

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

ANNUAL REPORT

**FOR THE YEAR ENDED
31 OCTOBER 2007**



BANK OF NEW ZEALAND OFFICERS' PROVIDENT ASSOCIATION

THE YEAR IN SUMM

The Board of Management (BOM) is pleased to present the 120th 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

Aggregate earning rates for member choice investment options within Division 2 for the year ended 31 October 2007 were:

| | |
|----------|--------|
| Balanced | 7.20% |
| Cash | 5.03% |
| Growth | 10.20% |

For Division 2 members' allocation of earnings is on a monthly basis. Members who joined during the year received an aggregate earnings rate for their period of membership. A table of rates is provided within this report for monthly and year to date periods.

Income tax legislation

Changes to income tax legislation during 2007 impacted on the scheme. Detail may be read within this report about the effect of the introduction of portfolio investment entities (PIEs – the scheme became one on 2 November 2007), Prescribed Investor Rate (PIR), fair dividend rate (FDR), and a change in income tax level for widely held superannuation funds.

Equities

The investment manager for the New Zealand Equities sector changed as of 31 October 2007 from TOWER Asset Management to ING New Zealand.

There will be a change in manager and investment style for the International Equities sector investment with implementation scheduled for early in the 2008 financial year. The Assure IEIF product binding tax ruling lapsed on 1 October 2007 because of introduction of FDR. The proposed change will be to an actively managed style multi-manager product.

Scheme Membership

Kiwisaver

The government introduced Kiwisaver as a preferred form of superannuation from 1 July 2007, with 'sweeteners' of \$1,000 kick-start, income tax and fee subsidies, and compulsory graduated employer contribution levels. Changes were made to the Rules of the Association to permit the Bank to be exempt from automatically enrolling new staff to Kiwisaver.

Division 2 – Membership

Membership increased by 55 to be 3110 on 31 October 2007. The increase was pleasing given Kiwisaver was introduced as a direct competitor to the scheme from 1 July 2007.

Communications

Issues of a *Proverbial* newsletter were listed on the web-site (www.bnzopa.co.nz) after the end of the first, second and third financial quarters. As at end of November 2007 close to 60% of the membership had utilised the secure section of the site to view earning rate, benefit entitlement, and transaction detail.

Where possible, communication with members is now either via the web-site or by email.

| Contents | Page | | | | |
|------------------------|------|--------------------------|----|--------------------------------|----|
| Investment Performance | 4 | Board of Management | | Further Information | 17 |
| Membership Changes | 13 | Subcommittees | 15 | Financial Performance | 17 |
| Members of the Board | 14 | Declaration by the Board | 15 | Abridged Financial Summary | 18 |
| Advisors to the Board | 14 | Actuarial Declaration | 16 | Statement of Investment Policy | 22 |
| | | Auditors' Report | 16 | | |

Board of Management

Chris Black, an appointee of the directors of the Bank left the Bank and the directors appointed Martin Philipsen, an existing Board member, to replace Chris during May 2007.

In turn, the Chief Executive of the Bank replaced Martin with Glenn Patrick as his nominee on the Board, John Switalla, a member elected representative, resigned from the Board of Management as of 1 March 2007. Matt Eaden was the sole nominee for John's position and was thus elected from 2 March 2007 for a term of 3 years without need for a ballot.

The Board of Management wishes to take this opportunity to record its thanks and appreciation to Chris and John who had both been BOM members since 1998.

Scheme Secretariat

Special Benefits

Special benefits of \$5m were allocated on 5 January 2007 for the year ended 31 October 2006 to a total of about 7350 members and former members. About 450 former members have yet to be located and paid about \$58,000 for 2005 and \$75,000 for 2006 year allocations respectively.

Registry System

The membership registry system was improved during the year for:

- enhanced controls;
- Kiwisaver, including record of date joined employer; and
- PIE's to record IRD numbers, personal investor rates, and split to components within earning rate for IRD reporting.

The Board of Management commissioned independent reviews of Excel models used for

monthly calculation of the income tax and the earning rate allocation process. There were no issues of note to report from the reviews.

Compliance

Rule Changes

There were Rule amendments during the year to:

- no longer restrict elections to postal ballots – i.e., permit electronic voting
- permit the Bank to obtain exemption from the Kiwisaver Act automatic enrolment process for new staff
- provide some minor administrative improvements.

More detail may be read in a separate section within this Report.

Prospectus

A new Prospectus dated 19 April 2007 was registered on 24 April 2007. A refresher certificate dated 23 July 2007 was registered 3 August 2007.

A Memorandum of Amendment to the Prospectus, mainly relating to the Rule changes mentioned in an earlier paragraph, dated 15 June 2007 was registered on 25 June 2007. A second memorandum was registered in November 2007, covering changes arising from PIE and to the New Zealand Equities management.

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

Accounting

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

The financial statements included within this report are in 'summary form'. The full statements are available free of charge 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: transferred to ING (NZ) on 31 October 2007</i> | Balanced | 10 | 10 | NZSX50 NZX50 with imputation credits from 1 October 2005 | 13.2% | 13.9% | +0.7% |
| | | | | | | | |
| | Growth | 20 | 20 | | | | |
| International Equities <i>Invested in Assure International Equity Passive Index Fund –hedged</i> | Balanced | 27.5 | 28 | MSCI Grey List hedged – | 24.4% | 26.2% | +1.8% |
| | | | | MSCI Grey List (NZD) – | 3.3% | 3.3% | - |
| | Growth | 47.5 | 47.5 | (un-hedged) | | | |
| Global Fixed Interest <i>Invested in a TOWER unit trust product, managed by PIMCO</i> | Balanced | 40 | 41 | Lehman Bros Global Aggregate Index (NZD) - hedged | 7.2% | 5.8% | (1.4)% |
| | | | | | | | |
| | Growth | 15 | 16 | | | | |
| NZ Fixed Interest <i>Invested in a mix of Govt. and corporate bonds, and discounted securities; with AllianceBernstein New Zealand</i> | Balanced | 12.5 | 11 | NZX New Zealand Government Stock index | 3.3% | 3.3% | - |
| | | | | | | | |
| | Growth | 7.5 | 6 | | | | |
| Cash <i>Managed by AllianceBernstein New Zealand</i> | Balanced | 2.5 | 2.5 | NZX Bank Bill index | 8.2% | 8.1% | (0.1)% |
| | Cash | 100 | 100 | | | | |
| | Growth | 2.5 | 3 | | | | |
| Property <i>AMP Global Property Securities Product</i> | Balanced | 7.5 | 7.5 | USB Warburg Global Real Estate Investors Index | 6.6% | 10.3% | +3.7% |
| | | | | | | | |
| | Growth | 7.5 | 7.5 | | | | |

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.

Both Balanced and Growth investment options were hedged at a 150% level pre-tax (100% post tax).

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 2007 there were 8 bond issues within the index with maturity dates from 2008 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 from 1 November 2006 was 150% pre-tax. Because of tax arrangements specific to the International Equities passive product, a 150% post tax hedge approximated to a 100% pre-tax hedge level.

Comment on sector returns

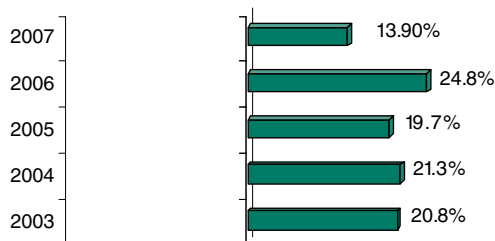
Warning - past performance should not be taken as an indicator of future performance

The bar graphs that follow, for the main asset sectors, show performance returns for the last five years.

The International Equity investment has been in an Assure Funds Management wholesale superannuation fund product, the Global Fixed Interest investment in a TOWER Asset Management unit trust product, and the Global Properties investment 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 currency hedges) the securities are held by, and transactions processed via, a custodian, not the investment manager.

New Zealand Equities

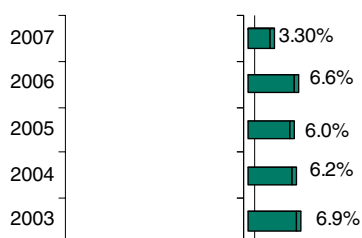
NZ Equities Returns



The strong performance from 2003 to 2006 years continued into the 2007 year. The mandate to TOWER allowed for inclusion of Australian shares and as for 2006, in 2007 the small exposure (about 5%) produced very good returns.

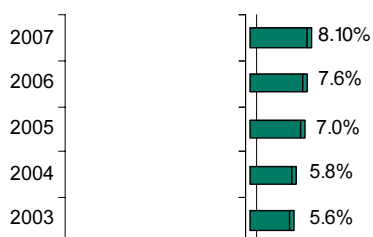
New Zealand Fixed Interest / Cash

NZ Fixed Interest Returns



2007 was an example of the return (and benchmark) not reflecting the face value interest rate of the investments (between about 6 to 8.5%). The main reason for that was interest rates rose during the year, reducing the market value of the investments already in the portfolio.

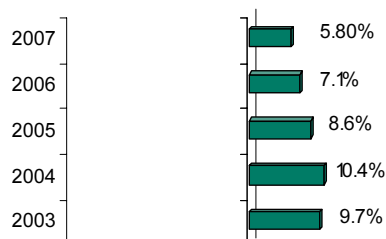
NZ Cash Returns



As for previous years, 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

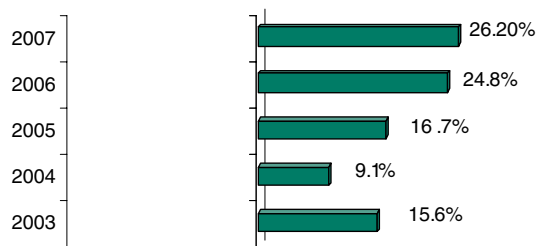
Global Fixed Interest Returns



PIMCO (Pacific Investment Management Company) the manager employed by TOWER continued (from last year) to under perform finishing the year over 1% below benchmark level when target is to be about 1% above.

International Equities

International Equities Returns hedged

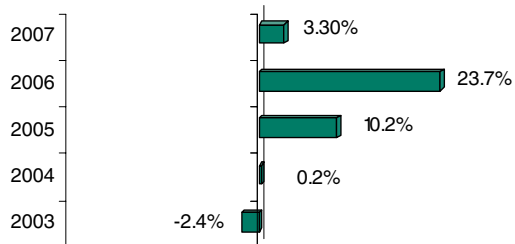


A strengthening of the New Zealand dollar translated as weak returns from the product during 2007 – and resulted in significant hedge gains.

There were modest returns from the equities investments.

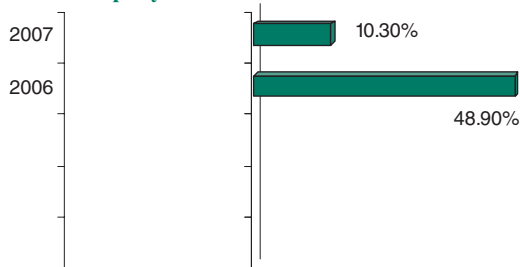
The overall performance exceeding index return was attributed by the manager to during September 2007 the hedge level was below where it should have been and the New Zealand dollar weakened resulting in hedge gains in excess of index movement.

International Equities Returns



Property

Global Property Returns



The extraordinary returns from 2006 did not continue. Indeed, for part of 2007 the return was negative. There is exposure to US property markets within the product. The investment was hedged at a 100% level within the product. The taxation charge within the product changed to a Fair Dividend Rate basis from 1 April 2007.

The Global Property product investment commenced on 28 October 2005.

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 Growth option in March received a 5.79% earning rate for the March-October period.

| | 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 2006 | 1.18 | 1.18 | 7.20 | 0.41 | 0.41 | 5.03 | 1.34 | 1.34 | 10.20 |
| December | 1.22 | 2.41 | 5.95 | 0.39 | 0.80 | 4.61 | 2.23 | 3.60 | 8.75 |
| January 2007 | 0.78 | 3.21 | 4.67 | 0.38 | 1.18 | 4.21 | 1.29 | 4.94 | 6.37 |
| February | 0.15 | 3.37 | 3.86 | 0.38 | 1.57 | 3.81 | (0.73) | 4.17 | 5.02 |
| March | 0.61 | 4.00 | 3.71 | 0.41 | 1.99 | 3.42 | 0.80 | 5.00 | 5.79 |
| April | 1.26 | 5.31 | 3.08 | 0.38 | 2.37 | 3.00 | 2.10 | 7.20 | 4.95 |
| May | 0.71 | 6.06 | 1.80 | 0.43 | 2.81 | 2.61 | 1.82 | 9.15 | 2.80 |
| June | (1.01) | 4.99 | 1.08 | 0.40 | 3.22 | 2.17 | (1.15) | 7.89 | 0.96 |
| July | (0.63) | 4.32 | 2.11 | 0.39 | 3.63 | 1.76 | (1.17) | 6.63 | 2.14 |
| August | (0.70) | 3.59 | 2.76 | 0.48 | 4.12 | 1.37 | (1.50) | 5.03 | 3.35 |
| September | 3.44 | 7.16 | 3.48 | 0.42 | 4.56 | 0.88 | 5.08 | 10.37 | 4.92 |
| October | 0.04 | 7.20 | 0.04 | 0.46 | 5.03 | 0.46 | (0.15) | 10.20 | (0.15) |

The Growth member choice investment option return for the year was higher than that of the Balanced option because of larger allocations to the Equities investment sectors with Equities out-performing Fixed Interest sectors.

Earnings Rates by year for Member Choice Investment Options

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.

| Year | Balanced Net | Cash Net | Growth Net | 90 day bill index Gross less tax |
|-------------------|--------------|----------|------------|-------------------------------------|
| 2004 | 6.22% | 4.41% | 3.79% | 3.9% |
| 2005 | 8.85% | 4.95% | 7.75% | 4.75% |
| 2006 | 14.45% | 4.90% | 20.77% | 5.15% |
| 2007 | 7.20% | 5.03% | 10.20% | 5.5% |
| Average (rounded) | 9.2% | 4.8% | 10.6% | 4.8% |

The asset allocation mix within each of the options has changed between 2004 and 2007 so inhibiting direct year on year comparison. On average performance the net return has either met or exceeded current investment objectives for each option. Brief explanation is provided as:

Cash

The Cash option target investment return is 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. The index of 8.2% less 33% tax rate was about 5.5% for the 2007 year. The actual rate as above was 5.03% after fees, expenses, and tax. After allowing about 0.46% for fees and expenses actual was close to expectation.

Balanced

The Balanced option target investment return is to outperform, over a long term horizon, the NZX 90 Day Bank Bill Index by 2% (on an after tax basis), before fund expenses and fees are taken into account. That is, in simplistic terms, to exceed the Cash option return by 2% over a long term. For the term horizon available to date of 2004 to 2007, the target has been exceeded.

Growth

The Growth option target investment return is to outperform, over a long term horizon, the NZX 90 Day Bank Bill Index by 3% (on an after tax basis), before fund expenses and fees are taken into account. That is, in simplistic terms, to exceed the Cash option return by 3%. For the term horizon available to date of 2004 to 2007, the target has been exceeded.

Warning - the average out-performance to target for the Balanced and Growth options should not be taken as an indicator for future performance.

How safe are your funds?

A question that receives publicity from time to time is how safe are investors' funds. During 2007 the question was highlighted by the collapse of many New Zealand finance companies and defaults within the USA sub-prime mortgage market.

The Board of Management could, simply, state to members that the investment guidelines in force for the Scheme mean there is very limited opportunity for the Scheme's investment managers to invest in 'at risk' New Zealand finance companies, and that the Scheme's exposure to the US sub-prime mortgage market was very small, and leave matters to rest at that.

The Board prefers to address potential consequences from flow-on effects in markets seemingly distinct from those that experienced the direct defaults; and to review how those effects may impact on the overall investment returns for the Scheme.

As fiduciaries for the Scheme, the members of the Board of Management are required to act prudently in investing its assets. To assist with that responsibility the Board receives expert advice on formulating and monitoring the Scheme's investment policies and guidelines. The Board considers that to date it has been, and intends to continue to be, particular in its care to disclose and communicate with members all relevant information about the investments of the Scheme in a timely manner. How to communicate succinctly what can sometimes be complex matters and translation of 'industry jargon' or terminology used within investment management has proven difficult.

The Investment sub-committee of the Board of Management in conjunction with investment advisors, Russell Investment Group (Russell) determines investment parameters for the Scheme.

The top level parameters for the Scheme's investments are contained within a Statement of Investment Policy and Objectives – short-named SIPO – a copy of which has been reproduced as the last two pages of each Annual Report since 2001. One of the Scheme's policies is that the investment risk must be minimised for the expected level of return.

The SIPO describes return objectives for the various member choice investment options relative to a Cash sector benchmark. For the Cash member choice investment option the objective is to achieve a return that is consistent with bank term deposits. The return objectives for the Balanced and Growth options are expressed as margins in excess of a Cash return. The Cash member choice investment option is invested entirely in the Cash sector.

The next level parameters are included in an investment guidelines document. In line with the requirements set out in the SIPO, the investment sub-committee with Russell advice determines asset allocations for each member choice investment option. The option with the lowest risk level is Cash.

The option with the highest risk level is Growth. The differences between the risk levels of the three options are

set by the asset allocations for each option, and not how the funds are invested. For example, the Balanced and Growth options use the same investment managers with the funds invested on a co-mingled basis. The higher risk of the Growth option, relative to the Balanced option, is a result of its higher allocation to Equities.

The investment managers for the Cash, New Zealand Fixed Interest, and New Zealand Equities asset classes invest according to the guidelines specified within the investment guidelines document. The investment managers for those asset classes provide certificates at each month end that they have complied with the guidelines. The Global Fixed Interest, Global Properties Securities, and International Equities sector investments are regulated per guidelines developed by the managers for the products in which the Scheme invests. When selecting the products the Investment subcommittee in conjunction with Russell determined that the guidelines issued for each product are consistent with the Scheme's policies.

Because recent news has focused on the collapse of New Zealand finance companies and the sub-prime mortgage issues in the USA, the overview of the investment guidelines that follows concentrates on the Cash and Fixed Interest sectors.

Cash

The Cash sector investment is restricted to \$NZ denominated debt securities issued by the New Zealand Government, Reserve Bank of New Zealand, approved banks, or marketable debt securities, with a short-term credit rating from Standard & Poor's rating of A-1 or higher. There is definition of 'approved banks' within the guidelines. The marketable debt securities (non-approved banks, companies, local bodies, crown entities) credit rating level is set as equivalent to that for an approved bank.

No more than 50% of the portfolio may be invested in the securities of any one approved bank and at least 50% of the portfolio must be in securities issued by the Government, Reserve Bank, or approved banks. Standard & Poor's (S&P) is an internationally recognised provider of independent credit ratings. The credit rating ascribed is related to the risk of the issuer defaulting on the debt. The highest rating issued by S&P is AAA.

The restriction to securities rated A-1 or higher (the equivalent of an approved bank) means that the Scheme cannot invest in most New Zealand based finance companies. Only a few finance companies in New Zealand have credit ratings at a level equivalent to an approved bank.

Typically the Cash portfolio investments are dominated by trading bank securities, with some exposure to other corporate and government entities.

New Zealand Fixed Interest

Investment in this asset class is restricted to \$NZ denominated marketable debt securities via securities issued or guaranteed by the New Zealand Government or issued in New Zealand by other entities with Standard & Poor's (S&P) credit ratings of at least A- or higher. The guidelines restrict exposure to entities and to credit rating levels as shown in the following table:

| Security Issuer | Allocation Limit % of Asset Class | S&P Credit Rating | Other Criteria |
|--|-----------------------------------|--|--|
| NZ Government / approved bank | At least 50% | A-1 or higher | Maturity date less than 12 months if approved from bank. |
| Other entities by credit rating | 50% in total | AAA | |
| | 30% in total | AA+, AA, AA- | |
| | 15% in total | A+, A, A- | |
| | Not permitted | Less than A- | |
| Exchange traded futures, options contracts, over the counter interest rate swaps, forward rate agreements, fully collateralised securities | Face value does not exceed 30% | Counterparty AA- or higher plus current ISDA agreement | Futures and options fully collateralised with no leverage. |
| Any one issuer (other than NZ Government) | No more than 10% | | |
| Any one issue by non-sovereign issuer | Not more than 15% of issue | | |

Another important restriction on the portfolio is that the duration of the portfolio shall not vary by more than +/- 1.5 years from the duration of the portfolio benchmark. This places a limit on the losses (and gains) for the portfolio that may result from interest rate movements.

The credit rating restrictions for the New Zealand Fixed Interest sector mean that the Scheme's investments are predominantly NZ Government bonds, issues from approved banks, crown entities such as health authorities and power companies, local bodies, and 'blue-chip' companies.

Income Tax changes

Welcome to the world of tax abbreviations and acronyms – IRD, PIE's, PIR, FDR...

The Government put in place a number of income tax changes during the 2007 year that had impact for superannuation schemes such as the Association.

Income tax rate for the Association

The Association, as a 'widely held superannuation fund', qualifies for the change in the corporate tax rate from 33% to 30%. The change applies to the Association from 1 November 2007 because of the Association's financial year end being 31 October.

The change in tax rate should be attractive to Division 2 members who have a personal marginal tax rate of 33%, in addition to those with a marginal tax rate of 39%, because earnings on their investments in the Association should be effectively taxed at a rate that is lower than their personal tax rate.

PIE's = portfolio investment entities

The main purpose of a PIE is to permit investors with a personal investor rate (PIR) for income tax of 19.5% to be taxed on investment income at that 19.5% rate, in place of a higher (33%) income tax rate paid by the scheme to date.

The Board of Management decided that there were sufficient members of Division 2 who might benefit from the scheme registering as a PIE to warrant proceeding with implementation. The legislation permitted implementation from 1 October 2007 but because of the (company) income tax rate change to 30% was available to the scheme from 1 November the start date was delayed. The Association has been registered as a PIE since 2 November 2007.

New Zealand Equities

The current New Zealand Equities sector investment (which may include investments in Australian listed shares) for the scheme will become income tax exempt on gains (and losses will not be deductible) from 2 November 2007 when the Association registered as a PIE (or invests in a PIE) if investment is made in qualifying New Zealand and Australian shares. Dividend income will continue to be taxed.

The Board of Management, for reasons not associated with the income tax changes, had also been reviewing the management of the New Zealand Equities sector. ING (NZ) Limited was appointed manager for the sector (which has since 2001 included an allocation to Australian shares) effective from 1 November 2007.

The New Zealand Equities tax exemption should reduce income tax payable for this sector by the Association.

Fair Dividend Rate (FDR)

The FDR regime applies to the Association's investments in Global Property and International Equities. FDR has been in place for Global Property since 1 April 2007 and was effective for International Equities from 1 October 2007.

As a consequence of income tax changes the investment in International Equities will move to an actively managed multi-manager product. To date it has been invested in a passive style product with attraction of a binding tax ruling (gains tax exempt, losses not deductible). The binding tax ruling lapsed as of 1 October 2007 and as mentioned above the product is now subject to the FDR regime. The currency hedging of the investment will be maintained.

SPECIAL BENEFITS

Since 1 June 2006 assets representing the value of the Surplus, Pension, and Division 1 liabilities have been invested separately in Fixed Interest type securities under an investment management agreement with Alliance Bernstein New Zealand.

The Memorandum of Agreement dated November 2004 in place between the Board of Management and the Bank specifies mechanisms for allocation of Special Benefits on an annual basis until 31 October 2009. It requires annual consultation between the scheme and Bank actuaries with recommendation from them of the level of Special Benefits to be allocated each year. The agreement includes provision for adjustment if there are extraordinarily favourable or extraordinarily unfavourable circumstances.

For the year ended 31 October 2007 the actuaries have determined there were extraordinarily favourable circumstances. Their recommendation, in accordance with the Memorandum, is that the Bank maintain the subsidy (or employer contribution) rate at 7% for the year commencing 1 November 2007 but that a gearing ratio of 1:1.2 be applied to replace the previous 1:1 ratio. Members of the scheme between 2001 and 2004 may recall there was a gearing of 1: 1.5 in place during that period. The 1:1.2 ratio will be applied in a similar way to that. In effect, the subsidy at the maximum 7% level with a 1:1.2 gearing is equivalent to a subsidy level of 8.4%; or for a member contributing at 4% equivalent to 4.8%.

RULE AMENDMENTS

The Rules were amended on 9 May 2007 to mainly take account of changes introduced by the KiwiSaver Act and to- allow the Bank to have exempt employer status from automatic enrolment of new staff into a Kiwisaver scheme. The opportunity was also taken to incorporate amendments for some minor administrative matters at the same time.

The effect of specific Rule amendments were:

Administrative related

- to confirm the existing practice that an Expatriate Member remains a member of the OPA and is entitled to make contributions during the period of his or her overseas secondment;
- to allow electronic voting for Board of Management members and the Returning Officer to review an electronic count;
- to confirm the Board is not required to give notice where the Member elects a nil contribution rate where there is, in practical terms, no arrangement to be notified; and
- to allow flexibility for switching between member choice investment options particularly when Easter and ANZAC Day restrict the number of business days available within the usual 14 day notice period.

Kiwisaver related changes

- to the definition of qualifying employees eligible to join Division 2 to meet the requirements in section 25(1)(a)(i) of the KiwiSaver Act 2006 for the Bank to be an Eligible Employer
- to the Transfer Rule for Division 2 members to meet the requirements in sections 25(1)(a)(ii) and 25(1)(c) of the KiwiSaver Act 2006 for the Bank to be an Eligible Employer.
- to the Contribution Rules meet the requirements in sections 25 of the KiwiSaver Act 2006 for the Bank to be an Eligible Employer. The changes include the requirement for each member for whom permanent employment with the Bank commenced on or after 1 July 2007 that an amount equal to at least 4% of annual gross base salary must be contributed to or otherwise credited in the scheme. Any bank subsidy is included in the calculation of this minimum amount.

MEMBERSHIP CHANGES

| Membership changes for the 2006/2007 scheme year | | | | |
|--|------------|-------------|-------------|-------------------|
| | Division 1 | Division 2 | Total | Exit Value \$m |
| Opening membership 1 November 2006 | 1 | 3055 | 3056 | |
| Plus: New members | | 696 | 696 | |
| Less: Resignations | | 397 | 397 | 12.204 |
| Redundancies | | 68 | 68 | 5.265 |
| In-service withdrawals | | 165 | 165 | 8.571 |
| Normal retirements | | 8 | 8 | 0.818 |
| Deaths | | 3 | 3 | 0.214 |
| Special Benefits | | | | 3.530 |
| Partial withdrawals | | | | 3.621 |
| Closing membership 31 October 2007 | 1 | 3110 | 3111 | 34.223 |

| Pensioner changes for the 2006/2007 scheme year | | | | |
|---|------------|----------------------|----------|------------|
| | Pensioners | Widows / Widowers | Children | Total |
| Opening as at 1 November 2006 | 124 | 103 | 3 | 230 |
| Plus: New | | 5 | | 5 |
| Less: Deceased | 8 | 11 | | 19 |
| Closing as at 31 October 2007 | 116 | 97 | 3 | 216 |

Commentary

At year end Division 2 membership had increased by 55. This was notwithstanding competition from Kiwisaver which began on 1 July 2007.

A member choice investment option 'switch' opportunity was given as of 1 May 2007. About 100 members switched options, an increase over 2006 (70). As at 31 October 2007 the analysis of member choice investment options by membership numbers was:

| | | |
|----------|-------|------------|
| Balanced | 75.5% | (2006 86%) |
| Cash | 10% | (2006 5%) |
| Growth | 14.5% | (2006 9%) |

The split by benefit entitlement values was about 85%, 5% and 10% respectively (2006, 78%, 10% and 12%).

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 2007 members of the Board of Management were:

| <i>Name</i> | <i>Bank Position</i> | <i>Constitution</i> | <i>Changes</i> |
|---------------------------------------|--|---|--|
| Bank-appointed representatives | | | |
| Martin Philipsen | Chief Risk Officer, Risk Management NZ | BOM member since March 2006; appointed by the Board of Directors of the Bank, May 2007. Chairperson since May 2007. | Chris Black left the Bank and resigned from the Board, April 2007. |
| Paul Steven Bevin | Independent of Bank | Since July 2005, appointed by the Chief Executive of the Bank | |
| Glenn Robert Patrick | Chief Operating Officer, Insurances | Appointed May 2007, nominee of the Chief Executive of the Bank | Replaced Martin Philipsen |
| Christopher James Bayliss | General Manager, Retail Banking, Auckland | Appointed July 2006, by the Board of Directors of the Bank | |
| Member-elected representatives | | | |
| David John Cairns | Divisional Director, Private Bank, Auckland | Must reside in North Island Elected November 2005 | |
| Hugh Alexander Smith | General Counsel, IT Procurement & Private Bank, Wellington | Must reside in North Island Elected September 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 | |
| Matthew James Eaden | Senior Business Manager, Custom Christchurch | Must reside in South Island, Elected March 2007 | Replaced John Switalla who resigned from the Board February 2007 |

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:

Michael Robinson of Mercer (NZ) Ltd,
PO Box 105 591, Auckland (replaced Gillian Spooner)

Auditors:

Deloitte, P O Box 1990, Wellington

Solicitors:

Chapman Tong Law, P O Box 10 614, Wellington

Investment Advisors:

Russell Investment Group Limited,
PO Box 105-191, Auckland

Tax:

KPMG, P O Box 996, Wellington

Investment Managers:

Assure Funds Management Limited, PO Box 1299, Wellington

AllianceBernstein New Zealand Limited, PO Box 1994, Wellington

TOWER Asset Management Limited, PO Box 2798, Wellington

AMP Capital Investors Limited, PO Box 3764, Wellington

ING (NZ) Limited, PO Box 7149, Auckland (from 31 October 2007)

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 were:

Audit & Risk

- Submission to government on review of financial products and providers, especially on impact on employer superannuation schemes
- Commissioning an interim audit during the year of the Membership system. No matters for concern were reported.
- Consideration of PIE regime
- Negotiation of the annual audit programme.

Investment

- Monitor investment performance (quarterly) and strategy in association with Russell Investment Group.

- Receive review from expert advisors on earning rate and income tax calculation models (only minor changes recommended).
- Commission and receive report on Responsible Investing options for scheme
- Review and implement changes to New Zealand Equities investment
- Review style and management for International Equities investment and select new manager (to be implemented during 2008) with advice from Chant West Financial Services, Sydney
- Consider impact of income tax legislation changes on scheme (mainly PIE and FDR)

Strategy and Communications

- Communications with members and former members on Special Benefits
- Review of Kiwisaver and Rule changes for Bank application to become exempt employer (from automatic enrolment of new staff).

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 2007 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 2007.

As at 31 October 2007, all eligible Board members were members of Division 2 of the scheme. Paul Bevin was not eligible to be a member.



Martin Philipsen

Charles Roberts

for and on behalf of the Board

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, PO Box 2392, Wellington

E-mail: bnzopa@bnz.co.nz

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 24 April 2007)
- 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 on this page.

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, PO Box 2392, Wellington

Your feedback is welcome

The Board is committed to keeping members informed of the significant issues facing the scheme. The main communication channels used are email and the web-site.

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 2007 at \$43,538,000. Because of changes to the investment of assets representing the Surplus/Pension/Division 1 assets during 2006, these liabilities were valued as at 31 October 2006 using an assumed earning rate of

4.0% per annum net (in place of 5.5% which had been used in previous valuations) and that was repeated for 31 October 2007 using a rate of 4.2% until 2009 and 5.25% thereafter.

Actuary – A mathematician, skilled in making financial calculations and economic projections, who may advise on funding requirements and benefit calculations applicable to defined benefit superannuation schemes.

Actuarial valuation - A full formal review of the financial position of the fund, conducted by the scheme's actuary. The review determines whether the scheme is 'on track' to pay current and future benefits from its own funds, and to provide an opinion on the funding for the Bank subsidy.

FINANCIAL PERFORMANCE

Key results shown in the financial statements that follow include:

- The main revenue contributors were:
 - gains from the International Equities investment of about \$10.9m which split as a product gain of about \$0.9m and associated currency hedging gains of about \$10.1m;
 - gains from the Non Division 2 assets of about \$6.3m;
 - gains from the Global Fixed Interest investment of about \$2.7m;
 - gains of about \$1.5m and dividend income of about \$0.8m from New Zealand Equities; and
 - interest income from the New Zealand Fixed Interest and Cash sectors of about \$1.9m.
- Operating expenses were at about budget levels but below the same level for last year (because of non-recurring direct property costs).
- Income tax expense at about \$6.2m - the International Equities hedging gains were taxable income. Provisional tax payments totalling \$7.0m were paid during the year.

- Benefits paid were about the same level as last year and included about \$3.5m of Special Benefit payments. Member fortnightly contributions received were also close to the level for last year. There was an increase in voluntary lump sum contribution value.
- 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 | \$55.1m |
| Plus / (less) | |
| Bank subsidy allocation | (8.7) |
| Special benefit allocation | (5.0) |
| Pensioner / Division 1 adjustments | 0.3 |
| Vesting fall back from exits | 0.7 |
| Undistributed earnings 2007 | <u>2.4</u> |

Closing value **\$44.8m**

There was rebalancing of investment assets during the year when required either because of investment value movements or to investment proceeds from the hedging gains in other than the International Equities sector investment.

AUDITORS REPORT

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

We have audited the summary financial statements of the Bank of New Zealand Officers' Provident Association ("the OPA") for the year ended 31 October 2007 as set out on pages 18 to 21.

Board of Management Responsibilities

The Board of Management is responsible for the preparation of summary financial statements, in accordance with New Zealand law and generally accepted accounting practice.

Auditor's Responsibilities

It is our responsibility to express to you an independent opinion on the summary financial statements.

Basis of Opinion on the Summary Financial Report

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

Other than in our capacity as auditor, we have no relationship with or interests in the OPA.

Unqualified Opinion on the Summary Financial Report

In our opinion, the information reported in the summary financial statements complies with FRS-39: *Summary Financial Reports* and is consistent with the full financial statements from which it is derived and upon which we expressed an unqualified audit opinion in our report to the shareholders dated 26 November 2007.

For a better understanding of the scope of our audit of the OPA's financial statements and of the OPA's financial position, financial performance and cash flows for the year ended 31 October 2007, this report should be read in conjunction with the OPA's audited financial statements for that period.

Our examination of the Summary Financial Report was completed on 26 November 2007 and our unqualified opinion is expressed as at that date.



Chartered Accountants

WELLINGTON, NEW ZEALAND

ABRIDGED FINANCIAL SUMMARY

The abridged financial statements for the Bank of New Zealand Officers' Provident Association are an extract from full statutory format financial statements signed on 26 November 2007, with an unqualified audit opinion. They 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 of \$5m were allocated for each the years ended 31 October 2005 and 31 October 2006. It is anticipated a further \$5m will be allocated for the year ended 31 October 2007 on 4 January 2008. A gearing ratio for the Bank subsidy of 1:1.2 is to apply from 2 November 2007 for a year. There were no other contingent liabilities at 31 October 2007 (2006: 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 2007 (to \$200.6m) was \$214.4 million, compared to assets of \$261.8 million. The surplus value, on a vested accrued liability basis, was about \$44.8 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 project includes process for identifying those standards likely to impact on the Association's financial position, financial performance and disclosure but the effects have yet to be quantified. 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 Association is required to adopt NZ IFRS no later than for the year ending 31 October 2008.

NOTE 4 – Events Subsequent to Balance Date

The Association has applied for registration as a Portfolio Investment Entity (PIE) effective from 2 November 2007. As a result the members of Division 2 will, where appropriate notification is provided, be able to have their share of the scheme's income taxed at their marginal tax rate (where it is lower than the Association's tax rate). In addition, from that time capital gains earned on the Association's New Zealand and certain listed Australian equity investments will be exempt from tax (and losses will not be deductible).

On 21 May 2007, legislation was enacted that reduced the Association's income tax rate from 33% to 30% from 1 November 2007.

On balance date the New Zealand Equities sector investment managed by TOWER Asset Management (with equities held in the name of the Association) was transferred to a new investment manager, ING (NZ) Limited. The transfer was on an in specie basis.

On 2 November 2007 there was deemed realisation of \$4.3m of previously unrealised gains on the Association's NZ Equities investment at the new rate of 30%.

The Board of Management approved allocation of \$5m of Special Benefits for the 2007 year for 4 January 2008.

There were no other material events subsequent to balance date.

Any movements in the market value of investments and investment properties from balance date to the date of issue of this report have not been reflected in these financial statements.

BANK OF NEW ZEALAND OFFICERS' PROVIDENT ASSOCIATION

STATEMENT OF CHANGES IN NET ASSETS

For the year ended 31 October 2007

| | 2007 \$(000's) | 2006 \$(000's) |
|--|-------------------|-------------------|
| INVESTMENT ACTIVITIES | | |
| Investment revenues | | |
| NZ Fixed Interest & Cash revenue | 1,946 | 5,284 |
| Global Fixed Interest revenue | 393 | 515 |
| NZ Equities dividend & interest | 808 | 1,063 |
| Non Division 2 assets - Fixed interest | 1,149 | - |
| Rent from properties | - | 382 |
| Changes in net market values | | |
| • Realised Gains / (Losses) | 12,960 | 17,891 |
| • Unrealised Gains | 6,716 | 13,788 |
| Total investment revenues | 23,972 | 38,923 |
| Other income | | |
| Miscellaneous income | 3 | 11 |
| Total other income | 3 | 11 |
| Total investment revenues | 23,975 | 38,934 |
| Less Investment management fees | 813 | 822 |
| Net investment activities | 23,162 | 38,112 |
| Operating expenses | | |
| • Audit fees | 30 | 31 |
| Other fees paid to Auditors | | 15 |
| Actuarial fees | 18 | 42 |
| Depreciation | 40 | 26 |
| General expenses | 106 | 173 |
| Interest expense | - | - |
| Other professional fees | 200 | 144 |
| Property expenses | - | 212 |
| Staff | 234 | 221 |
| BOM remuneration | 15 | 15 |
| Non-deductible GST | 40 | 62 |
| Use of money interest - IRD | 91 | - |
| Total operating expenses | 774 | 941 |
| Net income/(deficit) before tax and membership activities | 22,388 | 37,171 |
| Income tax expense | 6,230 | 3,592 |
| Net income/(deficit) after tax and before membership activities | 16,158 | 33,579 |
| MEMBERSHIP ACTIVITIES | | |
| • Members' contributions | 11,536 | 10,847 |
| • Less Benefits paid | 38,738 | 37,215 |
| Net membership activities (decrease)/ increase | (27,202) | (26,368) |
| Net (decrease)/increase in assets | (11,044) | 7211 |
| Net assets available to pay benefits at beginning of year | 272,840 | 265,929 |
| Net assets available to pay benefits at end of year | 261,796 | 272,840 |

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 2007

| | 2007 \$(000's) | 2006 \$(000's) |
|---|-------------------|-------------------|
| Investments | | |
| Bank deposits | 787 | 673 |
| NZ Government stock | 4,521 | 7,631 |
| Other fixed interest investments | 6,971 | 9,510 |
| NZ discounts | 13,368 | 12,384 |
| NZ Equities – Active | 19,382 | 18,294 |
| Global Fixed Interest (TOWER product) | 65,051 | 59,597 |
| BNZ International Equity Index Fund | 51,721 | 49,460 |
| Non Division 2 assets - Fixed interest | 88,021 | 103,093 |
| Global Property Securities (AMP Product) | 12,650 | 13,453 |
| Forward foreign exchange contracts | 206 | 483 |
| | 262,678 | 274,578 |
| Other assets | | |
| Bank accounts | 17 | 43 |
| Accounts receivable | 400 | 408 |
| Current Tax | 621 | - |
| Fixed Assets | 56 | 94 |
| | 1094 | 545 |
| Total assets | 263,772 | 275,123 |
| Deduct liabilities | | |
| Accounts payable | 583 | 489 |
| Current tax | - | 268 |
| Deferred tax liability | 1,393 | 1,526 |
| Total liabilities | 1,976 | 2,283 |
| Net assets available to pay benefits | 261,796 | 272,840 |
| Represented by member liabilities | | |
| Division 2 | 173,452 | 170,820 |
| Division 1 & Pension liability | 43,538 | 46,900 |
| Undistributed earnings – current year | 2,411 | |
| Scheme surplus | 42,395 | 44,806 |
| | 261,796 | 272,840 |

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 2007

| | 2007 \$(000)'s | 2006 \$(000)'s |
|---|-------------------|-------------------|
| Net cash flows used in operating activities | (31,244) | (25,420) |
| Net cash flows from investing activities | 31,218 | 25,393 |
| Net increase / (decrease) in cash held | (26) | (27) |
| Add opening cash brought forward | 43 | 70 |
| Closing cash carried forward | 17 | 43 |

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 May 2007.

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 subcommittee.
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 (& Cash 19.5 from 2 November 2007)

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 (& Balanced 19.5 from 2 November 2007)

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 a 30% tax rate 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 (& Growth 19.5 from 2 November 2007)

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 a 30% tax rate 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.

