

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

125th

ANNUAL REPORT

FOR THE YEAR ENDED

31 OCTOBER 2012

This report has been prepared for reading primarily as an electronic document.



BANK OF NEW ZEALAND OFFICERS' PROVIDENT ASSOCIATION

YEAR IN SUMMARY

125 years of operation

This is the 125th Annual Report of the Association. There is distinction between when the Association was formed (1878) and when the Scheme began operating (1887).

Investments

Member Choice Investment Options

From 1 July 2012, the neutral allocation to Global Properties within the Balanced option only was reduced by 2.5% to 5%, with a corresponding increase in the neutral allocation to the International Equities sector.

From 1 August 2012, a Conservative option was introduced designed to sit between the Cash and Balanced options in terms of expected risks and returns.

Earnings

For the year ended 31 October 2012, aggregate earning rates (after tax and expenses) for member choice investment options were:

Option	Net Earning rates	Option	Net Earning rates
Balanced	8.59%	Balanced 17.5	9.57%
Cash	2.25%	Cash 17.5	2.57%
Growth	7.94%	Growth 17.5	8.56%
Conservative (3 months only)	2.49%	Conservative 17.5 (3 months only)	2.72%

The Association is registered as a portfolio investment entity (PIE), with earnings allocated to members taxed at members' nominated prescribed investor rate (PIR). The 17.5 suffixes above denote a PIR rate (and include any members with a PIR of 10.5%). The default rate is 28%.

For the members of Division 2 allocation of earnings is monthly – tables later in the Report show splits by month. Members who joined during the year received an aggregate earnings rate for their period of membership as shown in the tables.

Statement of Investment Policy & Objectives (SIPO)

The SIPO was updated twice during the year. The latest version is reproduced toward the end of this report. The main changes were to the Investment Objectives section adding a Conservative option in June, and amending probabilities of an expected negative return in September.

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Investment Management

There were no changes to the investment managers used during the year.

Switching Options

Two switching opportunities are now offered – the traditional date of 1 May, plus 1 December, or nearest business day in both cases.

Scheme Membership

Division 2 membership was 2900 on 31 October 2012. That was a small increase on the previous year.

Board of Management

Hugh Smith was re-elected by ballot for a third term of three years ending 30 September 2015, as a North Island based Division 2 member representative.

Although Martin Philipsen left the Bank during October he remains appointed by the directors of the Bank as a BOM member and Chairperson.

Compliance

Rule Changes

There were no Rule amendments during the year. A proposed Rule amendment rests with the directors of the Bank for sanction to permit members to remain in the scheme after they leave the Bank.

Investment Statement

The Investment Statement was replaced on 15 December 2011, 19 April, 29 June, and 14 September 2012.

Accounting

The financial statements included within this report are in ‘summary form’ and are in compliance with FRS43 Summary Financial Statements. The full statements are available free of charge from the Scheme Secretariat upon request.

There were no significant changes to the presentation of the financial statements for the year ended 31 October 2012.

Taxation

There were no taxation changes during the year.

A guide to ‘terminology’

In preparing this report effort was made to provide information in an easy to understand manner. That said, due to the nature of some of the topics covered, there are times when technical terminology has been used to ensure the information is factually correct. To assist with understanding of terms or ‘jargon’, key words have been underlined like this and / or an explanation is provided in a box on the same page.

YEAR IN MORE DETAIL

The sections that follow expand on the information provided in 'Year in Summary' sections above.

MAINLY THE LAST 25 OF 125 YEARS OF THE ASSOCIATION

Here are some snippets from the past, particularly the last 25 years:

1955	The first of a number of regional Pensioner Associations was formed (in Christchurch) – followed in 1956 by Wellington, Hamilton, and Auckland (some are now called Z Clubs, with a website – www.thezclub.net)
1959	The Association began purchase of Equities as an investment to fund pension liabilities
1978	BNZ Women's Superannuation Scheme was amalgamated with BNZOPA
1990	Division 2 was introduced as a defined contribution section with a Distributed Earning Rate (members got earnings on their entitlements plus a share of the earnings on the scheme surplus)
1992-1994	Pension commutation payments of over \$153m were paid as over 400 pensioners preferred receiving a lump sum to a pension
1994	DER ceased – and what was known as the Independent Review process began to determine how the scheme surplus would be utilised other than for an employer contribution. DER meant the earnings on the surplus were distributed to members as well as earnings on their entitlement
1996	Current scheme secretariat established, and move made to in-house registry and accounting systems
2000	AXA were appointed as a fund manager (and soon became Alliance Capital – until then all funds other than Property holdings were managed by BNZ Investment Management (AXA subsequently purchased BNZ Investment Management).
2003	Member choice investment options were implemented from 1 August
2004	Agreement was reached with the Bank on 'return to equilibrium' of the Scheme surplus – Special Benefits for members resulted
2005	Last of commercial properties sold - in 1964 a decision made to build (and own) BNZ House, Christchurch, the first of many commercial property holdings – others of note were, Grand Complex, Willis & Boulcott Streets, Wellington; 125 Queen Street Auckland. The Bank was the main tenant of most of the large properties
2005	From December 2005 a website was launched as www.bnzopa.co.nz
2006	Assets representing Non Division 2 liabilities were invested separately in a 'Fixed Interest' type mandate
2007	On 2 November the scheme was registered as a PIE (Portfolio investment entity)
2010	From May 2010 the Bank began paying employer contributions (and absorbed the employer superannuation contribution tax) as the (residual) scheme surplus was regarded as being 'in equilibrium'.

INVESTMENT PERFORMANCE

Earnings Rates by month for Member Choice Investment Options

The first two columns under each investment option in the tables that follow 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. It should be read by reference to the line that matches the month of joining. For example, a member who joined the Balanced option during March received a 5.45% earning rate for the March - October period.

	Balanced option			Cash option			Growth option		
%	Month	YTD Aggr.	Part year Aggreg.	Month	YTD Aggr	Part year Aggreg	Month	YTD Aggr.	Part year Aggreg.
November 2011	(0.79)	(0.79)	8.59	0.17	0.17	2.25	(0.92)	(0.92)	7.94
December	0.77	(0.03)	9.45	0.16	0.33	2.07	(0.14)	(1.06)	8.94
January 2012	1.64	1.61	8.62	0.16	0.49	1.91	1.89	0.81	9.09
February	1.34	2.98	6.86	0.15	0.64	1.74	2.17	3.00	7.06
March	1.59	4.61	5.45	0.17	0.81	1.59	2.36	5.43	4.79
April	0.13	4.75	3.80	0.19	1.00	1.42	(0.52)	4.88	2.37
May	(1.71)	2.96	3.66	0.26	1.27	1.23	(3.12)	1.61	2.91
June	0.32	3.29	5.47	0.13	1.40	0.96	0.02	1.63	6.22
July	1.55	4.89	5.13	0.20	1.60	0.83	1.70	3.36	6.20
August	1.70	6.67	3.53	0.23	1.83	0.63	2.29	5.72	4.43
September	1.24	7.99	1.80	0.20	2.04	0.40	1.36	7.16	2.09
October	0.55	8.59	0.55	0.20	2.25	0.20	0.72	7.94	0.72

	Balanced 17.5 option			Cash 17.5 option			Growth 17.5 option		
%	Month	YTD Aggr.	Part year Aggreg.	Month	YTD Aggr	Part year Aggreg.	Month	YTD Aggr.	Part year Aggreg.
November 2011	(0.82)	(0.82)	9.57	0.20	0.20	2.57	(0.93)	(0.93)	8.56
December	0.93	0.10	10.46	0.18	0.38	2.34	(0.04)	(0.97)	9.58
January 2012	1.78	1.88	9.45	0.18	0.56	2.16	1.99	1.00	9.63
February	1.36	3.27	7.53	0.17	0.73	1.98	2.19	3.21	7.49
March	1.63	4.95	6.09	0.19	0.92	1.80	2.39	5.68	5.18
April	0.21	5.17	4.39	0.22	1.15	1.61	(0.47)	5.18	2.73
May	(1.67)	3.42	4.17	0.29	1.44	1.39	(3.17)	1.85	3.21
June	0.40	3.83	5.94	0.14	1.58	1.09	0.10	1.95	6.59
July	1.68	5.58	5.52	0.23	1.81	0.95	1.77	3.76	6.49
August	1.76	7.43	3.77	0.26	2.08	0.72	2.33	6.17	4.63
September	1.38	8.92	1.98	0.23	2.31	0.46	1.49	7.75	2.25
October	0.59	9.57	0.59	0.23	2.57	0.23	0.75	8.56	0.75

	Conservative option			Conservative 17.5 option		
%	Month	YTD Aggr.	Part year Aggreg.	Month	YTD Aggr	Part year Aggreg.
August 2012	1.08	1.08	2.49	1.15	1.15	2.72
September	0.97	2.06	1.38	1.09	2.25	1.54
October	0.41	2.49	0.41	0.45	2.72	0.45

Earnings Rates Comparison for main Member Choice Investment Options

Year	Cash Net	Conservative Net	Balanced Net	Growth Net	90 day Bill index Gross less expenses and tax*
2004	4.41%		6.22%	3.79%	3.64%
2005	4.95%		8.85%	7.75%	4.36%
2006	4.90%		14.45%	20.77%	4.88%
2007	5.03%		7.20%	10.20%	5.42%
2008	6.21%		(20.42)%	(31.53)%	5.99%
2009	3.13%		7.94%	4.36%	2.60%
2010	2.19%		8.15%	6.83%	1.84%
2011	2.16%		2.04%	0.24%	1.84%
2012	2.25%	2.49%	8.59%	7.94%	1.68%
Average (rounded)	4.1%		4.8%	3.4%	3.6%
Average Target	3.6%	4.3%	5.1%	6.1%	

* The Index column contains earnings after expenses and tax for fair comparison

The asset allocation mix within each of the options changed between 2004 and 2007 making a direct year on year comparison inappropriate. An explanation of performance against target is:

Cash

The Cash option target is to perform closely in line with the ANZ 90 Day Bank Bill Index (a wholesale cash benchmark), after tax, fund expenses and fees. The 2012 result was above the expectation level because of investment in term deposits.

Conservative

The Conservative option target is to outperform, over the long-term, the ANZ 90 Day Bank Bill Index by 0.75% after tax, fund expenses and fees; in other words, to exceed the Cash option index return by 0.75% over a long term.

This option was introduced on 1 August 2012.

Balanced

The Balanced option target is to outperform, over the long-term, the ANZ 90 Day Bank Bill Index by 1.5% after tax, fund expenses and fees; - in other words, to exceed the Cash option index return by 1.5% over a long term. For the period 2004 to 2012, the result is close to target notwithstanding extreme negative returns in 2008.

Growth

The Growth option target is to outperform, over the long term, the ANZ 90 Day Bank Bill Index by 2.5% after tax, fund expenses and fees; - in other words, to exceed the Cash option index return by 2.5% over a long term. For the period 2004 to 2012, the target has not been met because of the extreme negative returns in 2008 (especially from Equities and Property which comprise the majority of the asset allocation).

Earnings - averages compared to SIPO expectations

Balanced & Growth options

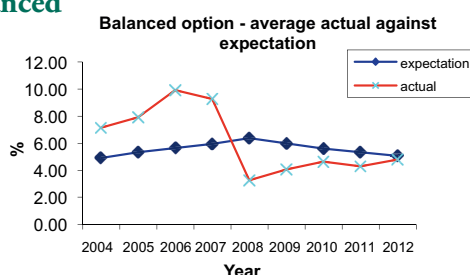
The earning rates for the Balanced and Growth member choice investment options were above expectations in 2012.

The Board of Management encourages members to review performance relative to the scheme SIPO with emphasis on longer term results rather than specific years.

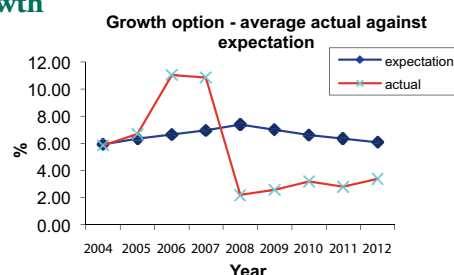
Actual returns on a 5 year rolling basis, are close to expectation level for the Balanced option but remain noticeably below expectation level for the Growth option (because of International Equities having a higher allocation).

Graphs that follow show the average return for periods from 2004 to 2012. Earlier period returns have been restated from prior Annual Reports to fit within revised SIPO parameters.

Balanced



Growth

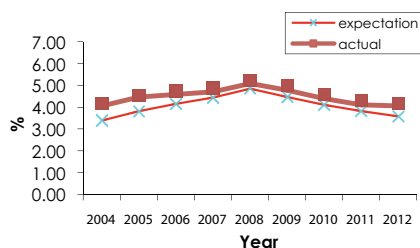


Cash option

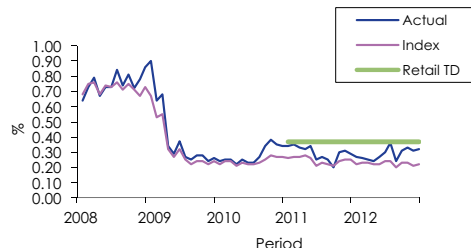
The expectation is that returns for the Cash options should track the 90 day Bank Bill index which is a measure of interest rates that banks pay on a three month wholesale deposit.

Over the last two to three years a distinct gap has been apparent between interest rates offered by banks for wholesale and retail deposits. This is highlighted for the last two years in the right hand graph following. The Board managed to invest a portion of the cash at the equivalent to retail deposit rates from about mid-2012, without significant change to risk. That resulted in an improvement in returns for the Cash option evident in the left hand graph.

Cash option - average actual against expectation



Cash option - actual by month 2008 - 2012



A Conservative option, introduced from August 2012, is intended to provide members with a return above Cash over the longer term, but at less risk than the Balanced option.

Investment Sector Returns

The table that follows outlines how the assets were invested for each sector and each option, the index or benchmark 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.
Cash <i>Managed by OnePath (NZ)</i>	Cash	100	100	ANZ New Zealand 90 day Bank Bill	2.72	3.50	+0.78
	Conserv	30	30.5				
	Balanced	2.5	1				
	Growth	2.5	2.5				
NZ Fixed Interest <i>Invested in a mix of Govt. and corporate bonds, and discounted securities; with OnePath (NZ)</i>	Conserv	10	9	ANZ New Zealand Government Stock Gross	8.54	9.59	+1.05
	Balanced	12.5	12				
	Growth	7.5	7				
Global Fixed Interest <i>Invested in a PIE version of a TOWER unit trust product, managed by PIMCO</i>	Conserv	40	40	Barclays Global Aggregate Bond – hedged 100% into NZD	8.79	14.92	+6.13
	Balanced	40	41				
	Growth	15	15				
New Zealand Equities <i>Invested as an 'active' style mandate with OnePath (NZ)</i>	Conserv	5	5.5	NZX50 Gross with imputation credits	20.37	19.49	-0.88
	Balanced	10	11				
	Growth	20	21				
Property <i>AMP Global Property Securities Product (PIE version)</i>	Balanced	5	5	FTSE EPRA/ NAREIT Global Real Estate Index - 100% after tax hedged to NZD	20.35	20.31	-0.04
	Growth	7.5	7.5				
International Equities <i>Invested in Russell Global multi-manager active style products un-hedged and hedged to NZD, at a 55%/45% split since December 2010</i>	Conserv	15	15	Russell Global Large Cap hedged 45% to NZD			
	Balanced	30	30				
	Growth	47.5	47				
				Un-hedged	7.22	4.13	-3.09
				Hedge	11.28	7.98	-3.30
				Combined	9.19	5.87	-3.32

The index measures 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. A 90 day bank bill reflects the interest rate that banks pay on a three-month deposit of wholesale money. Yield is the expected annualised rate of return from holding a bill until it matures.

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 payments are reinvested in the index.

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 investability criteria. All issues have a remaining maturity of at least one year. This index is fully hedged back to the NZ dollar.

This index consists of the top 50 companies listed on the New Zealand Exchange (NZX) by free float adjusted market capitalisation. Free float refers to the shares of a company that are regarded as normally available for market trading. The index accounts for about 98% of the pool of tradable securities listed on the NZX. The index is calculated with gross dividends reinvested.

A free float capitalisation-weighted arithmetic average return index that measures the performance of publicly traded real estate investment trusts and property investment companies. Securities are screened for liquidity and size to ensure investability. It comprises about 400 constituents. The index is fully after tax hedged back to the New Zealand dollar.

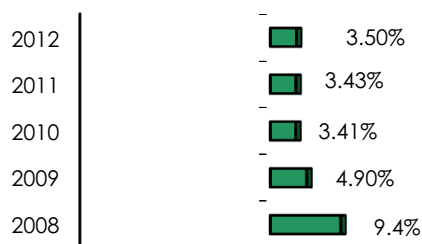
Composed of companies representative of 98% of investable equities worldwide, without the limitations of country or region. Each security's weight is proportional to the market capitalisation of its free-floating shares. The target allocation between the hedged and un-hedged funds is 45/55. The currency hedge is managed by Russell.

Comment on Sector returns

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

The bar graphs that follow show performance returns for the last five years. For some sectors there were changes in investment manager, product, or portfolio composition within that time. For example, International Equities sector investment management changed from JANA to Russell during December 2010. In all cases securities are held by, and transactions processed via, a custodian, not the investment manager.

NZ Cash Returns



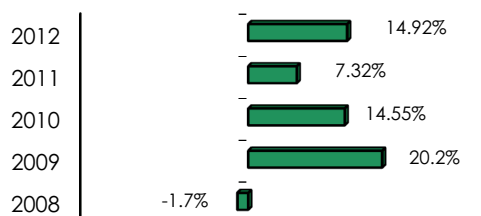
The 2012 Cash sector return reflected a mix of equivalent to retail and wholesale cash returns.

NZ Fixed Interest Returns



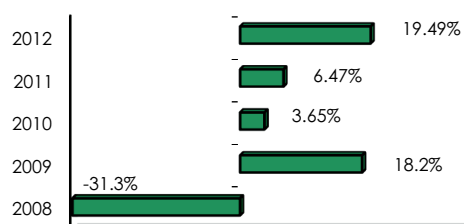
A result for 2012 very close to 2011, with similar portfolio securities mix.

Global Fixed Interest Returns



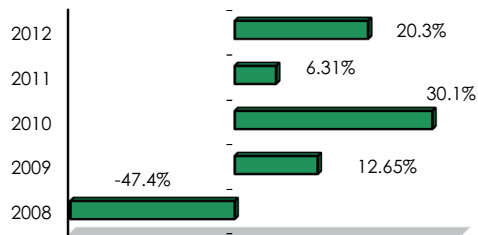
A very pleasing result from PIMCO (the manager for the TOWER product) especially when referenced to index.

NZ Equities Returns



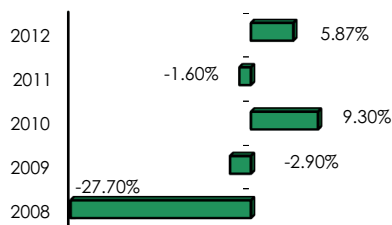
A healthy return that disguised some volatility during the year, but behind index level.

Global Property Returns



Another sector with a healthy return that disguised monthly return volatility during the year.

International Equities Returns



A disappointing result for 2012. Russell changed a manager during the year in an effort to improve returns. The product (and index) has exposure to emerging markets which did not add value for the 2012 year as expected.

INVESTMENTS – SOME LESSONS

The article that follows, in two parts, has a similar theme to a Turbulent Times article in last year's Report. It is published courtesy of Russell Investments as investment advisors to the Board.

Lessons from the market

Periods of market turmoil provide opportunities for us to improve our investment knowledge. It is important to learn from the past and apply those lessons to investment strategies in the future. But it is also necessary to distinguish temporary influences from enduring fundamental factors. Here are five investment lessons from the recent market volatility and the Global Financial Crisis (GFC).

Lesson 1: Markets are volatile

Markets follow cycles. Investors have periods of over-confidence and periods of excessive worry. Despite their ups and downs, however, asset prices are anchored to underlying economic value in the long haul. While we don't know the timing or duration of market downturns, a stable investment plan that focuses on underlying value will help us cope with these swings in market sentiment.

Lesson 2: Keep your cool

When markets are volatile, it is tempting to react emotionally: whether through overconfidence in rising markets or, conversely, through fear in falling markets. The best way to reach your financial goals, however, is to have a long-term investment strategy that can handle market ups and downs within your comfort range and stick to it. Keep your cool. History has shown that markets often recover after a fall. For example, if we cast our minds back to the GFC, global share markets fell 37% in 2008 but gained 27% in 2009¹.

1. MSCI World Index \$NZ hedged

Lesson 3: A diversified investment portfolio is the surest way to meet long term financial goals

Historically, investing a proportion of your assets in share markets to the degree you are comfortable with has been the most prudent approach to achieve long-term financial objectives. Although shares have not outperformed bonds over the last decade, the historical evidence is that riskier asset classes do provide higher average returns over the long term. In other words, there is a positive reward for investing in shares.

Lesson 4: Diversification still works

While shares are likely to provide higher returns than bonds and cash in the long term, no-one can predict which asset class will outperform in the short term. During the GFC of 2007/08, for example, government bonds rallied in a flight to safety while shares and other risky assets collapsed together in fear of a banking collapse. Shares and risky assets then rebounded strongly in 2009 when the fear subsided. The key is to diversify across asset classes. Trying to pick the best performing asset class of the year is very risky, as one year's best performing asset class can easily end up as the next year's worst performer. A well-diversified portfolio will contain volatility and provide steadier, more consistent returns over the long horizons appropriate to retirement saving.

Lesson 5: Stay invested

While short-term market falls are hard to ignore, it is essential to stay invested. Staying focused on long-term investment goals is more important than ever in a market crisis. Selling a long term investment during a down market runs the risk of not benefiting from a market rebound.

Current market environment

Despite a challenging investment environment, members have enjoyed solid returns in the aftermath of the GFC. Not only have share markets rebounded strongly, but, with interest rates continuing to decline, fixed income assets have delivered particularly strong returns. The latter, which has resulted in part from central bank easing to stimulate economic growth, points to lower returns from fixed income assets going forward. With interest rates at or near record low levels in many countries, the outlook for fixed income is for only modest returns at best. While it is reasonable to expect shares to provide a higher return than bonds, a long period of slow growth is likely to keep share returns low as well. Significant risks and potential economic headwinds will cause periodic market shocks, as in the past. Investors should therefore temper their overall return expectations.

SCHEME SURPLUS

As at 31 October 2012 a residual scheme surplus value at about \$7.13m (inclusive of current year earnings) was in line with an amount agreed between the BOM and the Bank as a 'buffer' for the Non Division 2 actuarial liabilities (which are mainly in respect of pensioners), after allowing for an investment provision to cover fluctuations in investment returns. The scheme Actuary changed a mortality assumption for calculating the pension liabilities based on NZ Life Table 05/07 with a 2 year set back (in place of 1.5 years). This increased the amount required to cover these liabilities.

ACTUARIAL DECLARATION

An **actuarial examination** required by Section 15 of the Superannuation Schemes Act 1989 was carried out as at 31 October 2011. The examination revealed that the fund was in a sound position with an actuarial surplus of approximately \$5.8m.

The contributions paid to the Scheme are in accordance with the recommendation contained in the most recent report of the Actuary and the Scheme Rules.

The Board receives updates from the Actuary of the Pensioner and Division 1 liabilities annually. For the year ended 31 October 2012, these Division 1 and Pension liabilities are included in the financial statements at \$35.7m.

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 provides an opinion on the funding for the Bank subsidy. An actuary is 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.

PROSPECTUS

The Securities Act (Employer Superannuation Schemes) Exemption Notice 2004 applies to the Association and as a result it does not register a Prospectus.

MEMBERSHIP

Membership changes for the 2011/2012 scheme year				
	Division 1	Division 2	Total	Exit Value \$m
Opening - 1 November 2011	1	2874	2875	
Plus: New members		495	495	
Less: Resignations		226	226	5.158
Redundancies		41	41	2.776
In-service withdrawals		180	180	7.297
Normal retirements		21	21	3.207
Deaths		1	1	0.008
Special Benefits				0.019
Partial withdrawals				3.412
Closing - 31 October 2012	1	2900	2901	

Pensioner changes for the 2011/2012 scheme year				
	Pensioners	Widows / Widowers	Children	Total
Opening as at 1 November 2011	74	84	1	159
Plus: New		1		1
Less: Deceased	7	5		12
Closing as at 31 October 2012	67	80	1	148

COMMENTARY

Division 2 membership had increased by 26 at year end (2011 - up 13). As at 31 October 2012 the analysis of member choice investment options by membership numbers was:

Option	2012	2011	2010	2009
Balanced	50.5%	56%	56%	54.5%
Balanced 17.5	13.5%	13%	11.5%	10%
Cash	12.5%	12.5%	15%	18.5%
Cash 17.5	4%	3%	3%	4%
Conservative	4.5%			
Conservative 17.5	1%			
Growth	11%	12.5%	12.5%	11.5%
Growth 17.5	3%	3%	2%	1.5%

The split by benefit entitlement values was about 65% to combined Balanced, 17% to combined Cash, 9% to combined Growth, and 9% to combined Conservative respectively (2011, 77%, 13% and 10% and nil).

Rule Amendments

There were no Rule amendments during the year ended 31 October 2012. A proposed Rule amendment rests with the directors of the Bank for sanction to permit members to remain in the scheme after they leave the Bank.

MEMBERS OF THE BOARD OF MANAGEMENT

The BOM is made up of four representatives appointed by the Bank and four elected by members of the scheme. On 31 October 2012 members of the Board of Management were:

Name	Bank Position	Constitution	Changes
Bank-appointed representatives			
Martin Philipsen	Independent of Bank (from October 2012), Auckland	BOM member since March 2006; appointed by the Board of Directors of the Bank, May 2007. Chairperson since May 2007.	
Paul Steven Bevin	Independent of Bank, Wellington	Since July 2005, appointed by the Chief Executive of the Bank	
Glenn Robert Patrick	Chief Operating Officer, Retail Banking, Wellington	Appointed May 2007, nominee of the Chief Executive of the Bank	
Shelley Maree Ruha	Director, Products & Operations, Auckland	Appointed October 2011, by the Board of Directors of the Bank,	
Member-elected representatives			
Matthew Rowland Cullum	Head of Retail – Delivery & Risk, Retail Banking, Auckland	Must reside in North Island Elected 28 October 2008; re-elected October 2011	
Hugh Alexander Smith	Special Counsel, Wellington	Must reside in North Island Elected September 2006; re-elected September 2009 and 2012	Re-elected
Ian Howard Russon	Head of Financial Institutions, Institutional Banking, Wellington	If no Division 1 member nominated, a Division 2 member Elected 25 October 2011	
Matthew James Eaden	Partner, Corporate, BNZ Partners, Christchurch	Must reside in South Island Elected March 2007; re-elected July 2010.	

ADVISORS TO THE BOARD OF MANAGEMENT

While carrying out its regular duties throughout the year the Board called upon a number of expert advisers. Advisors to the Board for the scheme year under review were:

Actuary:

Michael Robinson of Mercer (NZ) Ltd, P O Box 105 591, Auckland

Auditor:

Deloitte, P O Box 1990, Wellington

Solicitors:

Chapman Tong Law, P O Box 10 614, Wellington

Investment:

Russell Investments Limited, P O Box 105-191, Auckland

Tax:

KPMG, P O Box 996, Wellington

The Investment Managers were:

Russell Investments, P O Box 105-191, Auckland
TOWER Asset Management Limited, P O Box 2798, Wellington

AMP Capital Investors Limited, P O Box 3764, Wellington

OnePath (NZ) Limited, P O Box 7149, Auckland

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

- Negotiation of the annual audit programme

Investment

- Monitoring of investment performance (quarterly) and strategy with advice from Russell Investments
- Obtaining better returns than wholesale interest rates for the Cash option
- Review of the Global Property sector investment

Strategy and Communications

- Introduction of the Conservative option.

LEGAL PROCEEDINGS / ARBITRATION

No legal proceedings or arbitration were pending as at 31 October 2012

DECLARATION BY THE BOARD OF MANAGEMENT

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 2012 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 2012,
- Advises that less than 10% of the market value of the OPA's assets were invested directly or indirectly with Bank of New Zealand or companies associated with Bank of New Zealand through investments and Bank of New Zealand itself, throughout the year. Year-end investments were:
 - \$8.2m was invested in a term deposits / PIE term deposits with maturity dates extending to 26 September 2013
 - \$5.4m was invested in a covered bond with a maturity date of 30 June 2015, and
 - \$0.7m was invested in discount paper maturing during November 2012
- Confirms the abridged financial statements within this Report were authorised for issue on 30 November 2012.
- Are of the opinion, after due inquiry, neither or both of the following have materially and adversely changed since 31 October 2012:
 - the value of the Scheme's assets relative to its liabilities (including contingent liabilities), and
 - the ability of the Scheme to pay its debts as they become due in the normal course of business.
- States that Bank of New Zealand, as employer sponsor, was required under the terms of each offer of an interest in the Scheme made after 31 March 2011, to incur costs (by way of contributions, expenses payments or both) for the financial year ended 31 October 2012. Those costs, which took the form of employer contribution payments totalled \$8.1m (rounded).
- As at 31 October 2012, all eligible BOM members were members of Division 2 of the scheme. Paul Bevin was not eligible to be a member.



Martin Philipsen



Hugh Smith

for and on behalf of the Members of the Board of Management

ABRIDGED FINANCIAL SUMMARY & NOTES

The abridged financial statements are an extract from the Bank of New Zealand Officers' Provident Association full statutory format financial statements, signed on 30 November 2012, with an unqualified audit opinion. They should be read in conjunction with Notes 1 and 2 below and Notes 1 to 20 from the full financial statements. The abridged financial statements do not provide as complete an understanding as the full statutory format financial statements. If you would like to receive a free copy of the full set of financial statements, please contact the Scheme Secretariat or view them at www.bnzopa.co.nz

FINANCIAL PERFORMANCE

Key results shown in the abridged financial statements that follow include:

- All investment sectors provided positive income, at varying levels.
- Total operating expenses were slightly below last year's level.
- Income tax expense at about \$4.4m arose mainly from taxable income from the Global Fixed Interest, Global Property and Non Division 2 sectors, offset by operating expenses.
- Benefits paid to Division 2 members were about \$1m more than last year, as payments to members retiring from the bank increased. The total of member and employer fortnightly contributions received were about \$0.3m less than last year, due to some members reducing their contribution percentage rate.
- The Scheme surplus, shown under Member Liabilities increased in value during the year, as shown in the analysis below. Transactions affecting the surplus are summarised as:

Opening value		\$5.80m
Plus / (less)	Pensioner / Division 1 adjustments	0.55
	Vesting fall back from exits/ adjustments	0.33
Sub-total		<u>\$6.68m</u>
	Undistributed earnings 2012	0.45
Closing value		<u>\$7.13m</u>

There was rebalancing of investment assets during the year as required by investment value movements and to fund income tax payments.

SUMMARY FINANCIAL STATEMENTS

BANK OF NEW ZEALAND OFFICERS' PROVIDENT ASSOCIATION

SUMMARY STATEMENT OF CHANGES IN NET ASSETS

For the year ended 31 October 2012

	2012 \$(000's)	2011 \$(000's)
INVESTMENT ACTIVITIES		
Investment revenues / (losses)		
NZ Fixed Interest & Cash revenue	1,880	1,780
Global Fixed Interest revenue	177	333
NZ Equities dividend & interest	741	703
Non Division 2 assets – Fixed interest	2,198	2,472
International Equities rebate income	126	68
Global Property rebate income	47	58
Changes in net market values		
Realised Gains / (Losses)	12,902	3,792
Unrealised Gains / (Losses)	2,864	1,401
Total investment revenues	20,935	10,607
Less Investment management fees	829	865
Net investment activities	20,106	9,742
Operating expenses		
Audit fees	31	31
Other fees paid to Auditors	0	0
Actuarial fees	33	15
Depreciation	1	1
General expenses	33	47
Interest expense	0	0
Other professional fees	151	148
Staff	251	320
BOM remuneration	20	20
Non-deductible GST	37	35
Use of money interest - IRD	12	22
Total operating expenses	569	639
Net income / (Deficit) after Tax - The amount used in the earnings rate calculation as earnings, after adjustment for costs taken from the surplus.	19,537	9,103
Income tax expense	4,433	3,463
Net income/(deficit) after tax and before membership activities	15,104	5,640
MEMBERSHIP ACTIVITIES		
Members' contributions	9,787	10,175
Employer contributions	8,102	8,035
Less Benefits paid	25,914	24,982
Net membership activities (decrease)	(8,025)	(6,772)
Net (decrease) in assets	(7,079)	(1,132)
Net assets available to pay benefits at beginning of year	204,902	206,034
Net assets available to pay benefits at end of year	211,981	204,902

A realised gain is the increase in value received on the sale of an investment.

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

Fees paid to the auditors (Deloitte) split into two sections; 'Audit Fees' which represent the fees paid for the audit of the statutory accounts at financial year end; and 'Other fees paid to Auditors' being fees paid to the auditor primarily for 'Agreed Upon Procedure' engagements.

Net Income / (Deficit) after Tax - The amount used in the earnings rate calculation as earnings, after adjustment for costs taken from the surplus.

Includes members' contribution from salary and lump sum voluntary contributions.

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

To help you understand some of the items shown in these statements items highlighted in green like this are included in a comment boxes to the side of the statement.

BANK OF NEW ZEALAND OFFICERS' PROVIDENT ASSOCIATION SUMMARY STATEMENT OF NET ASSETS

as at 31 October 2012

	2012 \$(000's)	2011 \$(000's)
Investments		
Cash mandate	34,173	25,660
NZ Fixed Interest	16,017	15,586
Non Division 2 assets – Fixed Interest	42,958	44,365
Equities – NZ & Australia	16,682	15,312
Global Fixed Interest (TOWER product)	53,818	54,225
International Equities – Russell un-hedged	23,190	22,447
International Equities – Russell Hedged	19,790	18,479
Global Property Securities (AMP product)	7,060	10,766
	213,688	206,840
Other assets		
Bank accounts	60	29
Accounts receivable	457	199
Fixed Assets	2	2
Deferred tax asset	18	18
	537	248
Total assets	214,225	207,088
Deduct liabilities		
Accounts payable	520	694
Current tax	1,724	1,492
Total liabilities	2,244	2,186
Net assets available to pay benefits	211,981	204,902
Represented by member liabilities		
Division 2	169,167	161,543
Division 1 & Pension liability	37,683	37,559
Undistributed earnings – current year	450	333
Scheme surplus	6,681	5,467
	211,981	204,902

Fixed Assets - The value of the assets held in the Secretariat office mainly computer equipment.

Division 2 Liability - represents the accumulation of individual member balances recorded in the Association's membership system (Rapps) at 31 October 2012 after allocating earnings for the 2012 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

Undistributed Earnings 2012 - 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.

SUMMARY STATEMENT OF CASH FLOWS

for the year ended 31 October 2012

	2012 \$(000)'s	2011 \$(000)'s
Net cash flows used in operating activities	(8,481)	(6,680)
Net cash flows from investing activities	8,512	6,685
Net increase in cash held	31	5
Add opening cash brought forward	29	24
Closing cash carried forward	60	29

To help you understand some of the items shown in these statements items highlighted in **green like this** are included in a comment boxes to the side of the statement.

The full statutory financial statements for the year ended 31 October 2012 comply with International Financial Reporting Standards, New Zealand equivalents to International Financial Reporting Standards (NZIFRS), and other applicable financial reporting standards, as appropriate for profit-oriented entities.

The accounting policies adopted are:

- The measurement base adopted is that of historical cost modified by the revaluation of assets which are measured at fair values at balance date.
- Statutory Base: These financial statements have been prepared in compliance with FRS 43 (summary financial statements), the Superannuation Schemes Act 1989, Financial Reporting Act 1993 and the Bank of New Zealand Officers' Provident Association Rules.

The measurement currency is New Zealand dollars.

The summary financial statements are an extract from the Scheme's full statutory format financial statements, signed on 30 November 2012, with an unmodified audit opinion. They should be read in conjunction with Notes 1 and 2 below and Notes 1 to 20 from the full financial statements. The abridged financial statements do not provide as complete an understanding as the full statutory format financial statements. If you would like to receive a free copy of the full set of financial statements, please contact the Scheme Secretariat.

NOTE 1 – 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 \$202.95 million, compared to assets of \$204.9 million, per the actuarial valuation as at 31 October 2011. The difference (\$1.95 million) between these two amounts reduced to the extent the Bank continued to meet its Division 1 subsidy from the surplus and will also reduce to the extent that members continue to accrue additional service. The equivalent total vested accrued liability at 31 October 2012 (to \$202.95m) was \$210.25 million, compared to assets of \$211.98 million. The surplus value on a vested accrued liability basis was about \$7.1 million, with non-vested benefits being about an additional \$1.73m.

NOTE 2 – Events Subsequent to Balance date

Any movements in market value of investments from balance date to the date of issue of this report have not been reflected in these financial statements. There were no material events subsequent to balance date.

INDEPENDENT AUDITOR'S REPORT ON THE SUMMARY FINANCIAL STATEMENTS



To the Members of the Bank of New Zealand Officers' Provident Association (BNZOPA)

Report on the Summary Financial Statements

The accompanying summary financial statements of Bank of New Zealand Officers' Provident Association ("BNZ OPA") on pages 18 to 20, which comprise the summary statement of net assets as at 31 October 2012, the summary statement of changes in net assets, and summary statement of cash flows for the year then ended, and related notes, are derived from the audited financial statements of BNZOPA for the year ended 31 October 2012. We expressed an unmodified audit opinion on those financial statements in our report dated 30 November 2012.

The summary financial statements do not contain all the disclosures required for full financial statements under generally accepted accounting practice in New Zealand. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of BNZOPA.

This report is made solely to BNZOPA's Members, as a body, for the purpose of expressing an opinion on the summary financial statements for the year ended 31 October 2012. Our audit has been undertaken so that we might state to the BNZOPA's Members those matters we are required to state to them in an auditor's report on summary financial statements and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the BNZOPA's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Board of Managements' Responsibility for the Summary Financial Statements

The Board of Management is responsible for the preparation of a summary of the audited financial statements, in accordance with FRS-43: *Summary Financial Statements*.

Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with International Standards on Auditing (New Zealand) (ISA (NZ)) 810: *Engagements to Report on Summary Financial Statements*.

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

Opinion

In our opinion, the summary financial statements are correctly extracted from the audited financial statements of BNZ OPA for the year ended 31 October 2012 and are consistent, in all material respects, with those financial statements, in accordance with FRS-43.

A stylized, handwritten-style signature of the word "Deloitte" in dark blue ink.

Chartered Accountants
30 November 2012
Wellington, New Zealand

STATEMENT OF INVESTMENT POLICY AND OBJECTIVES

What is it?

It is a formal description of 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 below.

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, Bank of New Zealand Officers' Provident Association Act, 1971 (the Act) and is governed by the OPA Rules.

The primary purpose of the scheme now is to receive, manage, and administer contributions from members and 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 Section 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 on-going 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 on-going 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 prudential investment in accordance with 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. In December 2005 and December 2010, the Investment Objectives section for each option, were modified to a different format. In June 2012 an extra member choice investment option (Conservative) was added to the Investment Objectives section. This version (September 2012) records changes to probabilities for a expecting a negative return.

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 on-going 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.

Investment Objectives

Cash & Cash 17.5

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 and short term investments.

The target investment return from investing 100% in wholesale cash will be to perform closely in line with the ANZ 90 Day Bank Bill Index (a wholesale cash benchmark), adjusted to take into account tax (at 28% from 1 October 2010; 30% prior), fund expenses and fees.

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

Conservative & Conservative 17.5

The objective of this option is to provide returns over the long term that are modestly higher than those of traditional cash investments. Returns will be generated primarily from income with some capital growth. There will 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, and equities. The allocations to income assets (cash and fixed interest) will be significantly higher than to growth assets (equities).

The target investment return will be to outperform, over a long term horizon, the ANZ 90 Day Bank Bill Index (a wholesale cash benchmark) by 0.75% p.a., after tax (at 28%), fund expenses and fees are taken into account.

For this option the probability of experiencing a negative return over a four to seven year period is approximately 1 in 75, or 1.3%, after tax, fund expenses and fees are taken into account.

Balanced & Balanced 17.5

The objective of this option is to provide returns over the long term that are moderately higher than those of traditional cash investments. Returns will be generated from both income and capital growth. There will 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 roughly equal.

The target investment return will be to outperform, over a long term horizon, the ANZ 90 Day Bank Bill Index (a wholesale cash benchmark) by 1.5% p.a., after tax (at 28%), fund expenses and fees are taken into account.

For this option the probability of experiencing a negative return over a four to seven year period is approximately 1 in 10, or 10%, after tax, fund expenses and fees are taken into account. A negative return may be experienced in consecutive years.

Growth & Growth 17.5

The objective of this option is to provide returns over the long term that are materially higher than those of traditional cash investments. Returns will be generated from both income and capital growth. There will 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 ANZ 90 Day Bank Bill Index (a wholesale cash benchmark) by 2.5% after tax (at 28%), fund expenses and fees are taken into account.

For this option the probability of experiencing a negative return over a four to seven year period is approximately 1 in 5, or 20%, after tax, fund expenses and fees are taken into account. A negative return may be experienced in consecutive years.

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

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 to the Scheme Secretariat:

- full set of financial statements as registered with the Companies Office
- the OPA's Investment Statement
- recent Annual Reports
- the Rules of the OPA
- latest triennial [actuarial valuation](#)

With an exception of the actuarial report, all are available for reading on the Association's web-site, www.bnzopa.co.nz.

Complaints, Disputes and Communications

A disputes resolution service is available as prescribed under the Financial Service Providers (Resolution and Dispute Resolution) Act 2008. If you have a complaint or dispute in relation to the operation of the OPA you should in the first instance contact the Chairperson at the address shown below. The Board has engaged FSCL (Financial Services Complaints Limited) as its disputes resolution service provider.

Communication with the BOM

Please address correspondence to:

The Chairperson

Bank of New Zealand Officers' Provident Association

P O Box 2392

Wellington

Your feedback is welcome

The BOM is committed to keeping members informed of the significant issues facing the scheme.

The main communication channels used are email and the web-site

www.bnzopa.co.nz.

