

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

ANNUAL REPORT

**FOR THE YEAR ENDED
31 OCTOBER 2005**



BANK OF NEW ZEALAND OFFICERS' PROVIDENT ASSOCIATION

THE YEAR IN SUMM

The Board of Management (BOM) is pleased to present the 118th 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 the year ended 31 October 2005, aggregate earning rates for member choice investment options within Division 2 were:

Balanced	8.85%
Cash-Plus	4.95%
Growth	7.75%

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.

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.

Scheme Membership

Division 2 – Membership

The number of members in Division 2 was 3060 as at 31 October 2005. That represented about 67% of the Bank staff eligible to join the scheme.

Communications

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

Over recent years the BOM has endeavoured to reduce the number of communications sent to members on paper. Where possible, communication has been through listings on the Bank's intranet.

An additional field, a member's bank e-mail address, was added to the membership registry system late in October 2005 so that the BOM has an efficient option for sending e-mails to members individually in the future.

Development of a secure web-site was underway for launch during December 2005. It will permit members to view their benefit entitlement and recent transactions.

Board of Management

Board

Celia Patrick, a member appointed by the directors of the Bank and Chairperson, resigned from the Bank and the Board during April 2005.

Chris Black moved from being the nominee of the Chief Executive of the Bank, to a member appointed by the directors of the Bank during May 2005. Chris is Chairperson.

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Paul Bevin joined the Board as the nominee of the Chief Executive of the Bank during July 2005.

Grant Hill, a member elected representative since 2003, resigned from the Bank and from the BOM in September 2005.

David Cairns joined the BOM in November 2005 as the result of an election ballot to replace Grant.

Charles Roberts was re-elected unopposed as at 31 October 2005

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

Rule Changes

There were Rule amendments as of 26 November 2004 to cover 'Special Benefits' which will be allocated to members for periods of 1996-2001 and 2005-2009. A summary of the amendments may be read in a section headed "Special Benefit Rule Amendments".

Scheme Secretariat

Independent Review project

The Independent Review project wound down with the 'Special Benefits' settlement. Tom Clark, who had been Project Manager since 1995, left the secretariat as a consequence during January 2005.

The Board wishes to record its appreciation of Tom's efforts and diligence.

Special benefits of \$5m were scheduled to be paid on 4 January 2006 for the year ended 31 October 2005.

Outsourcing review

During May the Board considered a proposal to outsource functions of the scheme secretariat and obtained and reviewed 'requests for proposal'

from seven potential suppliers. The process was refined to final consideration of a short-listed outsource supplier and retaining the secretariat with enhancement of existing systems. The decision was to enhance existing systems, with launch of a web-site scheduled for December 2005, with member access to benefit entitlements and transaction history, and a major upgrade for the membership registry system during 2006.

Office

On expiry of the lease for the office on level 7 of State Insurance Tower on 31 May 2005, the secretariat office was co-located with the People & Culture section of the Bank on level 12.

Compliance

Prospectus

A new Prospectus dated 29 April 2005 was registered on 1 May 2005 and a refresher certificate dated 8 July 2005 was registered 12 July 2005. The Investment Statement was updated as of 29 April 2005.

The Association must continue to file a Prospectus notwithstanding the exemption available to many employer superannuation schemes from the Prospectus requirements of the Securities Act 1978.

Auditor

KPMG resigned as auditor and were replaced after a request for proposal process by Deloitte.

KPMG continue to provide tax advisory services.

Accounting standards

The Association will comply with changes to international accounting standards from 31 October 2006.

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

Your guide to the "jargon"

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

INVESTMENT PERFORMANCE

Investment Sector Returns compared with targets

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

Paragraphs that follow refer to this table

Asset sector	% Allocation of Assets			Index for performance measurement	RETURN % (before tax & expenses)		
	Option	B/mark	Actual		Index	Actual	Differ.
New Zealand Equities <i>Invested as an 'active' style mandate with TOWER Asset Management</i>	Balanced	10	11	NZSX50	17.2%	19.7%	2.5%
	Cash-Plus	-	-	NZX50 with imputation credits from 1 October			
	Growth	25	27				
International Equities Invested in BNZ's <i>International Equity Passive Index Fund –75% hedged for the Balanced choice option only</i>	Balanced	30	34	MSCI Grey List (NZD) (75% hedged)	16.4%	16.7%	0.3%
	Cash-Plus	-	-	– Balanced	9.9%	10.2%	0.3%
	Growth	50	52	MSCI Grey List (NZD) - Growth option			
Global Fixed Interest <i>Invested in a TOWER unit trust product, managed by PIMCO</i>	Balanced	20	21	Lehman Bros Global Aggregate Index (NZD) - hedged	7.9%	8.6%	0.7%
	Cash-Plus	20	21				
	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	16	NZX New Zealand Government Stock index	6.1%	6.0%	(0.1)%
	Cash-Plus	20	16				
	Growth	10	7				
Cash <i>Managed by Alliance Capital Management</i>	Balanced	10	7	NZX Bank Bill index	7.1%	7.0%	(0.1)%
	Cash-Plus	60	63				
	Growth	2.5	1.5				
Property <i>A portfolio of 4 commercial properties / AMP Global Property Securities Product (from 28 October 2005)</i>	Balanced	10	11	NZ Property Council Composite index USB Warburg Global Real Estate Investors Index	n/a	28.1%	
	Cash-Plus	-	-		n/a	-	
	Growth	-	-				

Benchmark Definitions (courtesy of Russell Investment Group)

NZX 50 Gross Index – with imputation credits

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 accounts for about 98% of the pool of tradeable securities listed on the NZX. 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 (Grey List) developed countries with whom New Zealand has tax treaties. The countries are Australia, Canada, Germany, Japan, United States and United Kingdom.

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

The Balanced investment option is 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 2005 there were 9 bond issues within the index with maturity dates from 2006 to 2017.

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.

UBS Warburg Global Real Estate Investors Index

A free float capitalisation-weighted arithmetic average return index that measures the performance of property investment companies. It excludes property development companies. The index represents total returns, i.e., both gains from income (rental receipts and dividends) and capital movements. It comprises approx. 200 constituents, concentrated mainly in the United States and Europe. The index is fully hedged back to the New Zealand dollar. The currency hedge is managed by AMP Capital.

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 in place, 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

2005 was another year of very strong performance, driven particularly by Telecom, Contact Energy, Fletcher Building, Sky Network, Auckland International Airport and Mainfreight. The mandate to TOWER allows for inclusion of Australian shares and for the 2005 year the small exposure (about 5%) produced strong returns.

New Zealand Fixed Interest /Cash

As for last year the return for the Fixed Interest sector was at about benchmark level. However it was below the out-performance target set for the manager of 0.75% above benchmark or index. The Investment sub-committee met with Alliance Capital Management representatives during the year to discuss this aspect. The manager considers the out-performance target continues to be realistic one. The performance of the manager will continue to be monitored closely.

Global Fixed Interest

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

Performance for the year was comfortably above the benchmark level. Out-performance on a rolling three year basis was in line with guideline expectations.

International Equities

The 75% before tax (50% after tax) hedge applicable to the Balanced member choice investment option differentiated returns between the Balanced and Growth options. That is, continued strength of the New Zealand dollar resulted in gains from the hedge and consequently a higher return for the Balanced option.

During the year the Investment committee communicated an intention to increase the level of the hedge and extend it to the Growth option. The plan is for progressive increase during the period commencing 1 May 2006 with a 150% pre-tax level to be in place by 1 November 2006, for both options.

Property

The portfolio was under neutral asset allocation level until 28 October 2005 when \$12m was invested in an AMP Global Property Securities product.

At year-end the properties owned were all fully leased, and a process was underway for their disposal. It is expected all will be sold by end of April 2006. Some of the proceeds will in be invested in the AMP product.

The portfolio was re-valued as at 31 October 2005

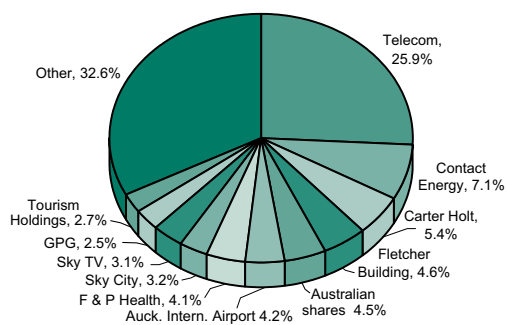
with an increase in market value of about \$2.3m. All four properties increased in value, with the Wiri, Auckland property increasing significantly due to a localised demand factor.

Because of delay in availability of the index return, no benchmark result was shown in the performance return table.

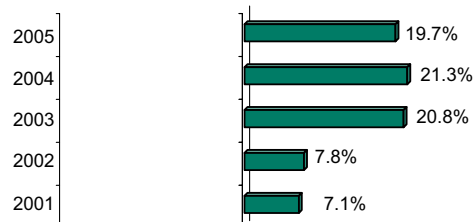
How your Funds Were Invested

The charts that follow for the main asset sectors, outline how the scheme's funds were invested within the sectors as at 31 October 2005. Separate bar graphs show performance returns 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.

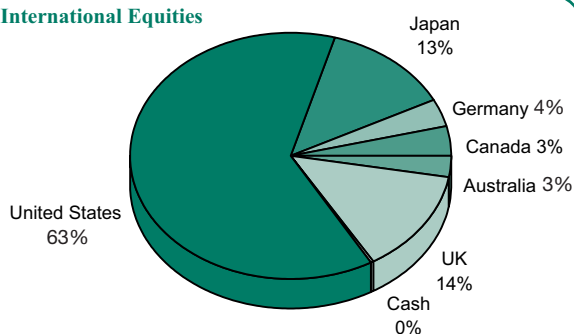
WARNING – past performance should not be taken as an indicator of future performance



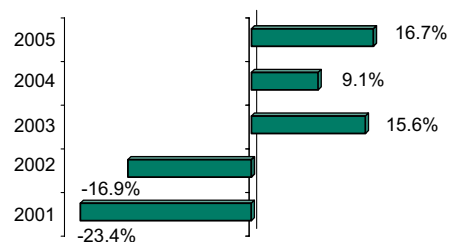
NZ Equities Returns



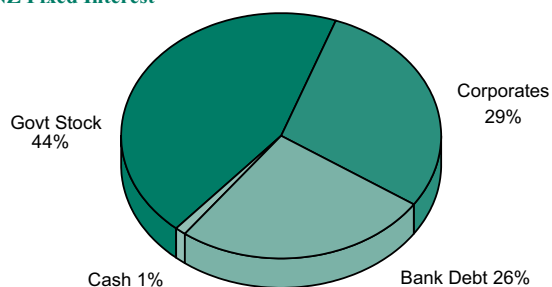
International Equities



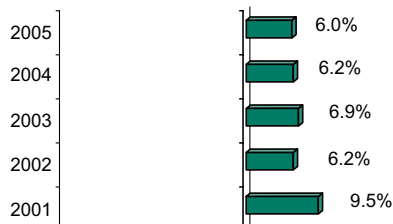
International Equities Returns hedged



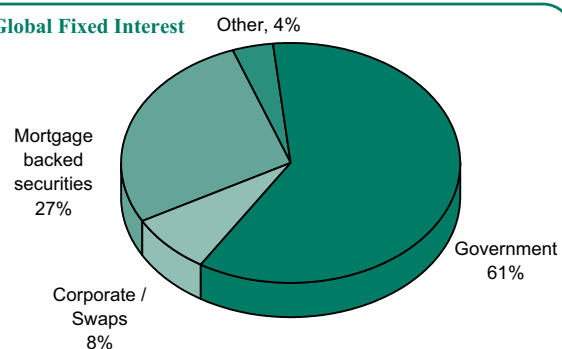
NZ Fixed Interest



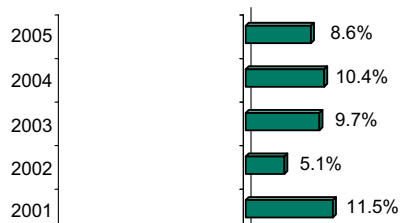
NZ Fixed Interest Returns



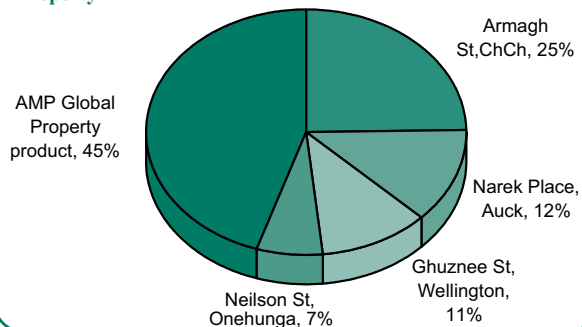
Global Fixed Interest



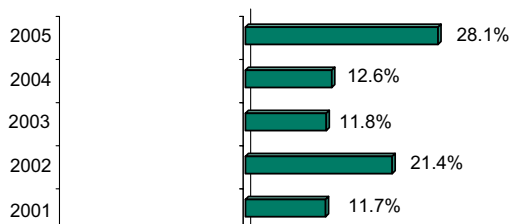
Global Fixed Interest Returns



Property



Property Returns



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 rate for members who joined during the year, by reference to the line that matches the month of joining. For example, a member who joined the Balanced option in May received a 6.24% earning rate for the May-October period.

	Balanced option			Cash-Plus option			Growth option		
%	Month	YTD Aggr.	Part year aggregate	Month	YTD Aggr.	Part year aggregate	Month	YTD Aggr.	Part year aggregate
November 2004	1.54	1.54	8.85	0.45	0.45	4.95	1.45	1.45	7.75
December	1.53	3.09	7.20	0.37	0.82	4.49	2.23	3.71	6.21
January 2005	(0.55)	2.53	5.59	0.38	1.20	4.10	(1.08)	2.59	3.90
February	1.63	4.20	6.15	0.22	1.42	3.71	2.06	4.71	5.03
March	(0.76)	3.42	4.45	0.37	1.80	3.48	(1.26)	3.40	2.91
April	(0.93)	2.46	5.25	0.59	2.40	3.10	(2.86)	0.44	4.22
May	2.07	4.59	6.24	0.60	3.02	2.50	3.36	3.81	7.29
June	1.55	6.21	4.08	0.51	3.54	1.88	2.48	6.39	3.81
July	1.99	8.32	2.49	0.31	3.86	1.37	3.52	10.13	1.29
August	(0.45)	7.83	0.49	0.36	4.23	1.05	(1.27)	8.73	(2.15)
September	1.73	9.70	0.95	0.41	4.66	0.69	2.66	11.62	(0.89)
October	(0.77)	8.85	(0.77)	0.28	4.95	0.28	(3.46)	7.75	(3.46)

The Balanced member choice investment option return for the year was higher than that of the Growth option because of a strong Property sector result and because a currency hedge in place for the International Equities product investment gave partial protection against currency losses within the product.

Alternative Asset classes

During the year the Investment committee amongst other things investigated investment in Alternative Asset classes, with to date a decision to invest in Global Property Securities. The topic has received publicity, in part because the New Zealand Superannuation Fund (widely known as the Cullen fund) has invested in alternative asset classes. The article that follows is reproduced courtesy of the investment advisors to the Board of Management, Russell Investment Group, to give an overview of what alternative asset classes are about.

Introduction

Most institutional investors in New Zealand have limited asset allocation to traditional asset classes (equities, fixed interest and cash), apart from property investments. In recent years many investors have been turning their attention to more exotic investment opportunities. This has been driven partly by the big fall in equity markets over 2000-2002 and by the improvement in the availability of alternative investments.

Equities offer higher long-term returns than risk-free assets, but these are accompanied by higher volatility or more uncertainty about short and medium term returns. This increase in returns is called the equity risk premium. Alternative investments enable investors to reduce their reliance on the equity risk premium, and in doing so reduce portfolio volatility.

Characteristics of alternative investments

What are alternative investments? We will consider five types: private equity, property, infrastructure, collateralised commodity futures and hedge funds. These are the ones most commonly considered by institutional investors.

There is a sound economic rationale for all but the last of these asset classes producing a long term return in excess of government bonds. As with equities, there is a premium available to investors willing to accept the volatility inherent in these asset classes. Investors are being rewarded for accepting market risk.

Hedge funds are different. Their returns are generated by the skill of managers investing in conventional assets, but in unconventional ways. Because the underlying investments are in conventional asset classes, usually bonds and equities, the average excess returns across all hedge funds are close to zero. The average investor in hedge funds will get no added value, the successful investor will earn positive excess returns, while the unsuccessful investor will make a loss. Successful investment therefore depends on identifying the most skilful managers. The rationale for including alternative investments in a portfolio is not necessarily to generate higher investment returns. More often it is to produce a similar level of returns at a lower volatility. Lower volatility means that the frequency and severity of adverse investment outcomes are reduced.

To successfully diversify a portfolio with alternative investments, it is desirable for them to have the following characteristics:

- low or negative correlations with existing asset classes
- satisfactory long term returns
- volatility that is not too high

Alongside these desirable characteristics, we need to consider the 'costs' associated with investing in alternatives. These include:

- management fees
- liquidity
- product availability
- fiduciary burden

The term 'fiduciary burden' means the additional complexity for trustees of introducing these alternative investments, in terms of understanding the behaviour of these asset classes.

Exhibit 1 summarises the costs and benefits of each of these five alternative investments.

Exhibit 1 – Characteristics of Alternatives

Alternative Investment	Expected Return	Expected Volatility	Correlation with Equities	Correlation with bonds
Private Equity	Greater than equities	Greater than equities	Moderate	Low
Property	Between bonds and equities	Between bonds and equities	Low	Low
Infrastructure	Between bonds and equities	Similar to equities	Low	Low
Collateralised Commodity Futures	Between bonds and equities	Similar to equities	Negative	Very Low
Hedge Funds	Between bonds and equities	Similar to bonds	Very Low	Very Low
Alternative Investment	Management Fees	Liquidity	Product Availability	Fiduciary Burden
Private Equity	High	Low	Moderate	Moderate
Property	Moderate	Moderate	Moderate/Low	Low
Infrastructure	High	Low	Low	High
Collateralised Commodity Futures	Low	Very High	High	High
Hedge Funds	High	Moderate	High	High

There are two important decisions that need to be made in order to benefit from including alternative investments in the asset allocation: how much to allocate, and how to implement this allocation successfully.

What is the appropriate allocation to alternatives?

The main method used to determine allocations to traditional asset classes is known as mean/variance optimisation. This is a complex statistical exercise which relies on detailed assumptions about the long term returns and volatilities of the asset classes, and their inter-correlations. This method provides valuable insights into the best possible asset mixes, but is highly sensitive to the assumptions used: small changes to the assumptions can lead to very different policy mixes.

Unfortunately, our knowledge about long term returns and volatilities of alternative investments is imprecise. Mean/variance optimisation is therefore not a very suitable method for setting allocations to alternatives. Greater weight hence needs to be placed on qualitative assessments of these investments, using sound judgement and logic.

Implementing an allocation to alternatives

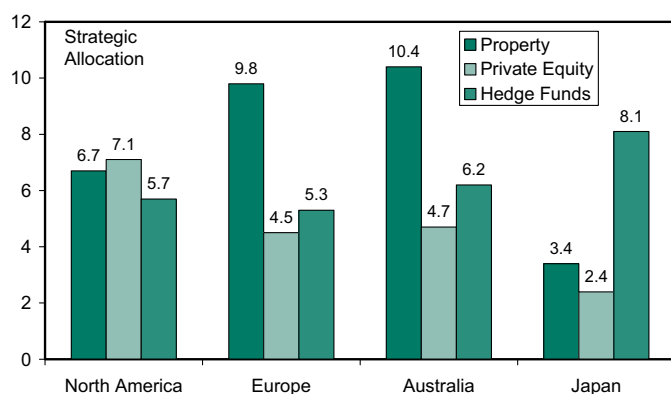
Getting diversification benefits and return enhancement from alternative investments depends on successful implementation. The range of investment returns from these types of assets is typically much wider than for traditional assets. (For example, about 20% of hedge funds go out of business each year). Therefore researching, selecting and monitoring managers are more critical for alternative assets than for equities, fixed interest and cash. These activities require significant resources, and also sufficient assets to enable adequate diversification across different types of investments and strategies.

This helps to explain the trend away from single fund alternative investments to fund-of-funds vehicles. These vehicles offer investors greater diversification than can be achieved from an individual fund. The fiduciary responsibility is delegated to the fund-of-funds manager, providing a more straightforward governance chain.

Alternative investment trends

Exhibit 2 shows the allocations to alternatives by tax-exempt organisations around the world. A recent global survey by Russell shows a steady increase in these organisations' average allocations to alternative investments.

Exhibit 2 – Strategic Allocation to Alternatives (Tax-exempt Investors)



RULE AMENDMENTS

The Rules were consolidated as of 26 November 2004 to incorporate the arrangements agreed between the Bank and the Board of Management for reduction of the scheme surplus by 31 October 2009 by allocation / payment of Special Benefits. The arrangements were recorded in a Memorandum of Agreement which is referenced in the Rule amendments. There are two categories of Special Benefits; Historic Special Benefits that apply for members of the scheme between 1 November 1995 and 31 October 2001; and Special Benefits that apply for members of the scheme between 1 November 2004 and 31 October 2009. The latter category is becoming known as current special benefits.

Description of the values expected to be allocated / paid, priorities, and processes are within the Memorandum of Agreement with provision, as outlined in the 2004 Annual Report, 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 paragraphs below outline the Rule amendments as of 26 November 2004, with commentary in italics:

• Common section of Rules

Rules were added under section C2.3 to define:

○ Historic special benefits

If funds are available special benefits will be allocated for each of the years ended 31 October 2005-2009 on a nominated date for a specified sum.

The nominated date is likely to be early in January of the year following, and the specified sum, \$5m if determined available from projection of the surplus value as at 31 October 2009.

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.

For small value 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.

The Board decided that Historic Special Benefits under \$25 will be paid and that aggregate values under \$500 would not be capitalised for payment at a discounted value.

○ Special benefits

The (current) Special Benefit is to be calculated and 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 (current) Special Benefit in respect of the year in which they withdraw.

Allocation will be on the nominated date per a specified sum.

The nominated date and specified sum are as above.

○ Annual Actuarial certification

The scheme Actuary is required to certify that the Special Benefits may be allocated for a particular year, within priorities of:

- firstly, Members Bank Contributions at 7% and a 1:1 ratio
- secondly, allocation and payment of Historic and Special Benefits, and any shortfall from a previous year(s)

- thirdly, Members Bank Contributions at a ratio in excess of 1:1.

○ Unclaimed Historic Special Benefits and Special Benefits

The Board shall make reasonable endeavours to locate Former Members entitled to receive Special Benefits. If not located the Board may defer payment until located. If not located the nominated date for the year ended 31 October 2009, or a date the Board may decide, then the Special Benefit value shall be forfeited to the Fund.

Investment Return clauses in Rule C5.3 were amended to refer to Special Benefits.

♦ Division 1 section

Amendments were made to Rule 1.3 to allow allocation and election for payment of Special Benefits for any qualifying Division 1 member.

♦ Division 2 section

Amendments were made mainly to Rule 2.1 incorporate Special Benefits within the definition of Member's Bank Contribution, and to add definition for Member's Special Additional benefit, being Historic Special Benefits and Special Benefits.

A section was added to Rule 2.7 to provide for payment of Special Member Benefits.

Current members have the right to withdraw the amount of Special Member Benefits allocated to them in a year on the nominated date set by the Board. If a member does not elect to withdraw the benefits, they will be compounded into their benefit entitlement and only be accessible through the standard withdrawal options. Former members have their Historic Special Benefits direct credited to them each year when allocated

MEMBERSHIP CHANGES

Membership changes for the 2004/2005 scheme year

	Division 1	Division 2	Total	Exit Value \$m
Opening membership 1 November 2004	1	3205	3206	
<i>Plus:</i> New members		553	553	
<i>Less:</i> Resignations		430	430	12.471
Redundancies		25	25	1.388
In-service withdrawals		224	224	9.678
Normal retirements		18	18	2.132
Deaths		1	1	0.001
Partial withdrawals				2.631
Closing membership 31 October 2005	1	3060	3061	28.301

Pensioner changes for the 2004/2005 scheme year

	Pensioners	Widows/ Widowers	Children	In total
Opening pensions at 1 November 2004	149	113	3	265
<i>Plus:</i> New pensions		6		6
<i>Less:</i> Ceased pensions	13	12		25
Closing pensions at 31 October 2005	136	107	3	246

Commentary

Division 2 membership number declined by 145, and as a percentage of Bank staff eligible to join dropped to about 67%. The reasons were reduced capacity mid-year for follow up action by the scheme secretariat of new staff to the Bank, and an increase in the number of in-service withdrawals.

A member choice investment option 'switch' opportunity was given as of 2 May 2005. About 70 members switched options. As at 31 October 2005 analysis of member choice investment options by membership numbers was:

Balanced	79%
Cash-Plus	11%
Growth	10%

The split by benefit entitlement values was about 85%, 7% and 8% respectively.

MEMBERS OF THE BOARD

The Board is made up of four representatives appointed by the Bank and four elected by members of the scheme. On, or about, 31 October 2005 members of the Board of Management were:

<i>Name</i>	<i>Bank Position</i>	<i>Constitution</i>	<i>Changes</i>
Bank-appointed representatives			
Christopher John Black	Group General Manager, Customer Quality, Auckland	Change in appointment - BOM member since April 1998; appointed by the Board of Directors of the Bank, May 2005.	Replaced Celia Patrick and appointed Chairperson
Paul Steven Bevin	Independent of Bank	Since July 2005, nominee of the Chief Executive of the Bank	Replaced Chris Black as Chief Executive's nominee
Nigel Frederick McMahon	General Manager, Risk Management NZ	Appointed November 2004, by the Chief Executive of the Bank	
Conrad James Wilkshire	General Manager Agribusiness Financial Services, Auckland	Appointed February 2004, by the Board of Directors of the Bank	
Member-elected representatives			
David John Cairns	Director, Private Bank, Auckland	Must reside in North Island Elected 8 November 2005	Replaced Grant Hill who resigned in September 2005
Alan Jefferson Strang	Private Banker, Hamilton	Must reside in North Island Elected March 2004	
Charles Layton Roberts	Head of Money Markets, Wellington	If no Division 1 member nominated, a division 2 member Elected October 2002, re-elected October 2005	
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 called upon a number of expert advisers. Advisers to the Board for the scheme year under review were:

Actuary:

Gillian Spooner of Mercer Human Resource Consulting (NZ) Ltd (purchased Watson Wyatt NZ Limited, September 2005)
P O Box 5412, Wellesley St, Auckland,

Auditors:

Deloitte, P O Box 1990, Wellington
(replaced KPMG, May 2005)

Solicitors

Chapman Tong Law, P O Box 10 614, Wellington

Investment Advisors

Russell Investment Group Limited, P O Box 105-191, Auckland

Investment Managers:

BNZ Investment Management Limited, P O Box 1299, Wellington

Alliance Capital Management New Zealand Limited, P O Box 1994, Wellington

TOWER Asset Management Limited, P O Box 2798, Wellington

AMP Capital Investors Limited, P O Box 3764, Wellington (appointed October 2005)

Property Manager:

H G Livingstone Ltd, P O Box 14 378, Christchurch
(replaced Colliers International, August 2005)

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

BOARD OF MANAGEMENT SUBCOMMITTEES

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

Audit & Risk

- Selection and appointment of replacement auditor
- Commissioning an interim audits during the year of the Membership system. No matters for concern were reported.
- Commissioning an agreed upon procedures engagement to report on systems for processing special benefits values. No matters for concern were reported.
- Negotiation of the annual audit programme.

Investment

- Monitor investment performance (quarterly) and strategy in association with Russell Investment Group.
- Triennial review of BNZ Investment Management performance as investment manager for the International Equities sector.

- Triennial review of TOWER Asset Management performance as investment manager for the Global Fixed Interest sector.
- Review of Alternate asset class investment opportunities; resulted in selection of manager for and implementation of Global Property Securities investment
- Strategic asset review resulting in changes to scheme Statement of Investment Policy and Objectives and Investment Guidelines
- Change to hedging policy for International Equities investment
- Monitor and respond to Government initiatives on taxation of corporate superannuation schemes

Strategy and Planning

- Review of outsourcing of scheme secretariat
- With People & Culture section of Bank, develop methods for improving scheme marketing
- Ensure prescribed procedures followed to determine special benefits allocation for 2005 year
- Monitor Government initiatives for corporate superannuation such as Kiwisaver.

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 2005 exceeded the total value of benefits that would have been payable had all members of the scheme ceased to be members at that date, and had provision been made for the continued payment of all benefits being paid to members and other beneficiaries (such as pensions) as at 31 October 2005,
- advises that more than 10% of the market value

of the OPA's assets were invested with BNZ Investment Management Limited during the year as follows:

- ♦ approx. \$88.6m was invested in the BNZ International Equity Index Fund as at 31 October 2005.

As at 31 October 2005, all eligible Board members were members of Division 2 of the scheme other than Conrad Wilkshire (ceased to be a Division 2 member as from 25 November 2004). Nigel McMahon and Paul Bevin were not eligible to be members.



Chris Black



Charles Roberts

for and on behalf of the Board

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 complied with that advice. The Board receives updates from the Actuary of the Pensioner and Division 1 liabilities annually. The values provided for the financial statements for the year ended 31 October 2005 are the latest update and summarise as an assessed value for the Division 1 and Pensioner liabilities of \$45,849,000. The next triennial review was underway at time of publication of this Report.

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, E-mail: bnzopa@bnz.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

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 29 April 2005)
- The Rules of the OPA
- Latest triennial actuarial valuation
- the Memorandum of Agreement detailing the settlement arrangement between the Association

and the Bank (without appending schedules that contain information relating to individual members and former members)

Complaints, Disputes and Communications

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

Communication with the Board

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

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

Your feedback is welcome

The Board is committed to keeping members informed of the significant issues facing the scheme. 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:
 - ♦ Gains from the International Equities investment of about \$6.5m; plus gains from associated currency hedges of about \$4.9m
 - ♦ realised gains of about \$3.3m and dividend income of about \$1.6m from New Zealand Equities
 - ♦ Global Fixed Interest sector gains of about \$3.3m
- Recurring operating expenses were around the same level as last year (and budgets) with main exception of Property expenses, which were higher because of preparation of properties for sale. Professional fees included an unusual expense of about \$0.1m for a review of the secretariat (potential outsourcing) and Use of money interest of about \$0.2m was paid to IRD relating to tax for the 2003 financial year. Independent Review costs were below that for previous years as the matters involved were settled early into the current year.
- Income tax expense at about \$4.4m, was driven

mainly from the International Equities associated hedge and NZ Equities sector gains. Provisional tax payments totalling \$3.9m were paid during the year.

- Compared to last year Benefits paid were higher than those paid last year, mainly due to in-service withdrawals. Contributions received were below last years level because of a reduction in the Bank subsidy level.
- 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	\$63.0m
Plus / (less)	
Bank subsidy allocation	(8.5)
Pensioner / Division 1 adjustments	1.3
Vesting fall back from exits	0.9
Undistributed earnings 2005	5.2
Closing value	\$61.9m

AUDITORS REPORT

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

The Summary Financial Statements of Bank of New Zealand Officers' Provident Association (the Association) set out on pages (18 to 21) has been extracted from audited financial statements for the year ended 31 October 2005 on which we expressed an unqualified opinion dated 29 November 2005.

Board of Management Responsibilities

The Board of Management is responsible for preparing the Summary Financial Statements in accordance with New Zealand law and generally accepted accounting practice.

Auditor's Responsibilities

We are responsible for reporting whether the information contained in the Summary Financial Statements has been correctly extracted from audited financial statements.

Basis of Opinion on the Summary Financial Report

We have undertaken procedures to provide reasonable assurance that the amounts set out in the Summary Financial Statements have been correctly taken from the audited financial statements of the Association for the year ended 31 October 2005. We have no relationship with or interests in the Association other than in our capacity as auditors.

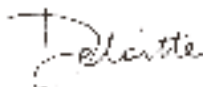
Unqualified Opinion on the Summary Financial Statements

In our opinion, the information reported in the Summary Financial Statements for the year ended 31 October 2005 on pages 20 and 21:

- complies with FRS-39: Summary Financial Reports;
- has been correctly taken from the audited financial statements of the Association from which it was extracted; and
- is consistent in all material respects with the audited financial statements of the Association for the year ended 31 October 2005.

For a better understanding of the scope of our audit of the Association's financial statements and of the Association's financial position, financial performance and cash flows for the year ended 31 October 2005, these summary statements should be read in conjunction with the Association's audited financial statements for that period.

Our examination of the Summary Financial Statements was completed on 29 November 2005 and our unqualified opinion is expressed as at that date.



Chartered Accountants
WELLINGTON, NEW ZEALAND

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 21 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.

Special Benefits totalling \$5m will be allocated for the year ended 31 October 2005 on 4 January 2006. There were no other contingent liabilities at 31 October 2005 (2004: nil).

NOTE 2 – Vested Benefits

Vested benefits are the rights which are not conditional on continued membership, under the conditions of the Association. The total vested accrued liability was \$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 2005 (to \$175.6m) was \$200.6 million, compared to assets of \$265.6 million. The surplus value, on a vested accrued liability basis, was about \$65 million.

NOTE 3 – Disclosing the impact of adopting NZ International Financial Reporting Standards

At the date of this report the scheme secretariat, on behalf of the Board of Management, had underway a project which will assess the impact of NZ IFRS on the fund. The scheme secretariat has commenced a process of identifying those standards likely to impact on the fund's financial position, financial performance and disclosure but has not yet quantified the effect. The standards identified as likely to have the most significant impact are:

- NZ IAS 12 - Income taxes
- NZ IAS 26 - Accounting and Reporting by Retirement Benefits Plans
- NZ IAS 32 - Financial Instruments: Presentation and Disclosure
- NZ IAS 39 - Financial Instruments: Measurement and Recognition

Until the scheme secretariat has completed the quantification phase of this exercise they are unable to conclude if the impact of adoption of NZ IFRS will result in a material variation in the fund's financial statements.

The scheme secretariat is confident it will achieve a plan for NZ IFRS implementation by 31 October 2006. The fund is required to adopt NZ IFRS no later than for the year ending 31 October 2008.

STATEMENT OF CHANGES IN NET ASSETS

for the year ended 31 October 2005

	2005 \$(000's)	2004 \$(000's)
Investment Activities		
Investment revenues		
NZ Fixed Interest & Cash revenue	4,879	5,120
Global Fixed Interest revenue	369	349
NZ Equities dividend & interest	1,599	1,401
Rent from properties	1,523	1,319
Changes in net market values		
• Realised Gains / (Losses)	8,310	8,193
• Unrealised Gains	11,836	6,201
Total investment revenues	28,516	22,583
Other income		
Miscellaneous income	3	19
Total other income	3	19
Total investment revenues	28,519	22,602
Less Investment management fees	704	701
Net investment activities	27,815	21,901
Operating expenses		
Audit fees	30	28
Other fees paid to Auditors	3	5
Actuarial fees	4	11
Depreciation	7	7
General expenses	78	55
Rental – secretariat office	19	33
Interest expense	-	-
• Independent review costs	297	667
Other professional fees	223	125
Property expenses	383	287
Staff	194	194
BOM remuneration	3	-
Non-deductible GST	40	32
Use of money interest - IRD	209	-
Total operating expenses	1,490	1,444
Net income/(deficit) before tax and membership activities	26,325	20,457
Income tax expense	4,385	5,224
Net income/(deficit) after tax and before membership activities	21,940	15,233
Membership Activities		
• Members' contributions	10,898	12,049
Less Benefits paid	33,128	24,621
Net membership activities (decrease)/ increase	(22,230)	(12,572)
Net (decrease)/increase in assets	(290)	2,661
Net assets available to pay benefits at beginning of year	265,919	263,258
Net assets available to pay benefits at end of year	265,629	265,919

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

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

Independent Review Costs
- The costs associated with implementing the settlement arrangement for use of the scheme surplus.

The amount used in the earnings rate calculation as earnings.

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

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

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

STATEMENT OF NET ASSETS

as at 31 October 2005

		2005 \$(000's)	2004 \$(000's)
Investments			
	Bank deposits	589	3,507
	NZ Government stock	16,629	34,011
	Other fixed interest investments	14,319	15,936
	NZ discounts	33,433	31,543
	NZ Equities – Active	30,053	33,794
	Global Fixed Interest (TOWER product)	54,299	56,153
	BNZ International Equity Index Fund	88,571	81,999
	Investment properties	14,394	12,044
	Global Property Securities	11,992	
	Forward foreign exchange contracts	(209)	(514)
		264,070	268,473
Other assets			
	Bank accounts	70	41
	Accounts receivable	4,607	799
	Fixed Assets	11	21
		4,688	861
	Total assets	268,758	269,334
Deduct liabilities			
	Accounts payable	580	1,128
	Current tax	479	222
	Deferred tax liability	2,070	2,065
	Total liabilities	3,129	3,415
	Net assets available to pay benefits	265,629	265,919
Represented by member liabilities			
	Division 2	157,878	154,916
	Division 1 & Pension liability	45,849	47,956
	Undistributed earnings – current year	5,217	
	Scheme surplus	56,685	63,047
		265,629	265,919

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

Division 2 Liability – represents the accumulation of individual member balances recorded in the Association's membership system (Rapps) at 31 October 2005 after allocating earnings for the 2005 year.

Division 1 Liability – The value the actuary determines is required to pay the remaining Division 1 member Pension Liability – The amount the actuary determines is required to pay future pensions to OPA pensioners.

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

STATEMENT OF CASH FLOWS

for the year ended 31 October 2005

	2005 \$(000's)	2004 \$(000's)
Net cash flows used in operating activities	(19,940)	(10,791)
Net cash flows from investing activities	19,969	10,797
Net increase / (decrease) in cash held	29	6
Add opening cash brought forward	41	35
Closing cash carried forward	70	41

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

The primary purpose of the scheme now is to receive, manage, and administer contributions from members and subsidy from the Bank of New Zealand (the Bank), and to pay benefits, in accordance with the Rules. The Rules were last amended during November 2004.

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

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

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

BOARD OF MANAGEMENT RESPONSIBILITY

The Act describes in section 5 (Powers of Association) the powers, rights, and authorities

available to the Board. Specifically Clause 5.2.k states:

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

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

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

The BOM is responsible for:

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

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

In determining the investment policy and objectives, the BOM recognises the concept of prudence, as provided for, although arguably not directly applicable to the OPA, in the Trustee Act. That policy prevails in the management of the OPA's

investment portfolio (with exception to be made for non-diversified member choice investment options) by being advised to, and understood by the appointed investment manager/s.

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

INVESTMENT OBJECTIVES

Cash

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

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

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

Balanced

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

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

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

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

Growth

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

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

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

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

INVESTMENT POLICIES

The investment policies set by the BOM are:

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

