



DIY home improvement

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Summary

- Our monthly *Property Focus* publication is aimed at providing an independent appraisal of recent developments in the property market. In this issue we present a simple approach to the mathematics behind break-even analysis, with regard to fixed versus floating mortgage lending rates.

The month in review (page 2)

- Lower mortgage rates have given the property market a shot in the arm, although it has the feel of a statistical rebound from very low levels. The number of new homes being built remains weak. The Reserve Bank has committed to keeping rates low until the latter part of 2010, which will provide borrowers with a greater degree of certainty.

Property gauges (page 3)

- The housing demand/supply balance has been swung back in favour of sellers. A surge in migrants has caused demand to swell. Coinciding with this is a reduction in supply of houses, as the construction of new houses remains in the doldrums. Against the backdrop of tightening supply, the affordability gauge is still flagging a period of adjustment.

Economic backdrop (page 5)

- Signs of stabilisation are emerging in both New Zealand and around the globe. However, this improvement could be characterised as a slower rate of descent as opposed to regaining forward momentum. We continue to monitor structural indicators in key OECD nations such as external imbalances and household savings rates. It is not until they improve that a sustained recovery will take hold.

Mortgage borrowing strategy (page 6)

- We expect short-term mortgage rates to remain biased lower over the months ahead. Despite Governor Bollard's warning that the OCR would remain at or below current levels until late 2010, wholesale markets continue to price in rising interest rates. This tension, and intertwined with high deposit rates, could take some time to resolve and is expected to keep the yield curve steepening. In this environment we favour being patient, taking advantage of low 6 month and 1 year fixed rates.

Feature article – Breakeven analysis (page 7)

- Before jumping into long-term fixed rates, it is useful to undertake a simple break-even analysis to see whether it is worth it. We use some simple examples to continue to highlight the value in short-term rates.

Key forecasts (page 9)

The month in review

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Pace-makers are required for the place-makers.

- > **Building Consents – March.** Residential building consents remain very weak. Following an 11.7 percent increase in February, consent issuance fell 4.6 percent in March (-30 percent annually). Stripping out volatile apartment issuance, consents fell 1.3 percent following a 0.2 percent increase last month. The level remains near historical lows.
- > **Net Migration – March.** NZ gained a net 1,720 people in the month of March, taking the annual gain to 7,482 (compared to 4,678 a year ago). In the March quarter, net migration was running at an annualised rate of 16,520 people, equivalent to 0.4 percent of the population.
- > **Mortgage Lending – March.** Household credit growth rose by only 0.1 percent - despite all that frenzied mortgage fixing and increased housing market activity.

Buyers are coming out of the woodwork.

- > **REINZ housing data – April.** Nationwide house sales recorded an impressive 19.6 percent seasonally adjusted increase in April, and are now up 39 percent on a year ago. The median length of time to sell a house improved to 44 days in seasonally adjusted terms in the month. This is down from 48 days in March and a peak of 57 days in July last year, although it remains slightly above the historical average of 39 days. House prices also continue to surprise, although composition issues with the REINZ data means that some caution should be taken. Nevertheless, the median house price rose \$5000 in the month to \$340,000 and is only down 1.4 percent on a year ago.

Low and behold.

- > **RBNZ April OCR Review.** The RBNZ delivered a clear message in its latest assessment of the economic situation by cutting the Official Cash rate (OCR) by 50 basis points and committing to keeping rates low until late 2010. In so far as central bank communication is concerned, the message was clear cut: if you are a borrower, don't panic and rush to fix for a long-term.

Putting the job off until another day.

- > **Household Labour Force – March.** In seasonally adjusted terms, employment fell by 1.1 percent in the March quarter – the biggest quarterly contraction since the March 1989 quarter. However, volatility in the employment growth measure of late almost makes the quarter-on-quarter movements redundant. We instead prefer to focus on the more stable unemployment rate, and while it rose 0.3 percentage points to 5.0 percent, judging by leading indicators it is set to rise further.

Assessment

The month saw further signs of encouragement in so far as housing related indicators are concerned. However, the level of activity still remains well down on the peak. Recovering house sales look to be leading the way and should start to flow into building consent figures in H2 2009 (which having hit 1960's lows is simply unsustainable relative to natural population and migration growth). But going forward we need to differentiate between the change and the base. The change is welcome but recovery means climbing out of a very deep hole. The big uncertainties are impetus from migration versus fewer jobs.

Property gauges

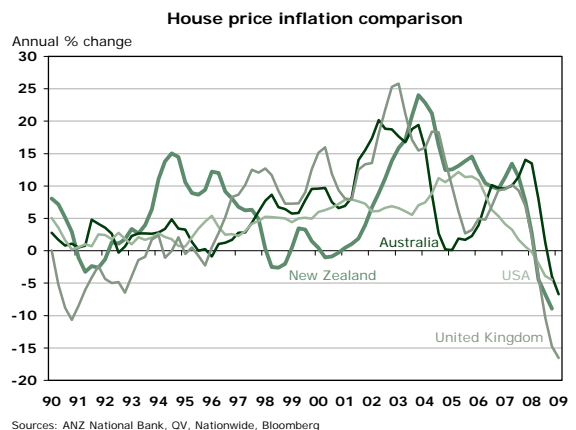
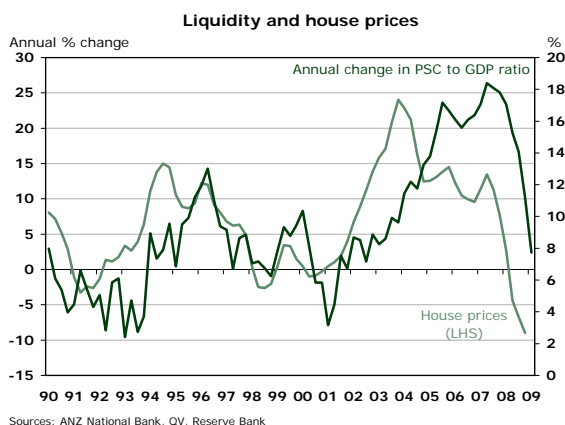
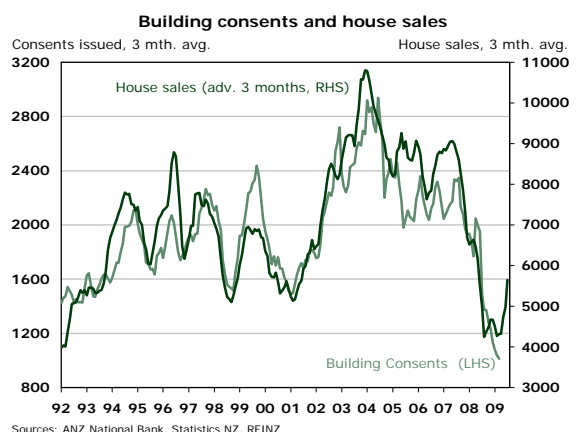
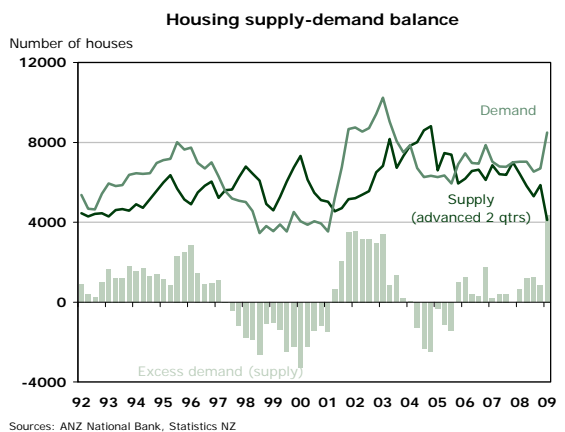
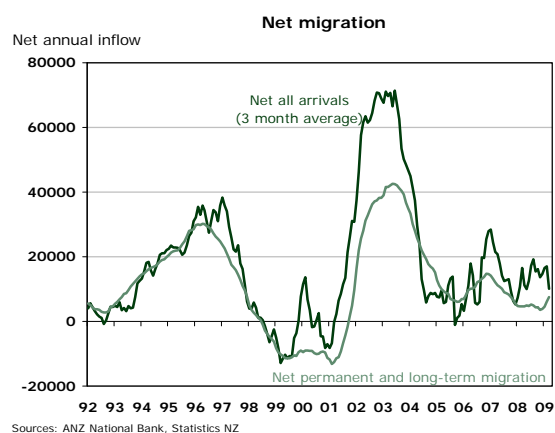
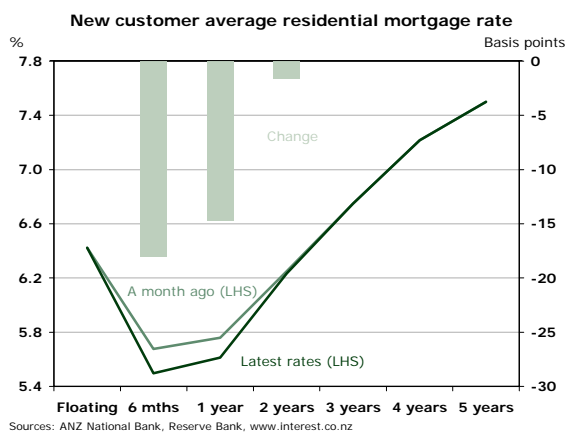
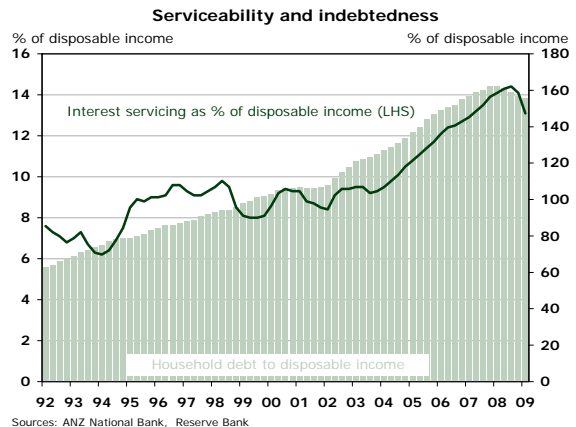
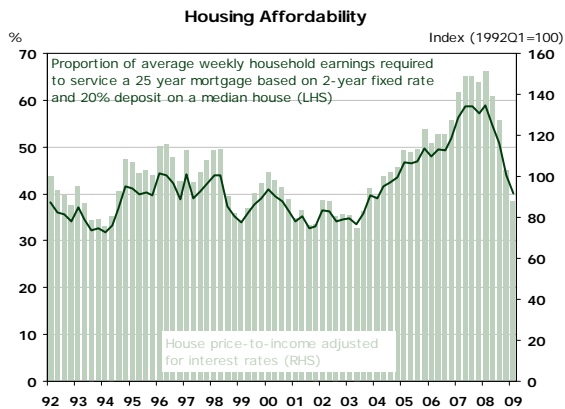
The housing demand/supply balance has been swung back in favour of sellers. A surge in migrants has caused demand to swell. Coinciding with this is a reduction in supply of houses, as the construction of new houses remains in the doldrums. Against the backdrop of tightening supply, the affordability gauge is still flagging a period of adjustment.

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

- > **Affordability.** For new entrants into the housing market, we measure affordability using the ratio of house prices-to-income (adjusted for interest rates), and mortgage payments as a proportion of income.
- > **Serviceability / indebtedness.** For existing homeowners, serviceability relates interest payments to income, while indebtedness is measured as the level of debt relative to income.
- > **Interest rates.** Interest rates affect both the affordability of new houses and the serviceability of existing mortgage payments.
- > **Migration.** A key source of demand for new housing.
- > **Supply-demand balance.** We use dwelling consents issuance to proxy supply. Demand is derived via the natural growth rate in the population, net migration, and the average household size.
- > **Consents and house sales.** These are both key gauges of activity in the property market.
- > **Liquidity.** We look at growth in Private Sector Credit relative to GDP to assess the availability of credit in supporting the property market.
- > **Globalisation.** We look at relative property price movements between New Zealand, the US, UK and Australia in recognition of the important role that globalisation is playing in NZ's property cycle.

The demand/supply balance has swung in favour of sellers. A surge in net migration has coincided with a slump in housing construction. Recent cuts to the OCR haven't been fully reflected in mortgage lending rates, with banks relying less on offshore funding and more on retail deposits, whose rates have risen above wholesale interest rates. Nevertheless the housing market is showing signs of life, with sale numbers up sharply in April.

Indicator	Level	Direction for prices	Comment
Affordability	Retracement	↔	Mortgage rate cuts have resulted in an improvement in housing affordability. The big uncertainty remains job security.
Serviceability / indebtedness	Peaked	↓	Debt serviceability has improved for two consecutive quarters – the first such occurrence for seven years.
Interest rates	Lower	↔	Mortgage rates have been counter-sunk in the middle part of the lending curve.
Migration	Rising	↔	Immigration is expanding to fill the gap.
Supply-demand balance	One way	↔↑	You can leave the spirit level in the tool box, as the imbalance in housing supply-demand is so one sided.
Consents and house sales	Rebound but still low	↔↑	House sales have risen again while building consents remain under the hammer.
Liquidity	Moving into line	↓	Credit growth is in the vice.
Globalisation	Negative	↓	The piles have gone.
On balance		↓	Rising unemployment will put the fuse box to the test.



Economic backdrop

Signs of stabilisation are emerging in both New Zealand and around the globe. However, this improvement could be characterised as a slower rate of descent as opposed to regaining forward momentum. We continue to monitor structural indicators in key OECD nations such as external imbalances and household savings rates. It is not until they improve that a sustained recovery will take hold.

Our core economic view

There is no doubt that encouraging signs are emerging in some leading economic indicators. For New Zealand, business confidence has recovered off precipitous lows, net migration inflows continue to improve as less New Zealanders choose to leave, and there are undeniable signs of stabilisation (and recovery) in housing market activity. The same applies around the globe with talk of "green shoots". Are we therefore changing our core view on the economy as a result? The short answer is no. We are buoyed by recent trends in some pockets, but our forecasts already incorporated the economy growing again from mid-year. What we are seeing at present merely confirms the road to such stabilisation, which is only natural after the longest recession since the mid 1970s.

We need to distinguish between the change and the level. While forward indicators are showing improvement, the levels generally remain extremely low and are indicative of continued contractions in growth, just of a smaller magnitude. Looking ahead we see continued uncertainty across credit markets, structural imbalances, the need for households to de-leverage (pay off debt) and rising unemployment rates around the globe as major challenges to the global and NZ economy moving towards a robust recovery. In the words of Dr Bollard, *"recovery can be a long and rocky road."* The economy still has plenty of rebalancing to do. While there are again some positive signs that this is taking place, there is still a long way to go before NZ's massive external imbalances are corrected. It is not until this (and other structural gauges such as household savings) adjust that we feel the improvement in cyclical gauges will be maintained and stabilisation will move to actual recovery. This continues to feel like a 2010 story.

The same applies around the globe. Confidence is recovering, investor appetite is improving and the pace of contraction in some gauges on the real economy is slowing as inventories are adjusted. However, just like in NZ, this is more a story of stabilisation than recovery and the path ahead is fraught with uncertainty and volatility.

For now we need to respect signs of stabilisation and improvement in economic momentum. This has led us to view that the Reserve Bank is likely to pause and keep the OCR unchanged in June. However, the challenges for the economy (and the housing market) are not over yet. The global environment remains precarious, and we are only six months into the real economic consequences of the financial crisis. Rising unemployment rates around the globe represent the next challenge. In so far as a big picture theme goes, we can't go past the household de-leveraging dynamic in this cycle, which will take time to resolve.

We've pencilled in further rate cuts in H2 2009, which is based on our view that the so-called green-shoots will wilt somewhat. In this sort of environment we continue to urge patience and to keep some powder dry.

Mortgage borrowing strategy

We expect short-term mortgage rates to remain biased lower over the months ahead. Despite Governor Bollard's warning that the OCR would remain at or below current levels until late 2010, wholesale markets continue to price in rising interest rates. This tension, and intertwined with high deposit rates, could take some time to resolve and is expected to keep the yield curve steepening. In this environment we favour being patient, taking advantage of low 6 month and 1 year fixed rates.

Our view

Mortgage rates have been stable over the past month, having already risen during the month of March. As we highlighted in last month's issue, that rise occurred following a widespread rush to fix by homeowners, which placed upward pressure on wholesale rates, which in turn placed further pressure on mortgage rates, and so on. Together with rising deposit rates, there has been limited scope for actual borrowing rates to fall.

While that upward spiral has now run its course, wholesale markets remain deeply divided over prospects for the economy, and have sided with a view that is at odds with RBNZ Governor Bollard's. Indeed, the Governor has committed to keep the OCR at or below its current level until late next year, citing weak economic prospects. By contrast, the market is pricing in rising interest rates from early next year, based on the view that the economy will recover quickly. We believe the RBNZ will ultimately be correct, and their view resonates with our own view, but this could take some time to be reflected in interest rates.

The complicating factor at present is not merely wholesale interest rates but deposit rates as well. Indeed, while the RBNZ can control the cash rate, which is a major determinant of 6 month and 1 year rates, its actions have less of an impact on 2-5 year fixed rates, which tend to be heavily influenced by global concerns and also aggressive competition for deposits. We can't see this pressure subsiding anytime soon.

One stand-out feature of the current set of mortgage rates is the degree to which longer term fixed rates exceed their shorter term counterparts. With depositors and investors naturally demanding a higher return to compensate for uncertainty and tying their money up for longer, so too the reciprocal pressure emerges on borrowing rates. We can't see this changing and we need to accept that we are returning to a more conventional and traditional "steep yield curve" environment, and it is in sharp contrast to the situation prevailing in the years immediately prior to the credit crunch. More importantly, it means that when it does come time to fix, it will cost more. Many borrowers will value certainty – but this shouldn't be done blindly. Instead, we suggest clients analyse their choices in deeper detail with the view to arriving at a more analytical conclusion. One way to do this is with breakeven analysis, which is the subject of the next section.

In a credit constrained environment, the premium the market now demands for certainty has risen sharply. It is therefore unlikely that we will see long-term rates at a discount to short-term rates. Given this (certainty at a cost), and our view of the future (lower mortgage rates in the short part of the curve), we favour taking advantage of lower short-term fixed rates, rather than paying what looks like an excessive premium for certainty. Rolling a series of 6 month fixed rates over the next few years is certainly worth considering, as opposed to fixing. Of course, if certainty is what you're after – then price may not come into it.

Feature article – Breakeven analysis

Before jumping into long-term fixed rates, it is useful to undertake a simple break-even analysis to see whether it is worth it. We use some simple examples to continue to highlight the value in short-term rates.

Overview

Fix or float, and if I fixed what term should I have? Like most decisions there are no hard and fast rules – a lot depends on your individual circumstances. But we are often staggered by the lack of analysis that goes into the fixing decision. Break-even analysis is a simple tool to help with that decision.

What is breakeven analysis? In the context of mortgage rates, it is the calculation of a set of future mortgage rates that are mathematically implied by the set of current interest rates. For example, if the 1 year interest rate is 5.50 percent and the 2 year rate is 6.25 percent, we can use this to imply a breakeven 1 year rate in 1 year's time of 7.00 percent. In other words, if we choose to fix for 1 year at 5.50 percent, and in one year's time we then re-fix at a rate *less* than 7.00 percent, we will have made a *better* decision than fixing for 2 years at 6.25 percent, and vice versa.

Because of the effect of compounding, it is not equal to exactly 7.00 percent, but it is very close, and the rough rule of thumb goes like this: 2 years at the 2 year rate = $2 \times 6.25\% = 12.5\%$. Therefore, if we know 2 years will cost 12.5% interest in total, what does that imply for the second year? The answer is: 12.5% in total less the first year at $5.5\% = 12.5\% - 5.5\% = 7\%$. Of course a lot of people don't view it that way. They make the error in thinking that because the rate you might face in a year's time could be above 6.25 percent, you'll be worse off, when the break-even is in fact 7 percent.

Given this, consider the current set of fixed mortgage rates as follows:

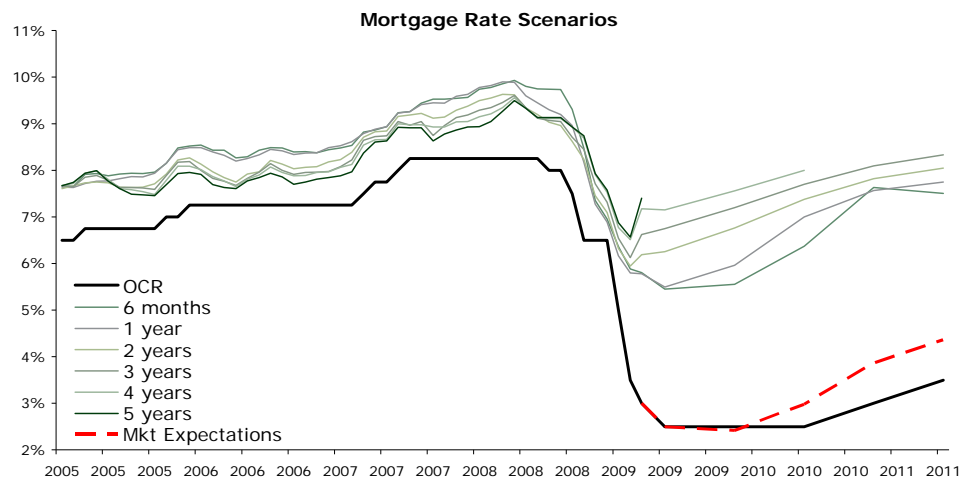
Fixed Mortgage Rate		Breakevens			
Term	Current	in 6mths	in 1year	in 18mths	in 2years
6 months	5.45%	5.55%	6.37%	7.63%	7.50%
1 year	5.50%	5.96%	7.00%	7.57%	7.75%
18 months	5.79%	6.52%	7.17%	7.71%	7.88%
2 years	6.25%	6.76%	7.38%	7.82%	8.05%
3 years	6.75%	7.20%	7.70%	8.09%	8.33%
4 years	7.15%	7.56%	8.00%		
5 years	7.50%				

The table above shows the breakeven levels for the current set of fixed rates 6 monthly for the next 2 years. One thing is immediately obvious – and that's that all breakeven rates are higher than current rates. This is intuitive, because when long term rates are higher than short term rates, that implies that either the market expects interest rates to rise over time (so they charge more to lend for longer); or they need a premium to lend for longer; or both. And at the moment we believe both factors are playing a role. It isn't possible to separate the two, and while there is nothing a borrower can do to avoid the term premium (which is set by the market), it is still useful to know how breakevens compare against your view. For instance, the current set of mortgage rates implies that the 1 year fixed rates will rise from 5.50 percent to 5.96 percent in 6 months, and then to 7.00 percent 6 months after that. Is that realistic given what the RBNZ has said? We think

not – but recall that it's not just the market's upbeat view of the future that has given rise to this situation – risk premiums are at play.

So what does this mean for borrowers? It means that fixing for a long term is going to cost a lot. How much depends on how high you think rates will rise. But if you choose to fix for 2 years at 6.25 percent, instead of 1 year at 5.50 percent, you are basically saying that you expect the 1 year rate to rise to 7 percent in one year's time. In our view this is possible, but not the central scenario – hence we favour short term fixes at this stage.

As another example, if you were thinking about the next year, you could either choose to fix for 6 months at 5.45 percent, or for 1 year at 5.50 percent. Because these rates are similar, the cashflow implications of choosing one or the other are small. Perhaps more importantly, the 6 month breakeven in 6 months isn't much higher than the current 6 month rate. This makes the choice between the 6 month and the 1 year very much a close call. This contrasts significantly to the choice between a 1 year or a 2 year rate, which is much more clear cut given the high breakeven.



These breakeven rates rise quickly relative to where the RBNZ has suggested it intends to take monetary policy. Even if we take the Governor at his most conservative, these assumptions look to be way out of line with what he has said. This is demonstrated in the chart above, where we plot breakeven rates against an OCR that is assumed to remain at 2.50 percent until the second half of 2010 (as opposed to possibly being cut as he suggested may be the case). Now part of the gap reflects the deposit premium banks now face to get deposits. But some also reflects market expectations (the red dashed line) that the OCR will be turning in early 2010, compared to the black line and what the Governor is flagging. Our inability to reconcile these differences is at the heart of our message - fixing is expensive. As such, we do not favour paying fixed at the moment for long terms as doing so is completely inconsistent with the Reserve Bank's message, and involves the acceptance of a large certainty premium. We favour fixing for shorter terms (like 6 months), and rolling repeatedly.

Statistical Annex

Weekly mortgage repayments table (based on 25-year term)

Mortgage Size (\$'000)	Mortgage Rate (%)													
	5.00	5.25	5.50	5.75	6.00	6.25	6.50	6.75	7.00	7.25	7.50	7.75	8.00	8.25
100	135	138	142	145	149	152	156	159	163	167	170	174	178	182
150	202	207	212	218	223	228	234	239	244	250	256	261	267	273
200	270	276	283	290	297	304	311	319	326	333	341	348	356	364
250	337	345	354	363	371	380	389	398	407	417	426	435	445	455
300	404	415	425	435	446	456	467	478	489	500	511	522	534	545
350	472	484	496	508	520	532	545	558	570	583	596	610	623	636
400	539	553	566	580	594	608	623	637	652	667	682	697	712	727
450	607	622	637	653	669	684	701	717	733	750	767	784	801	818
500	674	691	708	725	743	761	778	797	815	833	852	871	890	909
550	741	760	779	798	817	837	856	876	896	917	937	958	979	1000
600	809	829	850	870	891	913	934	956	978	1000	1022	1045	1068	1091
650	876	898	920	943	966	989	1012	1036	1059	1083	1108	1132	1157	1182
700	944	967	991	1015	1040	1065	1090	1115	1141	1167	1193	1219	1246	1273
750	1011	1036	1062	1088	1114	1141	1168	1195	1222	1250	1278	1306	1335	1364
800	1078	1105	1133	1160	1188	1217	1246	1274	1304	1333	1363	1393	1424	1454
850	1146	1174	1204	1233	1263	1293	1323	1354	1385	1417	1448	1480	1513	1545
900	1213	1244	1274	1306	1337	1369	1401	1434	1467	1500	1534	1567	1602	1636
950	1281	1313	1345	1378	1411	1445	1479	1513	1548	1583	1619	1655	1691	1727
1000	1348	1382	1416	1451	1486	1521	1557	1593	1630	1667	1704	1742	1780	1818

Housing market indicators for April 2009 (based on REINZ data)

	House prices (Ann % change)	3mth % chng	No of sales (s.a.)	Mthly % chng	Avg days to sell (s.a.)	Comment
Northland	-19.2	-0.4	148	(+8%)	72	Fall in house prices and days to sell both at the extreme
Auckland	-3.3	0.3	2,201	(+28%)	39	The strongest increase in house sale numbers in April
Waikato/BOP/Gisborne	0.0	3.5	918	(+19%)	61	Annual house prices haven't fallen, unlike other regions
Hawke's Bay	-1.8	-1.8	245	(+10%)	59	The number of homes sold in April hit a 14-month high
Taranaki	0.4	0.2	176	(+25%)	37	The sole region with an annual increase in house prices
Manawatu-Wanganui	-7.9	0.3	314	(+27%)	53	The median time to sell remains at a 12-month low
Wellington	-2.0	1.5	689	(+15%)	41	3 mth change above national avg for 5th month in a row
Nelson-Marlborough	-7.3	1.1	252	(+10%)	51	Recent sale price growth returns to a positive figure
Canterbury/Westland	-1.7	-1.1	1,002	(+13%)	43	The median house sale price hits a high for 2009
Otago	-5.9	1.7	243	(+1%)	44	Number of sales has been in a tight band for 5 months
Central Otago Lakes	-11.9	-7.4	92	(-2%)	45	The only region not a record a lift in house sale numbers
Southland	-11.6	9.1	164	(+14%)	47	The nation's strongest three monthly change in prices
NEW ZEALAND	-1.4	1.4	6,469	(+20%)	44	Activity in the nationwide market continues to recover

Key forecasts

Economic indicators	Actual			Forecast						
	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10
GDP (Ann Avg % Chg)	1.7	0.3	-1.0(e)	-2.1	-2.8	-2.8	-2.0	-0.8	0.8	2.4
CPI Inflation (%)	5.1	3.4	3.0	2.1	1.1	2.2	2.4	2.2	2.3	2.3
Unemployment Rate (%)	4.3	4.7	5.0	5.6	6.4	7.0	7.5	7.7	7.9	7.8
Interest rates	Actual			Forecast (end month)						
	Mar 09	Apr 09	Latest	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10	Dec 10
Official Cash Rate	3.4	3.2	2.5	2.50	2.25	2.00	2.00	2.00	2.50	3.50
90-Day Bank Bill Rate	3.2	3.1	2.9	2.9	2.4	2.4	2.4	2.4	3.1	4.1
Floating Mortgage Rate	6.4	6.4	6.4	6.4	6.2	6.0	6.0	6.0	6.5	7.5
1-Yr Fixed Mortgage Rate	5.8	5.8	5.6	5.6	5.4	5.3	5.4	5.4	6.0	6.7
2-Yr Fixed Mortgage Rate	6.2	6.3	6.3	6.3	6.1	6.1	6.3	6.4	7.1	7.6
5-Yr Fixed Mortgage Rate	7.4	7.5	7.5	7.5	7.5	7.5	7.5	7.5	8.0	8.1

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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.

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

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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.

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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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