

BANK OF NEW ZEALAND OFFICERS'
PROVIDENT ASSOCIATION

ANNUAL REPORT

FOR THE YEAR ENDED
31 OCTOBER 2002



BANK OF NEW ZEALAND OFFICERS' PROVIDENT ASSOCIATION

THE YEAR IN SUMM

The Board of Management is pleased to present the 115th 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 can be found within the report.

Investments

Performance – Members are allocated earnings monthly, based on the performance of the Fund for each month. An aggregate earnings rate of negative 2.45%, that is (2.45)% was allocated to members who were members for the full year.

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.

Investment performance was dominated by the International Equities sector, as it was for 2001. The loss in value of the International Equities investment was greater than the gains from all other investment sectors with a result of negative earnings. Gains from currency hedging, associated with the international equities investment, did provide a cushion effect.

An article is included in this report on the impact of the volatility of the investment markets during the year, headed 'Another Year of Equities Volatility'.

Asset allocation – The Investment sub-committee of the Board of Management reviewed how the funds were invested during the year, with a decision to make only minor changes. The scheme's Statement of Investment Policy & Objectives (SIPO) is reproduced at the end of this report.

On 28 June 2002 the Global Fixed Interest sector was placed with TOWER Asset Management for management by PIMCO (a US based manager). This action followed from a review signalled in last year's report and replaced an investment in the BNZ International Bonds product.

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

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

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| NOVEMBER 2001 TO 31 OCTOBER 2002

Scheme Membership

Division 2 Membership - The membership of Division 2 rose by 94 members for the year to 3133. This was due to a combination of continued marketing of the scheme to new staff during the year, and the improvements to the Bank subsidy put in place in August 2001.

Communications - Three issues of the *Proverbial* (the scheme's newsletter) were published during the year to keep members informed on investment performance and other matters.

The layout of information provided about the scheme available from the Bank intranet has been changed and updated during the year on an as needed basis. If you have access, click on the 'Corporate' heading on the home page and then BNZ Officers' Provident Association.

Member choice investment options - An electronic survey of all members with Bank e-mail addresses was undertaken during October 2002 to gauge interest for a proposal being considered by the Board of Management to offer members a limited range of investment choices within Division 2 of the scheme.

The Board is considering the survey results and expects to advise members of the next steps early in 2003.

Board of Management

Board - in March Brett Hewson, a Bank appointed Board member since 1994, resigned from the Board and was replaced by Di Rump. In September Evan Robb retired from the Bank and the BOM, and Charles Roberts of Wellington was elected to fill the vacancy in October.

Independent Review Process - An update is provided within the Key Issues section of the report.

Rule Changes - a Rule amendment was sanctioned by the directors of the Bank late in October 2002 that will give a limited window of opportunity for members who have exited the scheme twice by way of In Service Withdrawal to rejoin to take advantage of the improved Bank subsidy benefit.

Compliance

Securities Act - The Prospectus and Investment Statement were updated and renewed during the year as required under the Securities Act.

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

A guide to technical terms

Due to the nature of some of the issues covered, there are times when technical terminology has been used to present information in a concise format. To help with understanding key words have been underlined like this and an explanation is provided in a box on the same page.

INVESTMENT PERFORMANCE

For the year ending 31 October 2002

Another Year of Equities Volatility

Unfortunately this year has been one of negative earnings due to poor international equity returns albeit at a lower level than last year. In last year's annual report there was a feature article headed 'A Year of Negative Returns'. Within it a section asked the question 'can it happen again?' with a response that it could because of the scheme's investment risk objectives. What could not be foreseen at the time of writing was two years of negative earnings back to back from poor international equities performance. Indeed, historically negativity in the international equity sector spread over two consecutive years was last experienced during the depression of the 1930s and the 'oil crises' in the 1970s'.

The reason International Equities has such a significant impact on the return is because it represents approximately 40% of the assets, a further 10% being investment in New Zealand equities (including some Australian equities).

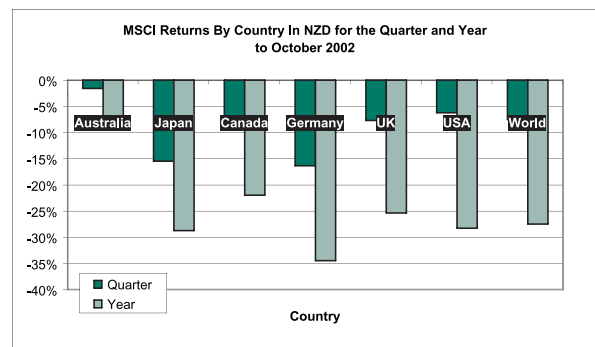
Investment offshore is necessary to access the larger economies and industries that are not represented in the New Zealand markets. The equity market in New Zealand only represents about 0.1% of the total market and access to the larger market tends to produce higher returns.

OPA Equities - Gross Returns 1997 - 2001	1997	1998	1999	2000	2001
	%	%	%	%	%
New Zealand Equities	9.40	-16.40	20.10	-3.50	7.10
International Equities	36.70	24.00	32.20	11.60	-23.40

The US market performance dominates because of its size and influence and is used as a barometer when gauging the direction of the equity market. However, volatility in international equities was not isolated to the largest market, the US.

Examination of returns from the investment in a BNZ (passive) International Equity Index Fund highlights this. The benchmark index for this sector is the Morgan Stanley Capital International

(MSCI) World Index Grey List. It comprises a list of 6 countries (who meet double tax agreements with NZ) weighted by market capitalisation. As the index returns by country show the US was not alone.



Inclusive of the International Equities sector results, for the five years ended 31 October 2002 an average annual after tax earning rate for the scheme was about 3.7% per year.

So why have an investment that can produce losses?

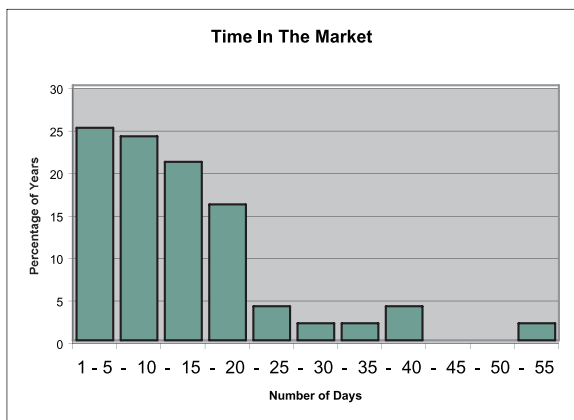
The scheme's investment risk objectives as described in a Statement of Investment Policy & Objectives (refer pages 18-19) presume:

	Capital Loss	Return Less Than Cash
In any one year	One chance in six	One chance in three
Over any five year period	One chance in fifty	Once chance in five

The asset structure and allocations are determined from the investment objectives with a feature of diversification across various asset sectors. For the asset allocation in place there is an expectation of an average earning rate over time, of about 6%. The international equities sector (as mentioned earlier) had such a significant impact during the last year that the earning rate for this year was (2.45)%.

It is policy (described within investment guidelines documentation associated with the SIPO) to not

allow tactical variation of asset allocations outside of prescribed parameters. That recognises that the time invested within a sector has proven to provide better returns than tactical decisions that try to predict when to enter or exit an investment to pick up short-term gains or negative losses. Deciding when is the appropriate time to enter or exit equity investments is risky given its volatility and almost impossible to predict accurately. The probability of being out of the market at the wrong time is high and can be costly. A demonstration of the effect of tactical decisions may be taken from below.



Source: Gareth Morgan Investments, October 2002

This table is based on the S&P 500 from 1926 – 1999. It shows the number of days (not consecutive) out of 255 trading days a year it can take to account for the total equity return for a year.

Earning Rates Approved

Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct
Monthly Earning Rates %											
2.77	0.52	(1.22)	0.21	0.55	(1.10)	0.52	(3.10)	(1.70)	1.66	(3.14)	1.75
Aggregate %											
2.77	3.30	2.04	2.26	2.82	1.69	2.22	(0.95)	(2.63)	(1.02)	(4.13)	(2.45)
Part year Aggregate % (for members joining in the heading month of 2001/2)											
(2.45)	(5.07)	(5.56)	(4.39)	(4.59)	(5.11)	(4.06)	(4.56)	(1.50)	0.20	(1.44)	1.75

The table shows that over the period shown for one year out of four the total return was accounted for in less than 5 days. For two years out of four it was less than 10 days.

The impact on returns of not being in the market during its best performing days over a ten-year period is shown below.

S&P 500 Index (\$US) annualised returns to May 2002	
10 Years 2,550 trading days	9.9% p.a.
10 Years Less the 5 best performing days	7.5% p.a.
10 Years Less the 10 best performing days	5.7% p.a.
10 Years Less the 20 best performing days	3.0% p.a.
10 Years Less the 30 best performing days	0.8% p.a.

Data Source: Bloomberg

An investor who missed out on the 30 best performing days out of 2,550 trading days reduced the 10-year return by over 90%.

Recent losses are of concern, but of equal concern is the potential cost of missing a market recovery. Trying to ‘time the markets’ increases that risk as mistiming one’s entry or exit can have a dramatic impact on your return. Advice provided to the Board suggests that staying with the investment and being patient through the periods of negativity means you also benefit with some certainty when the markets recover.

Investment Sector Returns compared with targets

The scheme has a formal Statement of Investment Policy and Objectives. It was reviewed during the year and is reproduced at the end of the 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</i>	10	13.5	NZSE40	9.82	7.77	(2.05)
International equities <i>Invested in BNZ International Equity Passive Index Fund – 75% hedged</i>	40	36.0	MSCI Grey List (NZD) (75% hedged)	(18.02)	(16.89)	1.13
Global fixed interest <i>Invested in segregated portfolio managed by PIMCO for TOWER since 28 June 2002 – prior in BNZ International Bond fund product</i>	20	29.5	Lehman Bros Global Aggregate Index (NZD) - hedged	8.60	5.10	(3.50)
NZ fixed interest <i>Invested in a mix of Govt. and corporate bonds, and discounted securities; with Alliance Capital (was AXA)</i>	17.5	15.0	Credit Suisse First Boston Govt Stock Gross	5.28	6.21	0.93
Cash <i>Managed by Alliance Capital</i>	2.5	1.5	CS First Boston NZ Capital - 90 day Bill	5.49	5.28	(0.21)
Property <i>A portfolio of 4 commercial properties (2 large properties sold during year and replacement acquisitions not yet made)</i>	10	4.5	Watson Wyatt <i>iP</i> ₃	8.90	21.40	12.50

Differences to Benchmark

During the year the benchmark asset allocations for NZ Fixed Interest and Global Fixed Interest were changed slightly from 20% and 17.5% to 17.5% and 20% respectively.

For reasons explained in the next section Property was underweight the neutral allocation and Global Fixed Interest correspondingly overweight. Whilst NZ Equities was overweight and International Equities under-weight at year-end, the total allocation to Equities was close to the neutral position.

Matters impacting on sector returns

New Zealand Equities

The return was below benchmark level because of a number of factors. This was in part because of the effect of AirNZ on the index (see below); in part because the Australian shares within the portfolio gave a return well below the NZSE40 index; and in part because a minor value was held as Cash at a deposit rate below the benchmark level.

With fund managers surveys the TOWER return ranked as about the median, or middle of the group surveyed.

The NSE40 index is based on market capitalization of the stocks within it, and unlike other share index is not restricted to the 'free-float' shares or those available for purchase. That means all AirNZ shares are included within the index but somewhat less than 10% are available for trading (the NZ Government holds about 90% of the total shares). The investment sub-committee of the Board has reviewed alternate index and awaits a review of the NZSE40 construction before making a final decision.

New Zealand Fixed Interest /Cash

During the year the sector manager, Alliance Capital, used a discretion made available in the guidelines provided to them to vary weighting between Cash Fixed Interest securities to improve the combined return. The above benchmark performance for the year for the Fixed Interest component was generated throughout the year. The return slightly below benchmark for Cash was expected due to the use of that sector to finance the withdrawals from the fund on a daily basis.

Global Fixed Interest

From a review of this sector by the Investment sub-committee of the Board of Management there was a change from July 2002 to investment via TOWER Asset Management with PIMCO (Pacific Investment

Management Company). To address a tax loss situation associated with sale of two properties for an initial period a segregated portfolio is held for OPA so that directly assessable income can be derived from the investment. To obtain a segregated portfolio required an investment level of \$75m, about \$20m above the previous level - most of the \$20m was sourced from the proceeds from the property sales.

A significant underperformance to benchmark (as shown in preceding table) was mainly attributable to the period to June 2002.

International Equities

The return for the sector was better than last year but still substantial negative number at (16.9) % due to downturn in equities markets (refer earlier article) particularly during the May-September period.

The better than benchmark performance was attributable mainly to the hedge associated with the investment in the BNZIM product – the hedge return was 10.95% against its benchmark at 10.1%.

Whilst the product investment is restricted by its tax structure to six countries with tax agreements with New Zealand, its performance was consistent with the MSCI World index.

The product supplier, BNZIM, forecasts a prospect of further volatility for coming months.

Property

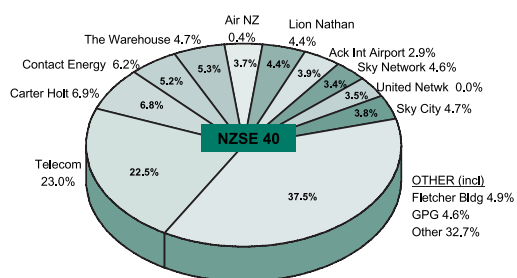
The portfolio composition changed during the year with sale of the BNZ House, Christchurch and the 50% share in the BDS Partnership properties. As mentioned earlier the proceeds were for the short term invested in Global Fixed Interest securities. It is expected properties will be purchased during the 2003 year to bring the amount invested back toward the neutral allocation of 10% of investment assets. All properties showed positive investment returns for the year.

How your Funds Were Invested

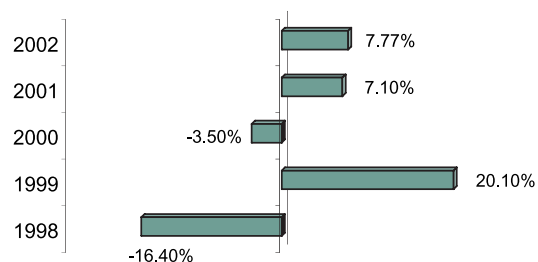
The charts that follow, for the main asset sectors, outline how the scheme's funds were invested within the sectors as at 31 October 2002. Separate bar graphs show what performance returns have been for the last five years.

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 Global fixed interest and Equities investments. The level of hedge set is a function of aversion to risk and ability to forecast portfolio values. For Global fixed interest a high hedge ratio (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.

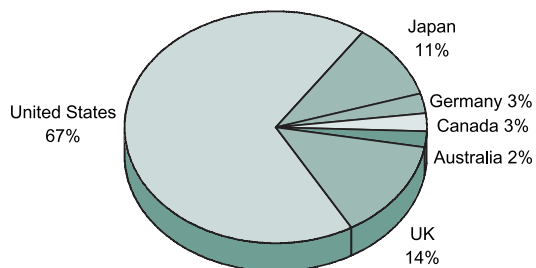
NZ Equities - NZSE 40 Top 10 Weighting V OPA Holding



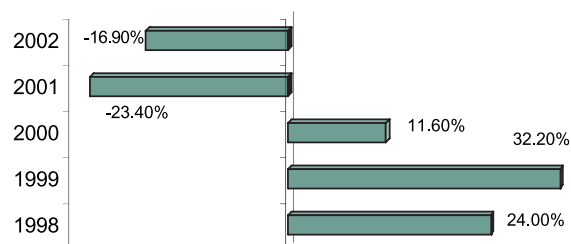
NZ Equities Returns 1998 - 2002



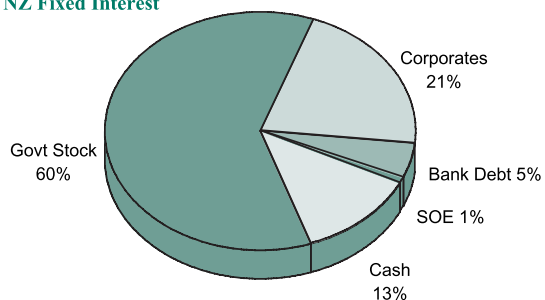
International Equities



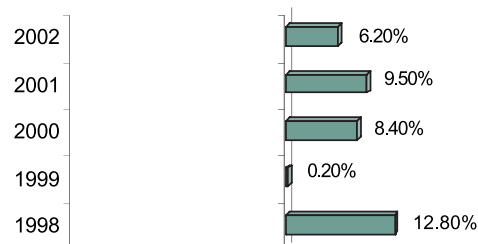
International Equities Returns 1998 - 2002



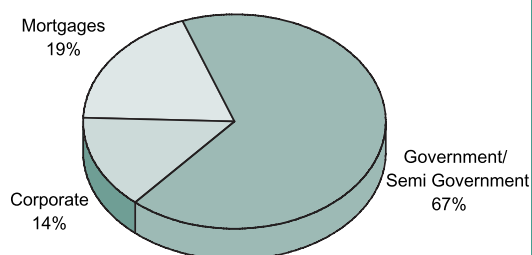
NZ Fixed Interest



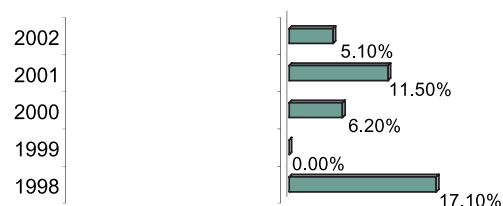
NZ Fixed Interest Returns 1998 - 2002



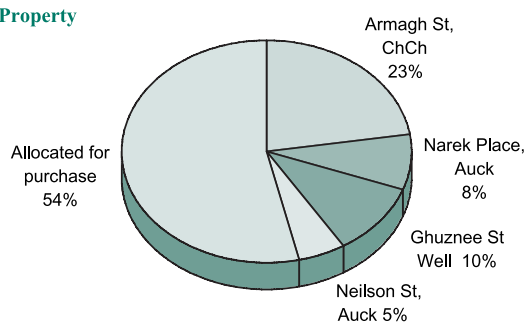
Global Fixed Interest



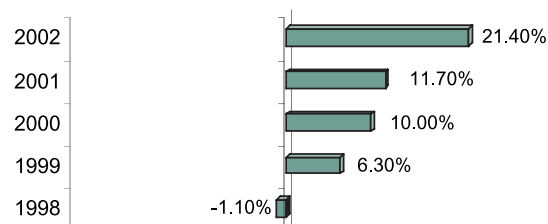
Global Fixed Interest Returns 1998-2002



Property



Property Returns 1998 - 2002



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. In November 2000, the Board put a number of rule amendments containing member benefits and a mechanism commencing in 1995 to return the Fund to equilibrium by 2015 to the directors of the Bank for their approval.

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” in the Rule relating to rule changes, and the powers of the Bank’s directors to sanction 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 meaning of Provident Fund as used in the Rule relating to rule changes is defined by Rule C1.1 of the Rules; and, in the rule amendment process, the Bank directors exercise powers conferred on them by the BNZOPA rules, not the Bank’s constitution, but do so in their capacities as directors of the Bank.

After taking legal advice, the Board appealed the judgment. In April 2002, the Court of Appeal found that the Board could provide backdated rule amendments to benefit current and former members as proposed, and clarified the extent of the High Court’s findings about the meaning of the term Provident Fund and the directors’

role in sanctioning rule amendments. The Bank has subsequently appealed the Court of Appeal judgment in respect of backdating rule amendments to benefit current and former members to the Privy Council. The matter is to be heard in mid-June 2003.

The Bank has retained the 10 % maximum contribution rate and a gearing ratio of 1.5 (Bank contribution) to 1 (member contributions) from 1 October 2002 to provide members with additional benefits from the surplus during 2002/03. The Board has since reviewed its proposal put to the Bank to take into account the reduced 2001 surplus and the increased level of Bank contributions in 2002.

The Board and the Bank have had a number of meetings to try to settle the matter without further costly and lengthy Court proceedings. While the discussions have not yet resulted in an agreement, the Board is still in discussions with the Bank.

Rule Changes

During the year the Board made a rule change that allowed a limited window of opportunity for members who had in-service withdrawn from the Division 2 twice before 31 October 2001 to re-join before 31 December 2002. Should a member exercise that option and subsequently complete a further in-service withdrawal they will not be eligible to re-join.

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.

MEMBERSHIP CHANGES

Membership changes for the 2001/2002 scheme year

	Division 1	Division 2	Total	Exit Value \$m
Opening membership 1 November 2001	1	3039	3040	
<i>Plus:</i> New members		600	600	
<i>Less:</i> Resignations		322	322	7.074
Redundancies		50	50	4.449
In-service withdrawals		124	124	5.371
Normal retirements		8	8	1.806
Deaths		2	2	0.093
Partial withdrawals				3.256
Closing membership 31 October 2002	1	3133	3134	22.049

Pensioner changes for the 2001/2002 scheme year

	Pensioners	Widows/ Widowers	Children	In total
Opening pensions at 1 November 2001	181	137	1	319
<i>Plus:</i> New pensions		4		4
<i>Less:</i> Ceased pensions	12	11		23
Closing pensions at 31 October 2002	169	130	1	300

Commentary

During the year ended 31 October 2002 scheme membership as a percentage of eligible members reached the 70% mark.

The demographics of the membership demonstrate that, about:

- 18% of the membership have been in the scheme less than one year, and about 64% of the scheme membership have been members for 5 years or less.
- two thirds of the membership are female.
- 20% of members changed their contribution rate during the year.
- 70% of the membership was located within Auckland and Wellington and Christchurch regions.

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 2002, 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 Mary Patrick (Chairperson)	General Manager, Shared Services New Zealand, Auckland	Appointed June 2001 by the Board of Directors of the Bank	
Christopher John Black	General Manager, Personal Financial Services, Auckland	Since April 1998, nominee of the Chief Executive of the Bank	
Dianne Rita Rump	Head of Customer Value and Sales Delivery, Auckland	Appointed March 2002, by the Chief Executive of the Bank	Replaced Brett Hewson
Rodger John 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	
Charles Layton Roberts	Head of Money Markets, Wellington	Elected October 2002	Replaced Evan Robb
John Francis Switalla	Credit Manager, Canterbury, Nelson/ Marlborough, West Coast, Christchurch	Elected March 1998, re-elected May 2001	
Allan Charles Taylor	Head of Credit Policy & Systems, Credit Risk Management, 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 5412, Wellesley Street, 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 International,
P O Box 13 225, Christchurch

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)

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 Company.
- The request for proposal and appointment

process for the management of the Global Fixed Interest sector replaced BNZIM/Credit Suisse Asset Management with TOWER / PIMCO as of 28 June 2002.

- Review of the scheme Statement of Investment Policy & Objectives and asset allocation (August 2002).
- Process for sale of the BNZ House, Christchurch and BDS Partnership, Wellington properties and setting of guidelines for replacement property purchases.

Strategy and Planning

- Continuation of negotiations with representatives of the Bank in relation to the 'returning the fund to equilibrium'.
- Consideration of a fund strategic direction review.
- Consideration of introduction of Member Choice investment options.

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 2002 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 2002; 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 to 31 October 2002:
 - approx \$92.5m was invested in the BNZ International Equity Index Fund;
 - about \$55m was invested in the BNZ International Bond Fund until 28 June 2002.



Celia Patrick
for and on behalf of the Board



Peter Meggison

ACTUARIAL DECLARATION

The most recent formal actuarial valuation was carried out as at 31 October 2001. 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 Board has received an update from the Actuary since that valuation for the Pensioner and Division 1 liabilities as valued in the financial statements for the year ended 31 October 2002. The directors of the Bank have per the Rules requested a full valuation as at 31 October 2002; it was not completed at time of publishing this report.

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:

- The main components of a net \$11.2m reduction in market values were:
 - o \$30.3m loss in International equities value
 - o \$14.4m gain from the associated currency hedge
 - o \$2.8m gain for Global Fixed Interest portfolio
 - o \$1.1m gain between property transactions and portfolio value
 - o \$0.8m for NZ Equities
- Investment in the Global Fixed Interest (or International Bonds) sector was increased to above a minimum \$75m threshold to attain a segregated portfolio and directly assessable income to reduce a tax asset that was in part attributable to tax losses on sale of two buildings within the property portfolio
- Operating expenses were at about the same level as last year's level with exception of Independent Review costs. An abnormal Independent Review cost item was recorded last year for payment to the Bank of its litigation costs, and this year the Equilibrium category costs were below that of last year. Independent Review costs continued to be taken from the scheme surplus for earning rate purposes.
- Income Tax was an expense, and arose mainly from the gains from currency hedging for the

value of International Equities investment tax losses attributable to the sale of two properties. The difference between sale price and tax value was significant. The International Equities investment was in a product with a 'binding tax ruling' that protects gains from income tax, but which also denies claiming of losses.

- Benefits paid, mainly as Withdrawals for members who left the Bank during the year, were at a level about \$3.6m higher 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 \$21m for the year, inclusive of undistributed earnings for the year, to cover funding of:

Opening	\$104.5m
Less/(plus)	
Bank subsidy	\$15.0m
Pensioner / Division 1 liability adjustments	\$4.3m
Vesting / other values	\$(0.3)m
Undistributed earnings loss for 2002	\$(2.4)m
Independent Review 'costs' net of tax	\$0.2m
	\$2.2m
Closing	\$83.3m

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 29 November 2002 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 and cash-flows for the year ended 31 October 2002, the summarised financial statements should be read in conjunction with the audited financial statements.

KPMG

KPMG
29 November 2002
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 2002

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" in the Rule relating to rule changes, and the powers of the Bank's directors in sanctioning 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 meaning of the Provident Fund depended on the

context in which the term was used and, while the Bank's directors are exercising powers conferred on them by the BNZOPA rules and not the Bank's constitution, the Bank's interests could be considered by directors in determining whether or not to sanction rule amendments. The Court Order sealing the judgment made no reference to the directors being able to take the Bank's interest into account and that part of the judgment was effectively set aside as a comment rather than a ruling of the Court.

After taking legal advice, the Board appealed the judgment to the Court of Appeal.

The Court of Appeal judgment received in April 2002 was that the Board did have the power to backdate changes to the rules and the Fund was as defined in the rules of the BNZOPA.

The Bank has appealed the judgment in respect of the Board's power to backdate changes. That appeal should be heard by the Privy Council in June 2003.

The issue relating to the Bank's litigation costs (including the 2001 High Court costs) was settled during the year at a cost of \$1.2 million, resulting in about a \$0.2million return in value to the surplus from the \$1.375m provisioned (less the tax benefit associated).

There were no other contingent liabilities at 31 October 2002 (2001 nil).

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. This is because 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	\$(6.969)m
Plus / (less):	
Independent Review costs	0.526
Tax effect on Independent Review costs	(0.174)
Bank Court costs adjustment	(0.175)
Tax effect on Bank Court cost adjustment	0.058
Negative earnings for earning rate calculation	\$(6.734)m

STATEMENT OF CHANGES IN NET ASSETS

for the year ended 31 October 2002

	2002 \$(000's)	2001 \$(000's)
Investment Activities		
Investment revenues		
NZ fixed interest & cash interest	4,039	4,147
Interest revenue - Global	908	0
NZ equities dividends and interest	1,284	329
Rent from properties	2,266	3,182
Partnership income	330	360
Changes in net market values		
• Realised Gains / (Losses)	25,838	11,172
• Unrealised Gains	(37,044)	(31,971)
Total investment revenues	(2,379)	(12,781)
Other income		
Miscellaneous income	104	73
Total other income	104	73
Total investment revenues	(2,275)	(12,708)
Less Investment management fees	721	557
Net investment activities	(2,996)	(13,265)
Less Operating expenses		
• Audit fees	21	32
• Other fees paid to Auditors	23	22
Actuarial fees	14	8
Depreciation	11	18
General expenses	79	93
Rental – secretariat office	33	32
Interest expense	1	1
• Independent review costs (see notes)	369	2,193
Other professional fees	136	160
Property expenses	560	648
Staff	223	239
Non-deductible GST	31	120
Total operating expenses	1501	3,566
Net income/(deficit) before tax and membership activities	(4,497)	(16,831)
Income tax expense	2,472	1,836
Net income/(deficit) after tax and before membership activities	(6,969)	(18,667)
Membership Activities		
• Members' contributions	10,970	8,396
Less Benefits paid	27,194	23,631
Net membership activities (decrease)/increase	(16,224)	(15,235)
Net (decrease)/increase in assets	(23,193)	(33,902)
Net assets available to pay benefits at beginning of year	285,137	319,039
Net assets available to pay benefits at end of year	261,944	285,137

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

STATEMENT OF NET ASSETS

as at 31 October 2002

	2002 \$(000's)	2001 \$(000's)
Investments		
Bank deposits	205	6,894
NZ Government stock	26,762	27,727
Other fixed interest investments	11,789	17,476
NZ discounts	3,471	11,425
NZ Equities – Active	34,180	32,382
BNZ International Bond Fund	0	54,244
Global Fixed Interest (TOWER/PIMCO)	75,677	0
BNZ International Equity Index Fund	92,542	103,603
Investment properties	11,360	23,565
Investment in partnership	0	3,730
Forward foreign exchange contracts	(82)	(116)
	255,904	280,930
Other assets		
Bank accounts	33	35
Accounts receivable	10,959	1,902
• Fixed Assets	19	30
Current tax	562	3,802
Deferred tax asset	71	379
	11,644	6,148
Total assets	267,548	287,078
Deduct liabilities		
Accounts payable	5,604	1,941
Total liabilities	5,604	1,941
Net assets available to pay benefits	261,944	285,137
Represented by member liabilities		
• Division 1 & 2	126,365	126,280
• Pension liability	52,287	54,334
• Undistributed earnings – current year	(2,420)	
Scheme surplus	85,712	104,523
	261,944	285,137

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 2002 after allocating earnings for the 2002 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 (DER) 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 that 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, titled 'Investment Guidelines and Performance Reporting' provides detail for the portfolio risks, portfolio and investment managers monitoring and reporting and safe custody arrangement.

