

IN A PERFECT WORLD,
MONEY REALLY WOULD
GROW ON TREES ...

ANZ NEW ZEALAND ANNUAL REVIEW 2010

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...BECAUSE IT DOESN'T,
WE'RE HELPING
NEW ZEALANDERS
FIND OTHER WAYS TO
GROW THEIR WEALTH.



INTRODUCTION



Our position as New Zealand's largest bank means that we touch all aspects of society and business in the country, from the couple buying their first home to the billion-dollar exporter.

Welcome to ANZ New Zealand's first Annual Review. Our position as New Zealand's largest bank means that we touch all aspects of society and business in the country, from the couple buying their first home to the billion-dollar exporter.

We have been in New Zealand for 170 years and today we have a banking relationship with one in two New Zealanders and account for around one per cent of New Zealand's Gross Domestic Product. It's a privileged position in which we play a critical role in facilitating New Zealand's economic growth and development. It helps to provide us with a deep understanding of the needs and aspirations of individuals, families and businesses in New Zealand.

The purpose of this publication is to share the contribution we make and the insights we have with the people who also play a major role in determining New Zealand's future. We hope you will find this adds to your own perspective of the factors shaping New Zealand now and in the future.

NEW ZEALAND NEEDS FRESH PERSPECTIVES

It's just over two years since the failure of Lehman Brothers in September 2008 which marked the high point of the global financial crisis. While many banks in the United States and Europe collapsed or required significant financial assistance from their governments, the New Zealand and Australian banking systems remained sound.

This has meant that we are well positioned to support New Zealand as it recovers from the economic impact of the global financial crisis and as it adapts to the new environment in which global economic growth is more subdued. As a nation we now need to renew our focus on improving our productivity, on the use of our natural resources and on harnessing the capacity of our people for creativity and innovation. To achieve growth we need to engage ourselves much more significantly with growth markets such as Asia.

Post the global financial crisis, New Zealand needs to switch, and switch quickly, to a more export-led economy with a greater emphasis on long-term investment in our nation's productive capacity.

At ANZ New Zealand we want to play our part in the development of our nation's capacity. To do so we must provide outstandingly good banking to our customers, and become the bank which most New Zealanders choose to bank with. We want to be New Zealand's best performing bank. I am sure that those are objectives which we all share. All of us at ANZ have a part to play in achieving them.

NEW ZEALAND'S REGIONAL STRATEGY REFLECTS SHIFT IN GLOBAL GROWTH

The ANZ Group's super-regional strategy has anticipated the importance of Asia to our economic future and the huge potential the Asia Pacific region offers our exporters, our businesses that are seeking new sources of funding and the thousands of New Zealanders with family connections in Asia and the Pacific.

We are an economy transitioning from a focus on traditional markets in Europe to one seeking to engage with our Asian neighbours. ANZ New Zealand has an important role to play in helping that transition. From individuals and families to small businesses and our large institutions, we have continued to be a catalyst for change, helping New Zealanders to adapt to the new post global financial crisis environment.

RESPONSIBLE BUSINESS

At the same time, we understand we need to act as a responsible corporation in the way we go about our business.

In New Zealand, our approach has been distinguished by a strong focus on improving New Zealanders' financial knowledge and capability, giving back to the community through volunteering and payroll-giving and having a diverse employee population that reflects the communities we serve.

These programmes helped the ANZ Group to achieve recognition as the most sustainable bank globally by the Dow Jones Sustainability Index for the fourth consecutive year in 2010. We also need to acknowledge, however, that, like many businesses, we have also faced challenges that highlight there is still room to improve, and to do more for our customers and the community.

I'd like to end by thanking Jenny Fagg for her strong leadership as CEO from May 2009 until September this year, when she stood down so she could receive treatment for cancer.

Her successor, David Hisco, is one of ANZ's most experienced executives who has lived and worked in New Zealand before as Managing Director of our finance company, UDC. He has taken over a great business which, as you will see in this report, has shown some real momentum this year as the New Zealand economy recovers and our people continue to work hard to deliver great outcomes for our customers and the wider New Zealand community. I hope you enjoy our first Annual Review.



Sir Dryden Spring
Chairman, ANZ New Zealand

IMPROVED PERFORMANCE FOR NEW ZEALAND



We demonstrated that we have both the financial strength and long-term perspective to support our customers through the economic recovery.

Our first New Zealand Annual Review marks a new way for us to engage with the many people who play important roles in creating New Zealand's future.

Although ANZ has been in New Zealand for 170 years and we employ around 9,000 Kiwis, it's struck me on returning to work here after a 10-year break that our bank has at times taken its New Zealand identity for granted.

The purpose of this Annual Review is to inform our stakeholders in New Zealand about our achievements and to share our views and insights on New Zealand's economy now and in the future. It's part of a renewed commitment by the bank to play our part in contributing to the country's long-term economic success and prosperity.

OUR PERFORMANCE

ANZ New Zealand's solid performance in 2010 highlights the steady turnaround in the economy and the underlying strength of our customer franchise.

Underlying profit, before statutory adjustments, was \$882 million, up 40 per cent off a low base in 2009. Statutory profit was \$867 million.

The improving economic environment saw provisions fall dramatically, down 48 per cent, although the recovery hasn't been consistent in all sectors. At the same time, customers across the board remained cautious about debt, with both lending and deposit growth being flat as personal and business customers continued to deleverage.

Our costs were well managed, an increasingly important focus in today's low-margin, low-growth environment.

We continued to build a very solid bank through our focus on capital and balance sheet management, and by improving the competitiveness of the products and services we offer customers.

Two significant legacy issues were resolved. A settlement was reached in December 2009 with the New Zealand Inland Revenue Department concerning the tax treatment of certain legacy structured finance transactions. The bank and ING (NZ) also settled with the New Zealand Commerce Commission and the New Zealand Securities Commission in June 2010 in relation to the marketing and promotion of the ING Diversified Yield Fund and ING Regular Income Fund.

While there's no question that 2010 was a challenging environment to navigate, we demonstrated that we have both the financial strength and long-term perspective to support our customers through the economic recovery.

CUSTOMERS AND THE COMMUNITY

An example of our support for customers was the assistance we provided this year to the New Zealand export sector through exporter tours to China linked to our sponsorship of the New Zealand Pavilion at the Shanghai World Expo.

ANZ's super-regional strategy, with its focus on New Zealand, Australia and growth markets in Asia Pacific, is well aligned with New Zealand's strategy for an export-led recovery.

As New Zealand's largest corporate, we are also serious about our responsibility to help the communities in which our customers and staff live and work.

Of course, this year the Canterbury community has faced considerable hardship. We took the initiative just hours after the 4 September earthquake to provide \$1 million to the Canterbury Earthquake Appeal, along with our special assistance packages for affected customers and staff.

We continued our assistance programmes in supporting financial inclusion. A highlight was the support we provided for the world's first indigenous people's financial knowledge survey – the ANZ Ngāi Tahu Financial Knowledge Survey – and we are now delivering our MoneyMinded financial education programme to Ngāi Tahu iwi.

This year ANZ was named the most sustainable bank globally in the Dow Jones Sustainability Index for the fourth consecutive year.

We also became a Worldwide Partner and the Official Bank of Rugby World Cup 2011 – one of the biggest global sporting events to be held in the Asia Pacific region.

OUTLOOK

The New Zealand economy emerged from the recession in the middle of 2009. The recovery has been more subdued than past recoveries, and ongoing deleveraging by households and businesses will likely restrict near-term growth. However, we can expect stronger growth to emerge in 2011. The Government's focus on rebalancing the economy with a shift from debt, consumption and government spending towards savings and exports is setting New Zealand on the right path. After getting a good feel for New Zealand since I arrived back in September, I'm relatively upbeat about the outlook.

New Zealand has been among the first developed economies to recognise that a renewed commitment to economic reform and productivity improvement is essential to sustain the recovery and to improve national prosperity.

This creates a real opportunity to act more decisively on economic reform, including pro-growth tax reform, infrastructure investment and the best options to increase New Zealand's overall savings performance.

ANZ New Zealand's strong domestic focus and the ANZ Group's super-regional strategy position us well to play our part – not only in terms of our financial performance, but in making us a better place for our customers to do business and through our contribution to the community.

I'm positive about the opportunities for ANZ New Zealand to lift the contribution we make in 2011 and I'm looking forward to our making a real difference in New Zealand.



David Hisco
Chief Executive Officer, ANZ New Zealand

OPINION

THE ECONOMIC YEAR THAT WAS



Cameron Bagrie
Chief Economist, ANZ New Zealand

The past decades have seen the global economy become unbalanced. We spent too much money in the Western economies and saved too much in the East.

The door is closing on 2010 and attention is starting to focus on what 2011 and beyond may bring.

Given the scale of the challenges the global financial crisis has brought, the New Zealand economy has performed solidly. An aggressive policy response worked well, but the underlying strength of the banking system and the resilience and fortitude of businesses and communities also came to the fore. That is not to say the recession hasn't hurt; it has. But relative to what could have been, the economy has come through well.

With growth – albeit somewhat patchy – returning across the economy, attention is centred on where to from here. We think about this cycle evolving in five distinct stages.

The first stage was the old normal, specifically the 2002 to 2007 period, where growth was driven by excessive leveraging and risk-taking, which led to asset price bubbles and artificial, wealth-induced, spending. Or, to put it another way, it is abnormal to think credit growth can expand at two to three times the rate of GDP, or that asset prices could grow at double the rate of income generation.

The second stage saw the inevitable purging in 2008/09 that follows such excesses.

THE RECOVERY PROCESS IS UNDERWAY

The third stage is the recovery process that we are currently going through. This has been helped by aggressive policy action, China's economic strength and Australia's resilience. Faced with the possibility of the Great Depression Mark II, kitchen-sink-style economics have come to the fore, and by that we mean that almost everything, including the kitchen sink, has been thrown at the problem.

As the group of 20 top industrialised nations has noted, "it worked" – although people who have been to the likes of the United States might disagree with that. A number of nations continue to face long adjustment processes. While there is growth out there for a lot of industries, it doesn't feel like growth because it has come off such a low base or level of activity and we are seeing a different mix to growth, with more earning and less spending.

The fourth stage of the cycle is what I refer to as transition. The subsequent stage is the endgame, where decisions in the transition phase will determine our growth outlook.

Transition involves two distinct dynamics. The first is taking the patient off life support, or the so-called exit strategy. This will be difficult for policy makers, including our own Reserve Bank, to engineer perfectly. Indefinitely low interest rates or large fiscal deficits are not the path to economic prosperity, but nor is unwinding support from these factors too soon.

China consumes around 30 per cent of its GDP. In the longer term this is unrealistically low, and over time a growing consumer-based society in the region should be advantageous for a producer like New Zealand.

STRUCTURAL CHANGE NEEDED TO REBALANCE ECONOMY

The second dynamic is introducing structural changes to prevent a repeat of the financial crisis, and is also aimed at changing economic performance. The past decades have seen the global economy become unbalanced. We spent too much money in the Western economies and saved too much in the East. New Zealand has followed this model, concentrating on non-tradable-sector growth at the expense of the tradable sector. In some ways, it's been akin to having the cart in front of the horse and the challenge now is to get the horse back in front of the cart.

How we transition will be a function of a number of dynamics.

First you need opportunity. A host of nations, particularly in Europe, are now facing broken economic models and few comparative advantages with which to re-invent themselves. These nations are now facing the same six-year growth pattern New Zealand experienced from 1984 to 1990, up and down but going nowhere.

Thankfully, New Zealand is rich in natural resources. These include beneficial climatic conditions, agriculture, a huge seafood resource thanks to our exclusive economic zone, mining resources, our clean, green image and the benefits this has for tourism, water, and that good-old Kiwi number-eight-wire spirit.

On top of that, changes around the globe are working in our favour: rebalancing requires the West to spend less but the East, particularly Asia, to spend more. For instance, China consumes around 30 per cent of its GDP. In the longer term this is unrealistically low, and over time a growing consumer-based society in the region should be advantageous for a producer like New Zealand.

LEADERSHIP AND POLICY CHANGE CAN DRIVE GROWTH

The second essential element is leadership and the preparedness to provide a policy framework conducive to not only growth, but sustainable and robust growth. People respond to the right economic incentives and direction.

It is clear there is no magic bullet that will suddenly close the yawning income disparity with Australia, or shift New Zealand towards focusing on investing for tomorrow at the expense of consuming for today. Rather, when we eye up the required policy prescription, we are talking about the interaction of 100-plus microeconomic policies directed at areas such as education, capital markets, tax, health, roading, energy, prudential policy, telecommunications, savings and investment. New Zealand has a good macroeconomic policy framework that is world class in a number of areas. But closing the gap will not be achieved by matching our peers; we need to have something that is better.

The third element is the business sector itself. Just as the Government cannot abdicate its responsibility by leaving the business sector to 'go through the gate', neither can the business sector wait for changes to occur.

FROM CONSUMPTION TO ACCUMULATION

The final stage is altering human behaviour, or shifting New Zealand's fixation with consumption today as opposed to investing and saving for the future. Shifting a society's perception away from consuming today versus investing and accumulating for tomorrow is likely generational in time. New Zealand has made progress. The saving rate is starting to improve. We also appear to have more opportunity and a plan, unlike some nations. We're seeing incremental change initiatives being put in place.

The business sector is adapting, although a divide remains between good and bad operators. A weak housing and retailing environment is reflective of consumers altering their behaviour.

The journey will take a number of years. There will be growth but not what we've been used to. The environment in the coming years will be much more about hard graft, with wealth creation coming from yield, cash flow and income generation as opposed to artificially induced asset price gains. If done well, our children will inherit a rich land.

MAJOR ENTERPRISES

SUPPORTING NEW ZEALAND'S MAJOR ENTERPRISES

New Zealand's major enterprises play a significant role in our economy, acting as bellwethers, leading trends and reacting quickly and nimbly to changes in the world economy.

Big organisations need advisers who have the capacity to meet their complex needs, and ANZ New Zealand's Institutional Division fulfils that role. We are a clear market leader, providing a full range of financial products and services to our corporate and institutional customers, predominantly those with annual turnovers of more than \$150 million.

Having banking relationships with around 82 per cent of the New Zealand institutional market provides us with comprehensive market insights. It also means we have the critical mass to make a positive difference to the New Zealand economy.

Our aim is to be New Zealand's leading bank with super-regional capabilities, supporting all sectors of our economy with a special focus on the two pillars that will underpin our economic recovery and growth agenda – exporting, especially agriculture, and infrastructure.

The past year has seen customers looking for new sources of funding and access to new markets, and a greater demand for insights into changes in the economic environment and financial markets.

ADJUSTING TO THE 'NEW NORMAL'

In 2009, as the recession deepened, the bank took a leadership role in supporting some of New Zealand's largest companies' liquidity and trading lines, as well as assisting with the restructuring of their balance sheets to help withstand future financial shocks.

Part of that leadership role was the development of New Zealand's debt capital markets. ANZ New Zealand topped the 2009 New Zealand Debt Capital Markets League Table and raised more than \$3 billion for New Zealand household names such as Fonterra, Contact Energy and Wellington International Airport. In 2010 we continued to be the leading bank for debt capital market transactions, raising \$1.71 billion, or 42 per cent of market share.

In September 2010 we became a joint lead manager, and the only Australasian bank, on the Government's inflation-indexed-bond syndication panel. Inflation-indexed bonds are intended to provide long-term, cost-effective funding for the Government.

We were also sole arranger of two Export Credit Agency transactions for two of New Zealand's big energy companies and were appointed to the hedging panel for the country's largest, and most active, fuel hedger.

A vibrant capital market not only helps our customers to diversify their funding sources and maintain their balance sheets – it also provides confidence and ensures they have the ability to plan and make long-term decisions that have a significant bearing on employment prospects and wealth generation, both critical for New Zealand.



CONNECTING TO OUR LARGEST TRADING PARTNERS

A market of four million people cannot operate in isolation. With our main export markets now in the Asia Pacific region, ANZ's super-regional strategy, with its focus on New Zealand, Australia and Asia Pacific, aligns with the Government's goal for an export-led recovery. This means ANZ New Zealand has a unique capability in this market to help our customers grow their businesses across Asia.

Overall, New Zealand's top 10 export destinations account for 66 per cent of New Zealand's export revenue and ANZ has a strong presence in all of these markets. We are the only New Zealand bank to invest heavily in Asia, a region vital to our economic recovery and ongoing prosperity.

This year, the bank became the sponsor partner of the New Zealand Pavilion at the Shanghai World Expo. Off the back of this sponsorship, tours were arranged for customers to attend the Expo and also make on-the-ground connections in Asian export markets.



ANZ has a strong presence overseas and is located in New Zealand's top 10 export destinations which alone account for 66 per cent of the country's export revenue.

Significantly more funding is crucial to meet New Zealand's need for new infrastructure such as land transport (road and rail), broadband, energy, water, schools, prisons, housing and hospitals. To that end we have already assisted energy companies to access new funding and have the capacity to source funding for other major projects.

The bank supports the Government's moves to establish public-private partnerships around the development of key infrastructure. These partnerships have the potential to reduce costs significantly and improve quality and completion times.

HELPING CUSTOMERS MAKE INFORMED DECISIONS IN CHALLENGING TIMES

Our customers value the access the bank gives them to up-to-date and relevant financial and market data. They appreciate its importance in making the right business and funding decisions. They also know about the difficulty of getting consistently high-quality information in a small market, so they value the additional reach we can provide for them.

Our commitment to supporting our customers in this area has seen the bank become the largest non-government provider of official statistics in New Zealand. Our economists are rated number one in New Zealand for providing the most effective, and useful, domestic economic analysis.

ANZ has facilitated access to New Zealand's retail capital markets for Australasian multinational companies with New Zealand operations, such as Goodman Fielder and APN News and Media. Execution certainty and funding diversification were key determinants in accessing these markets.

A partnership with the New Zealand Stock Exchange has resulted in the ANZ Debt Indices. This is a meaningful market benchmark, assisting the funds management industry to assess the performance of its fixed-interest portfolios.

POSITIONING FOR SUCCESS IN 2011

In 2010 our commitment to our customers, and to supporting the growth of the New Zealand economy, was recognised when ANZ New Zealand won the Bank of the Year Award at the New Zealand Institute of Finance Professionals Awards.

The bar is high, but in 2011 our goal will be to improve our performance. This means getting more customers to connect with Asia, and ANZ's Asian customers to connect with New Zealand. We are committed to working with the Government and customers to improve our infrastructure to make New Zealand more competitive.

Exporters attending included representatives from the seafood, agribusiness, food, manufacturing, textiles, wine and pharmaceutical sectors. Many are now planning to increase their presence in Asian markets, or export there for the first time, using the knowledge and support of the bank to strike out into new territory.

Our customers have been seeking new sources of funding as the traditional Northern Hemisphere markets tighten and become more costly.

INFRASTRUCTURE GROWTH IS VITAL

Many of our institutional customers are involved in aspects of our economic infrastructure, including the energy, telecommunications and building sectors, essential building blocks for any modern, competitive economy. The Government has committed to increase spending on infrastructure, with an extra \$7.5 billion of planned investment between now and 2013/14. Working with infrastructure is emerging as a key area through which the bank can support growth and employment in New Zealand. Our connectivity with Asia is also very relevant for this sector of the economy.

Our customers have been seeking new sources of funding as the traditional Northern Hemisphere markets tighten and become more costly. This has been an important trend in the past year.

Our links with Asia have opened access to new sources of capital, with our 'Kiwi Day' roadshows linking large New Zealand organisations with potential funding sources in Asia. This has resulted in the bank organising a deal for state-owned enterprise Transpower, the first-ever bond issue for a New Zealand company in the Hong Kong dollar bond market.

WEALTH MANAGEMENT

BUILDING AND PROTECTING THE WEALTH OF ALL NEW ZEALANDERS

Following the global financial crisis and economic downturn in New Zealand, many people are changing their approach to managing their financial affairs, with a greater focus on savings and investment.

In order for New Zealand to get on a sounder economic footing, more people need to be accumulating wealth. In the past year we have seen the start of a change in the long-term trend, from people not saving enough and underinsuring towards wealth accumulation and protection.

ANZ New Zealand plays a key role in this, having more than \$12 billion in funds under management through its wealth management business. ANZ Wealth brings together all of ANZ's wealth business and brands including OnePath, our specialist funds management and life insurance operation (formerly ING NZ), Private Banking, Wealth Direct and the investment and insurance specialists in the ANZ and National Bank brands.

This level of involvement in wealth management offers us valuable insights into changing attitudes to investment and risk after the turmoil of the global financial crisis and its effects on global and local investments.

Many New Zealand investors were affected by the crisis, including some of our customers who invested in the ING Diversified Yield Fund and ING Regular Income Fund.

In July we announced that ING (NZ) and the bank had reached a settlement with the Commerce Commission and Securities Commission in relation to the marketing and promotion of the two funds.

As part of the settlement \$45 million has been paid to eligible investors, in addition to the \$500 million already made available to investors by the bank and ING (NZ). Few New Zealand financial institutions have stood by their customers to this extent.

Investors and the financial sector have learned from the global financial crisis, with more emphasis now being placed on seeking higher standards of advice and greater transparency, choice, involvement and education.

KIWISAVER IS HELPING TO CHANGE ATTITUDES

There has been rapid growth in investors using managed funds since the introduction of KiwiSaver. In three years, KiwiSaver has grown to almost 11 per cent of New Zealand's total managed funds, changing the composition of the retail funds market. For many people this is their first experience of long-term investments. There is a sense in the business that the trend for smaller investors to decrease their reliance on making capital gains through property in favour of savings and other investments is here to stay.

ANZ is New Zealand's number one KiwiSaver provider, with four schemes managed by our funds management team. The schemes are available through the bank, through our status as one of the Government's KiwiSaver default providers and through independent financial advisers.

KiwiSaver and changes to the regulatory framework under the Financial Service Providers Act and the Financial Advisers Act are providing the foundations for a more robust, transparent era in the wealth management market, where investor confidence is paramount.

The new framework for professional financial advice will lift standards and ensure investors have strong protection under the new disclosure and dispute arrangements.

KiwiSaver is also one of the factors behind the trend we are seeing for 'mum and dad' investors to increase their financial knowledge and become more involved in their investment strategies. There has been a noticeable increase in the number attending the investment seminars we offer, registering for our regular investment newsletters and taking advantage of our financial planning and advice services.



The new framework for professional financial advice will lift standards and ensure investors have strong protection under the new disclosure and dispute arrangements.

INCREASING UNDERSTANDING OF RISK BRINGS INSURANCE PROTECTION INTO FOCUS

While people are taking greater responsibility for their long-term financial security, they are also looking to protect the most important things in their lives. Having the appropriate level of insurance to match every individual's particular circumstances is critical to protecting their wealth.

More banks are offering greater access to insurance products through their networks in response to customer demand for a single point of contact for all their financial solutions.

ANZ has experienced growth in the insurance market in the past year. However, compared with global trends, New Zealanders remain, on the whole, underinsured. OECD figures show that New Zealand's average insurance spending per capita on gross life and non-life premiums is less than one-third of the Australian average.

While the availability of insurance services is improving through our distribution networks, we have a role to play in raising awareness of the pitfalls of underinsurance.

HIGH-NET-WORTH CUSTOMERS LIKE TO BE HANDS-ON INVESTORS

High-net-worth individuals in our Private Bank continue to be well advanced in understanding the importance of good portfolio construction and diversification, and are adjusting to a longer-term lower-rate environment through taking advantage of higher yields in the better end of the corporate bond market.

Many of our higher-net-worth customers use our portfolio service for their income and wealth preservation needs and have other funds they self-manage for additional returns. Their options range from investing in shares to private equity deals, private debt placements and direct investing in small to medium enterprises.

One of the dynamics in New Zealand is a desire among small business owners to exit their holdings, and the capital held by the high-net-worth group will ultimately play a role in this. The bank increasingly sees a role in connecting these groups.

This group is also interested in being connected with international investment opportunities. Our links with Asia through ANZ's super-regional strategy have allowed us to leverage the knowledge and expertise of our advisers in growth markets across Asia on behalf of these customers.

In the past year we have taken customers to China to let them see first-hand some of the investment opportunities that exist in Asia, and our expectation is that this will be a growing market for this group of investors.

People are naturally more vigilant regarding their investments in these uncertain times, and what customers tell us attracts them to our offerings is our commitment to solution-based services and strong governance.

ANZ Private Bank was voted New Zealand's Best Private Bank in 2010. This is testament to the reputation we have built for offering a comprehensive in-house investment service, enabling us to invest money directly on behalf of our customers.

The other benefit of having an in-house team is that our customers can interact with global investment specialists to increase their knowledge of the economy and investment markets.

TAKING A HOLISTIC APPROACH TO WEALTH MANAGEMENT

Looking ahead, another key trend is customers' desire for investment advisers to look at their wealth holistically. They want to strike the right balance between the imperative to preserve wealth and the desire to meet their aspirational needs.

Under the new regulatory framework, authorised financial advisers are required to meet educational standards and deliver services based on transparency and disclosure.

Best practice in this area is leading to the development of model portfolios for customers that balance the desire for building and preserving their wealth according to their own needs.

The pull towards Asia will continue, as will the strong desire for direct relationships with those investing on people's behalf, transparency around costs and a commitment to work with customers to increase their knowledge and understanding of investment and insurance products.

OPINION

INVESTMENT IN THE WAKE OF THE GLOBAL FINANCIAL CRISIS



Kevin Armstrong
Chief Investment Officer,
ANZ New Zealand

Markets become more vulnerable the more optimistic expectations become; similarly opportunities increase the more desperate expectations grow.

The decline in local and global share markets, from late 2007 through to early 2009, was undoubtedly of historic proportions and now, with the benefit of hindsight, it is clear that the early stages of the decline heralded what was ultimately to be seen in the real economy: the worst global downturn since the Great Depression.

From an investment standpoint it is now more important to look forward and to consider what has changed in the investment world, beyond the loss of wealth, as a result of the global financial crisis; whether any lessons have been learnt and what might be expected in the future.

In order to appreciate the changes that have occurred, it is essential that one understands just what drives markets and how the attitudes of investors matter, because ultimately it is investor attitudes, and particularly their expectations, that are reflected in markets.

It is not the ever-changing stream of news that drives markets; rather it is how that news compares with the aggregate expectations of all investors. At any moment in time the 'expected' is already priced in. For a market to move, something other than the expected has to occur. It is surprises and disappointments that move markets. That is why markets always peak amid good news, just not quite as good as the majority's expectations, and similarly, as we all saw in March 2009, markets bottom amid dreadful news, just not as miserable as the majority had grown to fear.

The upshot of this is that markets become more vulnerable the more optimistic expectations become; similarly opportunities increase the more desperate expectations grow.

Perhaps the most dramatic shift in investor attitudes in the wake of the global financial crisis has been in the areas of trust and expected returns. Trust in much of the United States and European financial industries has been shattered, and it is very difficult to see just how that trust can be rebuilt except over periods, probably measured in decades. One outcome of the shattered trust will certainly be increased levels of regulation. At the margin this has to be a drag on returns, as it involves a not-inconsiderable cost, and it may well prevent some of the excessive behaviours that led to the last crisis.

However, it is questionable whether any new regulation will prevent a slightly different crisis in the future. The history of investment market regulation is that it has frequently been efficient at preventing the last crisis, only to be repealed because such a crisis hasn't occurred again, just when it would have been most valuable.

Despite the rise in equities in the past 20 months, the lesson that was learnt – that equities are risky – has clearly stayed learnt. The public has not returned to the market in a meaningful way.

Prior to the global financial crisis, investors expected healthy returns from share markets (equities) and believed what they had repeatedly been told, that in the 'long term' equities always outperformed all other asset classes. This 'belief' became widely expected in the late 1990s, after equities had delivered stunning returns for almost two decades. With that experience behind them, investor expectations grew and grew and now, with the benefit of hindsight, it is clear that expectations were at such elevated levels there was no room for positive surprise. The result of the global financial crisis is that just what the 'long term' means has had to be stretched and stretched. At the bottom of the plunge in equities in March 2009 in many major markets, government bonds had delivered superior returns to equities for 10, 20 and even 30 years.

Despite the rise in equities in the past 20 months, the lesson that was learnt – that equities are risky – has clearly stayed learnt. The public has not returned to the market in a meaningful way.

In the very long term, and possibly the much shorter term too, this continued low level of expectations from equities is encouraging, but as so often happens in investing, the lesson most recently learnt by the majority ensures that the majority will almost certainly miss out on the next move, whatever it may be, as so many have in the past 20 months.

Another attitude that has been challenged by the global financial crisis is the belief in the benefits of globalisation and that it was increased globalisation and openness that fundamentally drove the great bull market of the 1990s and 2000s. The risk is that amidst a still-challenging environment, trade barriers and protectionist tendencies will grow. This would obviously be disappointing and counterproductive, but it is also possible that the previous view of causality will be reversed and globalisation will be seen as a symptom of the boom rather than the cause.

Finally, it is also the case that the lesson that economics and investment are very different has been well and truly learnt. Waiting for the economy to slow, or recover, would have been a futile exercise ahead of the enormous swings in markets in the past three years. What is remarkable, though, is how quickly we all forget. Despite economists' dismal records in these challenging times, it is incredible to see how quickly investors have flocked back to hear what economists are forecasting to help them build a comfortable investment view.

This illustrates well the comments made by one noted investor in the United States at the nadir of the crisis. When he was asked whether we would all learn anything as a result of it, he said that in the short term we would all learn a lot, in the medium term we would all learn a little and in the long term we wouldn't learn a damn thing!

The global financial crisis has obviously been an attitude-changing, and lesson-giving, event, but how long each lesson stays learnt seems to vary. Perhaps the most important lesson though, is that investing is not easy; it has just seemed that way twice in the past 15 years, once from 1995 to 2000, then again from 2003 to 2007.

BUSINESSES

TAKING CARE OF THE ECONOMY'S 'ENGINE ROOM'

New Zealand is a nation of small and medium businesses. The sector employs around 590,000 people and accounts for 41 per cent of the economy's total economic output. Almost all of these businesses are privately-owned.

ANZ New Zealand has taken a leadership role in this sector, recognising that many of our commercial customers do not have the size, strength or experience to manage once-in-a-lifetime economic shocks like the global financial crisis easily.

Our aim in the past year has been to show our commitment to New Zealand by supporting commercial and rural businesses that bank with us. It hasn't been an easy period for the bank or our customers, with demand being volatile in many sectors and many customers needing to refinance debt in a new higher-cost environment.

Privately-owned, often family-owned, the businesses in this sector place a high value on personal service and face-to-face relationships. We recognise that having our own decision-makers close to our customers is important and we have a regional management structure to support this.

ADAPTING TO THE 'NEW NORMAL'

Although business conditions have remained challenging, by mid-year the ANZ Privately-Owned Business Barometer – an annual survey of more than 2,000 owners of businesses with annual turnovers of between \$2 million and \$150 million – produced some encouraging news.

The survey found medium-sized New Zealand businesses actively adapting to the post-global financial crisis environment by focusing on tightly controlling their business fundamentals and looking for new growth areas, including international expansion.

This is the most in-depth annual study done of this key market segment. It has provided the bank and its customers with key insights upon which to base financial and business decisions.

There is a clear recognition that businesses need to focus on costs, tighter management of debtors, inventory and supply chains, and closer management of customer relationships. Lack of capital and aversion to debt were cited as key growth constraints.

Like bigger businesses, this sector has recognised that close management of working capital will remain vital, as well as broad thinking around how to fund growth from sources other than debt or cash flow.

Greater use of technology, including social media, is another feature of the new environment.

PLANNING FOR GROWTH IN NEW ZEALAND AND BEYOND

The survey found that 87 per cent of respondents are planning growth in the next year, compared with 57 per cent in the previous year. This is a strong signal that business owners have accepted that the new, tougher environment is here to stay and that new strategies will be needed to remain competitive and grow.

More businesses are planning to export, and more are looking to Asia as a prime target market.

The size of our domestic market means businesses in this sector are more compelled than their counterparts in larger markets such as Australia or Asia to look offshore for growth opportunities. The business owners' desire to achieve growth by participating in New Zealand's export-led recovery was evident in the survey. More businesses are planning to export, and more are looking to Asia as a prime target market.

The bank has actively responded to these trends. We have continued to invest in technology that will assist our customers to operate across geographies, including systems that will allow us to offer a seamless banking system between New Zealand and Australia for institutional and commercial clients.

The bank also used our sponsorship of the New Zealand Pavilion at the Shanghai World Expo to host customers from a range of large, medium and small enterprises. The focus of the exercise was two-fold. Firstly, it focused on creating opportunities for medium-sized businesses to learn more about doing business in China, and Asia as a whole. Secondly, we used the trip to explain the role that ANZ can play by being on the ground in China and 13 other Asian markets, along with broad representation across New Zealand and Australia.



ANZ New Zealand remains the biggest rural lender by far, with gross rural lending totalling just over \$19 billion.

There is an urgency for New Zealand exporters to get a foothold in China. Global manufacturers are turning away from the flagging United States and European markets and are refocusing on the growing Asian economies. ANZ New Zealand is the best-placed local bank to link customers through our Asian network and we will continue to support customers with aspirations to do business with Asia and Australia.

CONTINUING SUPPORT FOR RURAL NEW ZEALAND

The bank has also continued to support New Zealand's rural sector as we have done consistently since the bank commenced business in 1840. Forty per cent of farming businesses choose to bank with ANZ New Zealand. Through ANZ and The National Bank we have been supporting farmers since 1840.

Farmers have faced some tough challenges, and many with highly geared operations going into the global financial crisis have since faced falling land values, higher funding costs and less demand for farming assets. This has created challenges for the bank and our customers.

We have responded by working closely with farmers to restructure their balance sheets, reduce costs and manage cash flow more strictly.

Farming is a cyclical business and it is important to take a long-term view of the sector. The bank continued to support and lend to farmers in 2010 and ANZ New Zealand remains the biggest rural lender by far, with gross rural lending totalling just over \$19 billion.

The bank has actively worked with farmers adjusting to the new financial environment. In addition to our core banking products and services, we have shared the banking and business expertise we have gained from being the country's dominant rural lender.

Intergenerational succession is a significant issue in farming communities across New Zealand. As the older generation retires, New Zealand needs a younger generation of well trained farmers able to take over the reins.

The bank's commitment to the next generation of farmers is demonstrated by our sponsorship of The National Bank Young Farmer of the Year contest, a national icon and a way of ensuring younger farmers have the skills to succeed. The bank is also running a Future Farmers seminar series in conjunction with Young Farmers New Zealand to help young farmers set goals and establish financial plans for the future.

For the sector to thrive, New Zealand also needs successful farmers to grow their businesses. With that in mind, the bank launched a new programme this year – Business Tools for Growth – in conjunction with Massey University.

We have continued to invest in technology that will assist our customers to operate across geographies, including systems that will allow us to offer a seamless banking system between New Zealand and Australia.

The programme operates like a condensed rural Master of Business Administration. Farmers receive expert advice on areas such as governance and management, and strategic planning and programme implementation. Feedback from a pilot programme in Palmerston North and Christchurch was so encouraging it was decided to roll out the programme to 11 other regions this year.

Farms have become larger and more complex. The programme's workshops give customers the tools to establish the right business structures, making sure they have the appropriate financial and other systems in place to enable them to seize growth opportunities.

LAYING THE GROUNDWORK FOR LONG-TERM GROWTH

The key to the ongoing success of the business sector will be the willingness and ability of individual businesses to continue to seek external advice about how to capitalise on emerging opportunities in the new environment.

They will also need to think more broadly about how to fund growth. In the medium enterprise sector, the apparent aversion to debt, and the subsequent reliance on using existing cash flow to fund growth, could limit growth for individual businesses and New Zealand as a whole.

Medium-sized enterprises will need to consider international trade finance, supply chain finance and asset finance as viable growth funding options as well as more traditional debt facilities.

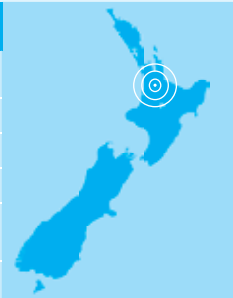
The rural sector will need to continue adapting to a new environment where land prices remain subdued and bank funding costs are higher than before the global financial crisis. The bank will continue to support the sector in adjusting to this new world.

BUSINESS • TORPEDO7

RAPID GROWTH IN ONLINE TRADING BACKED UP BY THE BANK

The father and son team of Guy and Luke Howard-Willis began operating their e-commerce business under the Torpedo7 banner six years ago, selling bikes and associated gear online, then snow, motorcross and adventure sports items.

SUMMARY	
> LOCATION	- Hamilton
> BUSINESS	- e-commerce
> TURNOVER	- More than \$70 million
> KEY FACTS	- Employs 140 people
>	Operates five internet sites in New Zealand and three in Australia
>	Named four times in Deloitte Fast 50



What started as a one-site, two-man, Hamilton-based business has grown rapidly. The pair now operates five internet sites in New Zealand and three in Australia, selling a wide range of products.

Torpedo7 employs 140 people and has a turnover of more than \$70 million a year. The business has been named four times in the Deloitte Fast 50, an index celebrating New Zealand businesses that have mastered the art of fast growth.

One of its most popular sites, 1-day.co.nz, was launched three years ago, offering bargains on a wide range of products from noon each day on a strict 24-hour cycle. 1-day.co.nz is now the largest online shopping website in the country.

The company's rapid growth and expansion plans have meant that Guy and Luke need, and receive, ongoing support from the bank.

"People like bank managers don't usually get the internet and this kind of concept. But ANZ New Zealand did from the beginning," Guy said.

"Our relationship with the bank has been superb in terms of the people we deal with and the service they provide," he said.

With many items sourced internationally, Torpedo7 is a heavy user of the bank's foreign exchange service, and Guy is paid regular visits by one of the bank's Auckland-based experts.

Guy said being able to have the company's New Zealand banking with The National Bank and Australian accounts with ANZ helps to keep things simple, with everything staying 'in the family'.

Looking to the future, the bank's growing presence in Asian markets could well coincide with Torpedo7's own ambitions – enabling the company to continue taking advantage of the regional network and relationships the bank offers to help grow New Zealand businesses.



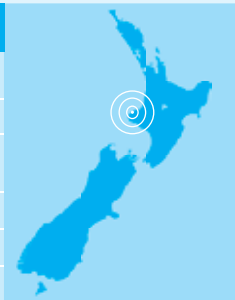
Luke Howard-Willis, Torpedo7 founder and Director, at Torpedo7's Hamilton warehouse.

BUSINESS • EGMONT SEAFOODS

BANKING RELATIONSHIP SUPPORTS EXPORTER'S GROWTH

SUMMARY

- > LOCATION - New Plymouth
- > BUSINESS - Fishing
- > KEY FACTS - Exports to Thailand, Australia, the United States and Spain
- > 20 years with the bank



Keith Mawson, Managing Director of New Plymouth-based Egmont Seafoods, says the company has been with The National Bank for about 20 years, and the bank has been with it for almost every step of its development.

"ANZ New Zealand, through The National Bank, has a really strong base in the fishing industry and a good understanding of what is quite a specialised sector."

While New Zealand's commercial fishing industry is worth an estimated \$4 billion a year, its seasonal nature means cash flows fluctuate, as do the timings of suppliers seeking payment, which makes stability and a supportive banking relationship important attributes.

"One thing I've noticed about the bank is they are very consistent," Keith says.

He said the bank maintained its investment in primary industries during the global financial crisis and focused on keeping customers informed.

"You could tell they were really trying to get to grips with what was happening and how to respond, which I found very helpful."

Seafood is New Zealand's fifth-largest export, and Egmont Seafoods is no stranger to international markets. Half its catch goes to buyers in Thailand, Australia, the United States and Spain.

As an exporter, Keith has to keep on top of his foreign exchange rates to ensure the best return on each deal. He is aided in this through his access to the bank's full foreign exchange services.

Keith said his relationship with the bank had been invaluable in providing the facilities for new ventures, such as a retail store that opened at the factory one year ago and has proven a great success.

He is also looking to take further advantage of the ANZ Group's super-regional strategy. Keith recently returned from an ANZ-funded trip to China and says he is reviewing local products for their export suitability.

"I think if we were breaking into China, I would certainly be utilising ANZ New Zealand's expertise and contacts on the ground."

ANZ New Zealand, through The National Bank, has a really strong base in the fishing industry and a good understanding of what is quite a specialised sector.



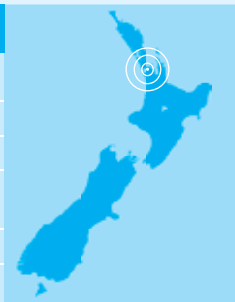
Egmont Seafoods supplies fresh and frozen fish products to wholesale and retail markets here and overseas.

BUSINESS • ABE'S REAL FOOD COMPANY

ANZ GETS ALL ASSETS WORKING FOR ABE'S REAL FOOD COMPANY

SUMMARY

- > LOCATION - Auckland
- > BUSINESS - Bagel products
- > KEY FACTS - Annual revenue \$8 million
- > Produces more than 10 million bagels a year
- > Australia is the main export destination



What started in 1996 as a small bagel bakery and café in downtown Auckland has grown into a successful wholesale manufacturing business, employing 50 full-time staff and with annual revenue of more than \$8 million.

ABE's Real Food Company (ABE's Bagels) makes more than 10 million bagels a year for the New Zealand and Australian markets, and exports small quantities to Hong Kong.

While ABE's Bagels may seem like a small company in terms of head count, it is a large company in terms of the number of orders it processes. The company's 1999 extension of its product range into bagel crisps saw ABE's Bagels pick up a contract to supply Australian supermarket chains Woolworths and Coles, which cover 80 per cent of the market there.

"New Zealand is still our biggest market, even with our market share in Australia growing. Growing and maintaining our local markets remain a priority," says Brent Milburn, ABE's Bagel's Director.

With the rapid growth of the business, Brent found its biggest assets – machinery and the factory – were not being fully utilised to their advantage.

"We had a lot of assets that weren't being held as a security by our previous bank so we couldn't borrow against them. We were looking for a bank that was a one-stop shop that could fill all of our needs," Brent said.

"Having UDC financing our assets and ANZ banking the business has enabled us to achieve our targets for growth and provided us with more borrowing ability. All our assets are now working for us through our relationship with ANZ New Zealand.

"The thing that ANZ does well is communicate. I always get a phone call before I get an email and the bank really understands our business."

Brent said that when they decide to focus on the Asian market they will be looking to utilise ANZ's business networks and branches throughout Asia.

"We had a lot of assets that weren't being held as a security by our previous bank so we couldn't borrow against them. We were looking for a bank that was a one-stop shop that could fill all of our needs."



ABE's Bagel's Director Brent Milburn produces more than 10 million bagels a year at the business' Ellerslie factory.

SUPPORTING PERSONAL AND SMALL BUSINESS CUSTOMERS

International events like the global financial crisis and the economic downturn that has followed have had profound effects on consumer behaviour.

With more than two million retail and small business customers, ANZ New Zealand's size and reach mean that we have been in a strong position to help customers readjust to a new, more subdued, domestic economy.

The bank wants to keep our personal and business customers financially healthy. That starts with responsible lending policies. In addition, a major goal of the past year has been to work with customers to help them learn the new financial skills essential for more difficult times.

ADAPTING TO THE NEW ENVIRONMENT

Our small business customers are heeding the old adage 'spend less time in the business and more time on the business'. More than 5,000 attended our free seminar series offering them practical advice on how to succeed in today's environment.

For our personal customers, the focus has been on reducing debt and looking for ways to help them increase personal savings and investments. It may take a generation to create new habits, but the signs are that many New Zealanders have started the shift.

A significant change in the past year has been the difficulties many New Zealanders have faced as a result of their long love affair with bricks and mortar. As values in the housing market return to more sustainable levels, many people have finally acknowledged that having all their wealth tied up in one asset class is risky.

Across the market, mortgage approvals in 2010 were 40 per cent lower than in 2006 at the height of the property boom. Many of our customers have sought to pay off mortgages more quickly and the demand for new mortgages has been subdued, creating a fiercely competitive mortgage market as fewer houses and investment properties have been bought and sold.

This year's annual ANZ Residential Property Investors Survey found that residential property investors are taking a conservative approach to investment. This market remains weak, with property investors remaining in consolidation mode and fewer planning to add to their portfolios.

Rental increases are expected to be in line with, or under, inflation levels, suggesting most investors expect to absorb the cost of tax changes and rising expenses. Overall, they seem prepared to ride out the current housing market downturn.

CHANGING OPERATING ENVIRONMENT FOR BANKS AND CUSTOMERS

The operating environment has changed significantly for banks and their customers in the past two years.

With the difficulties faced by some banks in the United States and Europe – there have already been a further 120 bank failures this year in America – there has been a need for banks around the world to regain trust with customers and operate with greater transparency.

In the new environment customers need assurance that banks are operating in their best interests and in the best interests of society as a whole.

This year the bank responded to customer feedback by introducing customer charters for both of our retail brands – ANZ and The National Bank. The charters detail our commitment to our customers, including responsible lending and helping customers to manage their money more easily.

Banks know customers want simpler, more transparent banking. Rather than tinker, the bank conducted the most comprehensive review of bank fees in the banking sector. This resulted in the removal of 21 fees and reductions in eight fees across our two retail banks, saving customers an estimated \$55 million on an annualised basis.

Our 'In a Perfect World' advertising campaign, launched after our brand refresh late last year, has struck a chord with customers with its wry take on how ANZ can assist them with real-world issues.

INCREASING EFFICIENCY AND CUSTOMER SERVICE

Although Australian banks and their New Zealand subsidiaries have remained strong, the cost of funds sourced internationally has increased. Domestically, the competition to source more funds locally has squeezed margins.

In response to these changes we have, like other businesses, become very focused on improving operational efficiency. We have used technology to strengthen our call centre and online capabilities, extract better customer data from our research and trial new retail footprints.

An example of this is our 'Voice of the Customer', an innovative programme that captures customer feedback from email and online surveys in real time and feeds it straight to frontline staff, allowing them to view their overall service scores and individual comments.

In the past year we have received more than 100,000 customer comments – an average of 2,000 each week – through Voice of the Customer surveys. This award-winning programme recently won second place in the Explor Awards, an international marketing research innovation award, beating other large corporations eBay and Wrigleys.

We have developed home loans with competitive rates and flexible features that have been recognised by international assessment body Canstar Cannex. In 2010 it awarded the bank more five-star-rated home loans than any other bank.

To increase deposits and offer customers a better deal, we re-launched our Serious Saver product in January. It now offers customers new features, including \$100,000 in cash prizes each month and the best access in the market to their savings. In the first six months post re-launch there was a 38 per cent increase in Serious Saver accounts opened compared with the same period last year. In April, Canstar Cannex awarded this product five stars.

Like many retailers, we are investing heavily in enhancing our customers' internet experience, while maintaining high security standards, making it easier for customers to do more in less time and at their own convenience, and creating efficiencies for the bank.

New initiatives include trialling internet kiosks in bank branches, further enhancing our internet offering and introducing other new online services.

The way in which our branch network operates is also changing. We have opened 'new-look' branches in places like Wanganui and Sylvia Park in Auckland, which are designed to be more efficient for the bank and customers.

Customers have access to 'intelligent' ATMs that can take cash and cheque deposits directly without envelopes and offer coin deposit facilities and other features that allow them to complete routine transactions quickly.

EXPANDING SERVICE TO OUR ASIAN CUSTOMERS

Today, almost one in four New Zealanders was born overseas. Annually approximately 45,000 permanent residencies are approved, and 80,000 student and 100,000 work visas are issued. These people represent a whole new customer base for us.

ANZ has one of the largest banking teams servicing Asian customers in New Zealand. We have close to 60 Chinese and Indian specialist teams in branches around the country, as well as a dedicated Bilingual Call Centre with staff speaking Mandarin, Cantonese, Korean and Indian.

Our reach in Asia is helping smooth the way for international students and migrants heading to New Zealand. The bank is also helping New Zealand's education and immigration sector to connect with opportunities and networks in China. This year we took a delegation of 30 business people to the New Zealand Pavilion at the Shanghai World Expo.

ANZ New Zealand will continue to look for opportunities to build New Zealand's long-term prosperity through strengthening our super-regional connections and our proximity to the world's growth economies.

BANK WHEN YOU WANT TO



The forces reshaping the retail sector in New Zealand – convenience, multiple ways to transact and around-the-clock availability – are also changing the way people bank.

Our regular customer surveys tell us that our customers want to bank when, how and where they want to. In response, ANZ has opened 'new-look' branches in Auckland and Wanganui that use the latest technology to offer customers new ways to bank.

We invested \$1.4 million in creating the new branch in provincial Wanganui, one of our busiest branches in the country. It is designed to make banking easier and a lot more convenient for customers.

The branch's secure 24/7 zone enables customers to do their banking any time they want to and contains 'intelligent' ATMs that can take cash and cheque deposits and offer phone and internet banking and coin deposit facilities.

Within two weeks of opening, 47 per cent of over-the-counter deposit transactions at the Wanganui branch had shifted to the new intelligent ATMs. This left more time for our customer service and business banking teams to spend with customers with more complex banking needs.

New-technology branches are also operating in Auckland's Sylvia Park and Manukau Mall, and in Wellington's Lower Hutt.

FINANCIAL KNOWLEDGE

NGĀI TAHU ROLLS OUT MONEYMINDED

In 2010 ANZ New Zealand partnered with Te Rūnanga o Ngāi Tahu, the governing body for Ngāi Tahu, to undertake the world's first indigenous people's financial knowledge survey.

The results have informed the development of the bank's MoneyMinded Aotearoa financial education programme, and through our partnership with Ngāi Tahu we have worked to tailor and pilot the material for iwi.

MoneyMinded is an adult financial education programme that helps people to improve their financial skills, knowledge and confidence. Lifting financial knowledge and financial capability is one of the main goals of ANZ New Zealand's corporate responsibility programme.

The reality is that many New Zealanders do not have the benefit of a solid grounding or education in the use and management of their money.

The reality is that many New Zealanders do not have the benefit of a solid grounding or education in the use and management of their money – which increasingly is an essential life skill that helps to create financial stability for individuals, their families and the community around them.

In collaboration with iwi, community educators and the Retirement Commission, ANZ New Zealand revised and tailored resources from the existing MoneyMinded programme to create MoneyMinded Aotearoa. Its design and layout, case studies and working examples are intended to reflect iwi culture and experiences and promote Māori financial literacy in New Zealand.

A six-month pilot began with the training of Ngāi Tahu-appointed facilitators in the use of MoneyMinded Aotearoa. Having marae-based learning over four days as a collective/whānau ensured a high level of engagement and enthusiasm for the programme. The trained Ngāi Tahu facilitators will deliver the workshops to Ngāi Tahu whānui across the South Island in early 2011.



MoneyMinded is an adult financial education programme that helps people to improve their financial skills, knowledge and confidence. Lifting financial knowledge and financial capability is one of the main goals of ANZ New Zealand's corporate responsibility programme.

SUPPORTING NEW ZEALAND COMMUNITIES

New Zealand is a community-minded country, with more than one million citizens involved in some form of voluntary work.

As New Zealand's largest financial institution, with around 9,000 employees, we know we can make a difference and are committed to helping individuals, businesses and communities to prosper and thrive through our corporate responsibility and sponsorship programmes.

PUTTING WORDS INTO ACTION

The ANZ Group is a world leader in corporate responsibility. In 2010 It was named the world's number one bank in the Dow Jones Sustainability Index for the fourth year in a row. This gives us a strong foundation upon which to base our programmes.

In 2009, a new Corporate Responsibility Framework was developed, and in the past 12 months we have implemented this framework in New Zealand. Our programmes are focused on three overarching themes: Financial Capability, Education and Employment Opportunities, and Responsible Practices.

Our commitment to being a responsible corporate was recognised when ANZ New Zealand was named one of three finalists in the 2010 Kensington Swan Responsible Governance Awards within the Deloitte/Management Magazine Top 200 Awards.

INCREASING FINANCIAL KNOWLEDGE AND CAPABILITY

The effects of recession and the global financial crisis are still being felt by many New Zealanders. ANZ New Zealand has actively worked with customers facing financial stress.

Since August 2008, our Financial Wellbeing Programme has given customers the skills and knowledge to cope with rapidly changing circumstances. A specially trained support team has worked with customers to review their situations and recommend solutions. We have also given frontline staff the tools and confidence to initiate contact with customers who may be struggling.

In the past year, this programme has directly assisted almost 10,000 customers representing \$2.4 billion in lending, helping customers to restructure their financial commitments with the goal of preventing the debt from becoming delinquent, or ultimately written off.



ANZ New Zealand has supported the Retirement Commission's past two nationwide financial knowledge surveys. Results from the 2009 national survey showed Māori comprise a significant proportion of 'low knowledge' respondents.

In response, the bank partnered with Te Rūnanga o Ngāi Tahu to undertake the world's first indigenous people's financial knowledge survey. The results showed that its iwi members' knowledge was on par with that of the general New Zealand population.

This has established a benchmark for Ngāi Tahu, which is now working with ANZ New Zealand to deliver a financial education pilot programme to its iwi. The ultimate goal is for the bank to partner with other iwi to follow the same process. Over time, this will increase the financial capabilities of whānui throughout New Zealand.

ADDING VALUE THROUGH EDUCATION AND EMPLOYMENT

Identifying areas where we can best add value through education and employment opportunities has been another focus in the past year.

Senior executives of the bank participated in a 'Dragons' Den' for would-be migrant entrepreneurs and we are exploring community partnership opportunities with Refugee and Migrant Services.

HELPING OUR NEIGHBOURS

ANZ New Zealand also supports staff giving back to their communities through volunteering and payroll-giving. This commitment has continued during a challenging year, with many staff giving additional support to customers adapting to the post-global financial crisis environment.

The bank's volunteering policy allows each staff member to donate a day of working time to a community organisation. In the past year, more than 16,000 hours have been donated, equivalent to about 2,230 days of volunteer time. This makes New Zealand a leader across the ANZ Group in this area.

Staff have also given back through the ANZ (NZ) Staff Foundation. This is an employee-led charitable trust that is funded by payroll-giving from employees and matched, dollar for dollar, by the bank. In the past year deserving charities such as Riding for the Disabled, Project K and Ronald McDonald House have received more than \$270,000 in grants from the foundation.

A defining aspect of our Corporate Responsibility Framework is our disaster relief and recovery policy. This has proved useful in New Zealand when disasters such as the Canterbury earthquake have struck. It has also allowed the ANZ Group to support communities across Asia Pacific, such as Samoa after its own earthquake and tsunami disasters.

EMPOWERING EMPLOYEES AND ENCOURAGING DIVERSITY

New Zealand's society is rapidly changing. Our goal is to have an employee population that reflects the communities we serve, and we have annual targets to progressively increase our diversity. More than 900 staff also actively participate in a range of affinity groups, including the Māori and Pacific Island Networking Group; Asian Business Networking Group; Gay, Lesbian, Bisexual and Transgender (GLBT) Networking Group; and New Zealand Women's Network.

In 2010, the bank will also make a significant contribution to the development of our employees with each employee, on average, participating in 18 hours of learning activity.

SPONSORSHIP PROGRAMME REFLECTS ECONOMIC AND SOCIAL TRENDS

Our sponsorship programme reflects the many emerging social and economic trends shaping New Zealand.

Our support for New Zealand communities is demonstrated through our commitment to a number of nationwide programmes, including:

- Showcasing New Zealand to the world by becoming a Worldwide Partner of Rugby World Cup 2011;
- Growing ties with Asia by sponsoring scholarships for New Zealand and Singaporean university students;



Auckland student Meaghan Li, 17, won The National Bank RSA Cyril Bassett VC Speech Competition in 2010. As part of her prize Meaghan travelled to Gallipoli.

“Our goal is to have an employee population that reflects the communities we serve.”

- Building national pride by allowing our elite sportspeople to compete at the highest levels through sponsorship of The National Bank Series, the home international series for our national cricket team the BLACKCAPS; and the ANZ Championship for netball;
- Strengthening our communities through our sponsorship of the Cancer Society's Daffodil Day and Movember in aid of men's health; and
- Celebrating our heritage through The National Bank RSA Cyril Bassett VC Speech Competition for young adults.

Our sponsorship of Rugby World Cup 2011 is about the future and a sign of ANZ's continued commitment to the New Zealand market. It also supports our goal to be a significant regional bank and grow our presence in Asia Pacific. The Tournament will be broadcast to more than 475 million homes in New Zealand, Australia, Asia and the Pacific.

In July 2010, ANZ renewed its sponsorship of the ANZ Championship for another three years, demonstrating our ongoing commitment to the competition and the advancement of netball across Australia and New Zealand.

EARTHQUAKE

QUICK RESPONSE TO CANTERBURY EARTHQUAKE

ANZ New Zealand offered immediate and wide-ranging assistance to customers, staff and the people of Canterbury after the region was struck by a devastating 7.1-magnitude earthquake in the early hours of 4 September this year.

The bank's disaster relief and recovery policy, which is part of our Corporate Responsibility Framework, enabled a quick response, with a \$1 million donation made to the Canterbury Earthquake Appeal just hours after the earthquake struck, ahead of any other corporate.

We wanted to ensure that if our customers were having trouble with cash flow or other financial needs, they had help to get them through. Our people on the ground understood the stress of what was happening, as many of them were going through it as well.

A range of measures were put in place to support customers, and by the start of October the bank had provided \$8 million in interest-free loans, loan repayment holidays, short-term funding and other support to affected customers. More specific support packages were also announced to look after the special needs of affected small business, commercial banking and rural customers.

We also placed a priority on supporting our staff, whose resilience and ingenuity kept the bank operating for our customers. A relief team was sent to Canterbury to support local staff and a special staff support package was given to all Canterbury staff, including a \$500 payment for incidental expenses.



YEAR-END PERFORMANCE

ANZ NEW ZEALAND'S 2010 PERFORMANCE LIFTS

ANZ New Zealand¹ delivered an improved performance for the year ended 30 September 2010 with underlying profit of NZ\$882 million, up 40 per cent off a low base the prior year.

ANZ NEW ZEALAND 2010 RESULTS: KEY POINTS

- Underlying profit² of \$882 million, up 40 per cent off a low base in the prior year.
- Statutory profit of \$867 million, up from \$194 million in the prior year.
- Charge for credit impairment of \$461 million, a decrease of 48 per cent on the prior year (second half charge of \$131 million down 60 per cent on first half).
- Lending volumes flat with growth in new lending being largely offset by customer deleveraging.
- Costs well managed with continued investment in the business.
- Well-capitalised with strong liquidity.

DETAILS OF KEY FINANCIALS

ANZ New Zealand	Full year Sep 2010 \$M	Full year Sep 2009 \$M	Movt 2010 v.2009 %
Net interest income	2,489	2,401	4%
Other external operating income	721	830	(13%)
Operating income	3,210	3,231	(1%)
Operating expenses	(1,527)	(1,448)	5%
Profit before credit impairment and income tax	1,683	1,783	(6%)
Provision for credit impairment	(461)	(889)	(48%)
Profit before income tax	1,222	894	37%
Income tax expense	(340)	(266)	28%
Underlying profit	882	628	40%
Adjustments to statutory profit	(15)	(434)	large
Profit	867	194	large
Consisting of:			
Retail & Wealth	357	254	41%
Commercial & Rural	241	120	large
Operations and support	(3)	10	large
New Zealand businesses	595	384	55%
Institutional	350	368	(5%)
Other	(63)	(124)	(49%)
Underlying profit	882	628	40%
Adjustments to statutory profit	(15)	(434)	large
Profit	867	194	large

1. ANZ New Zealand represents all of ANZ's operations in New Zealand, including ANZ National Bank Limited, its parent company ANZ Holdings (New Zealand) Limited and the New Zealand branch of ANZ.

2. Underlying profit reflects the net impact on statutory profit of one-off items such as acquisition costs and subsequent fair value adjustments and hedging timing differences. All numbers are on an underlying basis; all comparisons are year on year unless otherwise stated.

