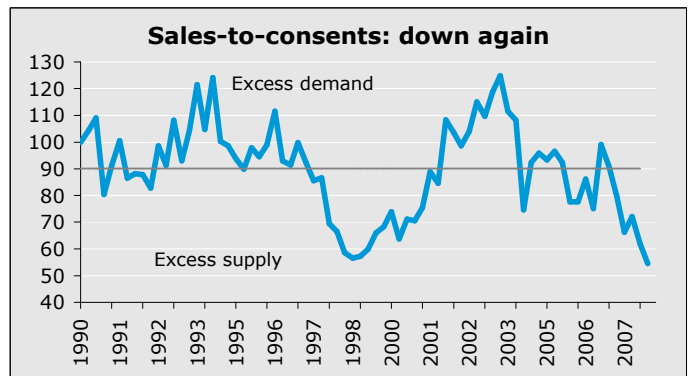
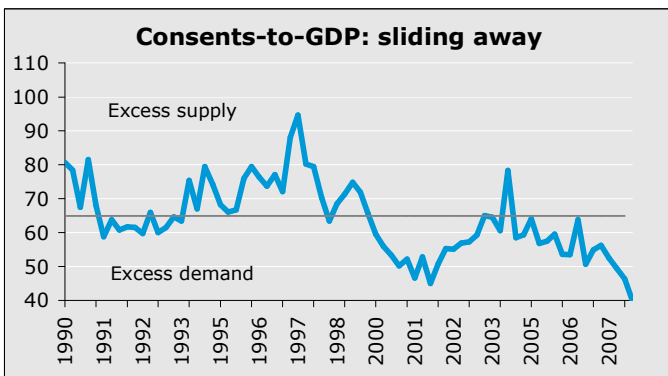
Auckland



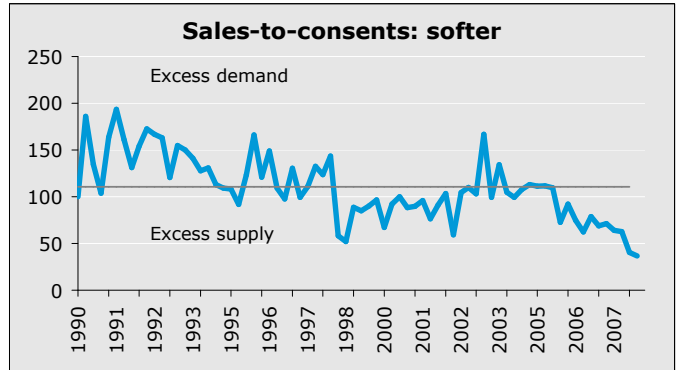
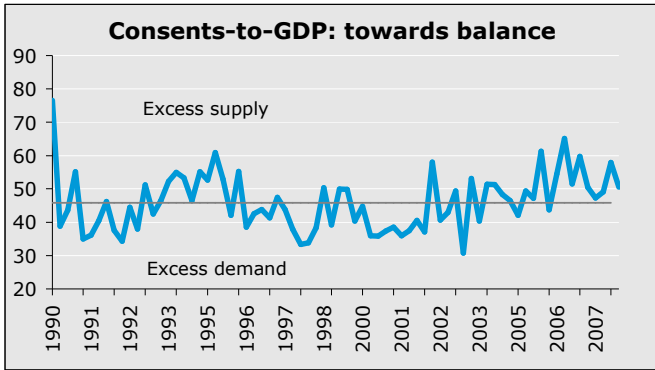
Waikato



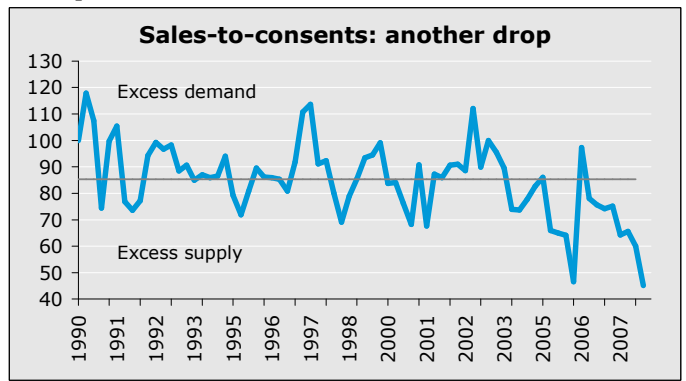
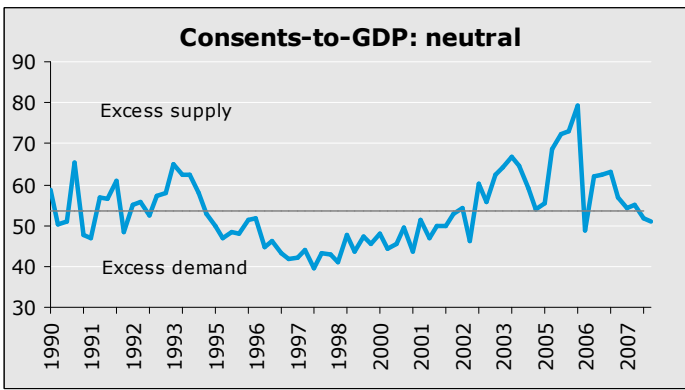
Bay of Plenty



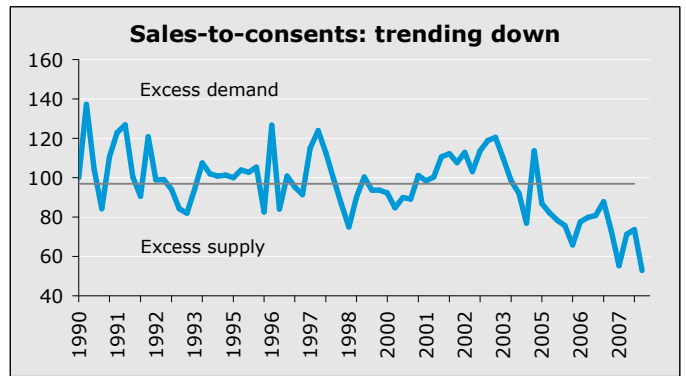
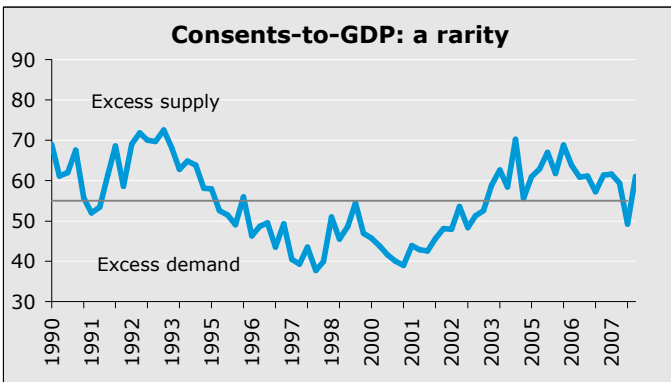
Gisborne



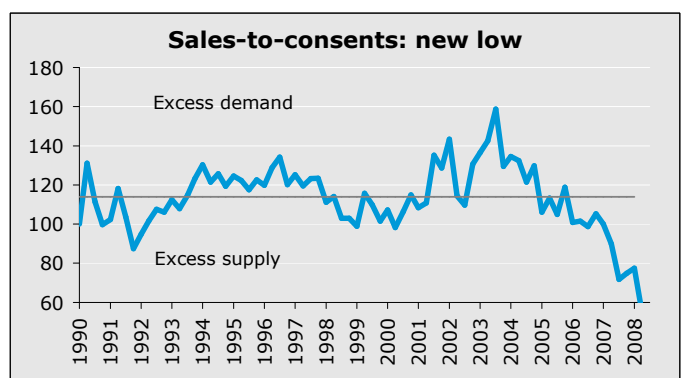
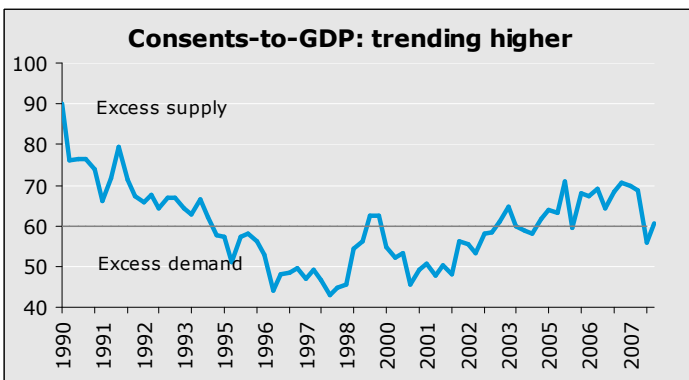
Hawke's Bay



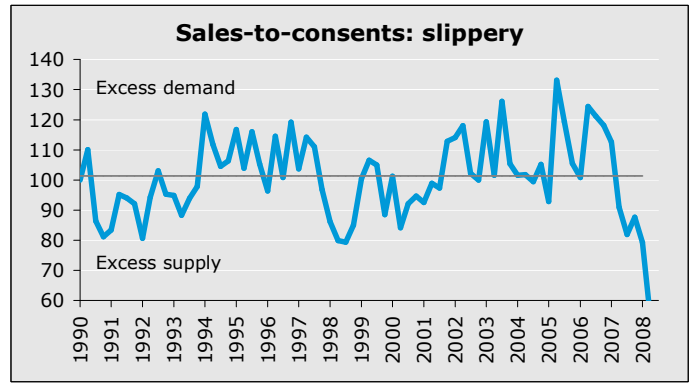
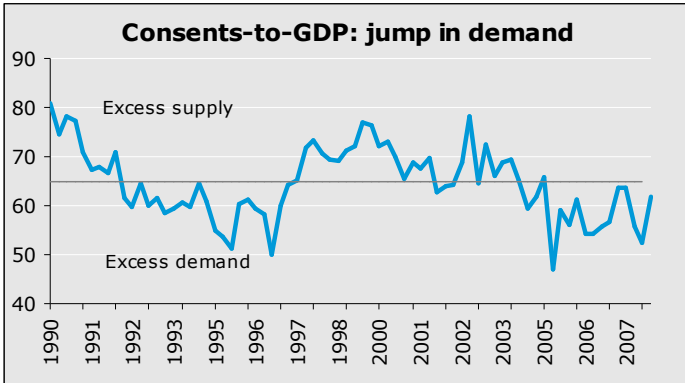
Taranaki



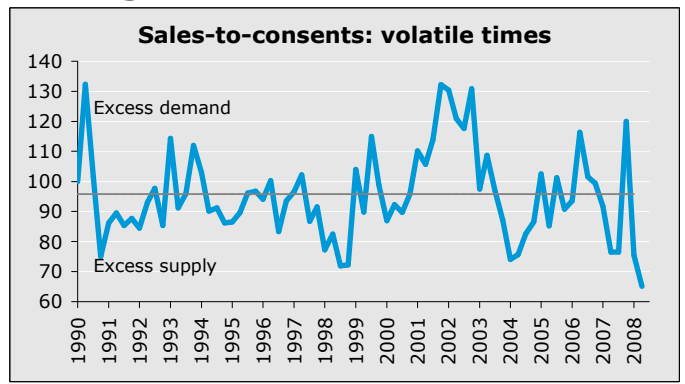
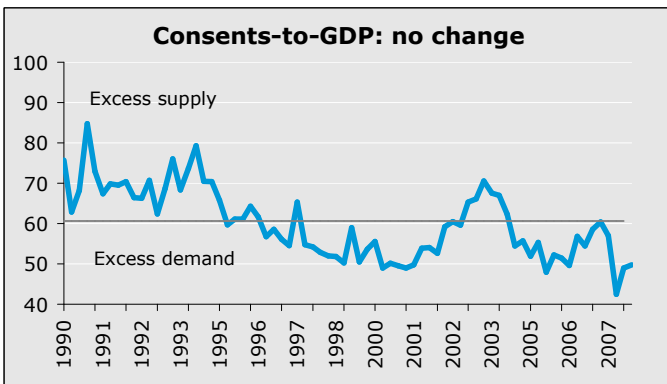
Manawatu



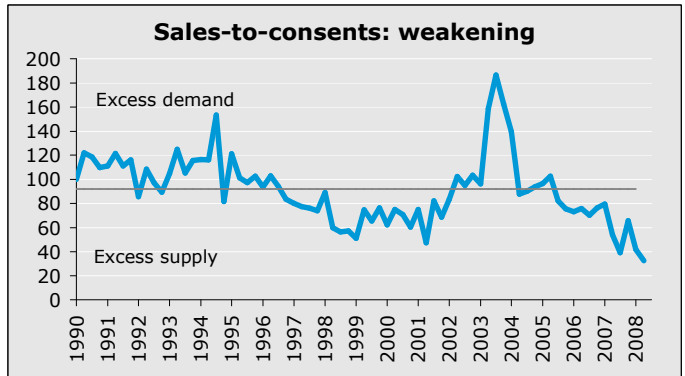
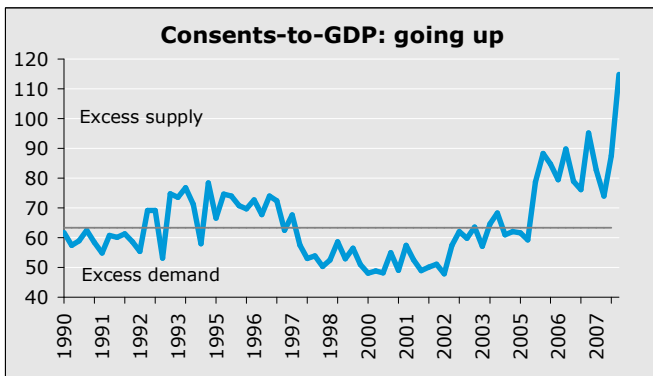
Wellington



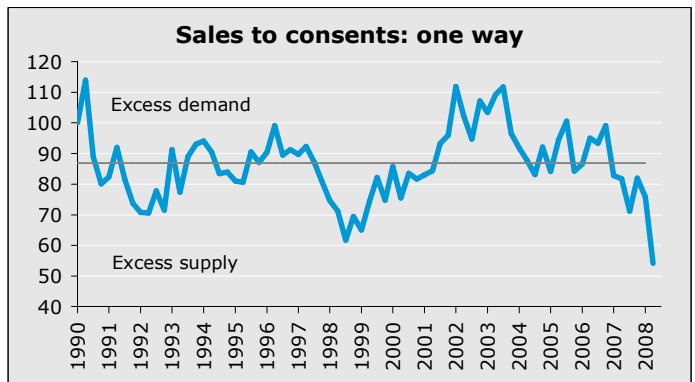
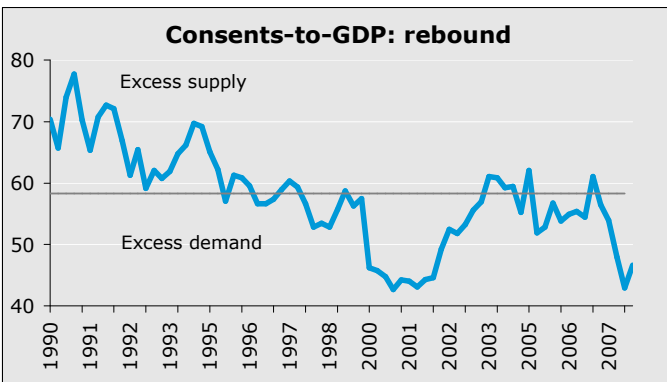
Nelson/Marlborough



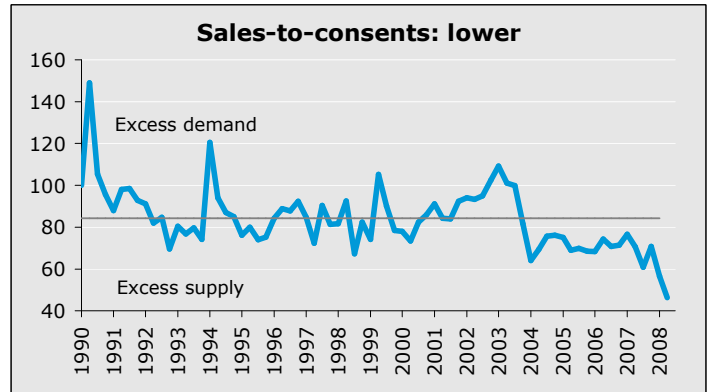
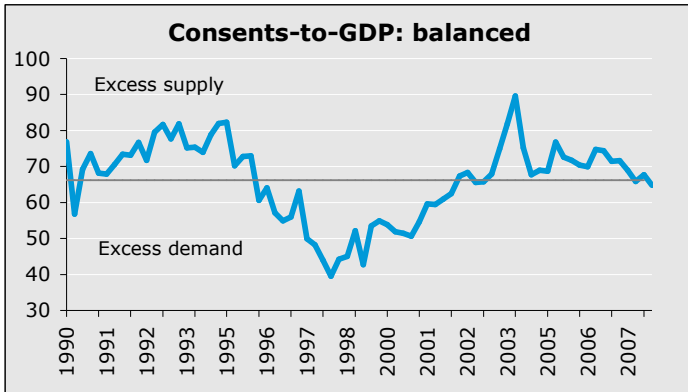
West Coast



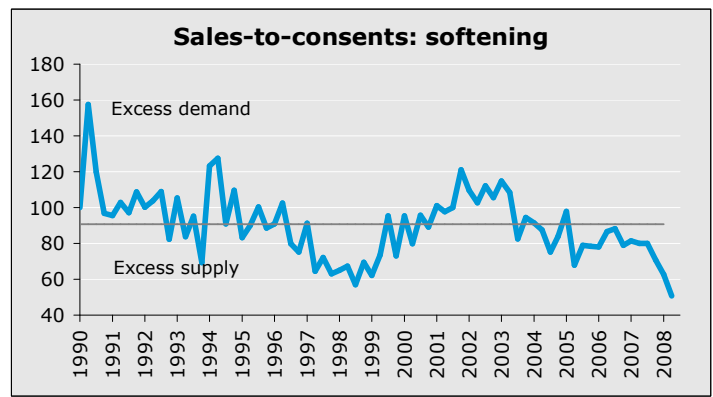
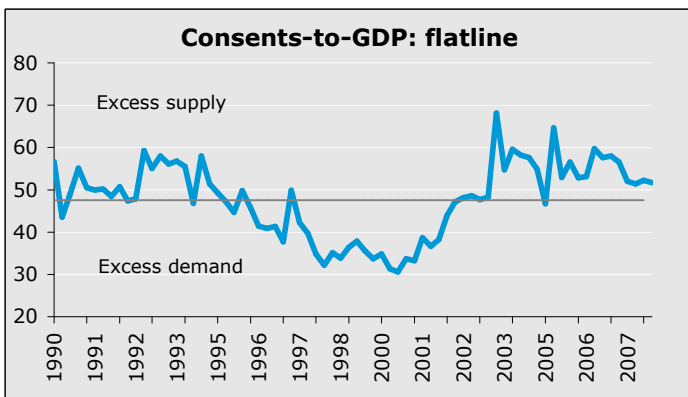
Canterbury



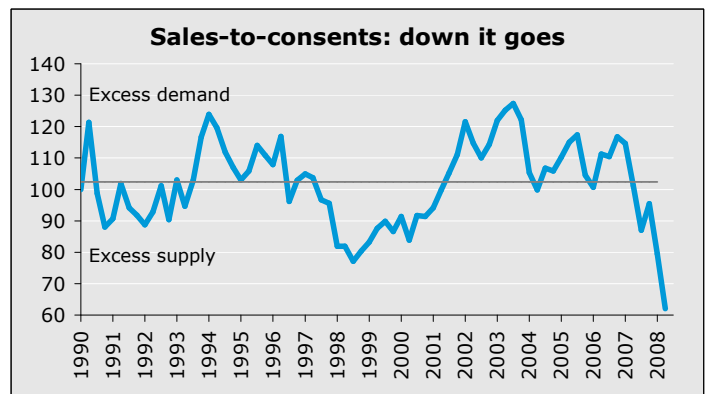
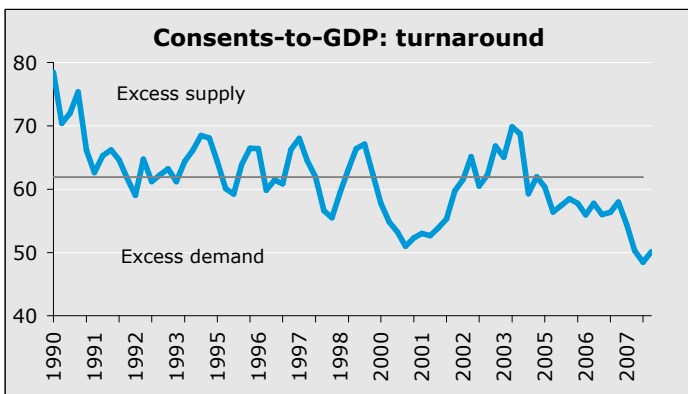
Otago



Southland



New Zealand



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 August 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	-10.2	-9.2	125	(+1%)	70	House price declines pile up as we await the dustman.
Auckland	-5.9	-4.1	1,395	(-4%)	49	The median time to sell reflects a superficial cleansing.
Waikato/BOP/Gisborne	-2.8	1.3	594	(-18%)	71	Number of days to sell in need of some spot remover.
Hawke's Bay	-3.6	0.1	177	(-9%)	65	House prices over the past 3 months get a light dusting.
Taranaki	-2.9	-4.6	163	(-4%)	52	The median sale price rubbed down to two year low.
Manawatu-Wanganui	7.4	-1.5	215	(-10%)	63	Annual prices sparkle in light of a grubby North Island.
Wellington	-1.6	-5.2	496	(-18%)	55	House prices have been chucked into the rubbish skip.
Nelson-Marlborough	-1.8	0.5	188	(-4%)	53	The median number of days to sell is covered in dust.
Canterbury/Westland	-6.5	-2.0	654	(-14%)	54	The house prices in this area are heavily soiled.
Otago	-3.4	-2.9	203	(-26%)	59	Sale numbers have left a dirty ring around the bath tub.
Central Otago Lakes	-2.0	8.4	70	(-14%)	67	Recent price gains have spruced things up.
Southland	8.0	-10.1	138	(-3%)	50	Recent price changes fail the white glove test.
NEW ZEALAND	-5.7	-2.8	4,452	(-11%)	56	Another going over by the Rug Doctor is required.

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	2.3	1.4	0.3	-0.2	-0.1	0.3	1.0	1.6
CPI inflation (%)	3.2	3.4	4.0	4.8	4.4	4.7	4.0	3.4	3.4	3.2
Unemployment rate (%)	3.4	3.7	3.9	4.2	4.5	4.6	4.9	5.1	5.3	5.5
Interest rates	Actual			Forecast (end month)						
	Jul08	Aug08	Latest	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10
Call rate	8.4	8.3	7.5	6.5	6.5	6.3	6.0	6.0	6.0	6.0
90-day bank bill rate	8.5	8.2	7.8	6.9	6.8	6.3	6.2	6.2	6.2	6.2
Floating mortgage rate	10.8	10.4	10.4	9.2	9.2	9.0	8.7	8.7	8.7	8.7
1-yr fixed mortgage rate	9.5	9.0	9.0	8.5	8.4	7.9	7.8	7.8	7.8	7.8
2-yr fixed mortgage rate	9.3	8.8	8.8	8.4	8.3	8.1	8.0	7.9	7.9	7.9
5-yr fixed mortgage rate	9.2	8.9	8.9	8.9	8.8	8.5	8.4	8.4	8.3	8.3

DISCLOSURE INFORMATION

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

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

Qualifications, experience and professional standing**Experience**

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

Relevant professional body

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

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

Professional indemnity insurance

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

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

The insurer is ANZcover Insurance Pty Limited.

Dispute resolution facilities

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

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

Criminal convictions

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

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

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

Fees

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

Other interests and relationships

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

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

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

Securities about which investment advice is given

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

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

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

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

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

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

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

Record Keeping

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

Auditing

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

Use of Money and Property

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

DISCLAIMER

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

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

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