

BANK OF NEW ZEALAND OFFICERS'
PROVIDENT ASSOCIATION

ANNUAL REPORT

FOR THE YEAR ENDED
31 OCTOBER 2003



BANK OF NEW ZEALAND OFFICERS' PROVIDENT ASSOCIATION

THE YEAR IN SUMM

The Board of Management is pleased to present the 116th Annual Report of the Bank of New Zealand Officers' Provident Association.

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

Investments

Earnings

For Division 2 members earnings are allocated on a monthly basis from the performance of the investments held by the fund and since 1 August 2003 that has been specific to the member choice investment option selected by each member.

For the 9 months ended 31 July 2003 the aggregate earnings rate was 4.50%. Member benefit statements were distributed during August for that period.

For the three months ended 31 October 2003, aggregate earning rates for member choice investment options were:

Balanced	2.72%
Cash-Plus	0.68%
Growth	3.52%

Members who joined during the year received an aggregate earnings rate for their period of membership. Tables of rates are shown later in this report.

Asset Allocation

At end of January 2003 a segregated Global Fixed Interest sector investment placed with TOWER changed to an investment in a TOWER product, with investment management still by PIMCO (a US based manager). At that time investment in NZ Fixed Interest was increased. The purpose of the segregated investment had been to obtain assessable taxable income to offset tax losses carried forward. That purpose was satisfied.

The implementation of member choice investment options from 1 August resulted in significant re-balancing of investment assets, to fit with the new option asset allocations.

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

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Scheme Membership

Division 2 – Membership

The number of members in Division 2 was 3233 as at 31 October 2003. That represented an increase of 100 members for the year.

The implementation of member choice investment options did not have significant impact on the scheme membership level.

Member Choice Investment Options

During July communication material was made available to members so that they could elect to invest in one of a Balanced, Cash-Plus, or Growth options. If a member did not elect an option they defaulted to the Balanced option. About 40% of the membership elected to make a choice.

Communications

Issues of a *Proverbial* newsletter were listed on the Bank's intranet after the end of the first, second and third financial quarters.

The Bank intranet was also used as the primary communication medium for publishing information about introduction of member choice investment options. There was also a video made available for showing during a training day in July.

Information about the scheme is listed on the OPA listing on the Bank's intranet. E-mails with links to the listing have been used where possible to introduce new staff to the scheme features and benefits.

Use of the intranet has reduced communication costs substantially. This Annual report, and Member Benefit statements are now the main paper based communications sent to members.

Board of Management

Board

Allan Taylor, a member elected representative since 1994, withdrew from the Board in February and Grant Hill was appointed in March without need for an election, as the only nomination at time an election was due.

The Board of Management wishes to take this opportunity to record a significant contribution made by Allan and thank him for it.

Di Rump, a Bank appointed member, resigned from the Bank and the Board during October. Advice from the Bank of a replacement appointment was awaited at time of writing this report.

Rule Changes

On 23 June 2003 the rules of the OPA were amended to allow the Board, with the prior consent of the Bank, to provide separate investment options for Division 2 Members in accordance with investment guidelines determined by the Board.

Compliance

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

Documentation, such as Annual Report, Actuarial valuation, and amended Rules were lodged with the Government Actuary's office within prescribed timeframes.

Your guide to the "jargon"

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

INVESTMENT PERFORMANCE

For the year ending 31 October 2003

Member Choice Investment options were introduced from 1 August 2003. The options offer three risk profiles, distinguished mainly by greater or lesser exposure to Equities or Fixed Interest sectors. This article considers Equities and Fixed Interest sector results, with a look forward for Global Fixed Interest.

Equities

The table that follows is an update and expansion of one included in the 2002 Annual report:

Gross Returns	%	1997	1998	1999	2000	2001	2002	2003
New Zealand Equities		9.4	-16.4	20.1	-3.5	7.1	7.8	20.8
International Equities		36.7	24.0	32.2	11.6	-23.4	-16.9	15.6
BNZIM product					28.2	-28.2	-27.8	-2.4
OPA hedge					-16.6	4.8	10.9	18.0
\$NZ1 : \$US exchange rate		0.6249	0.5288	0.5119	0.4004	0.4134	0.4831	0.6110

New Zealand Equities sector performance was positive over the last three years, particularly so for 2003. In contrast, movement in the New Zealand dollar had significant influence on the performance of the International Equities sector investment. Strengthening of the New Zealand dollar since about 2000-1, highlighted by the \$NZ:\$US exchange rates per the table above, has resulted in currency translation losses within the product, that were offset to a considerable extent by a Board of Management policy to 'hedge' the effect of currency movements at a level of 75% of the investment value (equivalent to a 50% after tax level). For member choice investment options, the hedge policy applies only to the Balanced option. It can be said that 2003 Equities sector performance improved, with some relief to a run of negative returns for the International sector. The next section touches on a forward outlook.

Global Fixed Interest – a repeat of where International Equities have been?

This section is a reprint of most of an article published by Russell Investment Group (November 2003 edition, Russell Insight newsletter), with their permission. The Russell use of words 'stocks' and 'bonds' may be equated respectively to 'equities' and 'fixed interest' usage elsewhere in this report.

Should We Dump Bonds?

Why ask the question? As market commentators have noted, bond yields in major markets hit 40+

year lows (or in price terms, record highs) in mid-June 2003. Surely prices can only go one way from here – and capital losses will be sustained. Shouldn't something be done to avoid the same devastation in bond portfolios that was experienced in stocks just a couple of years ago?

The question is essentially a tactical one, because it involves a market timing decision. Most investors have a long-term strategy that includes a policy allocation to bonds, global and domestic. Short-term deviations from strategy are tactical in nature. So the question is really whether a tactical allocation away from global bonds is appropriate in the current interest rate environment. The short answer is 'no'.

A tactical move, like any active management decision, requires justification for taking a short-term position. This takes the form of information or forecasting skills that are superior to everyone else's, i.e., superior to the market's.

To decide whether a withdrawal from global bonds is appropriate, the question that really needs to be asked is: Does our view that yields "can only go one way from here" reflect special information? Do we know something the market doesn't know?

If the market is thinking the same way, then this view should already be built into bond prices. In an efficient market, bond prices reflect the market's

consensus view of future interest rates, which themselves take account of expectations concerning how short-term rates will evolve in future. These expectations are priced, in much the same way that a company's future earnings are built into stock prices.

At the moment, it's pretty clear that the global bond market expects short-term rates to rise quite a bit. An example is a difference between a US Fed Funds rate of 1% and a September 2004 futures contracts on the US Fed Funds rates at 1.75%.

Investors also need to be wary of making allocation decisions in isolation. After all, the main rationale for holding bonds is that they moderate the risk of a portfolio. Though it's very hard to forecast the relative performance of stock and bond markets in the short term, we can be very confident that stocks will outperform bonds in the long term, and their returns will tend to be lowly correlated with each other. It's therefore very prudent for all but the most aggressive of investors to have an allocation to bonds. By tactically moving away from bonds, an investor runs the risk of getting timing wrong not only from a return perspective, but from a diversification perspective as well.

Furthermore, economic conditions at the moment reinforce the importance of maintaining one's allocation to bonds. This is because there is so much uncertainty about the future direction of the global economy, and because the valuations by some measures of leading stocks remain fairly high.

Even very aggressive investors should keep some of their investments in bonds given the diversification they bring to a portfolio. As investors face the perennial question of 'bonds versus stocks' the reality is that nothing has changed. A portfolio containing global bonds remains an investor's best defence against an uncertain future investment environment.

At this stage, it is worth taking a moment to consider the motivation for a possible reduction in global bond exposure: low global bond yields.

Although global bond yields are apparently low, it is important to keep in mind that these are expressed in overseas currency terms. When bonds are hedged, their effective yields to maturity in NZD terms increase significantly. Why?

Hedging foreign currency risk essentially involves swapping back into the NZ cash rate from global cash rates. Since our NZ cash rate is quite a bit higher than global cash rates, hedging produces a benefit that bridges the gap. (In theory, hedging itself shouldn't add value in the long term, but it ensures that we capture the differential between NZ and overseas cash rates that should otherwise manifest itself in a declining NZ dollar). So, in NZD terms, the yields we receive on global bonds aren't as low as they may first appear.

In Russell's view, the fact that global bonds yields have reached historic lows provides no rationale for reducing exposures tactically.

Earning Rates Approved

To July

Nov	Dec	Jan	Feb	Mar	Apr	May	June	July
Monthly Earning Rates %								
1.47	(2.29)	(1.52)	(0.84)	1.68	2.38	2.22	1.44	(0.01)
Aggregate %								
1.47	(0.85)	(2.35)	(3.18)	(1.55)	0.79	3.03	4.51	4.50
Part year Aggregate % (for members joining in the heading month of 2002/3)								
4.50	2.99	5.40	7.03	7.93	6.15	3.68	1.43	(0.01)

Note: Member Benefit statements were distributed in August for the 9 months ended 31 July

Since Implementation of Member Choice Investment Options

	Balanced		Cash-Plus		Growth	
	Month	Aggregate	Month	Aggregate	Month	Aggregate
August	1.39	1.39	0.16	0.16	2.72	2.72
September	0.60	2.00	0.56	0.72	0.01	2.73
October	0.71	2.72	(0.04)	0.68	0.77	3.52

Investment Sector Returns compared with targets

The scheme has a formal Statement of Investment Policy and Objectives. It is reproduced at the end of the report. It was amended during the year for the introduction of member choice investment options.

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 paragraphs that follow

Asset sector	Proportion of Assets			Index for performance measurement	RETURN % (before tax & expenses)		
	Option	Bench-mark	Actual		Index	Actual	Differ.
New Zealand shares <i>Invested as an 'active' style mandate with TOWER Asset Management</i>	Balanced	10	10.8	NZSE40	15.4%	20.8%	5.4%
	Cash-Plus	-	-				
	Growth	25	25				
Overseas shares <i>Invested in BNZ International Equity Passive Index Fund –75% hedged for the Balanced choice option only</i>	Balanced	30	31.2	MSCI Grey List (NZD) (75% hedged)	16.4%	15.6%	(0.8)%
	Cash-Plus	-	-				
	Growth	50	50.1				
Global fixed interest <i>Invested with TOWER –in a unit trust product since February 2003, managed by PIMCO</i>	Balanced	20	20.1	Lehman Bros Global Aggregate Index (NZD) - hedged	8.1%	9.7%	1.6%
	Cash-Plus	20	19.8				
	Growth	12.5	12.5				
NZ fixed interest <i>Invested in a mix of Govt. and corporate bonds, and discounted securities; with Alliance Capital Management</i>	Balanced	20	22.5	Credit Suisse First Boston Govt Stock Gross	6.3%	6.9%	0.6%
	Cash-Plus	20	17.4				
	Growth	10	8.0				
Cash <i>Managed by Alliance Capital Management</i>	Balanced	10	10.7	CS First Boston NZ Capital - 90 day Bill	5.7%	5.6%	(0.1)%
	Cash-Plus	60	62.8				
	Growth	2.5	4.4				
Property <i>A portfolio of 4 commercial properties</i>	Balanced	10	4.7	Watson Wyatt iPs	12.6%	11.8%	(0.8)%
	Cash-Plus	-	-				
	Growth	-	-				

Matters impacting on sector returns

New Zealand Equities

When compared to the NZSE40 Gross index return for the year of 15.4%, actual performance at 20.8% was satisfying, although it is to be noted that the manager is expected to outperform the index by 3%. For the period to October 2003 from August 2001, when TOWER were awarded the mandate, the out-performance level achieved has been about 2% per year.

The Investment sub-committee of the Board of Management decided to continue with the NZSE40 as the performance index, in comparison to the NZSE50 index favoured by the NZ Stock Exchange, although that may be reviewed again in the new-year.

New Zealand Fixed Interest /Cash

The return for the year for Fixed Interest was above benchmark although slightly below the out-performance level expected above benchmark (or index) of 0.75%.

Because AXA ceased to provide custodian services to Alliance Capital from 31 March 2003, a separate custodian arrangement was put in place from April 2003 with National Custodian Services (a subsidiary of National Australia Bank), at extra cost to the Association.

The Investment sub-committee began a triennial review of the investment management of the sectors beginning in May, which led to requests for proposals and presentations from three managers during September. At time of publication of this report the committee was negotiating a final outcome.

Global Fixed Interest

Until end of January 2003 a segregated portfolio at a level of about \$78 million was held so that assessable income could be accessed to reduce tax losses. With that achieved the investment for the sector was reduced to about \$55 million and moved into a TOWER unit trust product that has the same management and structure as the segregated portfolio.

Performance for the year was above the benchmark level but the level was well below that of last year, mainly because of lower interest rates.

International Equities

The return for the sector improved in comparison to 2001 and 2002 to give a positive return. The investment for the sector is 'hedged' at a level of 75% of the investment. Since implementation of member choice investment options from 1 August 2003, that applies only to the Balanced option.

Analysis of the return between the product and the hedge results showed that the product return was (2.4)% and the hedge return 18%. That translates mainly as a currency loss within the product (that cannot be specifically identified) from continued strengthening of the New Zealand dollar, particularly against the US dollar, that was offset about 75% by the hedge on a pre-tax basis.

The below benchmark performance was mainly a consequence of the hedge level varying slightly from benchmark.

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

An explanation of hedging may be found in the Glossary.

Property

The portfolio was under neutral asset allocation level for the year as suitable properties could not be found that would provide attractive returns. A number of offers were submitted, all for Auckland located properties. At year-end the properties held were all leased, although the lease for Neilson Street, Onehunga, was short-term. The value difference between actual allocation at about 5% and target of 10% of assets was invested in the NZ Fixed Interest / Cash sectors.

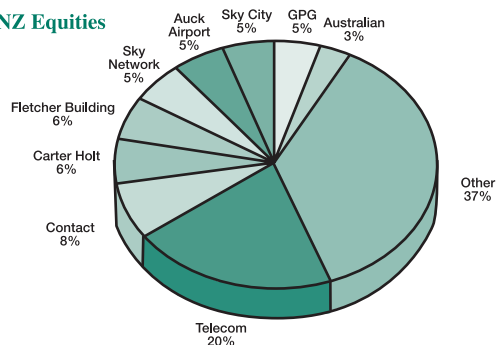
How Your Funds Were Invested

The charts that follow for the main asset sectors, outline how the scheme's funds were invested within the sectors as at 31 October 2003. Separate bar graphs show what performance returns have been for the last five years. The International Equity investment is in a BNZ Investment Management wholesale superannuation fund product, and the Global Fixed Interest investment is in a TOWER Asset Management unit trust product.

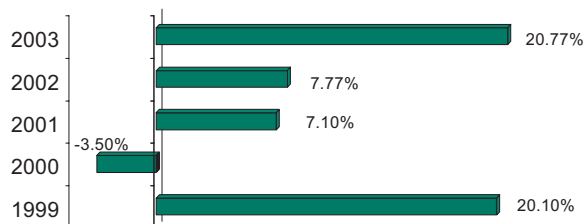
Hedging - Currency risk arises when an investor acquires assets that are denominated in a foreign currency. By their nature, future currency rates cannot be predicted with certainty. As a consequence future returns in the 'home' currency are less predictable. For the fund, a hedge is a forward currency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

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

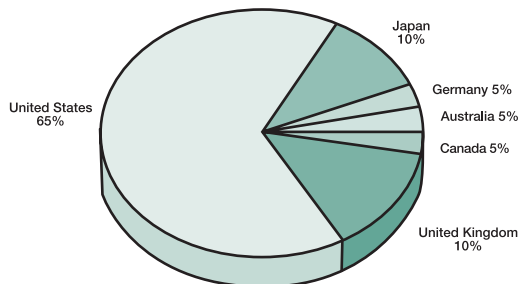
NZ Equities



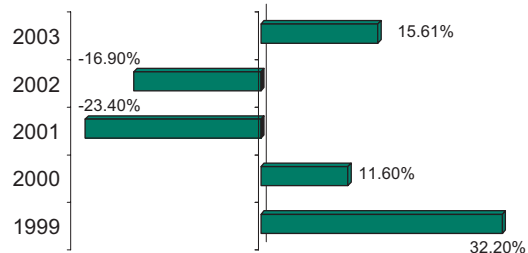
NZ Equities Returns 1999-2003



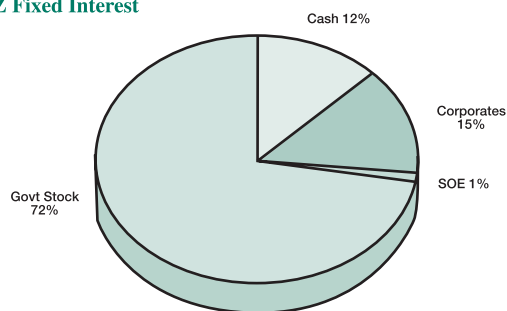
International Equities



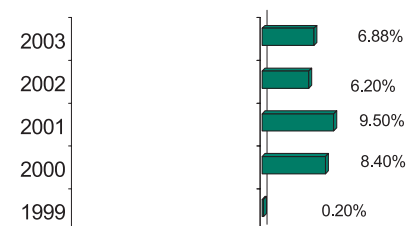
International Equities Returns 1999-2003



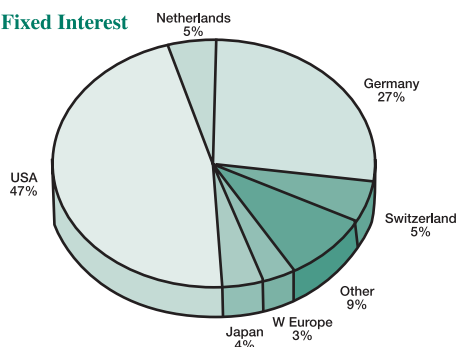
NZ Fixed Interest



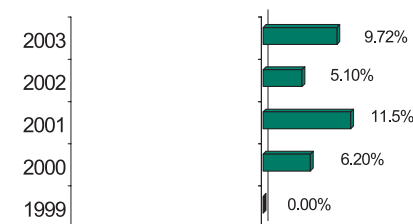
NZ Fixed Interest Returns 1999-2003



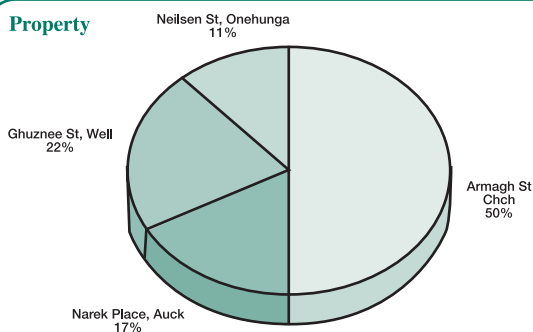
Global Fixed Interest



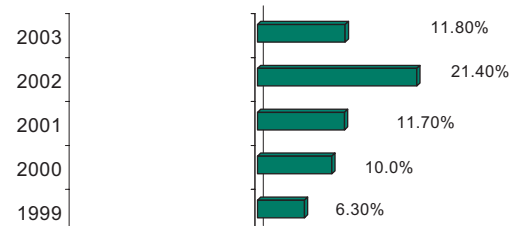
Global Fixed Interest Returns 1999-2003



Property



Property Returns 1999-2003



WARNING – past performance should not be taken as an indicator of future performance

KEY ISSUE

Returning the Fund to Equilibrium

The rules of the BNZOPA require the Board to take action to ensure the equilibrium of the Fund. The Fund has a current surplus of \$73.2 million. The surplus arose in 1986 as a consequence of very high investment returns in that year resulting in a surplus of \$219 million. Notwithstanding the decline of the share-market in 1987, the Fund introduced a number of benefit improvements for members and pensioners in 1988. In April 1990, the Bank commenced a contribution holiday and by 1990, the surplus had declined to approximately \$189.8 million.

In 1990, the scheme was restructured to provide a lump sum benefit rather than a pension benefit. Members were offered an opportunity to transfer to the new cash accumulation division (Division 2) with a transfer value to reflect the value of the entitlement they had accrued in the pension-based scheme (Division 1). Subsequent to the introduction of the new division, the Board offered to commute the pensions swapping the fortnightly pensions for a lump sum. Neither the transfer values offered in the restructuring of the member benefits nor the commutation of the pensions involved a significant distribution of surplus to the members or the pensioners. However, the 1990 Board adopted a practice of distributing the earnings on the surplus assets to the members. At 31 October 1994, the surplus stood at \$144.3 million.

In 1994, following member unrest with some aspects of the 1990 scheme restructuring, the Board commenced a review with independent legal and actuarial advisors of the restructuring. As a consequence of that review, the surplus was reduced by adjustments totaling \$31.85 million made to the transfer values of some members. That led to the Bank in late 1995 challenging the legality of the Board's practice of distributing the earnings on the surplus to the members. The Board was unsuccessful in the defence of its earnings practice in Court proceedings and in September 1999 conceded defeat. Without the distribution of the earnings on the surplus from 1 November 1995, the surplus began to rise and was \$124.4 million as at 31 October 1999, compared to \$107.4 million in 1995).

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.

The Board then had to pursue a different means of returning the Fund to equilibrium and in November 1999 it put a number of concepts to the Bank for improved member and pensioner benefits to return the Fund to equilibrium. After spending a year unsuccessfully trying to seek an agreed resolution to the matter, the Board provided a set of rule amendments to the Bank directors for sanction in November 2000.

The proposal involved providing a backdated benefit in respect of the 1996 to 2000 period and a specified maximum level of surplus to return the Fund to equilibrium in 2015. In early 2001, the directors challenged the lawfulness of the rule amendments, which provided backdated benefit improvements and Court proceedings were filed in April 2001 to clarify that legal issue. The High Court found the amendments to be unlawful. The Board appealed that judgment to the Court of Appeal who found the amendments to be lawful. The Bank then appealed the judgment to the Privy Council but later conceded that rule amendments for current members were lawful. In July 2003, the Privy Council found the amendments for former members to be lawful.

However, there were a number of events, which occurred in the 2000 – 2002 period, which required the Board to review the appropriateness of its proposed member benefits. These included, in particular, the Fund making losses in 2000/01 and 2001/02 and enhanced member and pensioner benefits announced in August 2001 and applied since. By 31 October 2003, the surplus had declined to \$73.2 million.

After reviewing its proposal and downscaling the value of the member benefits it considered appropriate, the Board approached the Bank in September 2003 seeking an agreed resolution. The Board believes that members and pensioners should receive an equitable share of benefits from the surplus for as long as the Bank enjoys a contribution holiday and current and former members should be treated alike in respect of benefits for historical periods. The proposal contains both backdated benefits for the 1996-2001 period and benefits for the 2005-2009 period. At the time of preparing this report, the Board was still discussing matters with the Bank to try to achieve an agreed outcome.

MEMBERSHIP CHANGES

Membership changes for the 2002/2003 scheme year

	Division 1	Division 2	Total	Exit Value \$m
Opening membership 1 November 2002	1	3133	3134	
<i>Plus:</i> New members		620	620	
<i>Less:</i> Resignations		291	291	6.133
Redundancies		46	46	3.576
In-service withdrawals		174	174	7.935
Normal retirements		8	8	0.492
Deaths		1	1	0.004
Partial withdrawals				4.271
Closing membership 31 October 2003	1	3233	3234	22.411

Pensioner changes for the 2002/2003 scheme year

	Pensioners	Widows/ Widowers	Children	In total
Opening pensions at 1 November 2002	169	130	1	300
<i>Plus:</i> New pensions		5		5
<i>Less:</i> Ceased pensions	6	8	1	15
Closing pensions at 31 October 2003	163	127	-	290

Commentary

Although membership number increased by 100, as a percentage of Bank staff eligible to join there was no movement; that remained at about 70%. The implementation of member choice investment options had little effect on membership numbers. The volatility of investment returns for the first half of the year was a contributing factor to an increase in the number and value of in-service withdrawals compared to the previous year.

At 31 October 2003 analysis of member choice investment options by membership numbers was:

Balanced	82%
Cash-Plus	11%
Growth	7%

The split by member benefit entitlements was similar.

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 2003, 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	Group General Manager, National Quality, Auckland	Since April 1998, nominee of the Chief Executive of the Bank	
Appointment awaited		To be appointed by the Chief Executive of the Bank	To replace Di Rump, who resigned in September 2003
Rodger John Murphy	Head of Governance and Process, Wealth Management, National Australia Group, Sydney, Australia	Appointed January 2000, by the Board of Directors of the Bank	
Member-elected representatives			
Grant Andrew Hill	Head of Product Management, Bank of New Zealand Investments & Insurance, Wellington	Elected March 2003	Replaced Allan Taylor who left the Board in February 2003
Peter Alan Meggison	District Sales Manager, Package Business Auckland, Auckland	Elected May 1999, re-elected May 2001	
Charles Layton Roberts	Head of Money Markets, Wellington	Elected October 2002	
John Francis Switalla	Credit Manager, Canterbury, Nelson/ Marlborough, West Coast, Christchurch	Elected March 1998, re- elected May 2001	

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 St, Auckland

Auditors:

KPMG, P O Box 996, Wellington

Solicitors

David Chapman Law, P O Box 10 614, Wellington
– from 1 January 2003

Buddle Findlay, P O Box 2694, Wellington –
to 31 December 2002

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

Russell Investment Group Limited,
P O Box 105-191, Auckland (formerly Frank
Russell Company)

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 are 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, with the second extended to cover implementation of Member Choice Investment Option processes. No matters for concern were reported.
- Negotiation of the annual audit programme.

Investment

- Monitoring investment performance (quarterly) and strategy in association with Russell Investment Group
- A process for the review of the management of the New Zealand Fixed Interest/ Cash sectors; no change had been recommended as of 31 October 2003.
- Review of the scheme Statement of Investment Policy & Objectives, asset allocation, and associated matters for implementation of member choice investment options

Strategy and Planning

- Continuation of negotiations with representatives of the Bank in relation to the 'returning the fund to equilibrium'
- Co-ordination of communication and administration processes for implementation 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 2003 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 2003; and

- advises that more than 10% of the market value of the OPA's assets were invested with Bank of New Zealand Investment Management Limited during the year as follows at 31 October 2003:
 - approx. \$80m was invested in the Bank of New Zealand International Equity Index Fund



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 2002. The valuation revealed that the fund was in a sound position with an actuarial surplus of approx. \$83.2m. The actuary advised it was appropriate for the Bank to continue its contribution holiday until the next actuarial review. (i.e., the Bank's subsidy could continue to be 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 2003.

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@extra.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

Cyril Bray, Administration Officer

Tom Clark, Project Manager

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

- Full set of financial statements
- the OPA's Investment Statement
- recent Annual Reports
- the OPA's registered Prospectus
(registered on 28 April 2003 and amended by Memorandum of Amendments dated 25 June 2003)

- 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.

AUDITORS' REPORT

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

We have audited the summary financial report of the Association for the year ended 31 October 2003 as set out on pages 14 to 17.

Responsibilities of the Board and Auditor

The Board is responsible for the preparation of a summary financial report in accordance with generally accepted accounting practice in New Zealand. It is our responsibility to express to you an independent opinion on the financial report presented by the Board.

Basis of Opinion

Our audit was conducted in accordance with New Zealand Auditing Standards and involved carrying out procedures to ensure the summary financial report is consistent with the full financial report on which the summary report is based. We also evaluated the overall adequacy of the presentation of information in the summary financial report against the requirements of FRS-39: *Summary Financial Reports*.

Our firm carries out other assignments for the Association in the area of management assurance and taxation advice. These matters have not impaired our independence as auditors of the Association. The firm has no other relationship with, or interest in, the Association.

Unqualified Opinion

In our opinion, the information reported in the summary financial report complies with FRS-39: *Summary Financial Reports* and is consistent with the full financial report from which it is derived and upon which we expressed an unqualified audit opinion in our report to the members dated 25 November 2003.

We completed our work for the purposes of this report on 25 November 2003.



KPMG
Wellington

ABRIDGED FINANCIAL SUMMARY

The financial statements for the Bank of New Zealand Officers' Provident Association are shown in abridged form and should be read in conjunction with Notes 1 to 3 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

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. 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 and the meaning of the Provident fund depended on the context in which the term was used.

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 appealed the judgment in respect of the Board's power to backdate changes to the Privy Council. The Bank later withdrew its appeal insofar as it concerned the Board's power to backdate changes for current members. The Privy Council heard the appeal relating to backdating changes for former members in June 2003. In July 2003, the Privy Council released its judgment, dismissing the Bank's appeal and awarding the Board costs. Costs were subsequently settled, with the Bank agreeing to pay the Board the sum of \$120,000.

With the Court judgments having confirmed that rule amendments containing backdated benefit improvements for current and former members are lawful, the legal issues raised by the directors and the Bank have now been resolved.

In accordance with the Privy Council judgment, the Board has reviewed the rule amendments it put to the directors in November 2000 to take into account changes in the actuarial and financial situation of the Fund and the provision of improved member benefits introduced in October 2001. In September 2003, it presented an amended proposal to improve member benefits to the Bank for discussion and in November 2003 had rule amendments ready to present to the directors for their sanction. Further details will be released when agreement has been reached with the Bank.

There were no other contingent liabilities at 31 October 2003 (2002: 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 income after tax. For the calculation of the earning rates applied to member entitlements these (tax effected) costs have been added back to the net income / deficit after tax from 1 May 2001. This is because the costs were incurred in relation to Independent Review matters and should not therefore impact on the earning rate calculations for the current year. For the earning rate calculations the net income was adjusted as:

Financial statement net income after tax	\$17.773m
Plus / (less):	
Independent Review costs	0.474
Tax effect on Independent Review costs	(0.157)
Reimbursement from Bank of court costs	(0.120)
Tax effect on Bank reimbursement	0.040
Earnings for earning rate calculations	\$18.010m

NOTE 3 - Vested Benefits

Vested benefits are the rights to which, under the conditions of the Association, are not conditional on continued membership.

The total vested accrued liability was \$175.6million, compared to assets of \$261.9 million, per the actuarial valuation as at 31 October 2002. The difference (\$86.3 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. The equivalent total vested accrued liability at 31 October 2003 was \$190.0 million, compared to assets of \$263.3 million.

FINANCIAL PERFORMANCE

Key results shown in the financial statements that follow include:

- The main revenue contributors were:
 - currency gains from the hedge associated with the International Equities investment of about \$15m offset by product losses of about \$2.5m
 - increase in value of NZ Equities sector investments of about \$4m
 - Global Fixed Interest sector gains of about \$4.8m
- Operating expenses were around the same level as last year (and budgets) with main exception of Property expenses, which were lower because of sale of two buildings last year. An abnormal Independent Review cost was recorded for recovery of court costs from the Bank of \$0.12m.
- Income tax expense at about \$8.6m, mainly from the International Equities associated hedge, Global Fixed Interest, and NZ Equities sector gains. Provisional tax payments totalling \$6.5m were paid during the year.

- Benefits paid, and contributions received were at about last year levels.
- There was significant re-balancing of investment assets at end of July for implementation of member choice investment options, which saw lower level of investment in International Equities and higher Fixed Interest / Cash sector investments.
- The scheme surplus, shown under Member Liabilities reduced in value during the year, mainly to fund the Bank subsidy allocated to members.

Transactions affecting the surplus summarised as:

Opening value	\$83.3m
Plus / (less)	
Bank subsidy allocation	(15.5)
Pensioner / Division 1 adjustments	(0.4)
Vesting fall back from exits	0.7
Undistributed earnings 2003	5.1
Closing value	\$73.2m

STATEMENT OF CHANGES IN NET ASSETS

for the year ended 31 October 2003

		2003 \$(000's)	2002 \$(000's)
Investment Activities			
Investment revenues			
	NZ Fixed Interest & Cash revenue	4,367	4,039
	Global Fixed Interest revenue	207	908
	NZ Equities dividend & interest	1,296	1,284
	Rent from properties	1,197	2,266
	Partnership income	-	330
	Changes in net market values		
	Realised Gains / (Losses)	14,724	25,838
	Unrealised Gains	6,366	(37,044)
	Total investment revenues	28,157	(2,379)
Other income			
	Miscellaneous income	57	104
	Total other income	57	104
	Total investment revenues	28,214	(2,275)
	Less Investment management fees	719	721
	Net investment activities	27,495	(2,996)
Operating expenses			
	Audit fees	23	21
	Other fees paid to Auditors	24	23
	Actuarial fees	12	14
	Bad debts	-	1
	Depreciation	7	11
	General expenses	88	79
	Rental – secretariat office	33	33
	Interest expense	12	1
	Independent review costs (see notes)	409	369
	Other professional fees	165	136
	Property expenses	73	560
	Staff	245	223
	Non-deductible GST	37	31
	Total operating expenses	1,128	1,501
	Net income/(deficit) before tax and membership activities	26,367	(4,497)
	Income tax expense	8,594	2,472
	Net income/(deficit) after tax and before membership activities	17,773	(6,969)
Membership Activities			
	Members' contributions	11,065	10,970
	Less Benefits paid	27,524	27,194
	Net membership activities (decrease)/ increase	(16,459)	(16,224)
	Net (decrease)/increase in assets	1,314	(23,193)
	Net assets available to pay benefits at beginning of year	261,944	285,137
	Net assets available to pay benefits at end of year	263,258	261,944

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

STATEMENT OF NET ASSETS

as at 31 October 2003

	2003 \$(000's)	2002 \$(000's)
Investments		
Bank deposits	11,635	205
NZ Government stock	41,179	26,762
Other fixed interest investments	8,736	11,789
NZ discounts	31,280	3,471
NZ Equities – Active	28,550	34,180
Global Fixed Interest (PIMCO/TOWER)	52,582	75,677
BNZ International Equity Index Fund	79,910	92,542
Investment properties	11,508	11,360
Forward foreign exchange contracts	(56)	(82)
	265,324	255,904
Other assets		
Bank accounts	35	33
Accounts receivable	1,024	10,959
Fixed Assets	13	19
Current tax	-	562
Deferred tax asset	-	71
	1,072	11,644
Total assets	266,396	267,548
Deduct liabilities		
Accounts payable	1,777	5,604
Current tax	248	-
Deferred tax liability	1,113	-
Total liabilities	3,138	5,604
Net assets available to pay benefits	263,258	261,944
Represented by member liabilities		
Division 2	138,839	126,282
Division 1 & Pension liability	51,185	52,370
Undistributed earnings – current year	5,121	
Scheme surplus	68,113	83,292
	263,258	261,944

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

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

Division 2 Liability - represents the accumulation of individual member balances recorded in the Association's membership system (Rapps) at 31 October 2001 after allocating earnings for the 2003 year.

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

The amount of earnings remaining in the Fund after allowing for allocation of earnings to members, interim earnings paid to exited members and the pensioner / division 1 liability.

STATEMENT OF CASH FLOWS

as at 31 October 2003

	2003 \$(000's)	2002 \$(000's)
Net cash flows used in operating activities	(17,270)	(10,616)
Net cash flows from investing activities	17,272	10,614
Net increase / (decrease) in cash held	2	(2)
Add opening cash brought forward	33	35
Closing cash carried forward	35	33

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 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, which was established over 100 years ago, operates under an Act of Parliament, the Bank of New Zealand Officers' Provident Association Act, 1971 (the Act).

The primary purpose of the scheme now is to receive, manage, and administer contributions from members and subsidy from the Bank of New Zealand (the Bank), and to pay benefits, in accordance with the Rules. The Rules were last amended on 23 June 2003.

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).

Board members are either elected by the members or 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 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.

Investment Objectives

The objectives that follow are for three member choice investment options, Growth, Balanced and Cash-Plus. Introductory wording is provided as a brief description of each.

Growth

The objective is to maximise returns over the medium term through equities investments acknowledging there may be wide variations in returns in individual years.

Assets of the scheme will be invested for this option in a manner that will maximise the expected long-term after-tax returns to members electing this option, 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 four.
- suffering a capital loss over any five year period is limited to no greater than one chance in twenty.
- 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 four.

Balanced

The objective is to provide consistent returns over the medium term (5-7 years) from both income and capital growth.

Assets of the scheme will be invested for this option across a diversified mix of asset classes in a manner that will maximise the expected long-term after-tax returns to members electing this option, 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 a hundred.
- 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.

Cash Plus

The objective is to maintain a positive return in each year. The prospect of a negative return is considered to be very low.

Assets of the scheme will be invested for this option in a manner that will minimise the prospect of negative returns to members electing this option, 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 three hundred and fifty.
- suffering a capital loss over any five year period is limited to no greater than a chance of nil.
- experiencing a return below that of cash in any one year is limited to no more than one chance in two.
- experiencing a return below that of cash over a five year period is limited to no more than one chance in three.

The four constraints on the risk of each option 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 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. 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 portfolios 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 BOM's responsibilities under common law and statute must be met, except where otherwise excluded within the Rules.

