

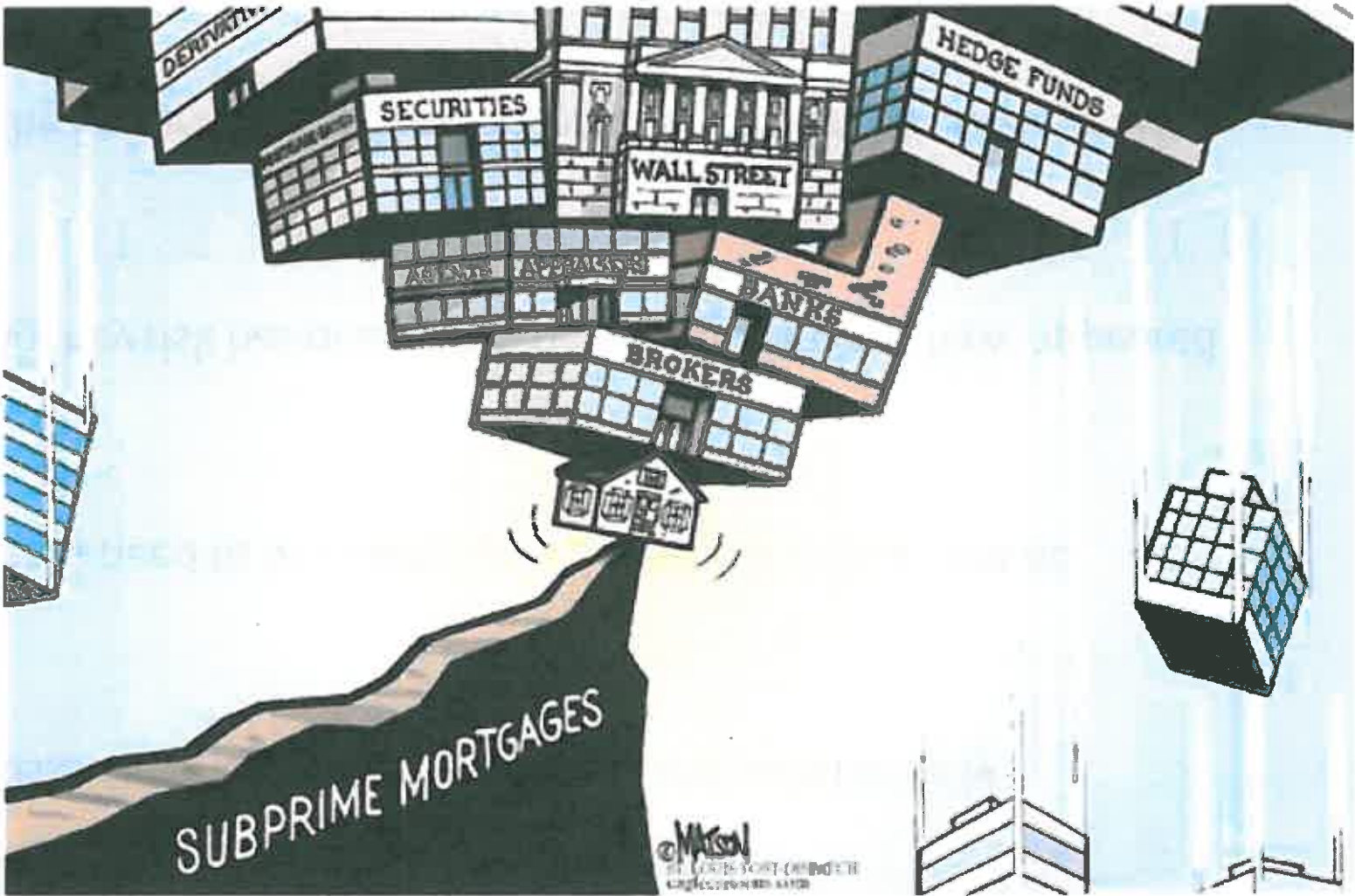
Back to basics ...for us all

Andrew Thorburn
Managing Director
BNZ
9 September 2009

Outline of presentation

- What ever happened to banking?
- How do we get long term growth in NZ?
- Where does property fit: for a bank and in the economy?
- The world has changed!

The Global Financial Crisis



"I THOUGHT WE WERE JUST BUYING A HOUSE!"

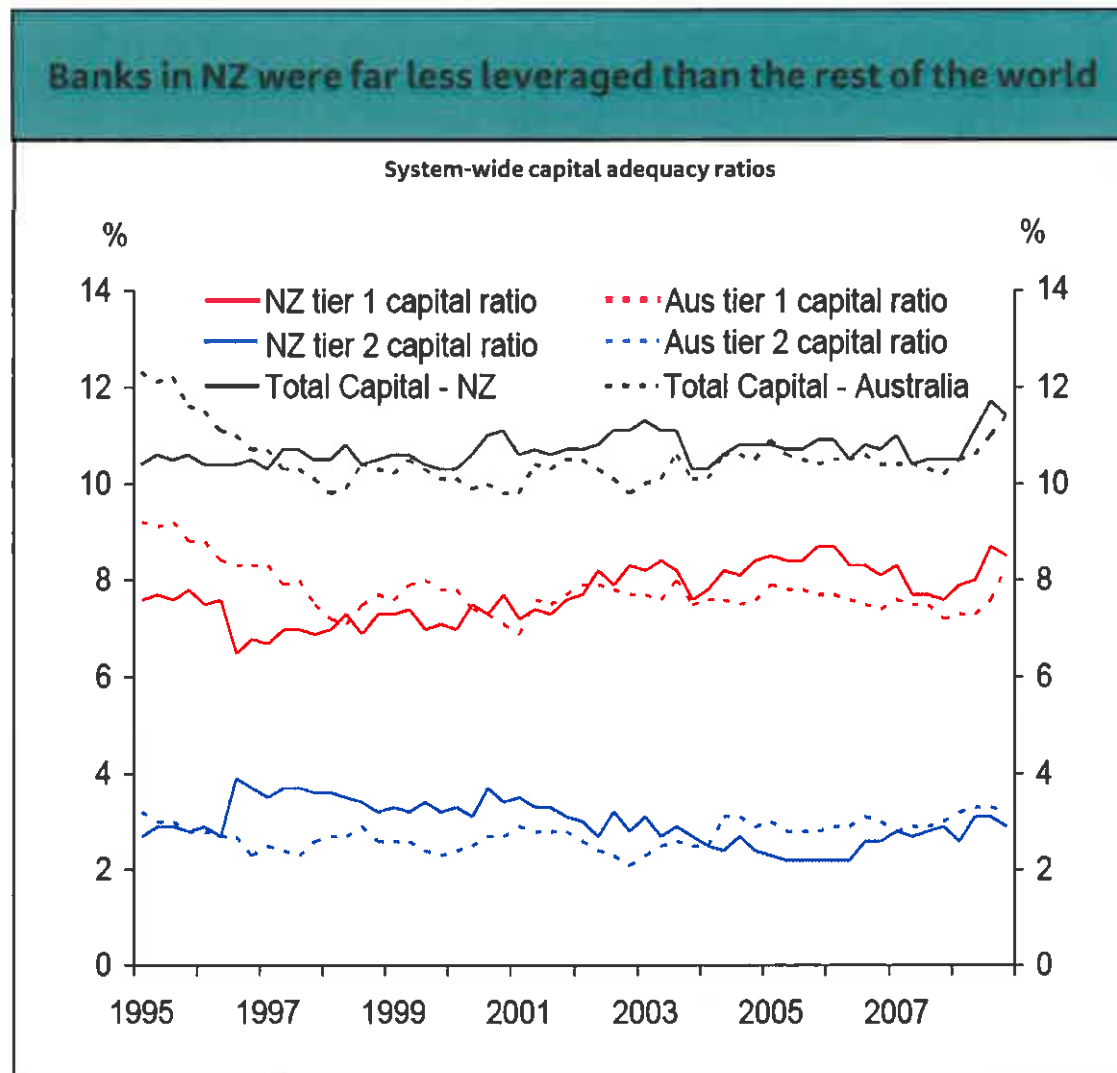
Source: St Louis Tribune-Dispatch, 8 August 2007

GFC - Lessons

- Risks can materialise very rapidly and substantially
- Risks need to be clearly identified and well understood
- Agency risk has been more pervasive than may have appeared
- The importance of good governance cannot be understated

Source: John Laker, Chairman APRA, 19 August 2009

A sound Australasian banking system



Source: Reserve Bank of New Zealand

Big numbers!

INCREMENTAL FINANCIAL SYSTEM SUPPORT, BY FEDERAL AGENCY SINCE 2007 (\$ TRILLIONS)

	Current Balance	Maximum Balance as of 6/30/2009	Total Potential Support Related to Crisis
Federal Reserve	\$1.4	\$3.1	\$6.8
FDIC	0.3	0.3	2.3
Treasury — TARP (including Federal Reserve, FDIC components)	0.6	0.6	3.0
Treasury — Non-TARP	0.3	0.3	4.4
Other: FHFA, NCUA, GNMA, FHA, VA	0.3	0.3	7.2
Total	\$3.0	\$4.7	\$23.7

Source: Special Inspector General, Troubled Asset Relief Program, Quarterly Report to Congress, July 21, 2009

But NZ has a flaw, its Balance Sheet..... The world is our bank and we have a \$130bn overdraft

NZ Inc.'s Balance Sheet: (Registered banking sector)

	<u>1990</u>	<u>2000</u>	<u>2008</u>
Lending	\$65bn	\$160bn	\$330bn
NZ Funding			
- households	\$25bn	\$40bn	\$90bn
- other sources	\$30bn	\$55bn	\$110bn
Funding Gap	(\$10bn)	(\$65bn)	(\$130bn)
Offshore	\$10bn	\$65bn	\$130bn

Source: RBNZ Financial Stability Report May 2009; figures rounded)

- Offshore funding was not a problem while unconstrained & cheap funding was available
- ...but are offshore investors willing (or able) to continue funding the \$130bn?
- What is the price?

Creating a stronger New Zealand

- Increase savings
- SME growth
 - Leadership
 - Financial strength
 - Planning
 - Innovation
- Strong banks - including relationships with customer & community

BNZ ends resented overdraft penalties

Fees more trouble than they're worth, says bank

by Marla Slade

The Bank of New Zealand plans to drop the highly unpopular penalty fees for

whatever we do."

The bank's Australian parent NAB also announced yesterday that it was dropping the fees and Mr Thorburn

The New Zealand Herald (30 July 2009)

Wednesday, 4 November



www.closedforgood.org

better off
bnz

Commercial Property - Some thoughts

- Major sector in NZ...must be well structured
- Acknowledge the constraints ... savings, capital, risk and return
- What we are looking for
 - Sound long term business models
 - A long term view
 - Equity
 - Cashflow vs capital gain
- What we will offer
 - “Listen, engage and deliver”
 - Innovation
 - Direct, upfront conversations

In conclusion...

- The World has changed...for good
- Banks require sound, long term practices...we have this
- New Zealand must address constraints...savings and SME are key
- Commercial property is vital, and needs a focus on quality and cashflow

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