

BANK OF NEW ZEALAND OFFICERS'  
PROVIDENT ASSOCIATION

# ANNUAL REPORT

FOR THE YEAR ENDED  
31 OCTOBER 2004



BANK OF NEW ZEALAND OFFICERS' PROVIDENT ASSOCIATION

# THE YEAR IN SUMMARY

The Board of Management (BOM) is pleased to present the 117th Annual Report of the Bank of New Zealand Officers' Provident Association.

This and the following page provide brief highlights for the year. More detailed information on some matters mentioned can be found on subsequent pages of this report.

## Investments

### *Earnings*

For Division 2 members' allocation of earnings is on a monthly basis, usually about 10 days after the month end and specific to the member choice investment option selected by each member.

For the year ended 31 October 2004, aggregate earning rates for member choice investment options were:

Balanced	6.22%
Cash-Plus	4.41%
Growth	3.79%

Members who joined during the year received an aggregate earnings rate for their period of membership. Tables of rates are shown elsewhere in this report for monthly and year to date periods.

## Scheme Membership

### *Division 2 – Membership*

The number of members in Division 2 was 3205 as at 31 October 2004. That represented about 70% of the Bank staff eligible to join the scheme.

### *Member Choice Investment Options*

During March communication material was made available to members so that they could elect to 'switch' between one of a Balanced, Cash-Plus, or Growth options. Less than 10% of the membership elected to switch options as of the effective date of 3 May.

### *Communications*

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

Information about the scheme is listed under a BNZOPA heading accessed from the Bank's intranet homepage. E-mails with links to the information have been used where possible to introduce new staff to the scheme features and benefits.

There were a number of update communications issued during the year about progress on Independent Review matters. The distribution list to former members was refined during the year, to those who left the scheme after 31 October 1995 and who had been members during the period 1 November 1995 to 31 October 2001.

## Board of Management

### *Board*

Peter Meggison, a member elected representative since 1999, resigned from the Bank and from the BOM in February 2004.

Alan Strang joined the BOM in March 2004 to replace Peter without need for an election, as he was the only nomination for the position.

Contents	Page				
Independent Review Project –		Members of the Board	12	Actuarial Declaration	14
Resolution of Special Benefits	4	Advisors to the Board	13	Further Information	15
Investment Performance	5	Board of Management		Financial Performance	15
Membership Changes	11	Subcommittees	13	Auditors' Report	16
		Declaration by the Board	14	Abridged Financial Summary	16

John Switalla was re-elected unopposed at the same time.

Rodger Murphy, a member appointed by the directors of the Bank, who had moved to Australia, was replaced by Conrad Wilkshire during February 2004.

The Board of Management wishes to take this opportunity to record significant contributions made by Peter and Rodger and thank them for it.

The Chief Executive of the Bank appointed Nigel McMahon, General Manager Risk Management NZ to the BOM as from 30th November 2004.

#### *Rule Changes*

There were no amendments to the Rules during the year. However, amendments are anticipated to cover 'Special Benefits' which will be allocated to members for periods of 1996-2001 and 2005-2009. A booklet about the 'Special Benefits' was sent to members and former members (1996-2001 period) during November 2004.

#### *Independent Review Project*

During the year the BOM negotiated a settlement with the Bank about management of the scheme surplus funds that should result in historic special benefits for a 1996-2001 period and future special benefits for a 2005-2009 period. More detail may be found under a feature article 'Independent Review Project – Resolution of Special Benefits'. The BOM regards the settlement as a milestone achievement.

## Compliance

The Prospectus was replaced and Investment Statement updated as of 30 April 2004. There were changes to the Securities Act during April that exempted most employer based superannuation

schemes from the requirement to issue a Prospectus. The Association has been in discussion with the Securities Commission regarding the exemptions that at this stage do not appear to apply to the Association. Therefore, in the meantime the Association will continue to issue a Prospectus.

#### *Sarbanes-Oxley Act impact*

The Sarbanes-Oxley Act is US legislation implemented after the accounting and governance scandals of a few years ago. National Australia Bank (NAB), the parent of Bank of New Zealand must comply with this legislation. As a consequence there has been a view that the Association is an 'affiliate' of NAB. In terms of Sarbanes-Oxley it is best practice for the restrictions to be placed on other work an auditor may carry out for an organization.

Whilst the Association does not consider it is an affiliate of NAB this resulted in delay in the engagement of KPMG for interim audit and tax advisory work.

#### *Auditor*

KPMG have signalled they will be resigning as Auditor. They have also resigned as auditor for the Bank. The replacement auditor for the Bank is Ernst & Young. The BOM has yet to make a decision on appointment of a replacement auditor.

KPMG may be retained for tax advisory services.

#### *Accounting standards*

International changes to accounting standards are not expected to impact particularly on reporting by the Association.

It is probable that the Association will adopt 'early reporting' to the new standards which will require any changes to be in place within the financial systems for next year-end.

#### 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.*

# INDEPENDENT REVIEW PROJECT – RESOLUTION OF SPECIAL BENEFITS

During 2004, the BNZOPA Board of Management was pleased to be able to conclude a settlement with the Bank on the management of the surplus funds of the BNZOPA until the end of 2009. That settlement includes additional benefits for members and former members for the historic period from 1 November 1995 to 31 October 2001 and for the future period from 1 November 2004 to 31 October 2009.

This settlement comes after years of dispute, numerous Court proceedings and a difference of opinion as to who should benefit from the surplus funds. Following approaches from the Board to the Bank, the two parties met in June 2004 in mediation and agreed a settlement which will see all parties benefiting from the surplus until 2009 when it is expected that the Fund will be in equilibrium. The settlement is detailed in a binding Memorandum of Agreement executed by the Board and the Bank after the close of the financial year. Rule amendments to enable the settlement to be implemented were approved by the Board and sanctioned by the directors of the Bank following the close of the financial year.

## *Highlights of the Settlement*

The settlement provides for:

- a new buffer equivalent to 20% of the value of the pension liability. This is to further enhance the security of the pension liability and reduce the prospects of having to draw on the Bank to fund the liability;
- a contribution holiday for the Bank based on a maximum salary rate of 7% and a gearing of 1 times eligible member contributions until 31 October 2009 subject to there being sufficient surplus funds to fund the buffer and the contribution holiday;
- Special Member Benefits to a maximum of \$25 million subject to there being sufficient surplus funds to fund the buffer, the contribution holiday and the Special Member Benefits; and
- An undertaking to discuss the use of any remaining surplus at 31 October 2009.

## *The Memorandum of Agreement*

The Memorandum of Agreement details:

- How the BNZOPA surplus can be used;
- How the Bank contribution salary percentage and gearing ratio are to be set for the 2005 to 2009 period;

- How the amount of surplus to be released for the 2005 to 2009 period for Special Member Benefits is to be determined;
- How the Special Member Benefits are to be allocated to members and former members; and
- How any changes made to Bank practices which could impact on the level of special Member Benefits are to be managed.

## *Bank Contribution Levels for the 2005 to 2009 Period*

The Bank contribution levels for the 2005-2009 period will be a maximum rate of 7% of salary and a 1:1 gearing ratio between member and Bank contributions, unless exceptional financial circumstances require those levels to be varied. The Agreement details how those levels can be varied.

## *Value of Special Member Benefits*

The Special Member Benefits totalling up to \$25 million will be distributed at the rate of \$5 million for each of the years ending 31 October 2005 to 2009, subject to there being sufficient funds to meet that distribution. If the Fund is unable to meet the full distribution of \$5 million per year, then as much as can be distributed will be distributed to members. Any deficiency will be made up in future years if there are sufficient funds in the surplus to allow the deficiency to be recovered.

There is no guarantee that \$25 million of Special Member Benefits will be distributed.

## *Historic and Future Special Benefits*

Half the annual amount of surplus distributed as Special Member Benefits will be allocated for the historic period from 1 November 1995 to 31 October 2001 and half for the future financial year to which the allocation relates.

## *Allocation of Historic Special Benefits to Members*

The Historic Special Benefit is to be divided equally between the six historic years ending 31 October 1996 to 2001 and will be allocated to those who were members for all or some time during those years on the following basis:

- 1/3rd based on regular member contributions and Bank contributions made during each year;
- 1/3rd based on the 31 October balances of members current at that date and the accrued benefit entitlement at the date of withdrawal for those who withdrew during each year; and

- 1/3rd to those who were current members at 31 October each year.

Historic Special Benefits are payable to former and current members, A change in membership status does not change the eligibility to receive a Historic Special Benefit.

In respect of small Historic Special Benefits entitlements, the Board can decide in 2005 to :

- Not pay any Historic Special Benefits that would have an aggregate value over the five years of payment of less than \$25; and
- Capitalise the value on any Historic Special Benefits that would have an aggregate value over the five years of payment of less than \$500 and pay a discounted amount in respect of those amounts. The Historic Special Benefits of remaining members would be reduced in 2005 to allow for the capitalised amount but increased in subsequent years to recover that reduction.

### *Allocation of Future Special Benefits to Members*

The Future Special Benefits will be allocated to those who were members at some time during the year in review based on the level of Bank contributions credited to a member during the year. Members who withdraw during a year will be eligible for a Future special Benefit in respect of the year in which they withdraw.

### *Withdrawal of Special Member Benefits*

Current members will have the right to withdraw the amount of Special Member Benefits allocated to them in a year at a date to be established by the Board. If a member does not elect to withdraw that benefit, it will be compounded into their balances and only be accessible through the standard withdrawal options. Former members will have their Historic Special Benefits direct credited to them each year.

## INVESTMENT PERFORMANCE

### Earnings Rates by month for Member Choice Investment Options

The first two columns under each investment option in the table show the earning rate allocated to members for a month and a year to date period. The third column under each option gives an aggregate (aggr.) rate for members who joined during the year, by reference to the line that matches the month of joining.

	Balanced option			Cash-Plus option			Growth option		
%	Month	YTD Aggr.	Part year Aggr.	Month	YTD Aggr.	Part year Aggr.	Month	YTD Aggr.	Part year Aggr.
November 2003	(0.06)	(0.06)	6.22	0.24	0.24	4.41	(1.36)	(1.36)	3.79
December	1.93	1.87	6.28	0.53	0.77	4.16	2.40	1.01	5.21
January 2004	0.42	2.30	4.27	0.26	1.03	3.62	(0.08)	0.93	2.75
February	0.29	2.59	3.83	0.51	1.55	3.35	(0.70)	0.22	2.83
March	1.38	4.01	3.53	0.47	2.03	2.82	2.98	3.21	3.55
April	0.72	4.76	2.12	(0.07)	1.95	2.34	2.45	5.74	0.56
May	(0.23)	4.52	1.39	0.22	2.18	2.41	(0.95)	4.73	(1.85)
June	0.90	5.46	1.62	0.29	2.48	2.19	1.27	6.06	(0.91)
July	(0.41)	5.03	0.72	0.35	2.83	1.89	(0.94)	5.06	(2.15)
August	(0.07)	4.95	1.13	0.59	3.44	1.54	(1.29)	3.71	(1.22)
September	0.58	5.56	1.20	0.41	3.86	0.94	0.06	3.78	0.07
October	0.62	6.22	0.62	0.53	4.41	0.53	0.01	3.79	0.01

## Investment Sector Returns compared with targets

The scheme has a formal Statement of Investment Policy and Objectives; reproduced within this report. The table below outlines how the assets were invested for each sector and each option, the index return (the benchmark (B/mark) against which performance is measured), and the actual return achieved.

### Paragraphs that follow refer to this table

Asset sector	% Allocation of Assets			Index for performance measurement	RETURN % (before tax & expenses)		
	Option	B/mark	Actual		Index	Actual	Differ.
New Zealand Equities <i>Invested as an 'active' style mandate with TOWER Asset Management</i>	Balanced	10	12.6	NZSE40 to 31 March NZSX50 from 1 April	19.8%	21.3%	1.5%
	Cash-Plus	-	-				
	Growth	25	25.1				
International Equities <i>Invested in BNZ's International Equity Passive Index Fund – 75% hedged for the Balanced choice option only</i>	Balanced	30	30.9	MSCI Grey List (NZD) (75% hedged) – Balanced MSCI Grey List (NZD) Growth option	10.5%	9.1%	(1.4)%
	Cash-Plus	-	-		0.03%	0.24%	0.21%
	Growth	50	49.5				
Global fixed interest <i>Invested in a TOWER unit trust product, managed by PIMCO</i>	Balanced	20	21.4	Lehman Bros Global Aggregate Index (NZD) - hedged	9.5%	10.4%	0.9%
	Cash-Plus	20	20.4				
	Growth	12.5	12.6				
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 to 31 May NZX New Zealand Government Stock index from 1 June	6.2%	6.2%	0.0%
	Cash-Plus	20	20.3				
	Growth	10	10.3				
Cash <i>Managed by Alliance Capital Management</i>	Balanced	10	7.7	CS First Boston NZ Capital - 90 day Bill to 31 May – NZX Bank Bill index from 1 June	5.85%	5.8%	(0.05)%
	Cash-Plus	60	59.3				
	Growth	2.5	2.5				
Property <i>A portfolio of 4 commercial properties</i>	Balanced	10	4.9	Watson Wyatt <i>iPs</i> to 30 June NZ Property Council Composite index from 1 July	n/a	12.6%	
	Cash-Plus	-	-				
	Growth	-	-				



## Benchmark Definitions (courtesy of Russell Investment Group)

### NZSX 50 Gross Index

This index consists of the top 50 companies listed on the New Zealand Exchange (NZX) by free float adjusted market capitalisation. Free float refers in a general sense to the shares of a company that are regarded as normally available for market trading. For example for AirNZ, the shares held by the NZ Government are excluded from the free float number. The index is calculated with gross dividends reinvested.

### Morgan Stanley Capital International (MSCI) Custom 6 Country Net of Dividends Reinvested Index (MSCI Grey List)

A market capitalisation-weighted index composed of companies representative of the market structure of 6 developed countries with whom New Zealand has tax treaties (Grey List). The countries are Australia, Canada, Germany, Japan, United States and United Kingdom.

The index is calculated with net (of withholding tax) dividends reinvested.

For the Balanced investment option it hedged 75% pre tax (50% after tax) to the New Zealand dollar.

### Lehman Brothers Global Aggregate Index Hedged into \$NZ

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

This index is fully hedged back to the New Zealand dollar.

### NZX New Zealand Government Stock Gross Index

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

As at 31 October 2004 there were 8 bond issues within the index with maturity dates from 2005 to 2015.

### NZX New Zealand 90 Day Bank Bill Index

The index provides a measure of the cumulative increase in the market value of a portfolio of bank bills based on a daily roll over and purchase of a new bank bill of 90 day maturity. This index is valued on a mark to market basis, i.e., valued at current market yields not at purchase yields.

In simplistic terms, a 90 day bank bill might be described as the interest rate that banks pay on a three month deposit of wholesale money.

Yield may be described as the expected annualised rate of return from holding a bond/fixed interest security until it matures.

### NZ Property Council – NZ Composite Property Index

The index is value weighted, appraisal based, and measures the income, capital and total returns from institutionally owned property in New Zealand. It is compiled with data collected from New Zealand's largest property investors and managing agents.

The index is published on a calendar quarter basis, with a lag of about 6-8 weeks after quarter end before it is available.

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

*The level of hedge set is a function of aversion to risk and ability to forecast portfolio values. For International Bonds a hedge ratio of 100% is advised as appropriate. That is because the absolute volatility of investment returns in the short term is low, and the additional volatility introduced by currency risk is appreciable in relative terms. For International Equities 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.*

## **Matters impacting on sector returns**

### *New Zealand Equities*

As of 1 April there was a change in benchmark, or the standard used for measuring performance, from the NZSE40 Gross index to the NZSX50 Gross index. The extra stocks and 'free-float' composition of the NZSX50 index resulted mainly in alteration of weightings for key stocks. For example Telecom's weighting increased by about 3% to about 27% and AirNZ decreased by about 2% to about 0.5%. During August the Investment subcommittee of the Board of Management, with input from investment advisors Russell Investment Group, undertook a review of TOWER Asset Management's performance for the three years that TOWER have held the mandate for this investment sector. Whilst TOWER had not attained a 3% out-performance of bench-mark target, the committee was satisfied with performance. The out-performance level achieved has been about 2% per year.

For the year the return level at 21.3% was driven by a strong New Zealand market, with the stocks that contributed most being Telecom, Contact Energy, Fletcher Building, F&P Appliances, F&P Healthcare and GPG.

### *New Zealand Fixed Interest /Cash*

There were naming changes to the indices as of 1 June, but the construction did not change.

The return for the year for the Fixed Interest was at about benchmark level and below the out-performance level expected above benchmark or index of 0.75%.

Early in to the financial year, the Investment committee as part of a triennial review for the sector, after considering proposal from Alliance and two other managers, recommended to the Board that Alliance be retained. That was supported by the Board. There were discussions with Alliance Capital Management subsequent about performance not meeting expectations.

### *Global Fixed Interest*

PIMCO (Pacific Investment Management Company) continued to deliver good performance for the TOWER unit trust product.

Performance for the year was well above the benchmark level. Out-performance was in line with guideline expectations.

### *International Equities*

The return for the sector was positive but as shown in a table earlier in the report the currency hedge for the Balanced option was a key factor. The investment for the sector is 'hedged' (for definition refer Glossary box) at a level of 75% of the investment for the Balanced option only.

The 'Balanced' below benchmark performance was mainly attributable to actual hedgings levels differing from neutral benchmark weightings.

### *Property*

The portfolio was under neutral asset allocation level for the year as suitable properties could not be found that would provide attractive returns. At year-end the properties held were all leased, apart from the first floor of Armagh Street, Christchurch where a lease to the Bank of New Zealand terminated during September 2004. The portfolio was re-valued as at 31 October 2004 with an increase in market value of about \$0.5m and an average yield at about 12.5%. The value difference between actual allocation at about 5% and target of 10% of assets was mainly invested in the Fixed Interest / Cash sectors.

The Investment sub-committee considered alternate investment opportunities within the property sector during the year. A decision should be made by the Board during the first half of 2005.

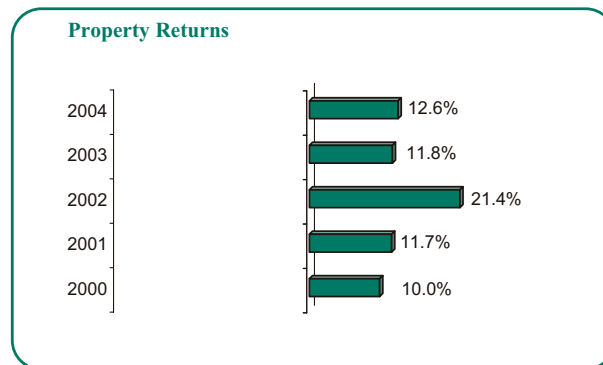
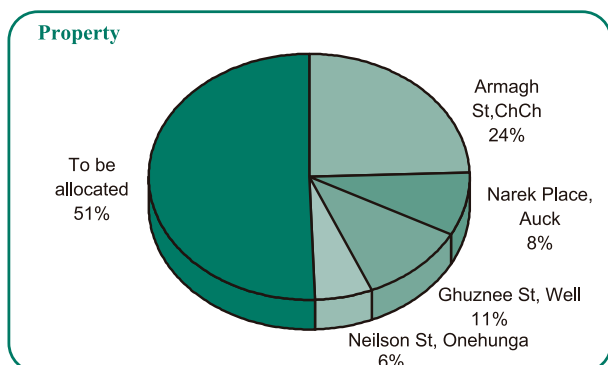
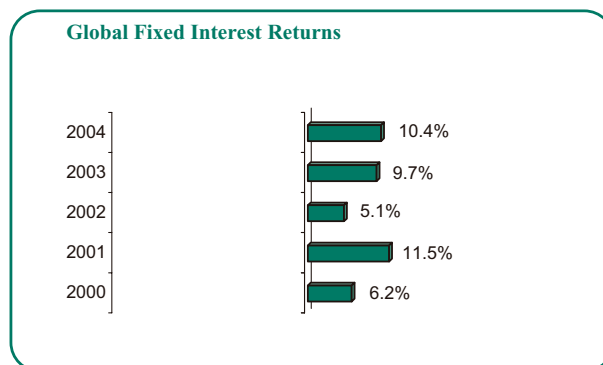
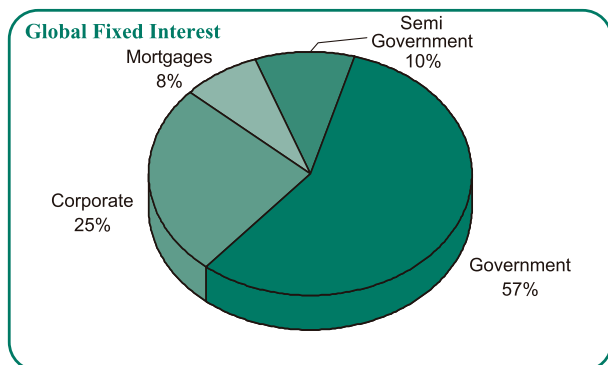
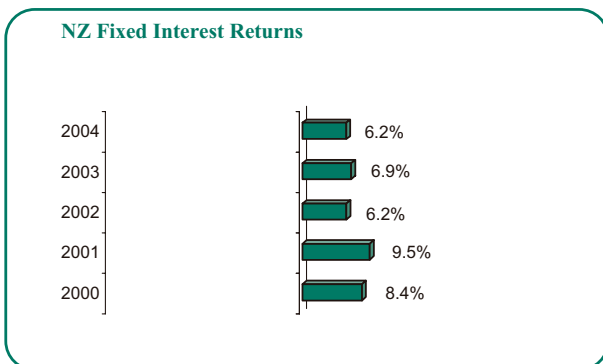
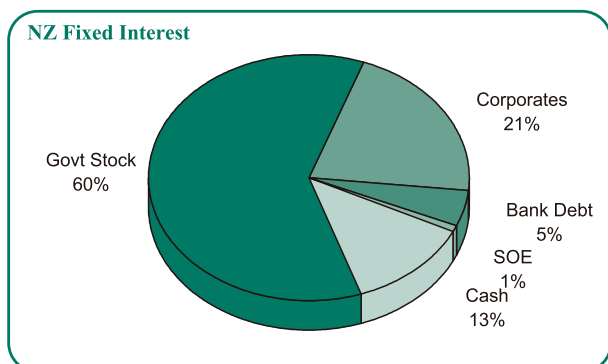
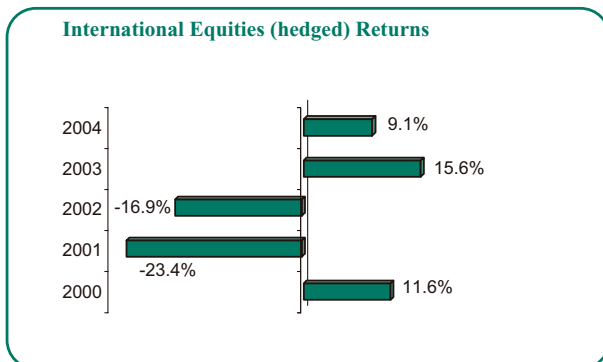
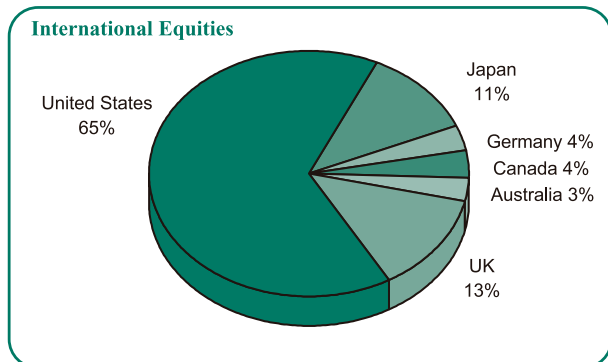
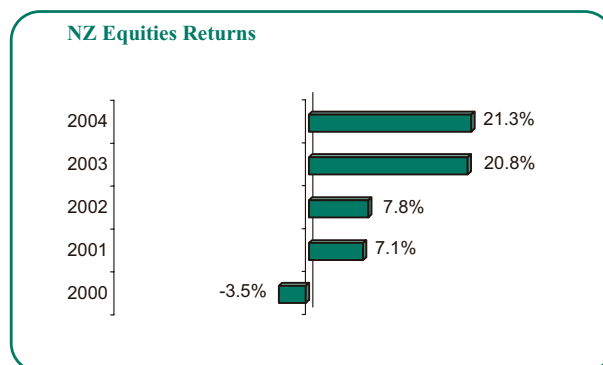
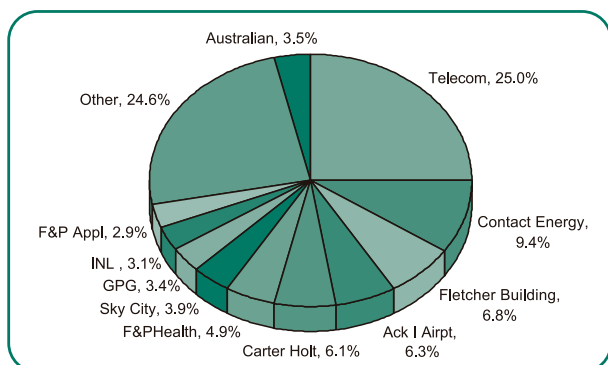
Watson Wyatt have ceased to issue a Property sector index and there is a lag between quarter end and availability of the replacement index such that no benchmark result was available for this report.

## **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 2004. 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.



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



## An Update

The Equities and Global Fixed Interest sections below are intended as follow through commentary on feature investment articles in the 2002 and 2003 Annual Reports.

### Equities

In the 2002 Annual Report there was description about the volatility associated with returns from Equities investments. The table below extends similar tables included in the 2002 and 2003 Annual reports. As might be expected from asset allocation weightings, the Equities sectors were the main short term determinant of earning rates for the Balanced and Growth investment options.

Gross Returns	%	1997	1998	1999	2000	2001	2002	2003	2004
New Zealand Equities		9.4	-16.4	20.1	-3.5	7.1	7.8	20.8	21.3
International Equities		36.7	24.0	32.2	11.6	-23.4	-16.9	15.6	9.1
BNZIM product	Splits not available				28.2	-28.2	-27.8	-2.4	0.2
OPA hedge					-16.6	4.8	10.9	18.0	8.9
\$NZ1 : \$US exchange rate		0.6249	0.5288	0.5119	0.4004	0.4134	0.4831	0.6110	0.6808

New Zealand Equities sector performance was particularly strong for both 2003 and 2004. In contrast, the International Equities performance, on the surface, was weak. The exchange rate between the New Zealand and US dollars (as shown within the last line of the table) has significant influence on the overall performance of the International Equities sector investment. A consequence of the NZ dollar strengthening, as it did during 2004, is currency translation losses within the BNZ Investment Management product. A Board of Management policy to 'hedge' (for definition refer Glossary box) the effect of currency movements at a level of 75% of the investment value (equivalent to a 50% after tax level) for the Balanced investment option, provides an offset against those translation losses. There is no hedge in place for the Growth investment option.

### Global Fixed Interest

An article reproduced with permission from Russell Investment Group in the 2003 Annual Report concluded with a statement:

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

At the time the US Fed's Funds rate was 1% and September 2004 futures contracts on the US Fed Funds rates were 1.75%.

The table below provides comparison between the Fixed Interest sectors:

Gross Returns	%	1997	1998	1999	2000	2001	2002	2003	2004
New Zealand Fixed Interest		9.6	12.8	0.2	8.4	9.5	6.2	6.9	6.2
Cash		8.0	8.5	4.6	6.4	6.6	5.3	5.6	5.9
Global Fixed Interest		10.8	17.1	0.0	6.2	11.5	5.1	9.7	10.4

The Russell view was supported by pleasing performance during 2004 from PIMCO, the investment manager used by TOWER Asset Management for the product invested in by the scheme.

# MEMBERSHIP CHANGES

## Membership changes for the 2003/2004 scheme year

	Division 1	Division 2	Total	Exit Value \$m
<b>Opening membership 1 November 2003</b>	1	3233	3234	
<i>Plus:</i> New members		543	543	
<i>Less:</i> Resignations		366	366	9.397
Redundancies		33	33	1.372
In-service withdrawals		163	163	5.041
Normal retirements		8	8	1.930
Deaths		1	1	0.078
Partial withdrawals				1.843
<b>Closing membership 31 October 2004</b>	1	3205	3206	19.661

## Pensioner changes for the 2003/2004 scheme year

	Pensioners	Widows/ Widowers	Children	In total
<b>Opening pensions at 1 November 2003</b>	163	127	-	290
<i>Plus:</i> New pensions		5	3	8
<i>Less:</i> Ceased pensions	14	19	-	33
<b>Closing pensions at 31 October 2004</b>	149	113	3	265

### Commentary

Division 2 membership number declined by 28, but as a percentage of Bank staff eligible to join there was little movement; that remained at about 70%.

A member choice investment option 'switch' opportunity was given as of 3 May 2004. About 100 members switched options then and as at 31 October 2004 analysis of member choice investment options by membership numbers was:

Balanced	80%
Cash-Plus	10%
Growth	10%

The split by benefit entitlement values was similar.

The reduction in Pensioner numbers was higher than had been usual. There was no discernable reason other than age; the average age of those who died during the year was about 90.

# 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 2004, members of the Board of Management were:

<i>Name</i>	<i>Bank Position</i>	<i>Constitution</i>	<i>Changes</i>
<b>Bank-appointed representatives</b>			
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, Customer Quality, Auckland	Since April 1998, nominee of the Chief Executive of the Bank	
Nigel Frederick McMahon	General Manager, Risk Management NZ, Auckland	Appointed by the Chief Executive of the Bank as from 30 November 2004	
Conrad James Wilkshire	General Manager Agribusiness Financial Services, Auckland	Appointed February 2004, by the Board of Directors of the Bank	Replaced Rodger Murphy
<b>Member-elected representatives</b>			
Grant Andrew Hill	Head of Products & Marketing, BNZ Investments & Insurance, Wellington	Must reside in North Island Elected March 2003	
Alan Jefferson Strang	Private Banker, Hamilton	Must reside in North Island Elected March 2004	Replaced Peter Meggison who resigned in February 2004
Charles Layton Roberts	Head of Money Markets, Wellington	If no Division 1 member nominated, a division 2 member Elected October 2002	
John Francis Switalla	Credit Manager, Canterbury, Nelson/ Marlborough, West Coast, Christchurch	Must reside in South Island Elected March 1998, re-elected May 2001 and March 2004	

## 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

**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

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. 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 Russell Investment Group

- Triennial review of TOWER Asset Management performance as investment manager for the New Zealand Equities sector.
- Review of investment opportunities for alternative asset classes of Property, Private equity, and Hedge Funds. Focus became concentrated to the Property sector. Outcomes are expected to be considered by the Board of Management during the first half of 2005.

**Strategy and Planning**

- Continuation and then finalisation of negotiations with representatives of the Bank in relation to the 'returning the fund to equilibrium', known as the Independent Review project

## 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 2004 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 2004,

- 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 2004:
  - approx. \$82m was invested in the Bank of New Zealand International Equity Index Fund

As at 31 October 2004 all Board members were members of Division 2 of the scheme. Conrad Wilkshire ceased to be a Division 2 member as from 25 November 2004.



**Celia Patrick**

for and on behalf of the Board



**Charles Roberts**

## 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 updates from the Actuary since the 2002 valuation for the Pensioner and Division 1 liabilities. The values provided for the financial statements for the year ended 31 October 2004 summarise as an assessed value for the Division 1 and Pensioner liabilities of \$47,956,000.

*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.



## 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  
 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 30 April 2004)

- The Rules of the OPA
- actuarial valuations
- the Memorandum of Agreement detailing the settlement arrangement between the Association and the Bank (without appending schedules that contain information relating to individual members and former members)

### 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.

## 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 \$6.9m; the product investment returned a loss of about \$0.4m
  - increase in value of NZ Equities sector investments of about \$2.9m, realised gains of about \$1.1m; and dividend income of about \$1.4m
  - Global Fixed Interest sector gains of about \$3.3m
- Operating expenses were around the same level as last year (and budgets) with main exception of Property expenses, which were higher because of leasing and maintenance costs. An abnormal Independent Review cost was recorded for reversal of an expected recovery of court costs from the Bank of \$0.12m.
- Income tax expense at about \$5.2m, mainly from the International Equities associated hedge, Global Fixed Interest, and NZ Equities sector gains. Provisional tax payments totalling \$4.3m

were paid during the year.

- Benefits paid were below, and contributions received above last year levels.
- There was re-balancing of investment assets during the year on an as needed basis for member choice investment options.
- 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	\$73.2m
Plus / (less)	Bank subsidy allocation (16.2)
	Pensioner / Division 1 adjustments 1.3
	Vesting fall back from exits 0.8
	Undistributed earnings 2004 3.9
Closing value	\$63.0m

# 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 2004 as set out on pages 16 to 19.

### *Responsibilities of the Board of Management and Auditor*

The Board of Management 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 of Management.

### *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 financial 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 has also provided other services to the Association in relation to taxation and management assurance services. 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 summary financial report has been correctly extracted from the full financial report; and
- ♦ the information reported in the summary financial report complies with FRS-39: Summary Financial Reports and is consistent in all material respects with the full financial report from which it is derived and upon which we expressed an unqualified audit opinion in our report to members dated 6th December 2004.

We completed our work for the purposes of this report on 6th December 2004.



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 free 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**

#### **Agreement as to Future Use of Surplus**

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

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

The Board subsequently sought to return the Fund to equilibrium through member benefit improvements. The Bank challenged a number of issues, the principal matter being the ability

of the Board to backdate benefit improvements. After High Court proceedings in July 2001 and Court of Appeal proceedings in March 2002, the Privy Council confirmed the Board was able to backdate benefit improvements to members.

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

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

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

There were no other contingent liabilities at 31 October 2004 (2003: 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 were added back to the net income / deficit after tax from 1 May 2001 to 31 July 2004. That was because the costs were incurred in relation to Independent Review matters that should not impact on the earning rate calculations for that period. For the earning rate calculations for 2004 the net income was adjusted as:

Financial statement net income after tax	\$15.233m
Plus / (less):	
Independent Review costs to 31 July 2004	\$0.290m
Tax effect on Independent Review costs	\$(0.096)m
Reversal of claim from Bank of court costs	\$0.120m
Tax effect on Bank reversal	\$(0.040)m
Earnings for earning rate calculations	\$15.507m

## NOTE 3 – Vested Benefits

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

The total vested accrued liability was \$175.6 million, 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 2004 (to \$175.6m) was \$198.7 million, compared to assets of \$265.9 million. The surplus value, on a vested accrued liability basis, was about \$67 million.

# STATEMENT OF CHANGES IN NET ASSETS

for the year ended 31 October 2004

		2004 \$(000's)	2003 \$(000's)
<b>Investment Activities</b>			
Investment revenues			
<p>A realised gain is actual income received from the sale of an investment.</p> <p>When the market value of an asset increases that capital gain in its value is shown as an unrealised gain in the accounts. The asset has not been sold only its capital value has increased, but the gain is made available for distribution to members. Similarly, if the market price falls the capital value of the assets decline it is an unrealised loss and that reduces the amount of income to be made available for distribution.</p>	NZ Fixed Interest & Cash revenue	5,120	4,367
	Global Fixed Interest revenue	349	207
	NZ Equities dividend & interest	1,401	1,296
	Rent from properties	1,319	1,197
	Changes in net market values		
	Realised Gains / (Losses)	8,193	14,576
	Unrealised Gains	6,201	6,514
	<b>Total investment revenues</b>	<b>22,583</b>	<b>28,157</b>
Other income			
	Miscellaneous income	19	57
	<b>Total other income</b>	<b>19</b>	<b>57</b>
	<b>Total investment revenues</b>	<b>22,602</b>	<b>28,214</b>
	Less Investment management fees	701	719
	<b>Net investment activities</b>	<b>21,901</b>	<b>27,495</b>
Operating expenses			
<p>Fees paid to the auditors (KPMG) is split into two sections. 'Audit Fees' which represent the fees paid for the audit of the statutory accounts at financial year end and 'Audit Fees- Other' being fees paid to the auditor primarily for advice on tax issues.</p>	Audit fees	28	23
	Other fees paid to Auditors	5	24
	Actuarial fees	11	12
	Depreciation	7	7
	General expenses	55	88
	Rental – secretariat office	33	33
	Interest expense	-	12
	Independent review costs (see note 2)	667	409
	Other professional fees	125	165
	Property expenses	287	73
	Staff	194	245
	Non-deductible GST	32	37
	<b>Total operating expenses</b>	<b>1,444</b>	<b>1,128</b>
	<b>Net income/(deficit) before tax and membership activities</b>	<b>20,457</b>	<b>26,367</b>
	Income tax expense	5,224	8,594
	<b>Net income/(deficit) after tax and before membership activities</b>	<b>15,233</b>	<b>17,773</b>
<b>Membership Activities</b>			
<p>Includes members' contribution from salary and lump sum voluntary contributions. It does not include Bank subsidy contribution, as it is not a cash inflow, but a transfer from the surplus to members balances.</p>	Members' contributions	12,049	11,065
	Less Benefits paid	24,621	27,524
	<b>Net membership activities (decrease)/ increase</b>	<b>(12,572)</b>	<b>(16,459)</b>
	<b>Net (decrease)/increase in assets</b>	<b>2,661</b>	<b>1,314</b>
	<b>Net assets available to pay benefits at beginning of year</b>	<b>263,258</b>	<b>261,944</b>
<p>Payments made to pensioners and benefits paid to those members who left the scheme due to resignation, redundancy etc.</p>	<b>Net assets available to pay benefits at end of year</b>	<b>265,919</b>	<b>263,258</b>

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

# STATEMENT OF NET ASSETS

as at 31 October 2004

	2004 \$(000's)	2003 \$(000's)
<b>Investments</b>		
Bank deposits	3,507	11,635
NZ Government stock	34,011	41,179
Other fixed interest investments	15,936	8,736
NZ discounts	31,543	31,280
NZ Equities – Active	33,794	28,550
Global Fixed Interest (TOWER product)	56,153	52,582
BNZ International Equity Index Fund	81,999	79,910
Investment properties	12,044	11,508
Forward foreign exchange contracts	(514)	(56)
	268,473	265,324
<b>Other assets</b>		
Bank accounts	41	35
Accounts receivable	799	1,024
Fixed Assets	21	13
	861	1,072
<b>Total assets</b>	269,334	266,396
<b>Deduct liabilities</b>		
Accounts payable	1,128	1,777
Current tax	222	248
Deferred tax liability	2,065	1,113
<b>Total liabilities</b>	3,415	3,138
<b>Net assets available to pay benefits</b>	265,919	263,258
<b>Represented by member liabilities</b>		
Division 2	154,916	138,839
Division 1 & Pension liability	47,956	51,185
Undistributed earnings – current year	3,934	
Scheme surplus	59,113	73,234
	265,919	263,258

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

Division 2 Liability - represents the accumulation of individual member balances recorded in the Association's membership system (Rapps) at 31 October 2004 after allocating earnings for the 2004 year.

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

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

for the year ended 31 October 2004

	2004 \$(000's)	2003 \$(000's)
Net cash flows used in operating activities	(10,791)	(17,270)
Net cash flows from investing activities	10,797	17,272
Net increase / (decrease) in cash held	6	2
Add opening cash brought forward	35	33
Closing cash carried forward	41	35

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 substantially 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).

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 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 long 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 long term from both income and capital growth, acknowledging there may be variations in returns in individual years.

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.

