

BANK OF NEW ZEALAND OFFICERS'
PROVIDENT ASSOCIATION

ANNUAL REPORT

FOR THE YEAR ENDED
31 OCTOBER 2001



BANK OF NEW ZEALAND OFFICERS' PROVIDENT ASSOCIATION

THE YEAR IN SUMM

The Board of Management is pleased to present the 114th Annual Report of the Bank of New Zealand Officers' Provident Association.

The information on this page is a highlight of events that occurred during the year. More detailed information on some items can be found on the following pages of this report.

Scheme Performance

Negative 5.62% Earning Rate

An aggregated earnings rate of negative 5.62%, was allocated to members who were members for the full year. This compared to positive 7.85% for the 2000 period.

Note; negative numbers are shown in the report in brackets.

Members who joined during the year received an aggregated earnings rate for the period of the year they were members.

A table of the monthly rates used for allocations is shown in the Investment Performance section.

3039 Division 2 members

The membership of Division 2 rose by 324 members for the year. This was attributable to a combination of continued marketing of the scheme to new staff during the year, and targeted marketing to non-members following announcement of improvement to the Bank subsidy component late in August.

Investments

The investment sector performance was dominated by International Equities, with loss in investment value that is shown within the financial statements as un-realised losses of such magnitude to give rise to overall negative earnings.

On 23 August 2001 the investment management for the NZ Equities sector was moved from the BNZ25 passive product to an active mandate with Tower Asset Management.

An article is included in this report on the impact of the volatility of the investment markets during the year, headed 'A year of negative earnings'.

Earnings Rate - The investment return received on the fund's average assets after allowing for expenses and taxation.

Bank subsidy - The Bank's contribution to the OPA made on behalf of members (currently funded from the OPA's surplus assets).

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Compliance	Communication
<p><i>Securities Act</i> The Prospectus and Investment Statement were updated and renewed during the year as required under the Securities Act.</p> <p><i>Independent Review process</i> The litigation process continued with an update provided within the Key Issues section of this report.</p> <p><i>Rule changes</i> Sanction from the Bank's directors was received for a small number of administrative Rule changes that were enacted as of 7 September 2001. The Bank subsidy benefit was improved from a maximum of 7% of base/notional base salary to a maximum of 10% plus a gearing ratio of 1(member contribution) to 1.5 (Bank subsidy) from 1 October 2001. Practically that means a maximum subsidy component of 15% at a 10% member contribution level.</p>	<p><i>Proverbial</i> Three issues of the Proverbial newsletter were published during the year.</p> <p><i>Bank Intranet site</i> The information provided on the scheme on the Bank intranet (if you have access, it is under the 'Corporate Information' heading on the home page) was updated and expanded during the year on an as needed basis. A trial was conducted during October 2001 of linking e-mails sent to prospective members to an 'information pack' within the Intranet site – the results to date have been modest.</p>
Scheme Administration	
	<p><i>Disaster recovery</i> Disaster recovery plans were routinely tested during the year with no issues to note.</p> <p><i>Membership system</i> The 'Rapps' membership system was modified to allow for changes to the Bank subsidy rate and associated gearing ratio.</p>

Your guide to the "jargon"

In preparing this report every effort has been made to provide you with information in an easy-to-understand manner. Unfortunately, due to the nature of some of the issues covered here, there are times when technical terminology has been used to ensure the information is factually correct. To help you understand terms or 'jargon' used in this report key words have been underlined like this the first time they appear and an explanation provided in a box on the same page.

INVESTMENT PERFORMANCE

For the year ending 31 October 2001

A Year of Negative Returns

An impact of a year of negative earnings was a reduction, for some members in their member benefit entitlement. That was where the earnings loss allocated was greater than the sum of member contributions and Bank subsidy for the year.

How did negative earnings happen?

In essence there was a global decline in equities market values. The scheme has 40% of its investment allocated to International Equities and 10% to NZ Equities. The International Equities sector return from the BNZIM International Equities 'passive' product was (23.4)%. That translated to a dollar loss that exceeded the combined gains from all other sectors for the year ended 31 October 2001. A 'passive' product invests in an index for a particular country or combination of countries and does not give the investment manager latitude to select particular stocks.

As the reasons for the decline in International Equities markets were well publicised throughout the year, and in the interests of space it is not intended to republish them here. Suffice to say the events of 11 September that caused a 'blip' in market prices downwards saw all but a full recovery during October.

Can it happen again?

Yes it can. Investment markets are by nature volatile. The scheme's investment objectives expect there will be years of negative returns. The full statement is an appendice to the Annual Report; an extract states:

The assets of the scheme will be invested prudently across a diversified mix of asset classes in a manner that will maximise the expected long-term after tax returns to members, subject to the following conditions:

- that the likelihood of suffering a capital loss in any one year is limited to no greater than one chance in six
- that the likelihood of suffering a capital loss over any five year period is limited to no greater than one chance in fifty

Key messages

The Investment sub-committee of the Board of Management reviewed the investment structure early in the year and decided against 'tactical' moves, especially in trying to 'time' the markets. Advice to the committee from its investment advisor, Frank Russell Company, reinforced the content of the key messages in an article published in issue 16 of the Proverbial newsletter that included an extract published with kind permission from Frank Russell Company from an article in their Insights publication. The article quoted from a speech by Dr Ernie Ankrim, director of portfolio research at Frank Russell's head office in Tacoma, USA, entitled 'Four Recent Market Lessons I Wish Investors Could Forget'. In case you did not read Issue 16, the key elements were:

'People pay far more attention to recent events than to longer term trends,' said Ankrim. 'That's not rational. You can learn a lot in five years, much of which you're better to forget,' he said. 'Five years is not long enough'. Ankrim gave his five principles of successful investing:

- Humility. Accept a reasonable return for the risk you are prepared to take.
- Honesty. Accept the risk level that lets you sleep at night, and don't try to be different or copy other seemingly more successful investors who have a different risk profile.
- Poise. Stay calm in market volatility, because winners today might be losers tomorrow.
- Commitment. Stick to your strategy.
- Discipline. Exceptional investment performance can't replace a sustained savings effort.

The Board reinforces to you the messages recently published by BNZ Investments & Insurance of:

- Focus on your original investment timeframe

Do not be distracted by short-term market volatility. If your retirement is say 10-20 years

away, there is little reason to be overly nervous about monthly earning rate movements.

- Diversify your investment portfolio / investing offshore

The NZ markets form a very small proportion of global totals. By investing internationally and across a range of investment sectors (Equities, Fixed Interest and Property) not all eggs are in one basket. When one sector is performing poorly another may be performing well, reducing fluctuation in investment returns and risk.

- Don't try and 'time' the markets

Research has proven that a typical active investor who attempts to time their entry into and exit from investments will on average under-perform the returns to a passive investor who leaves their investment untouched over the longer term. The market blip of a decline in September and rebound during October may be a good example.

- Starting early / dollar cost averaging

Investing regularly such as by fortnightly pay deductions has advantages over infrequent lump sum investing by averaging the earnings received. It's never too early to start saving for your retirement. Taking advantage of the power of

time in combination with compounding interest is one of the basic building blocks in developing a more effective regular investment plan.

- Don't forget that the investment manager may have already reduced the exposure

The investment guidelines provided by OPA to its investment managers give limited flexibility for them to reduce exposure by investing in cash for short terms. That does not apply to the BNZ International Equities product because of requirements related to a binding tax ruling.

- Don't expect unrealistic returns

Past returns are not a reliable indicator for the future. The investment objective for a fund is usually set against the risk and as a net level of out-performance over a term deposit, adjusted to an after tax position.

The BNZ I & I series also featured comment on debt reduction and compound interest. With the recent improvements to the Bank subsidy within the OPA scheme, especially the 'gearing ratio' element, you may find it an interesting exercise to compare how the improved subsidy benefit compares to a plan of reducing debt before saving for your retirement.

Earning Rates Approved

Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct
Monthly Earning Rates %											
(1.00)	(1.77)	1.95	(2.57)	(0.42)	3.02	(1.18)	(0.42)	(0.25)	(2.77)	(2.16)	1.99
Aggregate %											
(1.00)	(2.75)	(0.86)	(3.40)	(3.81)	(0.90)	(2.07)	(2.49)	(2.73)	(5.42)	(7.47)	(5.62)
Part year Aggregate % (for members joining in the heading month of 2000/1)											
(5.62)	(4.67)	(2.95)	(4.81)	(2.30)	(1.89)	(4.76)	(3.63)	(3.22)	(2.98)	(0.21)	1.99

Fund - The fund (assets) maintained by the OPA for the purpose of providing benefits to members and pensioners.

Investment Sector Returns compared with targets

The scheme has a formal Statement of Investment Policy and Objectives. It is reproduced at the end of this report. In summary, policies set within that document include that the investments be diversified over a range of asset classes; that investment risk be minimised relative to the returns expected; an appropriate liquidity level be maintained; and that there be regular monitoring and review of investments.

The table that follows outlines how the assets were invested for each sector, the index return (the benchmark against which performance is measured), and the actual return achieved.

Please study this table in conjunction with the sector return dialogue following

Asset sector	Proportion of Assets		Index for performance measurement	RETURN % (before tax & expenses)		
	Bench- mark	Actual		Index	Actual	Difference
New Zealand equities <i>Invested as an 'active' style mandate with Tower Asset Management since 23 August 2001; was in BNZ25 passive product prior</i>	10	11.5	BNZ25 index to August NZSE40 from August	7.2%	7.1%	0.1%
International equities <i>Invested in BNZ International Equity Passive Index Fund –75% <u>hedged</u></i>	40	37	MSCI Grey List (NZD) (75% hedged)	(24.9)%	(23.4)%	1.5%
International bonds <i>Invested in BNZ International Bond Fund</i>	17.5	19	Lehman Bros Global Aggregate Index (NZD) - hedged	12.7%	11.5%	(1.2)%
NZ fixed interest <i>Invested in a mix of Govt. and corporate bonds, and discounted securities; with Alliance Capital (was AXA)</i>	20	19	Credit Suisse First Boston Govt Stock Gross	9.7%	9.5%	(0.2)%
Cash <i>Managed by Alliance Capital</i>	2.5	4	CS First Boston NZ Capital - 90 day Bill	6.4%	6.6%	0.2%
Property <i>A portfolio of 6 commercial properties</i>	10	9.5	Watson Wyatt iPs	10.3%	11.7%	1.4%

Matters impacting on sector returns

New Zealand Equities

The Board, via its Investment sub-committee, reviewed the investment structure for this sector and as a consequence a change was made to an active style mandate during August, with scope for inclusion of a limited value of Australian listed equities within the portfolio. Tower Asset Management was appointed as manager.

When compared to the NZSE40 Gross index return for the year of 6.4%, performance at 7.1% was acceptable. For most of the year the sector was invested in the BNZ25 passive product for which the performance to 31 July was 0.9% worse than the index return of 12%. For the period that Tower held the investment as an active mandate from August to October performance was (3.6)% which was 0.7% better than the index.

New Zealand Fixed Interest /Cash

Alliance Capital used discretion available to them within the investment guidelines during the year to be overweight to Cash and underweight to Fixed Interest securities to improve the combined return. The return for the year for the Fixed Interest component fell slightly below benchmark in the fourth quarter.

International Bonds

The return at 11.5% was above last year's level, but 1.2% below benchmark. Most of the under-performance was attributable to the last quarter when non-government (corporate) bonds under performed Government Bonds.

A review of options was undertaken during the year by the Investment sub-committee but no action taken pending monitoring of changes to the product and benchmark at the instigation of BNZIM. The benchmark now includes an exposure to non-Government securities within the portfolio, in line with a market trend.

There was significant change in the allocation by country following the benchmark change with reduced exposure to Western Europe and increased exposure to the USA and other countries.

International Equities

The return for the sector was disappointing and reasons have been well publicised by the press. The better than benchmark performance was mainly a consequence of the hedge associated with the investment in the BNZIM product and cash-flows due to the hedge and sector re-balancing to benchmark requirements. The underlying product performance was to the order of about (28)%.

The product investment is restricted by its tax structure to six countries as illustrated in the graph on a following page. The consequence in comparison to a MSCI World index is overweight positions to the USA and Japanese markets.

Prediction from the product supplier, BNZIM, is that capital gains when they re-commence could be constrained to single digits for a sustained period as equities valuations (forward price-earnings ratios) are not seen to be as 'cheap' as typically happens prior to renewed bull (increasing value) markets.

Property

The portfolio composition changed during the year with sale of the Canning Crescent, Mangere and 44 Bryce Street, Hamilton properties. Leasing activity during the year was satisfactory and at year-end the occupancy level was about 90%. The BDS Partnership property (50% share) on Lambton Quay, Wellington was being marketed in conjunction with our partner, the Dairy Industry Superannuation Scheme Trustees, at financial year-end. All properties showed positive investment returns for the year.

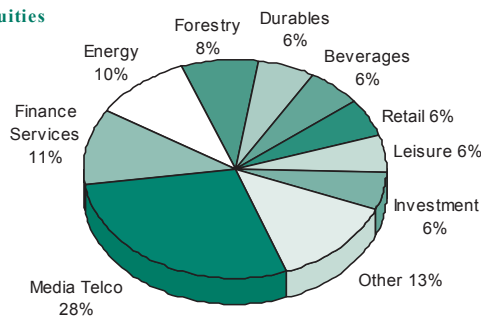
How your Funds Were Invested

The charts that follow, for the main asset sectors, outline how the scheme's funds were invested within the sectors as at 31 October 2001. Separate bar graphs show what performance returns have been for the last five years. The International Equity, and International Bond investments are in BNZ Investment Management wholesale superannuation fund products.

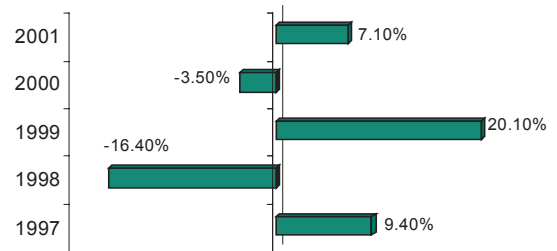
Hedging - Currency risk arises when an investor acquires assets that are denominated in a foreign currency. By their nature, future currency rates cannot be predicted with certainty. As a consequence future returns in the 'home' currency are less predictable. For the fund, a hedge is a forward currency contract to manage currency risk. It is a way of offsetting the substantial currency position taken when investing offshore. Hedges are held for the International Bond and Equities investments.

The level of hedge set is a function of aversion to risk and ability to forecast portfolio values. For International Bonds a high hedge ratio (80-100%) is advised as appropriate. That is because the absolute volatility of investment returns in the short term is low, and the additional volatility introduced by currency risk is appreciable in relative terms. For International Equities a lower ratio is advised, as the currency risk forms a much smaller proportion of the total investment risk. Because of tax arrangements specific to the International Equities passive product, a 50% post tax hedge approximates to a 75% pre-tax hedge level.

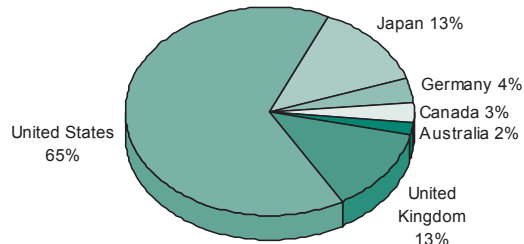
NZ Equities



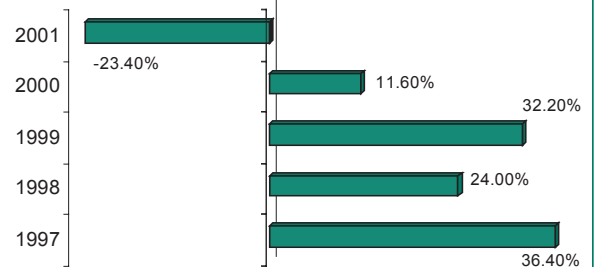
NZ Equities Returns 1997 - 2001



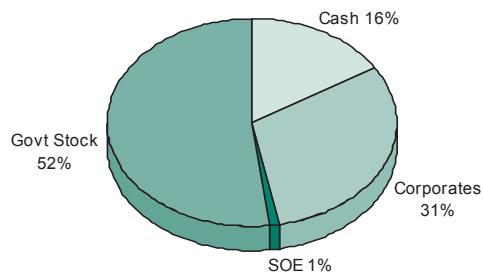
International Equities



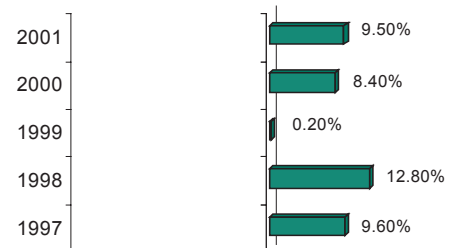
International Equities Returns 1997 - 2001



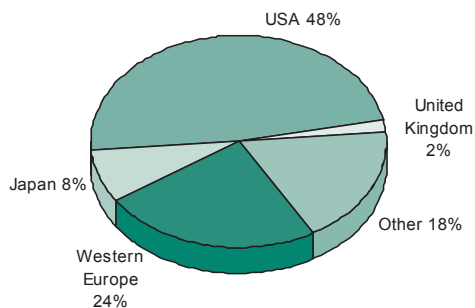
NZ Fixed Interest



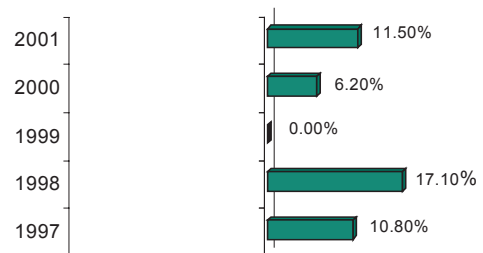
NZ Fixed Interest Returns 1997 - 2001



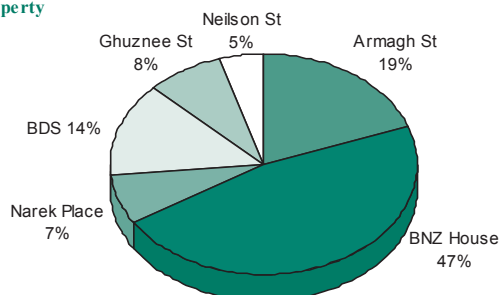
International Fixed Interest



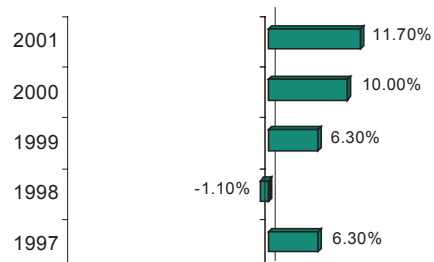
International Fixed Interest Returns 1997 - 2001



Property



Property Returns 1997 - 2001



WARNING – PAST PERFORMANCE SHOULD NOT BE TAKEN AS AN INDICATOR OF FUTURE PERFORMANCE

KEY ISSUES

Returning the Fund to Equilibrium

The rules of the BNZOPA require the Board to take action to ensure the equilibrium of the Fund. Following the growth of the BNZOPA surplus to \$129 million at 31 October 2000, the Board put a number of rule amendments to the directors of the Bank for their approval. These rule amendments contained a mechanism commencing in 1995 to return the Fund to equilibrium by 2015.

A number of queries were raised by the directors and the Bank as to the power of the Board to backdate changes to the Rules, the meaning of the phrase “Provident Fund” and the powers of the Bank’s directors in considering rule changes.

Court proceedings to resolve these queries were held in late July 2001. The judgment received in late September 2001 was that the Board did not have the power to backdate changes to the Rules; the definition of the Fund depended on the context in which the term was used but, when considering whether the Fund would be prejudiced by any proposed Rule amendment, the directors can have regard to the expectations of all those with an interest in the Fund and in the rule amendment process, the Bank directors were acting in the capacity of directors of the Bank but were exercising powers conferred on them by the BNZOPA Rules.

After taking legal advice, the Board has appealed the judgment.

Costs Relating to Court Proceedings

The BNZOPA was held liable for the Bank’s High

Court and Court of Appeal costs in respect of the 1995-1999 Court proceedings in which the Board was unsuccessful in defending its earnings policy of distributing the earnings on surplus assets to the members. The Board has provided for a payment to the Bank of \$1.375 million from the surplus of the scheme, that being the amount the Bank are currently seeking. Discussions are continuing between the Board and the Bank.

Review of Former Member Claims

The Board completed its review of the claims made by the Past and Present Members’ Action Committee (PPMAC) in respect of the validity of the 1990 scheme restructuring and the Bank’s contribution holiday. No comments were received from PPMAC following the release of the Board’s findings and the matter is now closed.

Rule Changes

During the year the Board made a number of rule changes which:

- Allowed the Bank to set a gearing ratio of higher than one to one between member and Bank contributions;
- Allowed for additional partial withdrawals at the discretion of the Board on the grounds of financial hardship;
- Allowed for eligibility for partial withdrawals to include service under Division 1 of the BNZOPA;
- Provided for a small adjustment to a small number of 1990 transfer values;
- Allowed for a special one-off 3.5% increase in pensions from 17 August 2001;
- Updated the definition of Auditor and Salary to current practices;
- Clarified the Division 2 benefit payable on summary dismissal of a member; and
- Confirmed Division 2 members do not have to contribute after they make a partial withdrawal.

Surplus - The excess value of the fund (see Fund definition) over the value placed by the actuary on the total of the costs of:
• benefits which members have earned to date, and
• all pensions payable from the fund.

Earnings policy - This referred to the Board’s previous policy under which all the earnings of the fund (including earnings on the surplus) were allocated (net of tax and expenses) to the member and pensioner liabilities. The Court of Appeal ruled in July 1999 that this policy was invalid under the Association’s current Rules. It held the DER could not exceed the Fund Earnings Rate.

MEMBERSHIP CHANGES

Membership changes for the 2000/2001 scheme year

	Division 1	Division 2	Total	Exit Value \$m
Opening membership 1 November 2000	1	2715	2716	
<i>Plus:</i> New members		754	754	
<i>Less:</i> Resignations		284	284	7.355
Redundancies		24	24	4.017
In-service withdrawals		111	111	3.823
Normal retirements		9	9	2.074
Deaths		2	2	0.071
Transfer Value adjustment payments				0.072
Partial withdrawals				1.152
Closing membership 31 October 2001	1	3039	3040	18.564

Pensioner changes for the 2000/2001 scheme year

	Pensioners	Widows/ Widowers	Children	In total
Opening pensions at 1 November 2000	192	141	1	334
<i>Plus:</i> New pensions		6		6
<i>Less:</i> Ceased pensions	11	10		21
Closing pensions at 31 October 2001	181	137	1	319

Commentary

At 31 October 2001 the scheme Division 2 membership represented about 67% of total eligible Bank staff, an increase for the year of 4%. The value of exit payments when compared to 2000 (\$21.74m), reduced by about \$3.17m mainly due to a lower partial withdrawal value, with movements in other exit value categories largely offsetting each other.

The practice of sending all new permanent employees of the Bank an OPA membership pack continued, with follow up when there was no response, to encourage membership. The Bank

subsidy level changes as from 1 October attracted interest in the scheme with about 200 new members from associated marketing, and about 970 existing members increasing their contribution rates to maximise the benefit.

The demographics of the membership demonstrate that, about 24% of the membership have been in the scheme less than one year, and about 66% of the scheme membership have been members for 5 years or less and hold about 13% of the Division 2 member entitlements by value. About two thirds of the membership are female. About half of the membership were located within greater Auckland and Wellington environs.

MEMBERS OF THE BOARD

The Board is made up of four representatives appointed by the Bank and four elected by members of the scheme.

On 31 October 2001, members of the Board of Management were:

<i>Name</i>	<i>Bank Position</i>	<i>Represents</i>	<i>Changes during the year</i>
Bank-appointed representatives			
Celia Patrick (Chairperson)	Head of Transaction & Business Services, Auckland	Appointed June 2001 by the Board of Directors of the Bank	Took over as Chair when John Wight was seconded to a NAB, Scotland posting
Chris Black	General Manager, Personal Financial Services, Auckland	Since April 1998, nominee of the Chief Executive of the Bank	
Brett Hewson	Auckland District Sales Manager, Custom Business Financial Services, Auckland	Appointed December 1994, by the Chief Executive of the Bank	
Rodger Murphy	General Manager, BNZ Investments and Insurance, Auckland	Appointed January 2000, by the Board of Directors of the Bank	
Member-elected representative			
Peter Alan Meggison	District Sales Manager, Package Business, Auckland	Elected May 1999, re-elected May 2001	
Donald Evan Robb	Regional Manager, Personal Financial Services, Otago/ Southland, Dunedin	Elected May 2001	Replaced Celia Patrick (subsequently rejoined the BOM as a Bank appointed representative)
John Francis Switalla	Credit Manager, Canterbury, Nelson/ Marlborough, West Coast, Christchurch	Elected March 1998, re-elected May 2001	
Allan Charles Taylor	Senior Manager, Credit Policy & Systems Credit Bureau, Wellington	Elected April 1994, re-elected May 1997 and May 2000	

ADVISORS TO THE BOARD

While carrying out its regular duties throughout the year the Board calls upon a number of expert advisers. Advisers to the Board for the scheme year under review were:

Actuary:

Gillian Spooner of Watson Wyatt NZ Limited,
P O Box 9594, Newmarket, Auckland

Auditors:

KPMG, P O Box 996, Wellington

Investment Managers:

BNZ Investment Management Limited, P O Box 1299, Wellington
Alliance Capital Management, P O Box 1994, Wellington
Tower Asset Management Limited, P O Box 2798, Wellington

Property Manager:

Colliers Jardine (NZ) Limited, P O Box 11 488, Wellington

Investment Advisors

Frank Russell Company Limited,
P O Box 105-191, Auckland

Solicitors

Buddle Findlay, P O Box 2694, Wellington

From time to time the Board also calls on other expert advisers to assist with specific issues. The advisers assisting the Board during the year were:

Actuarial:

Melville Jessup Weaver, P O Box 3109, Wellington
(for the Board)

Legal:

Chapman Tripp Sheffield Young,
P O Box 993, Wellington (for the Board)

Rhys Harrison, QC (for the Board)

Phillips Fox, P O Box 2791, Wellington (for members)

Simpson Grierson, P O Box 2402, Wellington (for members)

BOARD OF MANAGEMENT SUBCOMMITTEES

The role of the Subcommittees is to assist the Board to achieve its governance responsibilities and investment objectives through in-depth analysis and regular review of issues impacting on the OPA. Each committee operates to a charter, and all reviewed and updated during the year. The main issues addressed during the year by the subcommittees were:

Audit

- Commissioning of two interim audits during the year of the Membership system. No matters for concern were reported.
- Negotiation of the annual audit programme.

Investment

- Monitoring investment performance (quarterly) and strategy in association with Frank Russell Coy.
- The tender process for the management of the

NZ Fixed Equities sector and appointment of Tower as of 23 August 2001.

- Review of options for the International Bonds sector.
- Consultation with the investment advisor on the effect of negative earnings (began about February 2001).

Strategy and Planning

- Continuation of negotiations with representatives of the Bank in relation to the 'returning the fund to equilibrium'.
- Promotion of the scheme to Bank staff – with specific marketing initiatives for the Bank Subsidy improvement from 1 October.
- Preliminary consideration of a fund strategic direction review.

DECLARATION BY THE BOARD

The Superannuation Schemes Act 1989 requires that trustees of all registered superannuation schemes make the following declarations to confirm that their scheme has been operating within certain guidelines.

The Board of Management:

- confirms that all contributions required to be made to the scheme, in accordance with the Rules of the OPA, have been made;
- certifies that all benefits required to be paid from the scheme, in accordance with the Rules of the OPA, have been paid;
- certifies that the market value of the assets of the scheme at 31 October 2001 exceeded the total value of benefits that would have been payable at that date had all members of the scheme ceased to be members at that time. This also includes providing

for the continued payment of all benefits payable to members and other beneficiaries (such as pensions) as at 31 October 2001; and

- advises that more than 10% of the market value of the OPA's assets were invested with Bank of New Zealand Investment Management Limited during the year as follows at 31 October 2001:
- \$103.6m was invested in the BNZ International Equity Index Fund;
- \$54.2m was invested in the BNZ International Bond Fund.



Celia Patrick
for and on behalf of the Board



Peter Meggison

ACTUARIAL DECLARATION

The most recent formal triennial valuation was carried out as at 31 October 1999. Based on the recommendations of the actuary in that valuation, the Bank is continuing its contribution holiday (i.e., the Bank's subsidy is sourced from the Scheme's surplus funds). The only report received by the Board from the Actuary since that valuation is an update of the Pensioner and Division 1 liabilities as valued in the financial statements for the year ended 31 October 2001.

FURTHER INFORMATION

If you would like more information about matters covered in this report or about scheme membership in general, you should contact:

The Scheme Secretariat
Bank of New Zealand Officers' Provident Association
P O Box 2392
Wellington

Bank e-mail: BNZOPA
Internet: BNZOPA@xtra.co.nz
Freephone: 0800 106 000 (choose option 5 then 1)
Telephone: (04) 474 6780
Fax: (04) 474 9048

Members of the Secretariat are:

Bruce Burrows, Business Manager
Steve Barry, Business Analyst
Cyril Bray, Administration Officer
Tom Clark, Project Manager

You may view or receive a copy of any of the following material on request:

- Full set of financial statements
- The OPA's Investment Statement
- Annual Reports
- The OPA's registered Prospectus

- The Rules of the OPA
- actuarial valuations

Complaints, Disputes and Communications

The OPA has formally adopted dispute handling procedures in accordance with recommendations from the Retirement Commissioner. If you have a complaint or dispute in relation to the operation of the OPA, or wish to communicate with the Board, you should contact the Chairperson c/- the Scheme Secretariat at the address shown opposite.

Your feedback is welcome

The Board is committed to keeping members informed of the significant issues facing the scheme. Thank you to the members who provided feedback on the communications distributed during the year and others who wrote to express views on a range of subjects.

Actuary – A mathematician, skilled in making financial calculations and economic projections, who may advise on funding requirements and benefit calculations applicable to defined benefit superannuation schemes.

Actuarial valuation – A full formal review of the financial position of the fund, conducted by the scheme's actuary. The review determines whether the scheme is 'on track' to pay current and future benefits from its own funds, and to provide an opinion on the funding for the Bank subsidy.

FINANCIAL PERFORMANCE

Key results shown in the financial statements that follow include:

- A \$20.8m reduction in market values split to \$11.2m of realised gains and \$32.0m of unrealised losses. The change in market values accounted for about 61% of the scheme income. The realised gains shown were mainly attributable to hedge associated with the International Equities investment (about \$8.7m), with a small gain (about \$0.5m) when changing the investment manager for the NZ Equities sector in August. Investment in the International Bonds product was reduced to maintain the asset mix set by the scheme investment policy and guidelines, with about a \$1.0m gain. NZ Fixed Interest also gave a gain of about \$1.0m. Unrealised losses of about \$36.4m were incurred from a decline in International Equities prices, with minor offsets from NZ Equities at about \$0.9m unrealised gain, NZ Fixed Interest of about \$0.5m, and property re-valuations at about \$0.1m. The International Bonds sector provided an unrealised gain of about \$3.1m.
- Operating expenses were at about the same level as last year level, except for Property and Independent Review costs. Property costs increased because some of the leases on the investment properties changed to exclude recovery of building operation expenditure. From 1 May 2001 Independent Review costs (that relate to the expenditure involved with the litigation process referred to in the Key Issues section of this Report) were taken from the scheme surplus for earning rate calculation purposes. Independent Review costs in total for the year were about \$0.8m, about \$0.1m less than last year, plus an abnormal item of

providing for payment of \$1.375m to the Bank as reimbursement of court costs.

- Income Tax was an expense, and arose mainly from the gains from currency hedging for the value of International Equities investment. That investment was in a product with a 'binding tax ruling' that protects gains from income tax, but which also denies claiming of losses. There was also a reasonable tax benefit from the difference between the sale price and tax value of the Canning Crescent, Mangere and Bryce Street, Hamilton properties that were sold during the year.
- Benefits paid, mainly as Withdrawals for members who left the Bank during the year, were at a level about \$3.2m lower than last year as explained in the Membership Changes section (exclusive of pensioner payments) of this Report.
- Under the Member Liabilities section of the Statement of Financial Position, the scheme surplus declined in value by about \$24.5m for the year, inclusive of undistributed earnings for the year, to cover funding of:
 - Bank subsidy \$7.2m
 - Pensioner / Division 1 liability adjustments \$9.3m
 - Vesting / extra transfer values \$(0.2)m
 - Independent Review 'costs' \$0.4m
 - Accrual for reimbursement of Bank court 'costs' \$1.4m
 - Tax benefit on 'costs' \$(0.6)m
 - Undistributed earnings loss for 2001 \$7.0m

AUDITORS' REPORT

To the Members of the Bank of New Zealand Officers' Provident Association ("the Association")

We have audited the financial statements of the Association and in our report dated 27 November 2001 we expressed an unqualified opinion on those financial statements. The statutory financial statements have not been included by the Board of Management in this annual report.

In our opinion, the amounts in the accompanying summarised financial statements have been correctly extracted from the statutory financial statements

referred to above.

For a more comprehensive report of the Association's financial position and the results of its operations for the year ended 31 October 2001, the summarised financial statements should be read in conjunction with the audited financial statements.

KPMG

KPMG
27 November 2001
Wellington

SUMMARY OF ACCOUNTS

The financial statements for the Bank of New Zealand Officers' Provident Association are shown in summarised form and should be read in conjunction with Notes 1 and 2 below and Notes 1 to 20 from the full financial statements. If you would like to receive a copy of the full set of financial statements, please contact the Scheme Secretariat.

The general accounting policies adopted in the preparation of these financial statements are that:

- the measurement basis is historical cost, except for assets that are reported at current market value, in accordance with FRS32: Financial Reporting by Superannuation Schemes.
- Statutory Base: These financial statements have been prepared in compliance with the Superannuation Schemes Act 1989, Financial Reporting Act 1993 and the Bank of New Zealand Officers' Provident Association Rules.

NOTE 1 - Contingent Liabilities

Court Proceedings 2001

In November 2000, the Board submitted a package of Rule amendments to the directors of the Bank for their sanction. The rule amendments contained a mechanism that was, in the opinion of the Board, necessary to ensure the return of the Fund to equilibrium by 2015. The rule amendment relating to the equilibrium issue was backdated to start from 1 November 1995. The package of amendments also provided for a number of other benefit and minor administrative changes.

The directors queried whether the Board had the power to backdate changes to the Rules and, in April 2001, the Board filed proceedings in the Auckland High Court to clarify this matter. The Bank later issued its own proceedings seeking declarations on the backdating, the meaning of the phrase "Provident Fund" and the powers of the Bank's directors in considering rule changes. These matters were heard jointly by the Auckland High Court in late July 2001.

In August 2001, the directors sanctioned those rule amendments that were not the subject of the current Court proceedings. These contained prospective member and pensioner benefits and amendments of an administrative nature.

The High Court judgment received in late September 2001 was that the Board did not have the power to backdate changes to the Rules; the

definition of the Fund depended on the context in which the term was used and the Bank's interests could be considered by directors in determining whether or not to sanction rule amendments.

The judgment made no award of costs. The Bank has claimed costs of \$51,490 plus disbursements from the Association. The Board disagrees with the amount and basis of the claim.

After taking legal advice, the Board has appealed the judgment to the Court of Appeal. The liability of the Association for the costs will depend on the outcome of the appeal.

The Bank's costs for the litigation prior to 2001 have effectively been taken from the scheme surplus at an amount of \$1.375 million. The costs were excluded from the net deficit after tax for the purpose of the members' earning rate calculation. That treatment increased the 2001 year undistributed deficit that was transferred to the scheme surplus and effectively allocated the costs to the surplus.

There were no other contingent liabilities at 31 October 2001 (2000 was the same).

NOTE 2 - Earning Rate Calculation

In accordance with New Zealand generally accepted accounting principles all Independent Review project costs have been included in the current net deficit after tax. For the calculation of the earning rate applied to member entitlements these (tax effected) costs have been added back to the net deficit after tax from 1 May 2001. That reflected that these costs were incurred in relation to Independent Review matters and should not therefore impact on the earning rate calculation for the current year. For the earning rate calculation the net deficit was adjusted as:

Financial statement net deficit after tax	\$m (18.667)
Plus / (less):	
Independent Review costs from	
1 May 2001	0.391
Bank court costs reimbursement accrual	1.375
Tax effect on Independent Review costs	(0.583)
Negative earnings for earning rate calculation	(17.484)

STATEMENT OF CHANGES IN NET ASSETS

for the year ended 31 October 2001

	2001 \$(000's)	2000 \$(000's)
Investment Activities		
Investment revenues		
Interest revenue	4,164	4,550
Dividend & distribution revenue	312	87
Rent from properties	3,182	3,890
Partnership income	360	214
Changes in net market values		
Realised Gains/(Losses)	11,172	(11,036)
Un-realised Gains	(31,971)	24,701
Total investment revenues	(12,781)	22,406
Other income		
Miscellaneous income	73	43
Total other income	73	43
Total investment revenues	(12,708)	22,449
Investment management fees	557	565
Net investment activities	(13,265)	21,884
Operating expenses		
Audit fees	32	30
Other fees paid to Auditors	22	35
Actuarial fees	8	4
Bad debts		1
Doubtful debts		(1)
Depreciation	18	16
General expenses	93	116
Rental – secretariat office	32	32
Interest expense	1	0
Independent review costs (see notes)	2,193	932
Other professional fees	160	154
Property expenses	648	394
Staff	239	245
Non-deductible GST	120	135
Total operating expenses	3,566	2,093
Net income (deficit) before tax and membership activities	(16,831)	19,791
Income tax expense	1,836	(4,382)
Net income (deficit) after tax and before membership activities	(18,667)	24,173
Membership Activities		
Members' contributions	8,396	7,801
Less benefits paid	23,631	27,096
Net membership activities	(15,235)	(19,295)
Net (decrease)/increase in assets	(33,902)	4,878
Net assets available to pay benefits at beginning of year	319,039	314,161
Net assets available to pay benefits at end of year	285,137	319,039

Any differences between totals and additions/subtractions are attributable to 'rounding'.

STATEMENT OF NET ASSETS

as at 31 October 2001

		2001 \$(000's)	2000 \$(000's)
Investments			
	Bank deposits	6,894	1,180
	NZ Government stock	27,727	36,385
	NZ local authority stock		1,042
	NZ preference shares		1,035
	Other fixed interest investments	17,476	19,446
	NZ discounts	11,425	3,846
	NZ Equities - Active	32,382	
	BNZ International Bond Fund	54,244	58,155
	BNZ NZ Equity Index Fund		30,779
	BNZ International Equity Index Fund	103,603	133,018
	Investment properties	23,565	25,493
	Investment in partnership	3,730	3,644
	Forward foreign exchange contracts	(116)	
		280,930	314,023
Other assets			
	Bank Accounts	35	(32)
	Accounts receivable	1,902	1,067
	Fixed assets	30	38
	Provision for taxation	3,802	5,789
	Deferred tax asset	379	176
		6,148	7,038
Total assets		287,078	321,061
Deduct liabilities			
	Accounts payable	1,941	2,022
Total liabilities		1,941	2,022
Net assets available to pay benefits		285,137	319,039
Represented by member liabilities			
	Division 1 & 2	126,280	136,864
	Pension liability	54,334	53,175
	Undistributed earnings - current year	(8,210)	9,693
	Scheme surplus	112,733	119,307
		285,137	319,039

The 50% share of the OPA involvement in the BDS Partnership with the Dairy Industry Superannuation Fund which represents a property investment in a high rise building in Lambton Quay, Wellington.

The value of the assets held in the Secretariat offices mainly computer equipment and furniture.

Division 1 Liability - is the value the actuary determines is required to pay the remaining Division 1 member

Division 2 Liability - represents the accumulation of individual member balances recorded in the Association's membership system (Rapps) at 31 October 2001 after allocating earnings for the 2001 year.

The amount the actuary determines is required to pay future pensions to OPA pensioners.

The amount of earnings remaining in the Fund after allowing for allocation of earnings to members, interim earnings paid to exited members and the pensioner liability.

Any differences between totals and additions/subtractions are attributable to 'rounding'.

STATEMENT OF INVESTMENT POLICY AND OBJECTIVES

What is it?

It is a formal description of a plan that outlines the terms and responsibilities for investment of the scheme assets, specifying the risk levels acceptable, and giving consideration to the purpose of the fund as defined within its Rules. It does not cover how the funds are invested or the instructions to / expectations of a fund manager; those are incorporated in separate investment guidelines. The full statement is reproduced below. The risk levels set within the statement constrain the investment asset mix; and on a low to high risk range, the OPA risk levels would be considered a touch to the high side of medium.

Introduction

The Bank of New Zealand Officers' Provident Association (OPA) scheme may be considered a hybrid, consisting of a closed defined benefit section (Division 1), and a defined contribution section (Division 2). Division 2 contains all but one of the members and is akin to a cash accumulation scheme. The OPA which was established over 100 years ago operates under an Act of Parliament, the Bank of New Zealand Officers' Provident Association Act, 1971 (the Act).

The primary purpose of the scheme now is to receive, manage, and administer contributions from members and subsidy from the Bank of New Zealand (the Bank), and to pay benefits, in accordance with the Rules. The Rules were last substantially amended during September 2001.

Division 2 of the scheme as a voluntary cash accumulation one, accounts for each member's individual interest, based on contributions received from the member and the Bank, and sums allocated per the Rules from the earnings of the investment portfolio administered by the Board of Management (Board).

The Board are elected by the members and appointed by the Bank in accordance with the Rules. The management of the investment assets of the scheme, undertaken by the Board, is as determined by the Rules and the Act.

This "Statement of Investment Policy and Objectives (SIPO)" for the scheme is reviewed as needed, but at least annually, to ensure that the contents remain valid to satisfy the requirements of the OPA.

Board of Management Responsibility

The Act describes in section 5 (Powers of Association) the powers, rights, and authorities available to the Board. Specifically Clause 5.2.k states:

'Invest and deal with the moneys of the Association in the manner authorised by the rules...'

In turn, Rule C3.3 covers Investment. It states in part:

'...The moneys of the Association may be invested in the name of the Association, or in the name of the Bank's nominee company or a trustee company or corporation as trustee or agent for the Association, in any manner authorised by law or by the Trustee Act 1956 and the Superannuation Schemes Act 1989, as the Board may in its discretion decide....'

The BOM is responsible for:

- Determination of the level of investment risk acceptable for the scheme, and interpreting this into an appropriate investment strategy.
- Determination of investment guidelines and objectives for the efficient implementation and ongoing management of the scheme's investment portfolio.
- Appointment of an investment manager or managers, to undertake the investment of the OPA's assets. The appointment/s to be arranged in such a manner, that the investment manager/s is mandated to fulfil an investment function as directed by the Board. The appointment/s is reviewed at intervals of not less than every 3 years to ensure that the investment objectives of the OPA are satisfied.
- To efficiently manage the scheme, meeting formally at least every 3 months to review performance, and any matters of policy on recommendation from the Investment sub-committee. The Board appoints a Secretary to administer the scheme on an ongoing basis.
- To employ other consultants for external advice and services and to determine their degree of responsibility towards efficient operation of the scheme.

The Board has a sub-committee structure within which the Investment sub-committee considers and reports to the Board on the responsibilities outlined above.

In determining the investment policy and objectives, the Board recognises the concept of prudence,

as provided for, although arguably not directly applicable to the OPA, in the Trustee Act. The policy prevails in the management of the OPA's investment portfolio by being advised to, and understood by the appointed investment manager/s.

Investment Objectives

The assets of the scheme will be invested prudently across a diversified mix of asset classes in a manner that will maximise the expected long-term after-tax returns to members, subject to the following conditions that the likelihood of:

- suffering a capital loss in any one year is limited to no greater than one chance in six.
- suffering a capital loss over any five year period is limited to no greater than one chance in fifty.
- experiencing a return below that of cash in any one year is limited to no more than one chance in three.
- experiencing a return below that of cash over a five year period is limited to no more than one chance in five.

The four constraints on the risk of the scheme will be set in light of currently prevailing and anticipated economic conditions. It is accepted that under significantly different investment environments these constraints may have to be revised.

Investment Policies

The investment policies set by the Board are:

1. Investment risk must be minimised for the expected level of return.
2. An appropriate level of portfolio risk will be determined and accepted by the Board in consultation with its advisors.
3. The portfolio will accept risks in a prudent manner.
4. An appropriate level of diversification across securities, sectors, asset classes and countries must be maintained.
5. Liquidity must be maintained at an appropriate level given that medium term liquidity is expected to remain negative.
6. Costs incurred in the running of the scheme will be controlled as effectively as possible.
7. Flexibility must be accommodated to allow for changes in the members' needs, and the economic, social, political and investment environments.
8. The portfolio and investment managers will be monitored on an ongoing basis.
9. All aspects of the investment process and functions must be reviewed regularly.
10. The Board's responsibilities under common law and statute must be met.

A separate document, entitled 'Investment Guidelines and Performance Reporting', provides detail for the portfolio risks, portfolio and investment managers monitoring and reporting and safe custody arrangement.

