

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

ANNUAL REPORT

**FOR THE YEAR ENDED
31 OCTOBER 2006**



BANK OF NEW ZEALAND OFFICERS' PROVIDENT ASSOCIATION

THE YEAR IN SUMM

The Board of Management (BOM) is pleased to present the 119th Annual Report of the Bank of New Zealand Officers' Provident Association.

This and the following page provide 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 2006, aggregate earning rates for member choice investment options within Division 2 were:

Balanced	14.45%
Cash	4.90%
Growth	20.77%

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.

Surplus / Pension / Division 1 liabilities

About \$103.5m of assets equivalent to the Surplus / Pension / Division 1 liabilities (or Non Defined Contribution assets) were transferred from being invested in the same manner as the Balanced member choice option to the Cash sector on 1 June 2006. From 1 August 2006 an arrangement was put in place with AllianceBernstein New Zealand Limited under a separate mandate that should provide investment returns similar to the Cash member choice investment option but provide the cash-flows required for Bank subsidy, pension and special benefit commitments. More detail is provided later in this report.

Scheme Membership

Division 2 – Membership

The number of members in Division 2 was 3055 as at 31 October 2006. That represented about 68% of the Bank staff eligible to join the scheme.

Communications

Issues of a *Proverbial* newsletter were listed on the web-site after the end of the first, second and third financial quarters. The web-site was launched during December 2005, and as at end of November 2006 slightly less than 50% of the membership had logged on to the secure section of the site to view earning rate, benefit entitlement, and transaction detail.

Over recent years the BOM has endeavoured to reduce the number of communications sent to members on paper. Where possible, any important communication is now sent via e-mail.

There were two surveys commissioned by the Board of Management during the year. Feedback from them has been useful to the Board with communications strategies.

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Board of Management

Board

Nigel McMahon, a nominee of the Chief Executive of the Bank transferred within the National Australia Bank Group and was replaced by Martin Philipsen, during March 2006.

Conrad Wilkshire, an appointee of the directors of the Bank resigned from the Bank and was replaced on the Board of Management by Chris Bayliss during July 2006.

Alan Strang, a member elected representative since 2003, resigned from the Board of Management during August 2006 and from an election ballot Hugh Smith joined the Board of Management early in September 2006.

The Board of Management wishes to take this opportunity to record its thanks to Nigel, Conrad and Alan.

Rule Changes

There were no Rule amendments during the year ended 31 October 2006.

Scheme Secretariat

Special Benefits

Special benefits of \$5m were allocated on 4 January 2006 for the year ended 31 October 2005 to a total of about 7350 members and former members. About 470 former members have yet to be located and paid about \$77,000 for 2005 year allocation.

An exemption to the Privacy Act was obtained by the Bank for communication to former members who still held accounts with Bank of New Zealand.

A specialist firm was engaged to locate what have been termed 'missing' former members.

Registry System

A major upgrade of the membership registry system was completed during 2006.

Compliance

Prospectus

A new Prospectus dated 8 May 2006 was registered on 11 May 2006. A refresher certificate dated 21 July 2006 was registered 24 July 2006.

A Memorandum of Amendment to the Prospectus, mainly about the Non Defined Contribution investment mandate, dated 15 September 2006 was registered on 21 September 2006.

The Investment Statement was updated for the new Prospectus and Memorandum of Amendment to the Prospectus.

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.

Accounting standards

The Association will comply with changes to international accounting standards from 31 October 2008.

That is a delay of year from the intent recorded last year. A 2008 introduction will be more efficient.

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 (from 1 December 2005)			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	10	NZSX50 NZX50 with imputation credits from 1 October 2005	17.3%	20.1%	2.8%
	Growth	20	20				
International Equities <i>Invested in BNZ/Assure International Equity Passive Index Fund –hedged</i>	Balanced	27.5	28.5	MSCI Grey List hedged – refer to later in Report for hedge levels MSCI Grey List (NZD) - (un-hedged)	25.9%	24.8%	(1.1)%
					24.8%	23.7%	(1.1)%
	Growth	47.5	50				
Global Fixed Interest <i>Invested in a TOWER unit trust product, managed by PIMCO</i>	Balanced	40	39	Lehman Bros Global Aggregate Index (NZD) - hedged	7.1%	7.1%	(0.1)%
	Growth	15	14				
NZ Fixed Interest <i>Invested in a mix of Govt. and corporate bonds, and discounted securities; with AllianceBernstein</i>	Balanced	12.5	13	NZX New Zealand Government Stock index	6.0%	6.6%	0.6%
	Growth	7.5	6.5				
Cash <i>Managed by AllianceBernstein</i>	Balanced	2.5	1	NZX Bank Bill index	7.7%	7.6%	(0.1)%
	Cash	100	100				
	Growth	2.5	1				
Property <i>A portfolio of 4 commercial properties sold by February 2006 / AMP Global Property Securities Product Allocations shown for AMP product only</i>	Balanced	7.5	8.5	USB Warburg Global Real Estate Investors Index	42.1%	48.9%	6.8%
	Growth	7.5	8.5				

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 was hedged 75% pre tax (50% after tax) to the New Zealand dollar to 30 April 2006. From 1 May 2006 both Balanced and Growth investment options were hedged with staged increases so they were both hedged at a 150% level (pre-tax) from 1 November 2006.

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 2006 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.

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.

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

The level of hedge set is a function of aversion to risk and ability to forecast portfolio values. For International Bonds a hedge ratio of 100% is advised as appropriate. That is because the absolute volatility of investment returns in the short term is low, and the additional volatility introduced by currency risk is appreciable in relative terms. For International Equities the ratio changed during 2006 rising from a 75% pre-tax level in stages to be 150% pre-tax as of 1 November 2006. Because of tax arrangements specific to the International Equities passive product, a 150% post tax hedge approximates to a 100% pre-tax hedge level.

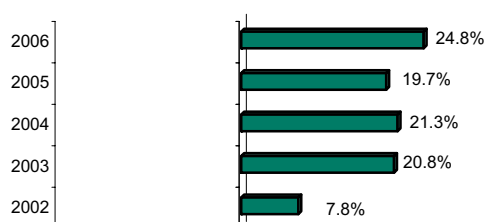
Comment on sector returns

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

The bar graphs that follow, for the main asset sectors, show performance returns for the last five years. The International Equity investment is in an Assure Funds Management wholesale superannuation fund product, the Global Fixed Interest investment is in a TOWER Asset Management unit trust product, and the Global Properties investment is via the AMP Superannuation Investment Trust (a wholesale superannuation scheme) in a Global Property Securities Fund. For the other sectors an investment manager trades within guidelines issued by OPA. In all cases (except for the hedges) the securities are held by, and transactions processed via, a custodian, not the investment manager.

New Zealand Equities

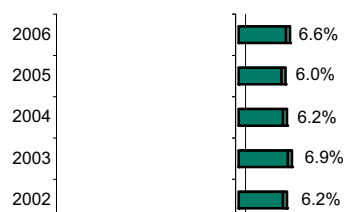
NZ Equities Returns



2006 was yet another year of very strong performance – both the 2005 and 2006 years provided extra-ordinary returns of about 20% per year. Whilst there was loss on Telecom of about \$0.8m, there was strong performance (in decreasing dollar contribution) from Mainfreight, Fletcher Building, GPG, F&P Healthcare and Contact Energy. The mandate to TOWER allows for inclusion of Australian shares and for the 2006 year the small exposure (about 5%) again produced strong returns.

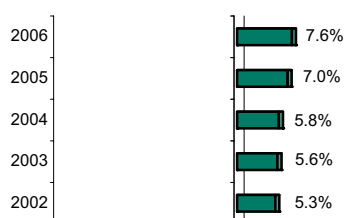
New Zealand Fixed Interest / Cash

NZ Fixed Interest Returns



There was a significant improvement toward an out-performance target set for the manager of 0.75% above benchmark or index for the New Zealand Fixed Interest component.

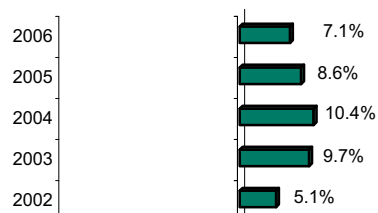
NZ Cash Returns



Withdrawal of funds for Association cash-flow requirements impacted on the Cash component performance when compared to benchmark (being 0.1% below).

Global Fixed Interest

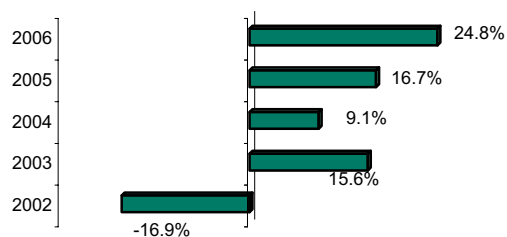
Global Fixed Interest Returns



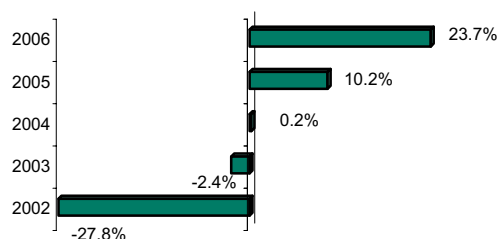
Performance from the TOWER product, managed by PIMCO (Pacific Investment Management Company), declined during the year to finish slightly below benchmark level. TOWER has indicated they are in discussion with PIMCO to endeavour to restore above benchmark performance levels.

International Equities

International Equities Returns hedged



International Equities Returns

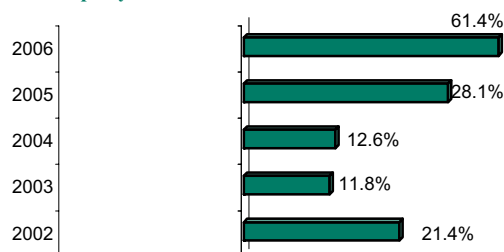


The 75% before tax (50% after tax) hedge applicable to the Balanced member choice investment option differentiated returns between the Balanced and Growth options for the first six months of the year. Thereafter a hedge was applied on staged increases to the Growth option and staged increases also to the Balanced option so that on 1 November 2006 both were at 150% before tax (100% after tax). A weakening of the New Zealand dollar assisted strong returns from the product for the first half of 2006 – and resulted in hedge losses. For the second half of the year the product return was modestly negative with the hedge providing gains.

The below index product performance was attributed by the manager to a timing effect of a withdrawal on 1 June 2006. The withdrawal of about \$32m was part of re-balancing of assets for set up of the Non DC asset mandate (refer to article headed Special Benefits later in report).

Property

Direct Property Returns



The bar graph above is for direct Property holdings only.

A disposal process for sale of four properties was completed by March 2006. Notwithstanding an increase in market value of about \$2.3m recorded from valuations as at 31 October 2005, the sales prices achieved were about \$4.6m in excess of those valuations.

The timing of investment in an AMP Global Properties Securities fund was co-incidental with a period of extraordinary returns, with delivery of about a 49% gross (about 31% net) return for the year. The investment was hedged at a 100% level within the product.

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 February received a 7.08% earning rate for the February-October period.

Investment option asset allocations changed significantly from 1 December 2005; as a consequence from that date the Cash-Plus option was renamed the Cash option.

	Balanced option			Cash option			Growth option		
%	Month	YTD Aggr.	Part year aggregate	Month	YTD Aggr.	Part year aggregate	Month	YTD Aggr.	Part year aggregate
November 2005	2.60	2.60	14.45	0.36	0.36	4.90	3.09	3.09	20.77
December	1.63	4.27	11.55	0.43	0.79	4.52	2.48	5.65	17.15
January 2006	2.50	6.88	9.76	0.39	1.18	4.07	1.87	7.62	14.32
February	1.11	8.07	7.08	0.40	1.59	3.67	2.04	9.82	12.22
March	2.60	10.88	5.90	0.45	2.05	3.26	5.48	15.84	9.98
April	0.10	10.99	3.22	0.42	2.48	2.79	(0.28)	15.51	4.26
May	(1.64)	9.13	3.12	0.40	2.89	2.36	(2.76)	12.32	4.56
June	0.98	10.20	4.87	0.39	3.29	1.96	2.34	14.95	7.52
July	0.55	10.81	3.85	0.39	3.69	1.56	(0.06)	14.88	5.07
August	0.74	11.63	3.28	0.39	4.09	1.16	1.30	16.38	5.13
September	0.82	12.54	2.52	0.38	4.49	0.77	1.15	17.71	3.78
October	1.69	14.45	1.69	0.40	4.90	0.40	2.60	20.77	2.60

The Growth member choice investment option return for the year was higher than that of the Balanced option because of larger allocations to Equities and because of timing of introduction of a currency hedge for the International Equities product investment for the Growth option.

Earning Rates – Actual versus expectation

The objectives for each member choice investment option are set out in a document called the Statement of Investment Policy and Objectives (SIPO). It may be read, as for the last few years, as the last article within this Annual Report. For each option an investment structure and allocation to investment sectors are formulated to fit with the objectives within relevant timeframes. The Board of Management has since about 1998 utilised the expertise of an investment advisor, Russell Investment Group, to assist in the process, which includes the regular monitoring and reviewing of performance.

In essence, the earning rate expectations of each investment option may be interpreted from the current SIPO as:

Option	Expected net return	90 day bill (rounded)	Average Net
Cash	NZ 90 day bill rate less expenses and tax	7.60%	4.8%
Balanced	Cash option plus 2% after tax before fees		6.6%
Growth	Cash option plus 3% after tax before fees		7.6%

Expected volatility for returns for Balanced and Growth options are expressed as chance of a negative return (or loss) in any given year is about 1 in 7 and 1 in 5 respectively.

Performance for the last three – five years (member choice options were introduced from 1 August 2003 so prior years are shown as Balanced only) has been:

Year ended 31 October	2002	2003	2004	2005	2006
Cash			4.41%	4.98%	4.90%
Balanced	(2.45)%	7.22%	6.22%	8.85%	14.40%
Growth			3.79%	7.75%	21.35%

The variance in returns – for the Balanced and Growth options - on a per annum basis in the table illustrates why past investment returns should not be taken as an indicator of future returns. The table demonstrates that over a 5 year period that included a negative return year the average return for the equivalent of a Balanced option was about 6.85% - close to the current SIPO expectation.

There was significant revision to the SIPO during 2003 (member choice investment options were introduced) and during 2005. The 2005 revision resulted in investment asset allocation changes as from 1 December 2005.

Some questions follow to illustrate the differences between the actual earning rates and expectations per the SIPO.

Why did earning rates exceed expectations significantly for the Balanced option for 2005 and 2006 and the Growth option for 2006?

In short, some of the investment sectors, especially Property, provided returns well above expectations. The value of directly owned property held in good locations increased and timing of entry to a Global Property Securities product was fortuitous. For 2006, a combination of strong product returns for the first half of the year and implementation of a hedge on International Equities for the Growth option from 1 May 2006 boosted returns for the Growth option. That hedge had assisted Balanced sector returns during 2005, detracted during the first half of 2006, and an increase in the level of the hedge helped during the latter part of 2006.

What caused the Growth option rates to be below Balanced for 2004 and 2005?

In simplistic terms for both years the higher asset allocation to International Equities without currency hedges in place. The Balanced option was protected in part by currency hedges as the New Zealand dollar strengthened.

Are there changes expected that might impact on earnings rates?

The investment sectors that are labelled Growth – Equities and Property – operate in volatile markets, and flow through effects can impact on earning rates.

Specifically, will the proposed income tax changes (the FDR (fair dividend rule) or equivalent) be cause for concern?

There will be impact from the changes. The Investment committee is working with its investment advisor, Russell Investment Group, to mitigate the effects as much as possible. At the time this Report was written (November 2006), there were no significant causes for concern.

Why have the funds that represent the Surplus/ Pension/Division 1 liabilities been invested differently?

As mentioned later in this report the Board of Management reckoned that de-risking the investment of assets equivalent in value to the Surplus/ Pension/Division 1 liabilities after periods where returns were higher than expected should improve the chances that funding would be available for payment of Special Benefits.

Currency Hedge – International Equities

A review by the Investment sub-committee completed during August 2005 concluded that a 100% (after tax) currency hedged position for each option was likely to provide members, over the long term, with a return premium over an un-hedged position. A fully hedged position would also eliminate the impact that currency movements might have on International Equity investment returns. On balance, the Investment Committee viewed that these were strong reasons to recommend a change in hedging policy on both options to the Board of Management (BOM).

The review process included communication with and analysis of feedback from interested members. It was decided that:

1. The proposed change to move the strategic position to 100% (after tax) hedging for International Equities for both the Balanced and Growth options remained in place. The BOM ratified this policy on recommendation from the Investment committee.
2. The implementation of the policy change would commence from May 2006. The delay in implementation was to provide members with sufficient time to assess the policy change and make any appropriate changes to their individual investment. During April 2006, members were offered the opportunity to switch funds prior to the implementation commencing. The timing of the implementation was to be undertaken in 3 stages as outlined in the tables below :

The implementation percentages for Hedging for the Balanced and Growth investment option International Equities investments were:

Pre tax hedge level	Until 30 April 2006	Changed to: 1 May 2006	Changed to: 1 August 2006	Completed as of: 1 November 2006
Balanced option	75%	105%	127.5%	150%
Growth option	0	52.5%	105%	150%

After tax hedge level	Until 30 April 2006	Changed to: 1 May 2006	Changed to: 1 August 2006	Completed as of: 1 November 2006
Balanced option	50%	70%	85%	100%
Growth option	0	35%	70%	100%

Special Benefits

Until 1 June 2006 assets representing the value of the Surplus, Pension, and Division 1 liabilities were invested within the Balanced investment option.

With earnings at higher than expected levels for the Balanced investment option since November 2004, the Board of Management consulted with advisors on the options to invest assets equivalent in value to the Surplus/Pension/Division 1 liabilities in lower investment risk assets with the aim of increasing the chance that funds would be available for Special Benefit payments through to 31 October 2009 at the levels set in the Memorandum of Agreement dated November 2004. A further factor was the opportunity to invest at interest rate levels that were favourable to the outcomes sought.

It was decided to remove the exposure to equity risk inherent in the Balanced investment option and concentrate investment of assets representing the Surplus/Pension/Division 1 liabilities in Cash /New Zealand Fixed Interest type securities. Accordingly, as from 1 August 2006 about \$103.5m of assets were invested under a separate mandate with AllianceBernstein. Under the Rules of the Association this mandate is not considered to be a separate investment option.

The Board, with advice from Russell Investment Group and the scheme actuary, believes that based on the anticipated bank subsidy levels through to 31 October 2009, upward revaluation of pension liabilities to allow for a lower (i.e. more conservative) discount rate, and potential changes to the taxing of New Zealand and overseas equity investments, there is a higher chance of paying additional Special Benefits than would have been the case if no changes had been implemented, albeit it is important to note this is not guaranteed.

MEMBERSHIP CHANGES

Membership changes for the 2005/2006 scheme year				
	Division 1	Division 2	Total	Exit Value \$m
Opening membership 1 November 2005	1	3060	3061	
Plus: New members		603	603	
Less: Resignations		353	353	11.211
Redundancies		64	64	4.799
In-service withdrawals		175	175	8.766
Normal retirements		15	15	2.716
Deaths		1	1	0.049
Special Benefits				3.197
Partial withdrawals				1.820
Closing membership 31 October 2006	1	3055	3056	32.558

Pensioner changes for the 2005/2006 scheme year				
	Pensioners	Widows / Widowers	Children	Total
Opening as at 1 November 2005	136	107	3	246
Plus: New		5		5
Less: Deceased	12	9		21
Closing as at 31 October 2006	124	103	3	230

Commentary

Division 2 membership declined by 5, and as a percentage of Bank staff eligible to join increased from about 67% to about 68%. That increase was due to a reduction in the number of permanent staff eligible to join the scheme contributed to by sale by the Bank of BNZ Investment Management and CustomFleet. Both entities had lower than average scheme membership participation.

A member choice investment option 'switch' opportunity was given as of 1 May 2006. As per 2005, about 70 members switched options. As at 31 October 2006 analysis of member choice investment options by membership numbers was:

Balanced	86%	(2005 79%)
Cash	5%	(2005 11%)
Growth	9%	(2005 10%)

The split by benefit entitlement values was about 78%, 10% and 12% respectively (2005, 85%, 7% and 8%).

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 2006 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	General Manager, Corporate Development, Auckland	BOM member since April 1998; appointed by the Board of Directors of the Bank, May 2005. Chairperson since May 2005.	
Paul Steven Bevin	Independent of Bank	Since July 2005, appointed by the Chief Executive of the Bank	
Martin Philipsen	Chief Risk Officer, Risk Management NZ	Appointed March 2006, nominee of the Chief Executive of the Bank	Replaced Nigel McMahon
Christopher James Bayliss	General Manager, Technology & Operations, Auckland	Appointed July 2006, by the Board of Directors of the Bank	Replaced Conrad Wilkshire
Member-elected representatives			
David John Cairns	Director, Private Banking, Auckland	Must reside in North Island Elected November 2005	
Hugh Alexander Smith	General Counsel IT, Procurement & Private Banking, Wellington	Must reside in North Island Elected September 2006	Replaced Alan Strang who resigned during August 2006
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, P O Box 105 591, Auckland,

Auditors:

Deloitte, P O Box 1990, Wellington

Solicitors:

Chapman Tong Law, P O Box 10 614, Wellington

Investment Advisors:

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

Tax:

KPMG, P O Box 996, Wellington

Investment Managers:

Assure Funds Management Limited (purchased BNZ Investment Management Limited, January 2006), P O Box 1299, Wellington

AllianceBernstein New Zealand Limited (changed name from Alliance Capital Management New Zealand Limited, February 2006), P O Box 1994, Wellington

TOWER Asset Management Limited, P O Box 2798, Wellington

AMP Capital Investors Limited, P O Box 3764, Wellington

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 sub-committees were:

Audit & Risk

- Implementation of a web-site to communicate with members
- Commissioning an interim audit during the year of the Membership system. No matters for concern were reported.
- Commissioning a 'process' review to report on operation of the scheme secretariat. 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.

- Implement asset allocation changes from 1 December 2005 for all member choice investment options
- Implement change to hedging levels for the International Equities investment
- Review and implement separate investment of assets representing the Surplus/Pension/Division 1 liabilities
- Monitor Government initiatives on taxation of corporate superannuation schemes

Strategy and Communications

- Communications with members and former members on Special Benefits
- Non-member survey to better understand reasons for not joining
- Co-ordinated with Bank, a review of scheme marketing
- 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 2006 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 2006
- advises that more than 10% of the market value of the OPA's assets were invested with BNZ

Investment Management Limited (BNZIM) during the year. BNZIM was sold to Assure Funds Management Limited on 31 January 2006. At that time the investment was approx. \$76.5m in the BNZ International Equity Index Fund. The equivalent investment with Assure as at 31 October 2006 was about \$49.5m. Assure has no association with OPA or the Bank, other than a distribution agreement in respect of retail managed products.

As at 31 October 2006, all eligible Board members were members of Division 2 of the scheme. Paul Bevin was not eligible to be a member.



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 2005. The valuation revealed that the fund was in a sound position with an actuarial surplus of approx. \$61.9m. 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 complied with that advice. The Board receives updates from the Actuary of the Pensioner

and Division 1 liabilities annually. These Division 1 and Pension liabilities are included in the financial statements for the year ended 31 October 2006 at \$46,900,000. Because of changes to the investment of assets representing the Surplus/Pension/Division 1 assets, these liabilities were valued as at 31 October 2006 using on an assumed earning rate of 4% per annum net (in place of 5.5% which had been used in previous valuations).

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 8 May 2006)
- 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 below.

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 \$17.8m; less losses from associated currency hedges of about \$1.1m
 - Direct Property gains on sale of about \$4.6m and gains from a Global Properties Securities Fund investment of about \$3.7m
 - realised gains of about \$3.0m and dividend income of about \$1.1m from New Zealand Equities
 - Global Fixed Interest sector gains of about \$3.4m
- Operating expenses were at about budget levels but below the same level for last year (because of non-recurring costs). There were no Independent Review costs.
- Income tax expense at about \$3.6m was driven mainly from the Property sale gains and New Zealand Fixed Interest / Cash sectors income. Provisional tax payments totalling \$3.9m were paid during the year.
- Compared to last year Benefits paid were higher

because of the first year of Special Benefit payments. Contributions received were very close to the level for last year.

- Significant rebalancing of investment assets occurred twice; the first was on 1 December 2005 when member choice investment option asset allocations changed and the second was on 1 June 2006 when assets equivalent to the Surplus/Pension/Division 1 liabilities were initially invested in Cash sector securities.
- The scheme surplus, shown under Member Liabilities reduced in value during the year, as shown in the analysis below. Transactions affecting the surplus summarised as:

Opening value	\$61.9m
Plus / (less)	
Bank subsidy allocation	(8.4)
Special benefit allocation	(5.0)
Pensioner / Division 1 adjustments	(0.7)
Vesting fall back from exits	0.6
Undistributed earnings 2006	6.7
Closing value	\$55.1m

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 (16-19) has been extracted from audited financial statements for the year ended 31 October 2006 on which we expressed an unqualified opinion dated 24 November 2006.

Board of Management Responsibilities

The Board of Management is responsible for preparing the Summary Financial Report 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 Report 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 Report have been correctly taken from the audited financial statements of the Association for the year ended 31 October 2006. We have no relationship with or interests in the

Association other than in our capacity as auditors.

Unqualified Opinion on the Summary Financial Report

In our opinion, the information reported in the Summary Financial Report for the year ended 31 October 2006 on pages 18-19:

- 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 2006.

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 2006, these summary statements should be read in conjunction with the Association's audited financial statements for that period.

Our examination of the Summary Financial Report was completed on 24 November 2006 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 were allocated for the year ended 31 October 2005 on 4 January 2006. It is anticipated a further \$5m will be allocated for the year ended 31 October 2006 on 5 January 2007.

There were no other contingent liabilities at 31 October 2006 (2005: 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 \$200.6 million, compared to assets of \$265.6 million, per the actuarial valuation as at 31 October 2005. The difference (\$65.0 million) between these two amounts will reduce to the extent the Bank continues to meet its subsidy from the surplus and will also reduce to the extent that members accrue additional service and are allocated Special Benefits. The equivalent total vested accrued liability at 31 October 2006 (to \$200.6m) was \$215.0 million, compared to assets of \$272.8 million. The surplus value, on a vested accrued liability basis, was about \$57.9 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 Association. The scheme secretariat has commenced a process of identifying those standards likely to impact on the Association's financial position, financial performance and disclosure but has not yet quantified the effect. The standards likely to have the most significant financial impact on the Association are:

NZ IAS 12 - Income taxes

NZ IFRS requires income tax to be calculated using the balance sheet method. This approach recognises deferred tax balances when there is a difference between the carrying value of an asset or liability and its tax base. This change is unlikely to have a material impact on the Association's financial statements.

NZ IAS 26 - Accounting and Reporting by Retirement Benefits Plans

NZ IFRS requires investments of retirement benefit plans to be measured at fair value. Fair value is different from net market value under current NZ GAAP in two ways. Firstly under NZ IFRS there is no allowance for disposal costs to be netted off fair value of the investment. Secondly, under NZ IFRS the fair value of investments is to be measured using bid price rather than last sale price. The Association is currently working through the quantum of these adjustments on transition to NZ IFRS

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 Association's financial statements.

The scheme secretariat has delayed a plan for NZ IFRS implementation by 31 October 2008. The Association is required to adopt NZ IFRS no later than for the year ending 31 October 2008.

BANK OF NEW ZEALAND OFFICERS' PROVIDENT ASSOCIATION

STATEMENT OF CHANGES IN NET ASSETS

For the year ended 31 October 2006

	2006 \$(000's)	2005 \$(000's)
INVESTMENT ACTIVITIES		
Investment revenues		
NZ Fixed Interest & Cash revenue	5,284	4,879
Global Fixed Interest revenue	515	369
NZ Equities dividend & interest	1,063	1,599
Rent from properties	382	1,523
Changes in net market values		
• Realised Gains / (Losses)	17,891	8,310
• Unrealised Gains	13,788	11,836
Total investment revenues	38,923	28,516
Other income		
Miscellaneous income	11	3
Total other income	11	3
Total investment revenues	38,934	28,519
Less Investment management fees	822	704
Net investment activities	38,112	27,815
Operating expenses		
• Audit fees	31	30
Other fees paid to Auditors	15	3
Actuarial fees	42	4
Depreciation	26	7
General expenses	173	78
Rental – secretariat office	-	19
Interest expense	-	-
• Independent review costs	-	297
Other professional fees	144	223
Property expenses	212	383
Staff	221	194
BOM remuneration	15	3
Non-deductible GST	62	40
Use of money interest - IRD	-	209
Total operating expenses	941	1,490
Net income/(deficit) before tax and membership activities	37,171	26,325
Income tax expense	3,592	4,385
• Net income/(deficit) after tax and before membership activities	33,579	21,940
MEMBERSHIP ACTIVITIES		
• Members' contributions	10,847	10,898
• Less Benefits paid	37,215	33,128
Net membership activities (decrease)/ increase	(26,368)	(22,230)
Net (decrease)/increase in assets	7,211	(290)
Net assets available to pay benefits at beginning of year	265,929	265,919
Net assets available to pay benefits at end of year	272,840	265,629

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

BANK OF NEW ZEALAND OFFICERS' PROVIDENT ASSOCIATION

STATEMENT OF NET ASSETS

as at 31 October 2006

	2006 \$(000's)	2005 \$(000's)
Investments		
Bank deposits	25,022	589
NZ Government stock	7,631	16,629
Other fixed interest investments	9,510	14,319
NZ discounts	91,128	33,433
NZ Equities – Active	18,294	30,053
Global Fixed Interest (TOWER product)	59,597	54,299
BNZ International Equity Index Fund	49,460	88,571
Investment properties	-	14,394
Global Property Securities	13,453	11,992
Forward foreign exchange contracts	483	(209)
	274,578	264,070
Other assets		
Bank accounts	43	70
Accounts receivable	408	4,607
Fixed Assets	94	11
	545	4,688
Total assets	275,123	268,758
Deduct liabilities		
Accounts payable	489	580
Current tax	268	479
Deferred tax liability	1,526	2,070
Total liabilities	2,283	3,129
Net assets available to pay benefits	272,840	265,629
Represented by member liabilities		
Division 2	170,820	157,878
Division 1 & Pension liability	46,900	45,849
Undistributed earnings – current year	6,738	
Scheme surplus	48,382	61,902
	272,840	265,629

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

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

Statement of Cash Flows

for the period ended 31 October 2006

	2006 \$(000)'s	2005 \$(000)'s
Net cash flows used in operating activities	(25,420)	(19,940)
Net cash flows from investing activities	25,393	19,969
Net increase / (decrease) in cash held	(27)	29
Add opening cash brought forward	70	41
Closing cash carried forward	43	70

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.

