

**BANK OF NEW ZEALAND OFFICERS'
PROVIDENT ASSOCIATION**

ANNUAL REPORT

FOR THE YEAR ENDED

31 OCTOBER 2009

Change in format

As a result of a survey of members during December 2008, most of the copies of this report are now emailed to members as a .pdf file attachment. As a consequence there have been formatting changes within this report.



BANK OF NEW ZEALAND OFFICERS' PROVIDENT ASSOCIATION

THE YEAR IN SUMMARY

Scheme Surplus

A Memorandum of Agreement (MoA) was signed between the Board of Management of the Association and the Bank signed in November 2004 set out how the scheme surplus would be dispersed by 31 October 2009. The surplus was to continue to be used to fund employer contributions by the Bank and also to fund what have become known as Special Benefits allocated to members.

At 31 October 2009 an estimated \$4.2m of 'excess' surplus remained, after allowing a 'buffer' to ensure sufficient value to cover the pension liabilities safely. It has been agreed with the Bank that the \$4.2m will be used by continuing the arrangements in place for subsidy and gearing for 2009 until about March 2010. Once the excess surplus has been distributed the Bank will begin to pay in cash an employer contribution to the scheme fortnightly net of employer superannuation contribution tax (ESCT) for the remainder of the Scheme 2010 financial year. Under the Scheme Rules the Bank reviews employer contribution arrangements annually.

Key events for members will be on or about 6 January 2010 when annual Special Benefits cease after the 2009 year allocation, and a date to be finalised (expected to be during March 2010) when the Bank will commence paying employer contributions to the Scheme.

Investments

Earnings

Aggregate earning rates for member choice investment options within Division 2 for the year ended 31 October 2009 were:

Option	% rate	
Balanced	7.94%	These options were taxed at 30%
Cash	3.13%	
Growth	4.36%	
Balanced 19.5	9.34%	The options with a 19.5 suffix are for members who qualify and elect to be taxed at a PIR of 19.5%. PIR stands for Prescribed Investor Rate under the PIE (portfolio investment entity) tax regime.
Cash 19.5	3.59%	
Growth 19.5	5.65%	

For Division 2 members' allocation of earnings is monthly – tables later in the Report show splits by month. Members who joined during the year received an aggregate earnings rate for their period of membership as shown in the tables.

International Equities

A change was made to the currency hedging of the International Equities sector investment from 1 February 2009.

The hedge was reduced from a 100% (after tax) to 45% (after tax). This required a switch from a fully hedged global equity investment fund managed by JANA to an unhedged version of the same fund, which the Association hedged into NZ dollars.

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Non Division 2, New Zealand Fixed Interest and Cash mandates

An investment arrangement put in place with AllianceBernstein on 1 June 2006 to hedge the Non Division 2 liabilities expired on 30 October 2009. From 2 November 2009, a replacement 'low risk' approach to hedging the Non Division 2 liabilities was put in place, with a change of investment manager to ING (NZ). National Custodian Services was custodian throughout.

At the same time the segregated New Zealand Fixed Interest and Cash mandates were also moved to ING. ING provide an inclusive segregated custodian service.

Scheme Membership

Division 2 – Membership

Membership decreased by 189 to be 2811 on 31 October 2009. The decrease was attributed to a combination of tightening financial conditions, KiwiSaver, and reduction in Bank staff eligible to join the scheme.

Communications

Where possible, communication with members is now via the web-site or by e-mail.

As at end of October 2009 about 67% of the membership had used the secure section of the site to view details of earning rates, benefit entitlements, and transactions.

During October 2008, the Office of the Government Actuary communicated that members may agree to accept an electronic version of this Annual Report in place of a paper version (but retain a right to revert to receiving a paper version). An election request circulated during December 2008 resulted in about 98% of members responding that they would accept an electronic version. About 250 copies of this report are being printed for pensioners and members who want a printed version

Board of Management

On 21 September 2009, Hugh Smith was re-elected unopposed as a North Island based Division 2 member representative for a three year period ending September 2012.

Compliance

Rule Changes

There were no Rule amendments during the year.

Prospectus

A new Prospectus dated 22 April 2009 was registered on 27 April 2009. A refresher certificate dated 24 July 2009 was registered to extend the expiry date of the Prospectus to 24 April 2010. A Memorandum of Amendment to the Prospectus to document the Non Division 2 sector and Bank subsidy changes was in the process of being registered when this report was prepared.

The Investment Statement was updated for the replacement Prospectus.

Accounting

The financial statements included within this report are in 'summary form'. The full statements are available free of charge from the scheme secretariat upon request.

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 and an explanation provided in a box on the same page.

INVESTMENT PERFORMANCE

Earnings Rates by month for Member Choice Investment Options

The first two columns under each investment option in the tables that follow show the earning rate allocated to members for a month and a year to date period.

The third column under each option gives an aggregate rate for members who joined during the year. It should be read by reference to the line that matches the month of joining. For example, a member who joined the Balanced option during March received a 15.16% earning rate for the March - October period.

	Balanced option			Cash option			Growth option		
%	Month	YTD Aggr.	Part year aggregate	Month	YTD Aggr.	Part year aggregate	Month	YTD Aggr.	Part year aggregate
November 2008	(2.64)	(2.64)	7.94	0.59	0.59	3.13	(4.23)	(4.23)	4.36
December	2.18	(0.52)	10.87	0.41	1.00	2.52	1.84	(2.46)	8.96
January 2009	(1.54)	(2.05)	8.50	0.50	1.50	2.10	(2.52)	(4.92)	6.99
February	(4.31)	(6.27)	10.20	0.22	1.73	1.59	(6.84)	(11.42)	9.76
March	0.76	(5.56)	15.16	0.17	1.90	1.37	1.41	(10.17)	17.82
April	4.35	(1.45)	14.29	0.24	2.15	1.20	5.96	(4.82)	16.18
May	0.61	(0.85)	9.53	0.19	2.35	0.95	0.03	(4.79)	9.64
June	0.51	(0.34)	8.86	0.15	2.50	0.76	0.39	(4.42)	9.61
July	3.87	3.51	8.31	0.15	2.65	0.61	4.92	0.29	9.19
August	2.72	6.33	4.28	0.15	2.80	0.46	2.78	3.07	4.07
September	1.80	8.24	1.51	0.15	2.96	0.31	2.15	5.29	1.25
October	(0.28)	7.94	(0.28)	0.17	3.13	0.17	(0.88)	4.36	(0.88)

	Balanced 19.5 option			Cash 19.5 option			Growth 19.5 option		
%	Month	YTD Aggr.	Part year aggregate	Month	YTD Aggr.	Part year aggregate	Month	YTD Aggr.	Part year aggregate
November 2008	(2.81)	(2.81)	9.32	0.68	0.68	3.61	(4.37)	(4.37)	5.66
December	2.41	(0.47)	12.48	0.47	1.15	2.91	1.95	(2.51)	10.48
January 2009	(1.79)	(2.25)	9.84	0.58	1.74	2.43	(2.94)	(5.37)	8.37
February	(4.26)	(6.41)	11.84	0.26	2.00	1.83	(6.75)	(11.76)	11.65
March	1.00	(5.48)	16.82	0.19	2.20	1.57	1.80	(10.17)	19.74
April	4.42	(1.30)	15.66	0.28	2.48	1.38	5.98	(4.79)	17.62
May	0.91	(0.40)	10.76	0.21	2.70	1.09	0.37	(4.44)	10.97
June	0.67	0.27	9.76	0.18	2.88	0.88	5.03	(3.88)	10.56
July	4.04	4.32	9.03	0.17	3.06	0.70	0.07	0.95	9.92
August	2.90	7.34	4.80	0.17	3.23	0.53	2.99	3.97	4.66
September	2.03	9.52	1.85	0.17	3.41	0.36	2.41	6.48	1.62
October	(0.18)	9.32	(0.18)	0.19	3.61	0.19	(0.77)	5.66	(0.77)

The returns for the year from the Growth member choice investment options were lower than the Balanced options because of larger allocations to the Equities investment sectors which under-performed Fixed Interest sectors.

Comparative Earnings Rates by year for main Member Choice Investment Options

Year	Balanced Net	Cash Net	Growth Net	90 day bill index Gross less tax
2004	6.22%	4.41%	3.79%	3.92%
2005	8.85%	4.95%	7.75%	4.75%
2006	14.45%	4.90%	20.77%	5.15%
2007	7.20%	5.03%	10.20%	5.53%
2008	(20.42)%	6.21%	(31.53)%	6.32%
2009	7.94%	3.13%	4.36%	2.91%
Average (rounded)	4.0%	4.8%	2.6%	4.76%

The asset allocation mix within each of the options changed between 2004 and 2007 thereby inhibiting direct year on year comparison. A brief explanation of performance against target follows.

Cash

The Cash option target investment return is to perform closely in line with the ANZ 90 Day Bank Bill Index (a wholesale cash benchmark), after tax but before fund expenses and fees. The index of 4.15% less a 30% tax rate was 2.91% for the 2009 year. The actual rate of 3.13% was after fees, expenses, and tax, slightly ahead of expectation.

Balanced

The Balanced option target investment return is to outperform, over a long-term horizon, the ANZ 90 Day Bank Bill Index by 2% after tax but before fund expenses and fees, in other words, to exceed the Cash option return by 2% over a long term. For the term horizon available to date of 2004 to 2009, the target has not been met because of the extreme negative returns in 2008.

Growth

The Growth option target investment return is to outperform, over a long term horizon, the ANZ 90 Day Bank Bill Index by 3% after tax but before fund expenses and fees, in other words, to exceed the Cash option return by 3% over a long term. For the available term horizon, 2004 to 2009, the target has not been met because of the extreme negative returns in 2008.

Investment Sector Returns

The scheme has a formal Statement of Investment Policy and Objectives (SIPO). The most recent version is reproduced at the end of this report. The table that follows outlines how the assets were invested for each sector and each option, the index or benchmark (B/mark) against which performance is measured and the actual return achieved.

PARAGRAPHS THAT FOLLOW REFER TO THIS TABLE

Asset sector	% Allocation of Assets			Index for performance measurement	RETURN % (before tax & expenses)		
	Option	B/mark	Actual		Index	Actual	Differ.
New Zealand Equities <i>Invested as an 'active' style mandate with ING (NZ)</i>	Bal	10	10	NZX50 with imputation credits	15.45	18.2	+3.25
	Growth	20	20				
International Equities <i>Invested in JANA Global core multi-manager active style product hedged to AUD – with separate AUD to NZD hedge at 100% after tax level to 31 January 2009</i> <i>Invested in JANA Global core multi-manager active style product un-hedged – with separate 'basket of currencies' to NZD hedge at 45% after tax level from 1 February 2009</i>	Bal	27.5	26	Morgan Stanley Capital International (MSCI) – World Net Dividends Reinvested – mix of 100% hedged and 45% after tax to NZD			
	Growth	47.5	46				
Global Fixed Interest <i>Invested in a PIE version of a TOWER unit trust product, managed by PIMCO</i>	Bal	40	40	Barclays Capital Global Aggregate Bond – hedged into NZD	13.7	20.2	6.5
	Growth	15	15				
NZ Fixed Interest <i>Invested in a mix of Govt. and corporate bonds, and discounted securities; with AllianceBernstein New Zealand</i>	Bal	12.5	12	ANZ New Zealand Government Stock Gross	7.6	9.2	+1.6
	Growth	7.5	7				
Cash <i>Managed by AllianceBernstein New Zealand</i>	Bal	2.5	4.5	ANZ New Zealand 90 day Bank Bill	4.15	4.9	+0.75
	Cash	100	100				
	Growth	2.5	4.5				
Property <i>AMP Global Property Securities Product (PIE version)</i>	Bal	7.5	7.5	USB Warburg Global Real Estate Investors Index – NZD hedged	10.7	12.65	+1.95
	Growth	7.5	7.5				

This index consists of the top 50 companies listed on the New Zealand Exchange (NZX) weighted by free float adjusted market capitalisation. Free float refers to the shares of a company that are regarded as normally available for market trading. E.g., the shares held by the NZ Government in AirNZ are excluded from its free float. The index accounts for about 98% of the pool of tradable securities listed on the NZX. The index is calculated with gross dividends reinvested

A market capitalisation-weighted index composed of companies representative of the market structure of 23 developed countries in North America, Europe, and the Asia-Pacific regions. The index is hedged to the New Zealand dollar (NZD) at 64% gross, being equivalent to 45% after tax.

A market capitalisation-weighted index consisting of a broad range of investment grade fixed interest securities, including both government and non-government issues (around 50% each). Country eligibility is determined based on market capitalisation and investibility criteria. All issues have a remaining maturity of at least one year. This index is fully hedged back to the NZ dollar.

The index tracks movements in the New Zealand Government bond market. Bonds are included in the index in proportion to their relative market capitalisation weights. The calculation for this index assumes the full amount of all coupon payments are reinvested in the index.

The index measures the cumulative increase in the market value of a portfolio of bank bills based on a daily roll over and purchase of a new bank bill of 90 day maturity. This index is valued on a mark to market basis, i.e., valued at current market yields not at purchase yields. A 90 day bank bill reflects the interest rate that banks pay on a three-month deposit of wholesale money. Yield is the expected annualised rate of return from holding a bill until it matures.

A free float capitalisation-weighted arithmetic average return index that measures performance of property investment companies. It excludes property development companies. The index represents total returns, i.e., both gains from income (trust distributions and dividends) and capital movements. It comprises approximately 200 real estate companies and investment trusts listed mainly in the United States and Europe. The index is fully hedged back to the New Zealand dollar.

Benchmark Definitions (courtesy of Russell Investments)

Benchmark definitions are available in comment boxes that refer to the relevant table rows

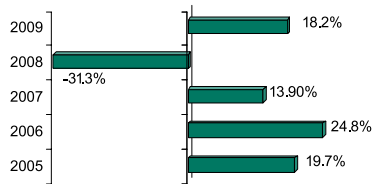
Comment on sector returns

Warning - past performance should not be taken as an indicator of future performance

The bar graphs that follow, for the main asset sectors, show performance returns for the last five years. For some sectors there were changes in investment manager, product, or portfolio composition within the five years. For example, International Equity investment return for 2008 was a combination of investment in an Assure Funds Management wholesale superannuation fund product until 25 January 2008, thereafter in a JANA multi-manager product. In all cases (except for the currency hedges) securities are held by, and transactions processed via, a custodian, not the investment manager.

New Zealand Equities

NZ Equities Returns

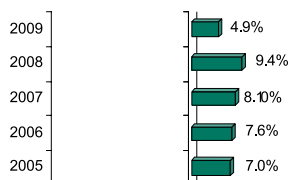


The manager, ING, outperformed the benchmark during what again proved to be difficult market conditions. The main shareholdings in the portfolio were: Telecom – share price up about 9%; Contact Energy - share price down about 14%; and Fletcher Building - share price up about 46%.

An Australian share component of the portfolio outperformed the NZ Equities by a modest margin, but showed more volatility in returns

Cash

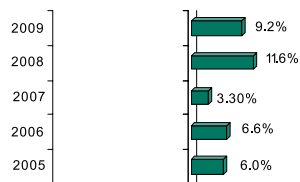
NZ Cash Returns



The lower 2009 Cash sector return reflected a drop in interest rates during that year.

New Zealand Fixed Interest

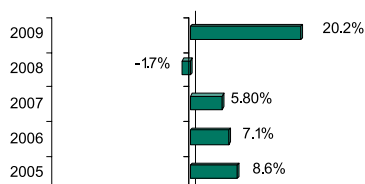
NZ Fixed Interest Returns



Tightening credit conditions during the year increased yields for corporate bonds, assisting 2009 performance, especially when compared to the Cash sector.

Global Fixed Interest

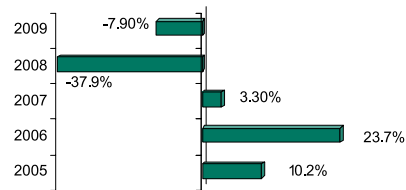
Global Fixed Interest Returns



The manager used by TOWER, PIMCO (Pacific Investment Management Company), out-performed the index for the year, from a significant holding of high quality, non-government bonds.

International Equities

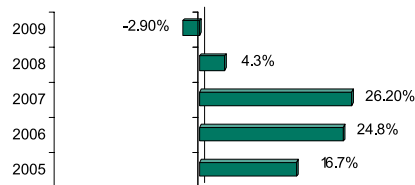
International Equities Returns



Note: the 2008 line in the graph to the left shows only JANA returns for the period 25 January – 31 October

Most of the 2009 loss occurred during the first quarter of the year from continuation of effects of the global credit crunch. There was a recovery during the rest of the year

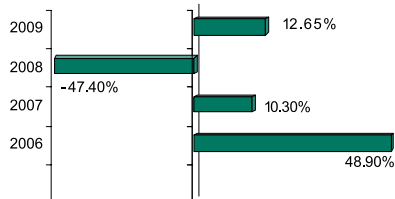
International Equities Returns hedged



From February 2009 the International Equities investment changed from an AUD version of the JANA product, fully hedged to NZD, to an un-hedged version, with the hedge reduced to 45%.

Property

Global Property Returns



Losses from 2008 continued into the 1st quarter of 2009 and then showed welcomed improvement to finish 2009 with a respectable result.

The Global Property investment commenced on 28 October 2005

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 hedge ratio of 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 the ratio from 1 November 2006 was 150% pre-tax. Because of tax arrangements specific to the International Equities passive product, a 150% post tax hedge approximated to a 100% pre-tax hedge level.

Earnings - averages to last year updated

Last year's report contained comments on performance against expectation, with adverse comparison driven mainly by the impact of the 'global credit crunch' on investment returns and consequently on earning rates.

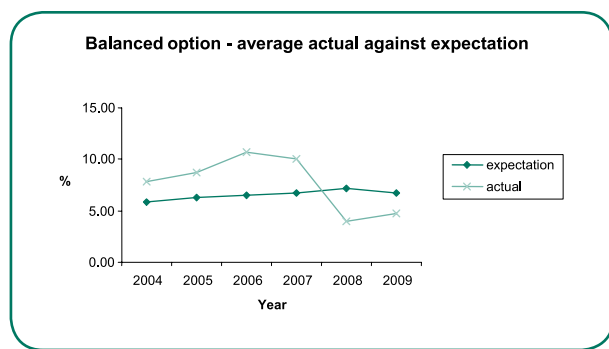
As the 2009 year progressed investment markets recovered strongly, particularly equities, to a point where during October 2009 the Dow Jones index (a measure of the top 30 US stocks) made news by reaching 10,000 - a level that had caused comment a year before as the market declined and that index plunged below 10,000.

The earning rates for the Balanced and Growth member choice investment options finished the 2009 year with positive results boosted by Fixed Interest and Property sector performance more than International Equities.

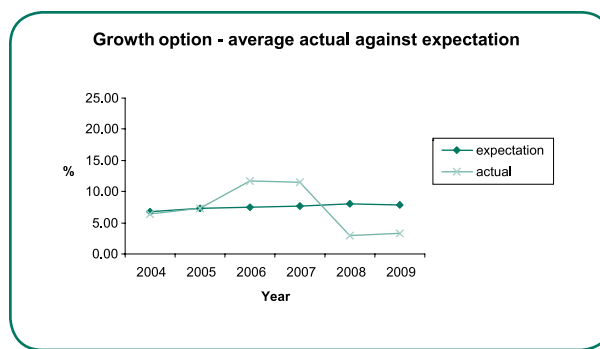
The Board of Management encourages members to review performance relative to the scheme SIPO with emphasis on longer term results rather than specific years.

Graphs that follow have been updated from the 2008 Annual Report, showing the average return for periods from 2004 to 2009. As at 31 October 2009 the actual line had moved back toward the expectation line.

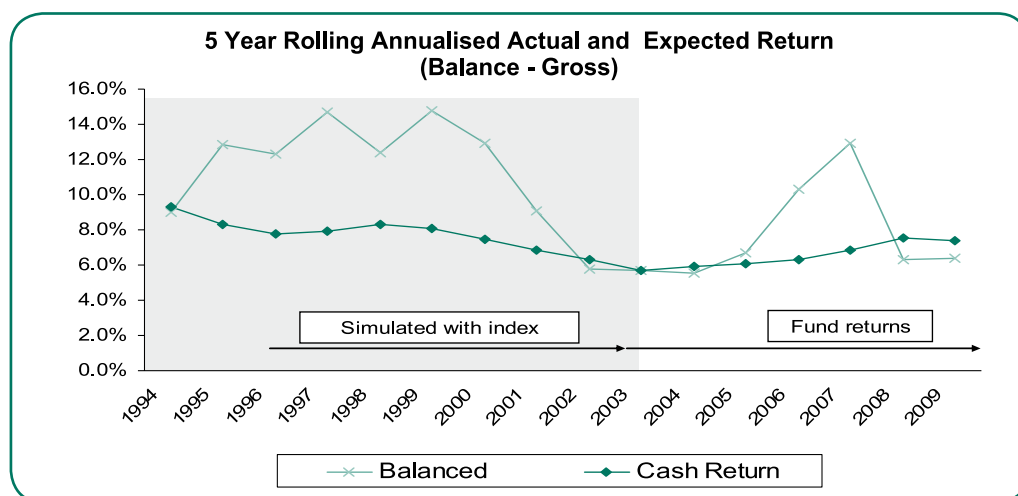
Balanced



Growth



The following chart compares the returns for a part-simulated, part-actual Balanced option to Cash returns. Member Choice options were introduced from August 2003, and the current SIPO objectives changed in December 2005 for the Balanced and Growth options to out-perform cash by 2% and 3% respectively. Hence, simulation is shown for periods to 2003. Although still behind the average Cash return, the rolling 5 year return to 2009 of the Balanced options (and Growth options if they had been included) improved over the 2008 position.

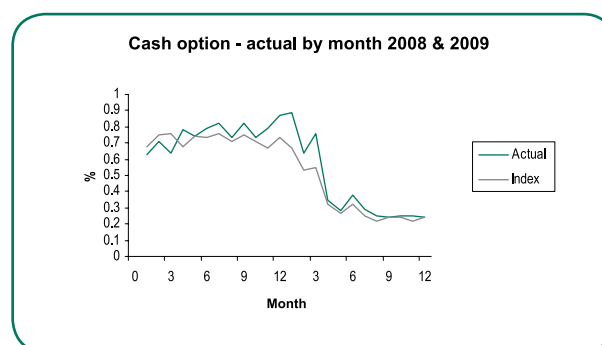
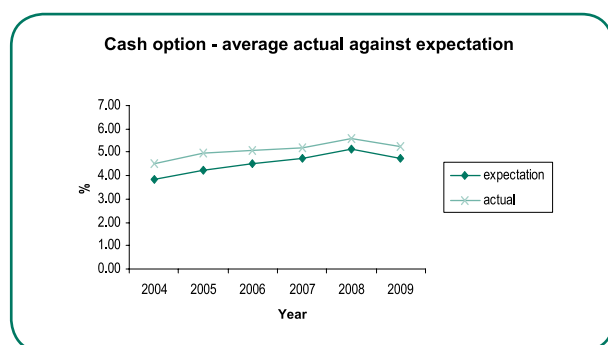


Last years' report noted the performance of the TOWER Global Fixed Interest product had been a cause for negative returns for September and October 2008 with under-performance of 6.8% for those two months against its benchmark index. It was noted there was significant potential to recover value when credit conditions normalised. Whilst credit conditions may not have normalised completely yet, the TOWER product return for the 2009 year was 20.2%, a significant 6.5% above index.

What about the Cash options?

The expectation is that returns for the Cash options should track the 90 day Bank Bill index which is a measure of interest rates that banks pay on a three month deposit of wholesale money – distinct from interest rates offered by banks for retail deposits.

The graph to the left of the page below demonstrates that the average return for periods from 2004 to 2009 were above expectation. The graph to the right hand side shows that wholesale interest rates dropped sharply during the early months of 2009.



The 2007 Annual Report (available on the scheme web-site as a .pdf document) explained restrictions on where funds may be invested. The restrictions ensured that there was a low level of risk to members from the finance company / credit crunch troubles of recent times. The Cash options invest mainly in bank securities and the main banks operating in New Zealand are reported as being strong by world-wide ratings. Nevertheless, the Cash options have been affected adversely by the sharp drop in interest rates for deposits during the early part of the Scheme's 2009 financial year.

At the time this report was written the Investment sub-committee was considering a disparity between interest rates banks offer customers for term deposits and PIEs. The rates for PIEs were more attractive by noticeable margins although they are subject to fees and daily rate reviews.

An outlook for investment markets

Russell Investments, the investment advisor retained by the Board of Management, have provided an outlook commentary as:

"In response to the worst global financial crisis since World War II, governments and central banks have introduced unprecedented fiscal and monetary stimuli. This has seen a sharp rebound in investment returns as investors' risk concerns eased.

For the year ended 31 October 2009, global share-markets (as measured by the Morgan Stanley Capital International Index in local currencies) returned more than 12%, while the domestic share-market (NZX50 Index) was up more than 15%. Fixed interest investments, particularly non-sovereign securities, also performed strongly, while the NZ dollar was up nearly 18% on a trade-weighted basis.

Nonetheless, these stimuli are only temporary in nature and there remains some uncertainty surrounding the short and medium term prospects for the world's economies. Unemployment continues to rise and economic fundamentals do not appear to be strong. However, in theory, this is already priced into markets. We continue to advocate 'staying the course' in a well diversified portfolio. While this will naturally continue to have its ups and downs, we believe this is the right strategy to maximise long term wealth accumulation."

Information – Transparency?

During 2009 press articles featured issues around lack of transparency and clarity, particularly in relation to fees charged in relation to superannuation investments. In its communications, the Board of Management has found it has been a struggle to find a balance between keeping communications to members succinct and readable, while providing adequate information, which is often technical.

With transparency and clarity in mind, the BOM has:

- used earning rates (as opposed to movements in unit prices) to convey performance information and in recent years measured actual rates against SIPO (statement of investment policy and objectives) expectations.

The BOM has considered earning rates to be more easily understood than requiring members to calculate movements in unit prices as a performance measure, and to be an easier comparison to interest rates. Notwithstanding that, misunderstanding can arise comparing an earning rate, after fees and tax, to a before tax interest rate.

- the SIPO for the scheme has been published as the last two pages of the annual report since 2001. It outlines expected return levels for member choice investment options.

- shown what it has considered to be sufficient expense analysis within the Annual Reports and the scheme Prospectus. Where investment management fees have been charged within a product the BOM has maintained a policy of adding those fees back against unrealised gains / (losses) for the product to allow them to be shown within the expense category of investment management fees. Further split to detailed levels is available on request of the statutory format financial statements.

- described where funds have been invested and why, with performance splits provided by investment sector against the benchmark set for that sector.

Investment guidelines that an investment manager for a sector must comply with have been published when appropriate.

- within the web-site, split information to public and member-only sections, with benefit entitlement values available and updated on a fortnightly cycle for individual members within the latter.

MER

A measure that the Board has used to monitor efficiency, but not published is a MER (management expense ratio). It provides a means of comparing the costs of operating a scheme versus another where the measure is like against like. A common definition for MER is the ratio of fund expenses to fund assets.

A description of factors that can influence MER levels follows. It is not exhaustive.

Where there is a high level of fixed cost, economies of scale favour schemes with high asset values, as this lowers the MER. As a consequence, OPA may suffer when compared to similar schemes with assets exceeding say \$300m.

The ways in which the assets of the scheme are invested influences the level of investment management fees. Actively managed multi-manager style structures for asset classes have higher fees than passive index style structures. MER does not measure the investment return. An actively managed multi-manager style is chosen because of an expectation that the return obtained over time will exceed that of the passive index. A change to active styles has caused the MER level for OPA to rise.

Typically, investment management fees within an investment product are not included in the MER, lowering the apparent MER compared to than an arrangement where the investment management fee is charged directly to the scheme by the investment manager. The Board of Management ensures 'in-product costs' are included both within the MER calculation and the financial statements. It does that by adding back an accurate assessment of the relevant fees. An adjustment is made within the income tax calculation for those fees.

The monitoring of MERs at member choice investment option levels has shown the Scheme has been competitive with alternative retirement savings options. As an example, the Scheme's MER levels were significantly lower than levels published during October 2009 for a sample of Kiwisaver schemes.

SCHEME SURPLUS – SPECIAL BENEFITS

When the last allocations and payments are made, early in January 2010, the period covered by Special Benefits will end.

A Memorandum of Agreement dated November 2004 between the Board of Management and the Bank specified mechanisms for reducing the scheme surplus to a position described as equilibrium. In essence, that meant elimination of the surplus apart from a 'buffer' value to provide protection from unforeseen events for the pension liabilities. Sourcing the Bank subsidy (or employer contribution) from the surplus continued and accelerator mechanisms were introduced in an effort to ensure the surplus was diminished over a 5 year period. They were the allocation of Special Benefits on an annual basis until 31 October 2009 and application of a gearing ratio to the Bank subsidy. The Memorandum required annual consultation between the scheme and Bank actuaries with recommendation from them of the level of Special Benefits to be allocated and gearing to be applied each year. There was provision for adjustment if there were extraordinarily favourable or extraordinarily unfavourable circumstances.

For the years ended 31 October 2007 to 2009 the actuaries determined there were extraordinarily favourable circumstances. Their recommendation, in accordance with the Memorandum, was that the Bank maintain the subsidy (or employer contribution) rate at 7% for the years commencing 1 November 2007 and 1 November 2008 with a gearing ratio of 1:1.2 applied for both years to replace a previous 1:1 ratio. In effect, the gearing increased the subsidy at the maximum 7% level with a 1:1.2 gearing to equivalent to a subsidy level of 8.4%; or for a member contributing at 4% to equivalent to 4.8%.

As an indication of the value distributed, of the scheme surplus between 31 October 2004 and 31 October 2009, \$25m was allocated as special benefits, about \$43.5m by way of Bank subsidy and about \$3.5m by way of gearing on the subsidy. As at 31 October 2009 there was an 'excess' surplus of about \$4.2m over and above a 'buffer' value for the pension liabilities of about \$5m.

Because the scheme surplus has decreased to a position where it could not provide funding for the Bank employer contribution for the full year commencing 1 November 2009, there will be a change during the 2010 year. Initially the subsidy and gearing ratio will continue at 7% and 1:1.2 and, when the excess surplus is extinguished, the gearing ratio will revert to 1:1, with the maximum employer contribution to be 7% (and to be received in cash from the Bank) for the remainder of the 2010 financial year. Under the scheme Rules the Bank reviews employer contribution arrangements annually.

A consequence of the Bank beginning to fund the scheme for the employer contribution will be application of employer superannuation contribution tax (ESCT) at current main rates of 21% and 33% (salary level dependent). If a member chooses to make an in-service withdrawal after ESCT applies then superannuation withdrawal tax will be deducted on a portion of the withdrawal value.

RULE AMENDMENTS

There were no Rule amendments during the year ended 31 October 2009.

MEMBERSHIP CHANGES

Membership changes for the 2008/2009 scheme year				
	Division 1	Division 2	Total	Exit Value \$m
Opening membership 1 November 2008	1	3006	3007	
Plus: New members		340	340	
Less: Resignations		227	227	3.572
Redundancies		85	85	4.060
In-service withdrawals		213	213	5.818
Normal retirements		7	7	0.700
Deaths		3	3	0.437
Special Benefits				3.850
Partial withdrawals				2.723
Closing membership 31 October 2009	1	2811	2812	21.160

Pensioner changes for the 2008/2009 scheme year				
	Pensioners	Widows / Widowers	Children	Total
Opening as at 1 November 2008	106	93	3	202
Plus: New		7		7
Less: Deceased	14	9		23
Closing as at 31 October 2009	92	91	3	186

Commentary

At year end Division 2 membership had decreased by 189. The decrease was attributed to a combination of tightening financial conditions, Kiwisaver, and reduction in Bank staff eligible to join the scheme.

A member choice investment option 'switch' election as of 1 May 2009 resulted in about 330 members switching options. That was an increase over 2008 of about 140 members. As at 31 October 2009 the analysis of member choice investment options by membership numbers was:

Option	2009	2008 Comparison
Balanced	54.5%	62%
Balanced 19.5	10%	10%
Cash	18.5%	11%
Cash 19.5	4%	2.5%
Growth	11.5%	12%
Growth 19.5	1.5%	2.5%

The split by benefit entitlement values was about 71% to combined Balanced, 20% to combined Cash and 9% to combined Growth respectively (2008, 77%, 14% and 9%).

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, or about, 31 October 2009 members of the Board of Management were:

<i>Name</i>	<i>Bank Position</i>	<i>Constitution</i>	<i>Changes</i>
Bank-appointed representatives			
Martin Philipsen	Chief Risk Officer, Risk Management NZ	BOM member since March 2006; appointed by the Board of Directors of the Bank, May 2007. Chairperson since May 2007.	
Paul Steven Bevin	Independent of Bank	Since July 2005, appointed by the Chief Executive of the Bank	
Glenn Robert Patrick	Chief Operating Officer, Retail Banking	Appointed May 2007, nominee of the Chief Executive of the Bank	
Christopher James Bayliss	Director, Retail Banking	Appointed July 2006, by the Board of Directors of the Bank	
Member-elected representatives			
Matthew Rowland Cullum	Business Partner, Retail, People, Auckland	Must reside in North Island Elected 28 October 2008	
Hugh Alexander Smith	General Counsel, Wellington	Must reside in North Island Elected September 2006 Re-elected September 2009	Re-elected unopposed
Neil Watson Bradley	New Zealand Treasurer, Finance, Auckland	If no Division 1 member nominated, a division 2 member Elected 28 October 2008	
Matthew James Eaden	Partner, Business, BNZ Partners, Christchurch	Must reside in South Island, Elected March 2007	

ADVISORS TO THE BOARD

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

Actuary:

Michael Robinson of Mercer (NZ) Ltd, P O Box 105 591, Auckland

Auditor:

Deloitte, P O Box 1990, Wellington

Solicitors:

Chapman Tong Law, P O Box 10 614, Wellington

Investment:

Russell Investments Limited, P O Box 105-191, Auckland

Tax:

KPMG, P O Box 996, Wellington

The Investment Managers were:

JANA Investment Advisers, Melbourne, Australia
AllianceBernstein New Zealand Limited, P O Box 1994, Wellington (until 2 November 2009)
TOWER Asset Management Limited, P O Box 2798, Wellington
AMP Capital Investors Limited, P O Box 3764, Wellington
ING (NZ) Limited, P O Box 7149, Auckland

From time to time the Board also calls on other expert advisers to assist with specific issues.

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. The main issues addressed during the year were to:

Audit & Risk

- negotiate the annual audit programme.

Investment

- monitor investment performance (quarterly) and strategy with help from Russell Investments
- review the Non Division 2 sector for change of structure and manager (ING (NZ) appointed)
- implement change of the hedge level for International Equities investment (JANA Investment Advisers)
- update investment guidelines
- review appointment of investment advisor (Russell Investments retained)

Strategy and Communications

- communicate with members about investment policies and volatile market conditions
- review use of excess surplus
- consult with the Bank on employer contribution (bank subsidy) levels for period(s) commencing 1 November 2009

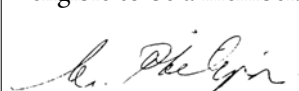
DECLARATION BY THE BOARD

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 2009 exceeded the total value of benefits that would have been payable had all members of the scheme ceased to be members at that date, and had provision been made for the continued payment of all benefits being paid to members and other beneficiaries (such as pensions) as at 31 October 2009,
- advises that more than 10% of the market value of the OPA's assets were invested with companies associated with the scheme sponsor through investments with JANA Investment Advisers Pty Limited and Bank of New Zealand during the year as follows:
 - approx. \$32.6m was invested in the JANA multi-manager core global equities product
 - approx. \$27.6m was invested in Bank of New Zealand bonds and discount paper via Alliance Bernstein mandates for Non Division 2 assets, New Zealand Fixed Interest, and Cash; and \$0.3m in National Australia Bank shares via ING (NZ) mandate for New Zealand Equities (limited Australian share content permitted)
 - currency hedge arrangements with Bank of New Zealand for the International Equities investment for approx. \$23.3m.
- confirms the abridged financial statements within this Report were authorised for issue on 3 December 2009.

As at 31 October 2009, all eligible Board members were members of Division 2 of the scheme. Paul Bevin was not eligible to be a member.



Martin Philipsen



Hugh Smith

for and on behalf of the Board

ACTUARIAL DECLARATION

The most recent formal actuarial valuation was carried out as at 31 October 2008. The valuation revealed that the fund was in a sound position with an actuarial surplus of approx. \$31.3m. The actuary advised it was appropriate for the Bank to continue its contribution holiday until 31 October 2009. (i.e., the Bank's subsidy could be sourced from the Scheme's surplus funds). The Board has complied with that advice. The Board receives updates from the Actuary of the Pensioner and Division 1 liabilities annually. These Division 1 and Pension liabilities are included in the financial statements for the year ended 31 October 2009 at \$41,200,000. Because of changes to the investment of assets representing the Surplus/Pension/Division 1 assets during 2009, these liabilities were valued as at 31 October 2009 using an assumed earning rate of 4.0% per annum net (in place of 5.5% which had been used in previous valuations).

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 provides an opinion on the funding for the Bank subsidy. An actuary is 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.

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

E-mail: bnzopa@bnz.co.nz
Telephone: (04) 474 6780
Fax: (04) 474 9048

Members of the Secretariat are:

Bruce Burrows, Business Manager Cyril Bray, Administration Officer

You may view or receive, at no cost, a copy of any of the following material on request to the Scheme Secretariat:

- Full set of financial statements
- the OPA's Investment Statement
- recent Annual Reports
- the OPA's registered Prospectus (registered on 27 April 2009)
- the Rules of the OPA
- latest triennial actuarial valuation
- the Memorandum of Agreement detailing the settlement arrangement between the Association and the Bank (without appending schedules that contain information relating to individual members and former members)

The Investment Statement, Rules, and recent Annual Reports are all available for reading on the Association's web-site.

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 you should contact the Chairperson c/- the Scheme Secretariat at the address shown on this page.

Communication with the Board

If you wish to communicate with the Board, the address for correspondence is:

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

Your feedback is welcome

The Board is committed to keeping members informed of the significant issues facing the scheme. The main communication channels used are email and the web-site (www.bnzopa.co.nz).

FINANCIAL PERFORMANCE

Key results shown in the financial statements that follow include:

- The main revenue contributors were:
 - gains from the Global Fixed Interest investment of about \$8.0m.
 - gains from the Non Division 2 assets of about \$4.0m;
 - interest income from the New Zealand Fixed Interest and Cash sectors of about \$2.5m;
 - gains from Global Property Securities sector of about \$2.2m
 - gains of about \$1.7m plus dividends / interest of about \$0.65m from New Zealand Equities;
 - losses from the International Equities investments of about \$0.8m which split as product losses of about \$2.5m and associated currency hedging gains of about \$1.7m;
- recurring operating expenses were at about the same level as last year
- Income tax expense at about \$5.6m – main taxable income was from the NZ Cash, Fixed Interest and Non Division 2, and asset sectors and hedges for International sectors
- Benefits paid were about \$10m less than last year (all categories were lower other than Special Benefit payments to current and former members paid in January 2009 which at \$3.9m were about \$0.4m higher). Member fortnightly contributions received were about \$0.6m below last year, due to lower membership.
- The scheme surplus, shown under Member Liabilities reduced in value during the year, as shown in the analysis below. Transactions affecting the surplus summarised as:

Opening value	\$31.3m
Plus / (less) Bank subsidy allocation	(10.5)
Special benefit allocation	(5.0)
Pensioner / Division 1 adjustments	(3.1)
Vesting fall back from exits	0.5
Undistributed earnings 2009	1.0
Closing value	\$14.2m

There was rebalancing of investment assets during the year when required because of investment value movements.

AUDIT REPORT

To the Members of the Bank of New Zealand Officers' Provident Association

We have audited the summary financial statements of the Bank of New Zealand Officers' Provident Association ("the OPA") for the year ended 31 October 2009 as set out on pages 18 to 21.

This report is provided solely for your exclusive use and solely for the purpose of inclusion in the annual report to Members. Our report is not to be used for any other purpose, recited or referred to in any document, copied or made available (in whole or in part) to any other person without our prior written express consent. We accept or assume no duty, responsibility or liability to any other party in connection with the report or this engagement, including without limitation, liability for negligence.

Board of Management's Responsibilities

The Board of Management is responsible for the preparation of summary financial statements, in accordance with New Zealand law and generally accepted accounting practice.

Auditors' Responsibilities

It is our responsibility to express to you an independent opinion on the summary financial statements.

Basis of Opinion

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed procedures to ensure the summary financial statements are consistent with the full financial statements on which the summary financial statements are based. We also evaluated the overall adequacy of the presentation of information in the summary financial statements against the requirements of FRS-43: Summary Financial Statements.

Other than in our capacity as auditor, we have no relationship with or interests in the OPA.

Unqualified Opinion

In our opinion, the information reported in the summary financial statements complies with FRS-43: Summary Financial Statements and is consistent with the full financial statements from which it is derived and upon which we expressed an unqualified audit opinion in our report to the Members dated 3 December 2009.

For a better understanding of the scope of our audit of the OPA's financial statements and of the OPA's financial position, financial performance and cash flows for the year ended 31 October 2009, this report should be read in conjunction with the OPA's audited financial statements for that period.

Our examination of the summary financial statements was completed on 9 December 2009 and our unqualified opinion is expressed as at that date.



Chartered Accountants

WELLINGTON, NEW ZEALAND

ABRIDGED FINANCIAL SUMMARY AND NOTES

The abridged financial statements are an extract from the Bank of New Zealand Officers' Provident Association full statutory format financial statements, signed on 3 December 2009, with an unqualified audit opinion. They should be read in conjunction with Notes 1 to 3 below and Notes 1 to 20 from the full financial statements. The abridged financial statements do not provide as complete an understanding as the full statutory format financial statements. If you would like to receive a free copy of the full set of financial statements, please contact the Scheme Secretariat.

The full statutory financial statements for the year ended 31 October 2009 comply with International Financial Reporting Standards, New Zealand equivalents to International Financial Reporting Standards (NZIFRS), and other applicable financial reporting standards, as appropriate for profit-oriented entities.

The accounting policies adopted are:

- The measurement base adopted is that of historical cost modified by the revaluation of assets which are measured at fair values at balance date.
- Statutory Base: These financial statements have been prepared in compliance with FRS 43 (summary financial statements), the Superannuation Schemes Act 1989, Financial Reporting Act 1993 and the Bank of New Zealand Officers' Provident Association Rules.

The measurement currency is New Zealand dollars.

NOTE 1 - Contingent Liabilities

Agreement as to Future Use of Surplus

The Board of Management and the Bank concluded an agreement in October 2004 which set out a management plan for the surplus until 2009, at which time the Fund was expected to be in equilibrium.

A dispute arose in November 1995 when the Bank challenged the validity of the Board's then policy of distributing earnings on surplus assets to the members. High Court proceedings in December 1998 found the policy to be invalid. A Board appeal to the Court of Appeal in July 1999 was also unsuccessful and the policy was discontinued as from 31 October 1995.

The Board subsequently sought to return the Fund to equilibrium through member benefit improvements. The Bank challenged a number of issues, the principal matter being the ability of the Board to backdate benefit improvements. After High Court proceedings in July 2001 and Court of Appeal proceedings in March 2002, the Privy Council confirmed the Board was able to backdate benefit improvements to members.

In 2001, the Bank contribution levels were increased significantly from a maximum subsidy of 7% to 10% and from a subsidy ratio of 1:1 to 1:1.5 for the period from 1 September 2001 to 4 November 2004.

Following the Privy Council's finding, the Board put a proposal to the Bank which contained member benefit improvements for the 1995 to 2001 period and the 2005 to 2009 period. The Bank and the Board met in a mediation in June 2004 where it was agreed that up to \$25 million of surplus would be used for Special Member Benefits in the 2005 to 2009 period subject to providing additional protection for the pension liability and a Bank contribution holiday to 2009 based on a subsidy rate of 7% and a subsidy ratio of 1.

The agreement is detailed in Rule amendments which were sanctioned by the Bank directors and a Memorandum of Agreement.

The agreement prescribes how the Bank contribution rate and the amount of surplus to be released between 2005 and 2009 were to be determined. The Bank contribution subsidy was to ordinarily be set at 7% and the subsidy ratio at 1, unless there were circumstances which allow for the level of Bank subsidy to be lowered or increased. Ordinarily \$5 million was to be released each year for Special Member Benefits although that amount was to be reduced if there was insufficient surplus available or increased if less than \$5 million had been paid in the preceding years and there was sufficient surplus to make up the shortfall. Although half the amount of surplus released was to be used for historic Special Benefits relating to the 1995 and 2001 period and half for the 2005 to 2009 period, payment of this component of the Special Benefits was to be spread over the 2005 to 2009 period. While the payment of the Special Member Benefits should have returned the Fund to equilibrium in 2009, if that was not the case and surplus assets still remained in the Fund in 2009 (as was the case), the Board and the Bank had agreed to discuss how those assets might be fairly apportioned between the Bank and benefits to members. The outcome of discussions is reported in Note 3.

Special Benefits of \$5m were allocated for each the years ended 31 October 2005, 31 October 2006, 31 October 2007, and 31 October 2008. A further (and final) \$5m was to be allocated for the year ended 31 October 2009 on 6 January 2010.

A gearing ratio for the Bank subsidy of 1:1.2 applied from 2 November 2007 to 31 October 2009 but will not continue for the full year ending 31 October 2010.

There were no other contingent liabilities at 31 October 2009 (2008: nil).

NOTE 2 - Vested Benefits

Vested benefits are the rights which are not conditional on continued membership, under the conditions of the Association. The total vested accrued liability was \$174.7 million, compared to assets of \$208.4 million, per the actuarial valuation as at 31 October 2008. The difference (\$33.7 million) between these two amounts will reduce to the extent the Bank continues to meet its subsidy from the surplus and will also reduce to the extent that members accrue additional service and are allocated Special Benefits. The equivalent total vested accrued liability at 31 October 2009 (to \$174.7m) was \$187.6 million, compared to assets of \$204.4 million. The surplus value on a vested accrued liability basis was about \$14.2 million, with non-vested benefits being about an additional \$2.6m.

NOTE 3 - Events Subsequent to Balance date

The Board of Management approved allocation of \$5m of Special Benefits for the 2009 year for 6 January 2010.

An arrangement was reached with the Bank for excess surplus assets to be extinguished by continuing a 7% bank employer contribution rate and a 1:1.2 gearing ratio from the scheme surplus. The arrangement is anticipated to finish during March 2010. After that date it is expected the Bank employer contribution level will remain at 7% with a 1:1 gearing ratio (in place of 1:1.2) – refer Note 1.

Any movements in market value of investments from balance date to the date of issue of this report have not been reflected in these financial statements.

Investment management of the assets representing the Non Division 2 liabilities, and the Cash and New Zealand Fixed Interest sectors moved from AllianceBernstein to ING (NZ) Limited on 2 November 2009.

There were no other material events subsequent to balance date.

BANK OF NEW ZEALAND OFFICERS' PROVIDENT ASSOCIATION

SUMMARY STATEMENT OF CHANGES IN NET ASSETS

For the year ended 31 October 2009

	2009 \$(000's)	2008 \$(000's)
INVESTMENT ACTIVITIES		
Investment revenues / (losses)		
NZ Fixed Interest & Cash revenue	1,814	2,057
Global Fixed Interest revenue	309	406
NZ Equities dividend & interest	647	730
Non Division 2 assets - Fixed interest	(1,277)	992
Non Division 2 - Swap cash flow movements	1,608	(1,541)
International Equities rebate income	6	50
Changes in net market values		
● Realised Gains / (Losses)	2,948	(4,537)
● Unrealised Gains / (Losses)	12,262	(22,960)
Total investment revenues	18,317	(24,803)
Other income		
Miscellaneous income	41	64
Total other income	41	64
Total investment revenues	18,358	(24,739)
Less Investment management fees	771	819
Net investment activities	17,587	(25,558)
Operating expenses		
● Audit fees	32	32
Other fees paid to Auditors	0	1
Actuarial fees	42	13
Depreciation	19	39
General expenses	60	81
Interest expense	0	(1)
Other professional fees	160	175
Staff	206	235
BOM remuneration	20	17
Non-deductible GST	37	38
Use of money interest - IRD	0	0
Total operating expenses	576	630
Net income/(deficit) before tax and membership activities	17,011	(26,188)
Income tax expense	5,566	2,283
● Net income/(deficit) after tax and before membership activities	11,445	(28,471)
MEMBERSHIP ACTIVITIES		
● Members' contributions	10,120	10,737
● Less Benefits paid	25,540	35,688
Net membership activities (decrease)	(15,420)	(24,951)
Net (decrease) in assets	(3,975)	(53,422)
Net assets available to pay benefits at beginning of year	208,374	261,796
Net assets available to pay benefits at end of year	204,399	208,374

A realised gain is actual income received on the sale of an investment.

When the market value of an asset increases that capital gain in its value is shown as an unrealised gain in the accounts. The asset has not been sold only its capital value has increased, but the gain is made available for distribution to members. Similarly, if the market price falls the capital value of the assets decline it is an unrealised loss and that reduces the amount of income to be made available for distribution.

Fees paid to the auditors (Deloitte) split into two sections; 'Audit Fees' which represent the fees paid for the audit of the statutory accounts at financial year end; and 'Other fees paid to Auditors' being fees paid to the auditor primarily for 'Agreed Upon Procedure' engagements

The amount used in the earnings rate calculation as earnings.

Includes members' contribution from salary and lump sum voluntary contributions. It does not include Bank subsidy contribution, as it is not a cash inflow, but a transfer from the surplus to members balances.

Payments made to pensioners and benefits paid to those members who left the scheme due to resignation, redundancy etc.

Any differences between totals and additions/subtractions are attributable to 'rounding'. To help you understand some of the items shown in these statements items highlighted in green like this are included in a comment boxes to the side of this statement.

BANK OF NEW ZEALAND OFFICERS' PROVIDENT ASSOCIATION

SUMMARY STATEMENT OF NET ASSETS

as at 31 October 2009

	2009 \$(000's)	2008 \$(000's)
Investments		
Bank deposits	118	357
NZ Government stock	8,678	5,357
Other fixed interest investments	4,230	6,379
NZ discounts	35,947	24,573
NZ Equities – Active	14,220	13,013
Global Fixed Interest (TOWER product)	44,824	45,475
International Equity – JANA product	32,568	28,757
Non Division 2 assets – Fixed Interest	56,053	73,671
Global Property Securities (AMP Product)	9,395	6,228
Forward foreign exchange contracts	1,910	6,758
	207,943	210,568
Other assets		
Bank accounts	277	188
Accounts receivable	55	32
Fixed Assets	3	22
	335	242
Total assets	208,278	210,810
Deduct liabilities		
Accounts payable	257	338
Current tax	3,192	1,193
Deferred tax liability	430	905
Total liabilities	3,879	2,436
Net assets available to pay benefits	204,399	208,374
Represented by member liabilities		
Division 2	148,981	136,115
Division 1 & Pension liability	41,200	40,961
Undistributed earnings – current year	1,012	-
Scheme surplus	13,206	31,298
	204,399	208,374

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

Division 2 Liability - represents the accumulation of individual member balances recorded in the Association's membership system (Rapps) at 31 October 2009 after allocating earnings for the 2009 year.

Division 1 Liability - The value the actuary determines is required to cover the remaining Division 1 member Pension Liability - 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 / division 1 liability.

Summary Statement of Cash Flows

for the year ended 31 October 2009

	2009 \$(000)'s	2008 \$(000)'s
Net cash flows used in operating activities	(19,286)	(22,599)
Net cash flows from investing activities	19,375	22,770
Net increase in cash held	89	171
Add opening cash brought forward	188	17
Closing cash carried forward	277	188

Any differences between totals and additions/subtractions are attributable to 'rounding'. To help you understand some of the items shown in these statements items highlighted in green like this are included in a comment boxes to the side of this statement.

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 statement is reproduced as:

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, 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 amended during May 2007.

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 (BOM).

The BOM 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 BOM, is 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 BOM. 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.
- efficiently managing 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 BOM appoints a Secretary to administer the scheme on an ongoing basis.
- employing other consultants for external advice and services and to determine their degree of responsibility towards efficient operation of the scheme.

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

In determining the investment policy and objectives, the BOM recognises the concept of prudence, as provided for, although arguably not directly applicable to the OPA, in the Trustee Act. That policy prevails in the management of the OPA's investment portfolio (with exception to be made for non-diversified member choice investment options) by being advised to, and understood by, the appointed investment manager/s.

During 2003 Member Choice Investment Options were introduced for Division 2 members and the SIPO modified by adding Investment Objectives for each option to a similar format to that already in place. This edition of the SIPO has the Investment Objectives for each option modified to a different format.

Investment Objectives

Cash (& Cash 19.5 from 2 Nov. 2007)

The objective of this option is to provide returns consistent with traditional cash investments such as term deposits. To achieve this, the fund will invest in a portfolio of wholesale New Zealand cash.

The target investment return from investing 100% in wholesale cash will be to perform closely in line with the ANZ 90 Day Bank Bill Index (a wholesale cash benchmark), before fund expenses and fees are taken into account.

In any given year this option has a negligible probability of experiencing a negative return, before fund expenses and fees are taken into account.

Balanced (& Balanced 19.5 from 2 Nov. 2007)

The objective of this option is to provide returns over the long term that are moderately higher than those of traditional cash investments such as term deposits. Returns will be generated from both income and capital growth. There may be variations in returns from year to year, including the prospect of negative returns.

This option will invest across a diversified mix of asset classes including, but not limited to, cash, fixed interest, equities and property. The allocations to income assets (cash and fixed interest) and growth assets (equities and property) will be reasonably similar.

The target investment return will be to outperform, over a long term horizon, the ANZ 90 Day Bank Bill Index (a wholesale cash benchmark) by 2% (on a 30% tax rate after tax basis), before fund expenses and fees are taken into account.

In any given year this option has about a 1 in 7 probability of experiencing a negative return, before fund expenses and fees are taken into account. For a 5 year period, this probability reduces to less than 1 in 100, or 1%.

Growth (& Growth 19.5 from 2 November 2007)

The objective of this option is to provide returns over the long term that are materially higher than those of traditional cash investments such as term deposits. Returns will be generated from both income and capital growth. There may be wide variations in returns from year to year, including the prospect of negative returns.

This option will invest across a diversified mix of asset classes including, but not limited to, cash, fixed interest, equities and property. The allocation to growth assets (equities and property) will be significantly higher than the allocation to income assets (cash and fixed interest).

The target investment return will be to outperform, over a long term horizon, the ANZ 90 Day Bank Bill Index (a wholesale cash benchmark) by 3% (on a 30% tax rate after-tax basis), before fund expenses and fees are taken into account.

In any given year this option has about a 1 in 5 probability of experiencing a negative return, before fund expenses and fees are taken into account. For a 5 year period, this probability reduces to about 1 in 25, or 4%.

Investment Policies

The investment policies set by the BOM 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 BOM in consultation with its advisors.
3. Portfolios will accept risks in a prudent manner.
4. An appropriate level of diversification across securities, sectors, asset classes and countries must be maintained, relative to the objectives for that portfolio.
5. Tax efficiency is regarded as important.
6. Liquidity must be maintained at an appropriate level given that medium term liquidity is expected to remain negative.
7. Costs incurred in the running of the scheme will be controlled as effectively as possible.
8. Flexibility must be accommodated to allow for changes in the members' needs, and the economic, social, political and investment environments.
9. The portfolios and investment managers will be monitored on an ongoing basis.
10. All aspects of the investment process and functions must be reviewed regularly.
11. The BOM's responsibilities under common law and statute must be met, except where otherwise excluded within the Rules.

