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BANK OF NEW ZEALAND OFFICERS' PROVIDENT ASSOCIATION

Bank of New Zealand Officers' Provident Association

Annual Report

For the year ended 31 October 2014

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DISCLAIMER

The information contained in this Annual Report provides general information only and should not be relied upon in making an investment decision. In particular, the information is not personalised financial advice for the purposes of the Financial Advisors Act 2008.

YEAR IN SUMMARY

The Board of Management (Board) is pleased to present the 127th Annual Report.

Pages 4 to 12 are mainly relevant just to Division 2 Members and page 13 is mainly of interest to pensioners.

BOARD OF MANAGEMENT

The Board of Management comprises four representatives appointed by the Bank and four elected by Members of the Scheme. Members of the Board of Management are:

Name	Bank Position	Constitution	2014 Changes
Bank-appointed representatives			
Chris Reid	Chief General Counsel, Auckland	Appointed by the Board of Directors of the Bank, April 2013. Chairperson since April 2013	
Paul Steven Bevin	Independent of Bank and Members, Wellington	Since July 2005, appointed by the Chief Executive of the Bank	
Graeme David Liddell	Head of Markets, Wellington	From 3 December 2013, nominee of the Chief Executive of the Bank	
Shelley Maree Ruha	Director, Partners Auckland	Appointed October 2011, by the Board of Directors of the Bank	
Member-appointed representatives			
Matthew Rowland Cullum	Divisional Chief Risk Officer Retail and Wealth, Auckland	Must reside in North Island Elected 28 October 2008; re-elected October 2011 and October 2014	Re-elected
Hugh Alexander Smith	Special Counsel, Wellington	Must reside in North Island Elected September 2006; re-elected September 2009 and 2012	
Ian Howard Russon	Head of Financial Institutions, Wellington	If no Division 1 member nominated, a Division 2 member Elected 25 October 2011, re-elected October 2014	Re-elected
Matthew James Eaden	Partner, Corporate, Christchurch	Must reside in South Island Elected March 2007; re-elected July 2010 and July 2013	

COMPLIANCE

Rule Changes

There were no amendments to the Rules during the year.

Investment Statement

The Investment Statement was updated on each of 4 December 2013, 10 March, 10 June, and 3 November 2014.

Accounting

The Financial Statements included within this Annual Report are in 'abridged form' and are in compliance with FRS-43 Summary Financial Statements. The full Financial Statements are available free of charge from the Scheme Secretariat upon request.

There were changes to the presentation of the Financial Statements for the year ended 31 October 2014 to meet regulatory requirements.

Taxation

There were no changes to the taxation of the Scheme during the year.

INFORMATION FOR DIVISION 2 MEMBERS

INVESTMENTS

Earnings Summary

For the year ended 31 October 2014, net earning rates (after tax and expenses) for Member Choice Investment Options were:

Investment Option	Net Earning Rates	Investment Option	Net Earning Rates
Cash	2.36%	Cash 17.5	2.70%
Conservative	6.82%	Conservative 17.5	7.54%
Balanced	9.63%	Balanced 17.5	10.36%
Growth	11.29%	Growth 17.5	11.80%

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 Investment Options denote a PIR rate (and include any Members with a PIR of 10.5%). The default rate is 28%.

Statement of Investment Policy & Objectives (SIPO)

The SIPO was amended during September after a strategic asset allocation review. The current version is reproduced on page 22.

Investment Management

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

Switching Investment Options

Switching opportunities moved to a monthly offer during the year.

Scheme Membership

Division 2 (a Cash Accumulation Scheme) Membership was 2,993 on 31 October 2014. This represents a small increase on the previous year (2,956).

INVESTMENT PERFORMANCE IN DETAIL

MEMBER CHOICE INVESTMENT OPTION EARNINGS RATES

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

Earnings Rates by Member Choice Investment Option (Investment Option) for the year

The set of tables below show the allocation to income and growth assets for each Investment Option and the respective contributions to the gross return. Income assets comprise cash and fixed interest sectors. Growth assets comprise equities and property sectors.

Cash	Neutral asset allocation	Contribution to actual return
Gross Investment Return	100%	3.62%
MER (Fees and expenses)		(0.35)%
Tax (at PIR of 28%)		(0.91)%
Net earnings rate		2.36%
Conservative	Neutral asset allocation	Contribution to actual return
Income Assets	80%	6.45%
Growth Assets	20%	2.74%
Total – Gross Invest Return	100%	9.19%
MER (Fees and expenses)		(0.59)%
Tax (at PIR of 28%)		(1.78)%
Net earnings rate		6.82%
Balanced	Neutral asset allocation	Contribution to actual return
Income Assets	55%	5.45%
Growth Assets	45%	6.76%
Total – Gross Invest Return	100%	12.21%
MER (Fees and expenses)		(0.80)%
Tax (at PIR of 28%)		(1.78)%
Net earnings rate		9.63%
Growth	Neutral asset allocation	Contribution to actual return
Income Assets	25%	2.28%
Growth Assets	75%	11.12%
Total – Gross Invest Return	100%	13.40%
MER (Fees and expenses)		(0.94)%
Tax (at PIR of 28%)		(1.17)%
Net earnings rate		11.29%

For the 2014 year growth assets were the dominant source of return (as was also the case in 2013).

Earnings Rates by Month

The first two columns under each Investment Option in the tables that follow show the earning rate allocated to Members for the month and the year to date period.

The third column under each Investment Option gives an aggregate rate for Members who joined during the year. This column should be read by referencing the line that matches the month of joining. For example, joining the Balanced Investment Option during March gave a 6.92% earning rate for the March to October period.

	Cash			Conservative			Balanced			Growth		
	Mth	YTD Aggr	Part year Aggr	Mth	YTD Aggr	Part year Aggr	Mth	YTD Aggr	Part year Aggr	Mth	YTD Aggr	Part year Aggr
November 2013	0.17	0.17	2.36	0.49	0.49	6.82	0.60	0.60	9.63	0.72	0.72	11.29
December	0.16	0.34	2.18	0.45	0.94	6.29	0.65	1.25	8.98	0.82	1.54	10.50
January 2014	0.19	0.52	2.02	(0.05)	0.89	5.82	(0.41)	0.84	8.27	(0.86)	0.67	9.60
February	0.16	0.69	1.82	1.01	1.92	5.87	1.68	2.53	8.72	2.14	2.82	10.55
March	0.18	0.87	1.66	0.16	2.08	4.81	0.01	2.54	6.92	(0.05)	2.77	8.23
April	0.18	1.06	1.48	0.68	2.77	4.65	1.07	3.64	6.91	1.35	4.15	8.29
May	0.20	1.26	1.30	0.94	3.74	3.67	1.46	5.14	5.78	1.64	5.86	6.84
June	0.19	1.45	1.09	0.26	4.01	2.97	0.23	5.38	4.26	0.03	5.89	5.12
July	0.22	1.67	0.90	0.32	4.35	2.70	0.37	5.77	4.02	0.27	6.17	5.09
August	0.23	1.91	0.68	1.27	5.67	2.38	1.86	7.74	3.64	2.27	8.58	4.81
September	0.22	2.14	0.45	0.22	5.90	1.09	0.20	7.95	1.74	0.49	9.10	2.48
October	0.23	2.36	0.23	0.87	6.82	0.87	1.54	9.63	1.54	1.98	11.29	1.98

	Cash 17.5			Conservative 17.5			Balanced 17.5			Growth 17.5		
	Mth	YTD Aggr	Part year Aggr	Mth	YTD Aggr	Part year Aggr	Mth	YTD Aggr	Part year Aggr	Mth	YTD Aggr	Part year Aggr
November 2013	0.20	0.20	2.70	0.52	0.52	7.54	0.62	0.62	10.36	0.74	0.74	11.80
December	0.19	0.38	2.50	0.50	1.01	6.98	0.69	1.32	9.68	0.85	1.60	10.97
January 2014	0.21	0.60	2.30	0.02	1.03	6.45	(0.33)	0.98	8.93	(0.81)	0.78	10.03
February	0.19	0.79	2.09	1.09	2.14	6.43	1.75	2.75	9.29	2.17	2.97	10.93
March	0.21	1.00	1.90	0.21	2.35	5.28	0.10	2.85	7.41	0.05	3.03	8.58
April	0.21	1.21	1.68	0.74	3.11	5.06	1.13	4.01	7.30	1.37	4.43	8.52
May	0.23	1.44	1.47	1.02	4.16	3.97	1.53	5.60	6.10	1.69	6.20	7.06
June	0.21	1.66	1.24	0.31	4.49	3.24	0.30	5.91	4.51	0.10	6.30	5.28
July	0.25	1.92	1.02	0.37	4.87	2.92	0.40	6.34	4.19	0.27	6.59	5.17
August	0.26	2.18	0.77	1.36	6.30	2.54	1.96	9.42	3.78	2.31	9.05	4.89
September	0.25	2.44	0.51	0.23	6.55	1.16	0.18	8.61	1.78	0.48	9.58	2.52
October	0.26	2.70	0.26	0.93	7.54	0.93	1.60	10.36	1.60	2.03	11.80	2.03

Earnings History

The SIPO outlines earning rates expectations for each Investment Option. As the expectations are long term averages they are likely to vary from year to year, especially for Investment Options with higher risk profiles.

Cash

The expectation is the Cash Investment Option will perform closely in line with the ANZ 90 Day Bank Bill Index (a wholesale cash benchmark), after tax, fund expenses and fees. The 2014 result was above the expected level partly through investment in term deposits at especially advantageous rates.

Conservative

The Conservative Investment Option is expected to outperform the ANZ 90 Day Bank Bill Index by 0.75% after tax, fund expenses and fees over a long term. This Investment Option was introduced on 1 August 2012 so has a shorter history than other Investment Options in the tables.

Balanced

The Balanced Investment Option is expected to outperform the ANZ 90 Day Bank Bill Index by 1.5% after tax, fund expenses and fees over a long term. For the period 2004 to 2014, the average result was above expectations notwithstanding extreme negative returns in 2008.

Growth

The Growth Investment Option is expected to outperform the ANZ 90 Day Bank Bill Index by 2.5% after tax over a long term. For the period 2004 to 2014, the average result was above expectations in spite of extreme negative returns in 2008 from Equities and Property.

Actual earning rates since the Investment Options were introduced were:

Year	90 day Bill Index Gross less expenses and tax*	Cash Net	Conservative Net	Balanced Net	Growth Net
2004	3.64%	4.41%	-	6.22%	3.79%
2005	4.36%	4.95%	-	8.85%	7.75%
2006	4.88%	4.90%	-	14.45%	20.77%
2007	5.42%	5.03%	-	7.20%	10.20%
2008	5.99%	6.21%	-	(20.42)%	(31.53)%
2009	2.60%	3.13%	-	7.94%	4.36%
2010	1.84%	2.19%	-	8.15%	6.83%
2011	1.84%	2.16%	-	2.04%	0.24%
2012	1.68%	2.25%	2.49%**	8.59%	7.94%
2013	1.66%	2.28%	5.71%	10.75%	17.78%
2014	2.11%	2.36%	6.82%	9.63%	11.29%
Average (rounded)	3.60%	3.99%	n/a	6.3%	5.9%
Average last 5 years	1.83%	2.25%	n/a	7.8%	8.8%
Average target last 5 years		1.8%	2.6%	3.4%	4.4%

* The Index column contains earnings after expenses and tax for fair comparison with the actual earning rates. The asset allocation mix within each of the Investment Options changed between 2004 and 2007 meaning direct year on year comparisons cannot be made for all years.

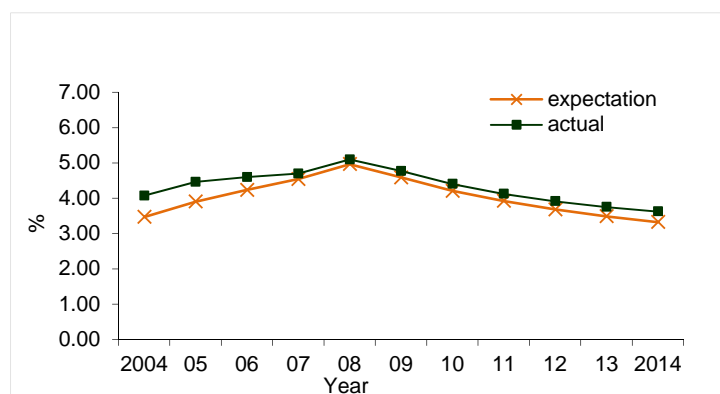
** For three months only – introduced 1 August.

EARNINGS - AVERAGES COMPARED TO SIPO EXPECTATIONS

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

Cash Investment Option

Because there has been a mix of securities (which has included term deposits over recent years), within the portfolio that are not measured within the index, returns have exceeded index. The securities have credit ratings that meet the investment guidelines for the mandate.

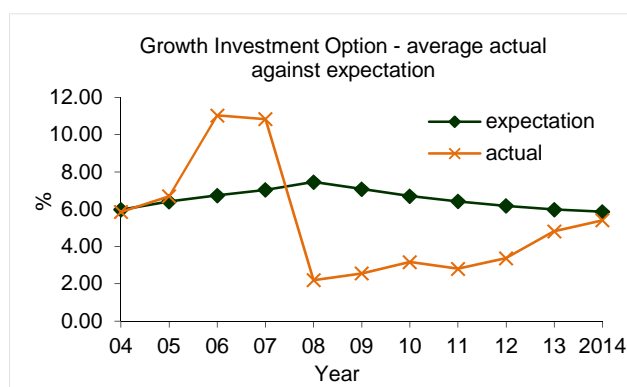
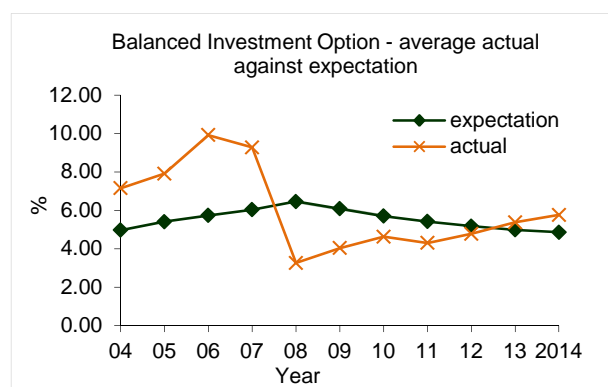


Conservative, Balanced & Growth Investment Options

The earning rates for the Conservative, Balanced and Growth Investment Options were above expectations for 2014.

Actual returns on a 5 year rolling basis were above expectation level for the Balanced and Growth Investment Options. The main impact of the GFC in 2008 (seen in the average annual graphs below) fell outside of the rolling 5 year 2010 to 2014 period.

The graphs that follow show the average return for periods from 2004 to 2014. A graph is not shown for the Conservative Investment Option because it was only introduced on 1 August 2012. Earlier period returns have been restated from prior Annual Reports to fit within revised SIPO parameters.



RETURNS BY ASSET CLASS

The Investment Options have different risk profiles achieved by investing in varying allocations to the asset classes shown below. In all cases securities are held by, and transactions processed via, a custodian, not the investment manager.

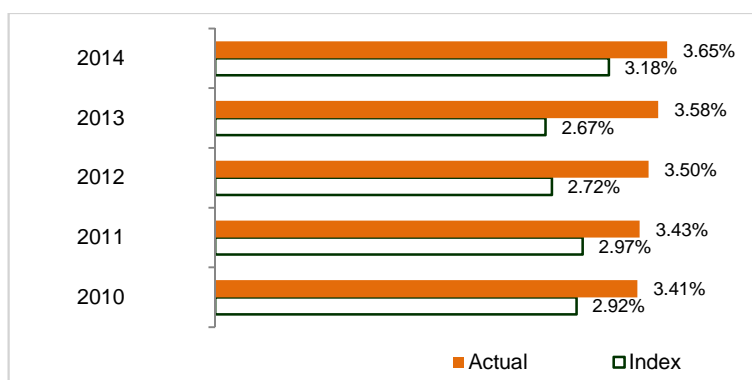
Investment management remained within the 5 year time period covered in the graphs below, except for international equities which was changed from JANA to Russell during December 2010. TOWER Investment Management was purchased by Fisher but the global fixed interest product used by the Scheme was unchanged.

Cash

Short term deposits and securities managed by ANZ Investments	Index	Period	Actual	Index	Relative Performance	Target
	ANZ New Zealand 90 day Bank Bill	Year 5 years	3.65%	3.18%	0.47%	0.10%
			3.51%	2.89%	0.62%	0.10%

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 3month deposit of wholesale money. Yield is the expected annualised rate of return from holding a bill until it matures. The target is to outperform the index by the percentage shown in the table.

The 2014 Cash return beat the index mainly through inclusion of term deposits at or near retail rates.

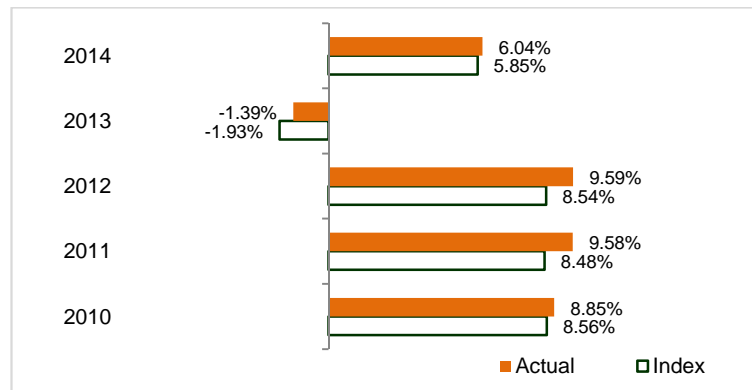


NZ Fixed Interest

Government and corporate bonds and discounted securities managed by ANZ Investments	Index	Period	Actual	Index	Relative Performance	Target
	ANZ New Zealand Government Stock Gross	Year 5 years	6.04%	5.85%	0.19%	0.75%
			6.45%	5.82%	0.63%	0.75%

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. The target is to outperform the index by the percentage shown in the table.

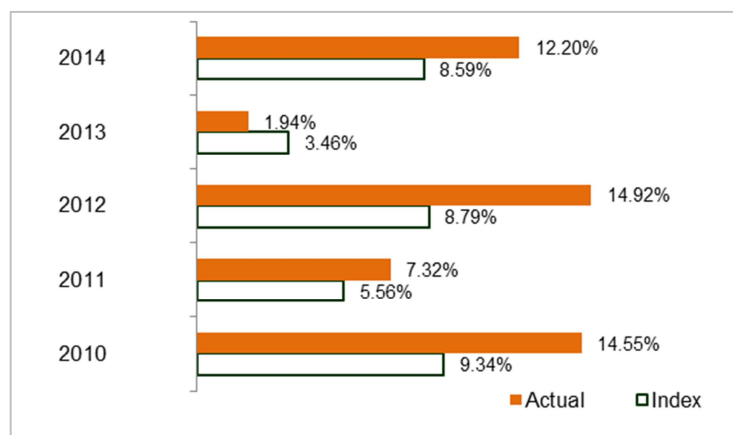
Holding securities other than New Zealand Government bonds (the index measure) in the portfolio has given a return better than the index over time.



Global Fixed Interest

<i>A PIE version of a Fisher Funds unit trust that invests in global Government and corporate fixed interest securities predominately investment grade managed by PIMCO</i>	Index	Period	Actual	Index	Relative Performance	Target
	Barclays Global Aggregate Bond – hedged 100% into NZD	Year 5 years	12.20% 10.07%	8.59% 7.13%	3.61% 2.94%	1% 1%
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% of each). Country eligibility is determined based on market capitalisation and suitability for investment. All issues have a remaining maturity of at least one year. The index is fully hedged back to the New Zealand dollar. The target is to outperform the index by the percentage shown in the table.						

PIMCO (the manager for the Fisher product) has also outperformed the target for the full period since investment was made in the product in 2001 (when it was acquired through TOWER).



NZ Equities

<i>NZ listed and certain Australian listed shares managed by ANZ Investments</i>	Index	Period	Actual	Index	Relative Performance	Target
	NZX50 Gross with imputation credits	Year 5 years	15.35% 14.30%	11.16% 12.34%	4.19% 1.96%	2% 2%
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. The target is to outperform the index by the percentage shown in the table.						

Another year of high returns with outperformance well above target. At year end the portfolio consisted of 27 NZ listed and 7 Australian listed stocks. The stand-out contributor for the year was F&P Healthcare followed by Spark, Mainfreight and the power generators. There were notable negative contributions from Chorus and Fletcher Building.

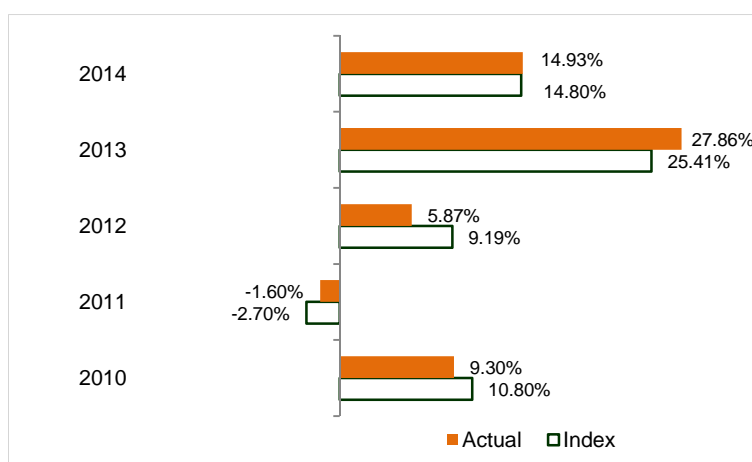
International Equities – Total

	Index	Period	Actual	Index	Relative Performance	Target
<i>Global listed shares managed via Russell global multi-manager funds hedged 45% to NZD in aggregate.</i>	Russell Global Large Cap hedged 45% to NZD	Year Jan 2011- Oct 2014	14.93%	14.80%	0.13%	2.50%
			10.31%	10.64%	(0.33)%	2.50%

The managers within the product are: MFS, Numeric, Harris; PIMCO; Wellington; Sanders, Russell

This index is 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. The target is to outperform the index by the percentage shown in the table.

The performance of this investment has improved recently but is below expectations owing to stock selection by the managers. The 55% unhedged / 45% hedged mix was of benefit to Members for the 2014 year.

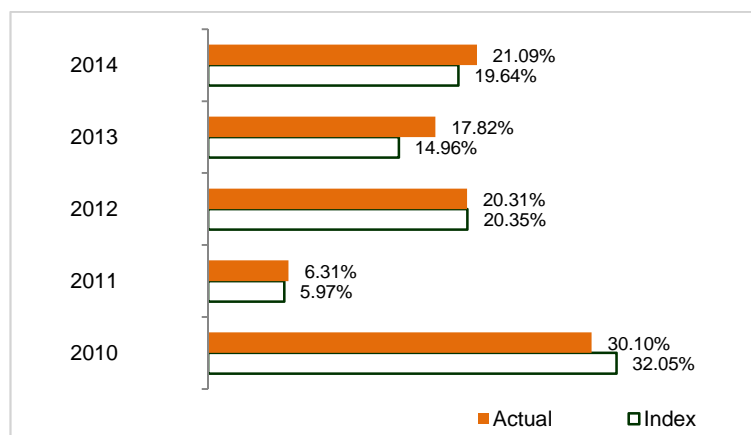


Global Property

	Index	Period	Actual	Index	Relative Performance	Target
<i>Global listed property securities managed by AMP Global Property Securities (PIE version)</i>	FTSE EPRA/NAREIT Global Real Estate – 100% after tax hedged to NZD	Year	21.09%	19.64%	1.45%	3%
		5 years	18.88%	18.27%	0.61%	3%

The index is 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 suitability for investment. It comprises about 400 constituents. The investment is fully after tax hedged back to the New Zealand dollar. The target is to outperform the index by the percentage shown in the table.

The global property sector investment has a hedge level of about 140% to give 100% after tax. The 2014 result belies volatile underlying monthly performance, in part from currency movements during the fourth quarter.



ONE, TWO, THREE, FOUR: WHAT AM I SAVING FOR?

The article that follows has been produced with permission from a presentation made recently to audiences in New Zealand by Katie Whiffen, a Retirement Specialist with MLC, the wealth management arm of National Australia Bank. It is designed to provoke thought and should not be construed as personalised financial advice.

What am I saving for?

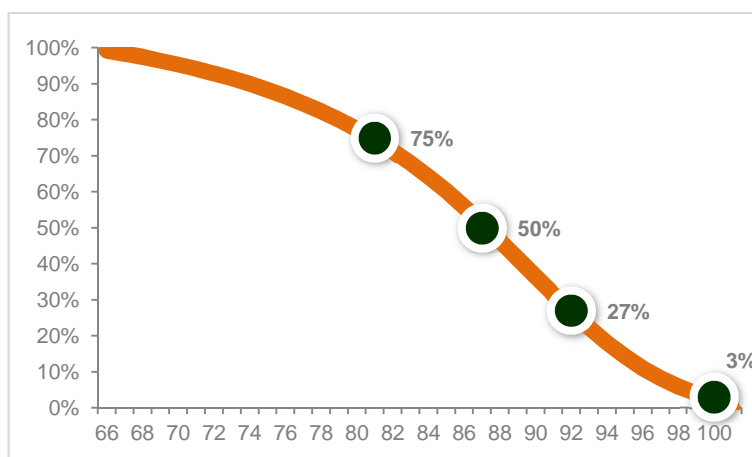
It will be well understood that the human lifespan - the maximum age someone has lived to - is increasing slowly. In October of this year, Peg Griffin sadly passed away at the age of 110. For the last year of her long life she was the oldest living New Zealander. And if realisation of this phenomenon needed further prompting there is evidence from deaths amongst the Association's small number of pensioners. Over the last 14 years, 19 have died aged over 100, with the oldest aged 109 when she died in 2005.

And running parallel to the lengthening of the human life span is the fact that the number of people living up to that maximum is also increasing...and increasing strongly. This is what is meant when we hear talk of life expectancies increasing. On average, more and more people are living longer and longer lives.

Obviously we do not know how long our individual lifetimes will be, but there are ways to provide an educated guess.

The chart on the opposite page plots the so-called longevity curve for a 65 year-old female New Zealander. What it is showing is likelihoods (scaled on the vertical axis) of a 65 year old woman living to certain age (scaled on horizontal axis). So, a 65 year old New Zealand woman has a 75% chance of living to 81, a 50% chance of living to 87 and a 27% chance of living to 93...and a 3% chance of living to 100! (And for our male readers, your curve looks very similar in shape but with a small shift to the left.)

Yet, many ignore these statistics. While they appreciate that people are generally living for longer, they often do not think that this phenomenon impacts them. Or they simply cannot imagine being older than 80 and enjoying themselves.



People in this circumstance should be mindful of two things. The first is that it is a mistake for them to benchmark their life expectancy against that of their parents. The Human Genome Project and other research has revealed that there is only a 30 to 40% relationship between the genes inherited from our parents and our longevity. Access to ever-advancing medicines, improvements in diet, and various changes in life-style play the larger part in our chances for a longer life.

And secondly, when people say they are worried that, while they may live a long time, their quality of life will be poor, we can point to a recent (Australian) study. This study found that on average, if a 65 year old woman lived to the average life expectancy she would have 9.5 years 'free of disability', 6.7 years with 'slight disability' (but nothing that impacted her lifestyle) and 5.6 years with something that would impact her core activities. To describe this in another way, we can expect to be in good health around 75% of the time from retirement to passing. This reality is a long way from the perception of retirement for many.

So the 'bottom line' is that the average person should expect to spend a long time in retirement (in one form or another), and to be in pretty good health for a good length of time within that period.

And these are definitely things to be looked forward to and worth celebrating. But they are also things worth saving for.

There are three critical questions. When will we retire? How much income will our retirement savings generate? And how long will those savings last?

For most of us, retirement is a long way away, so we do not think about these questions. But there is an easy rule of thumb to help us get a bearing on these distant milestones, and help us consider whether we want to do something today to make a difference to answering those questions with more confidence. It goes like this...

1. Think how much is in our super balance
2. Divide this number by 10, and
3. Then halve this result.

(Yes, that's right – the result is 5% of the super balance!)

Got that number? Well, based on Katie's research, if we are 65, the resulting dollar amount is how much we could take as a drawdown from our superannuation with a reasonable likelihood (a 60% chance) our capital would not have been totally depleted by the time we reach age 95.

And, if we are 55, then with additional contributions to super and investment markets work in our favour, that drawdown figure could probably be doubled.

If we were 45, that drawdown figure could probably be quadrupled.

How different is that potential drawdown together with the New Zealand superannuation benefit from our current level of income? This is a good question on which to reflect each year because if the difference is very large, or the drawdown is very far below our expectations, then we need to think about what we could do to improve the number. The earlier we begin to save, and the more we save, the more financially-comfortable our retirement is likely to be.

INFORMATION FOR PENSIONERS

SCHEME SURPLUS

As at 31 October 2014 a residual Scheme surplus was valued at about \$3.6m (inclusive of current year earnings). This value was in line with an amount agreed between the Board and the Bank as a 'buffer' for the Division 1 actuarial liabilities (which are in respect of pensioners). The Scheme's Actuary used a mortality assumption for calculating the pension liabilities based on NZ Life Table 10/12 with a 2 year set back, and a 2.5% discount rate.

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. A triennial examination is underway as at 31 October 2014.

The Board receives updates of the Pension liabilities annually, from the Actuary. The last update was dated 10 November 2014 and was for the year ended 31 October 2014. In that update the Actuary valued the Pension liabilities at \$33.3m and stated the ratio of the market value of the assets held to the value of the Pension liabilities was 111%. The assets held that cover the Pension liabilities are invested in a segregated portfolio comprising mainly long dated New Zealand Government Stock.

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.

An actuarial examination is a full formal review of the financial position of the fund, conducted by the Scheme's Actuary. The review determines whether the Scheme is sufficiently funded to pay current and future benefits and provides an opinion on the likely need for funding for the Bank.

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.

INFORMATION FOR MEMBERS AND PENSIONERS

MEMBERSHIP SUMMARY

Membership changes during the 2013/2014 Scheme year

	Division 1	Division 2	Total	Exit Value \$m
Opening - 1 November 2013	1	2956	2957	
<i>Plus:</i> New Members		469	469	
<i>Less:</i> Resignations		240	240	5.023
Redundancies		5	5	0.327
In-service withdrawals		175	175	6.243
Normal retirements		11	11	1.261
Deaths	1	1	2	0.214
Partial withdrawals				3.014
Closing - 31 October 2014	0	2993	2993	16.082

Commentary

Division 2 Membership had increased by 37 at year end (2013 - up 56). As at 31 October 2014 the analysis of Member Choice Investment Options by Membership numbers were:

Investment Option	2014	2013
Balanced	47.5%	50%
Balanced 17.5	15%	14%
Cash	9%	10.5%
Cash 17.5	3%	4%
Conservative	5.5%	5.5%
Conservative 17.5	2%	2%
Growth	13.5%	11%
Growth 17.5	4.5%	3%

The split by benefit entitlement values was about 66% to Balanced, 10% to Cash, 10.5% to Conservative, and 13.5% to Growth respectively (2013, 66%, 11%, 12% and 11%).

Pensioner changes during the 2013/2014 Scheme year

	Pensioners	Widows/ Widowers	Children	Total
Opening - 1 November 2013	60	73	1	134
<i>Plus:</i> New		2		2
<i>Less:</i> Deceased	5	10		15
Closing as at 31 October 2014	55	65	1	121

RULE AMENDMENTS

There were no amendments to the Rules during the year.

PROSPECTUS

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

ADVISORS TO THE BOARD OF MANAGEMENT

While carrying out its regular duties throughout the year the Board called upon a number of expert advisors:

Actuaries

Ian Midgley, Melville Jessup Weaver, P O Box 11330, Wellington – from April 2014

Michael Robinson of Mercer (NZ) Ltd, P O Box 105 591, Auckland – until retirement, April 2014

Auditor

Deloitte, P O Box 1990, Wellington

Solicitor

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

Russell Investments, P O Box 105-191, Auckland

Fisher Funds Management Limited, P O Box 33 549, Takapuna, Auckland

AMP Capital Investors Limited, P O Box 3764, Wellington

ANZ Investments, P O Box 7149, Auckland

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

BOARD OF MANAGEMENT COMMITTEES

The role of the committees 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 Scheme. Each committee operates to a charter. The main issues addressed during the year were:

Audit and Risk

- Negotiation of the annual audit programme

Investment

- Monitoring of investment performance (quarterly) and strategy with advice from Russell Investments;
- Investment manager operational compliance review and scheduling for ongoing governance;
- Review of the International Equities sector investment;
- Review of strategic asset allocation and Statement of Investment Policy and Objectives (SIPO); and
- Change to Growth Investment Option asset allocations from 1 November 2014 to reduce NZ Equities by 2.5%, increase International Equities by 2.5%; decrease NZ Fixed Interest by 2.5% and increase Global Fixed Interest by 2.5%.

LEGAL PROCEEDINGS / ARBITRATION

There were no legal proceedings or arbitration as at 31 October 2014.

DECLARATION BY THE BOARD OF MANAGEMENT

The Members of the Board of Management:

- State that all contributions required to be made to the Scheme, in accordance with the Rules of the OPA, have been made;
- Certify that all benefits required to be paid from the Scheme, in accordance with the Rules of the OPA, have been paid;
- Certify that the market value of the assets of the Scheme at 31 October 2014 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 2014;
- Notify that at no time during the year to 31 October 2014 were more than 10% of the market value of the assets of the Association invested directly or indirectly with Bank of New Zealand or any company or entity associated with Bank of New Zealand. Year-end investments with BNZ were:
 - \$7.8m was invested in BNZ term deposits / PIE term deposits with maturity dates extending to 26 January 2015
 - \$5.4m was invested in a BNZ covered bond with a maturity date of 30 June 2015, and
 - \$0.6m was invested in BNZ discount paper maturing during January 2014
- Confirm the abridged financial statements within this Report were authorised for issue on 27 November 2014;
- Are of the opinion, after due inquiry, that since 31 October 2014 there has been no material or adverse change to either or both of:
 - the value of the Scheme's assets relative to its liabilities (including contingent liabilities), or
 - the ability of the Scheme to pay its debts as they become due in the normal course of business;
- State 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 2014. Those costs, which took the form of employer contribution payments, totalled \$8.5m (rounded); and
- Confirm that as at 31 October 2014, all eligible Board Members were Members of Division 2 of the Scheme. Paul Bevin was not eligible to be a member.



Chris Reid



Ian Russon

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

ABRIDGED FINANCIAL STATEMENTS & NOTES

The abridged financial statements are an extract from the Bank of New Zealand Officers' Provident Association's full statutory format financial statements, signed on 27 November 2014, with an unqualified and unmodified audit opinion. They should be read in conjunction with Notes 1 and 3 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 contributed positively, at varying levels:
- Total operating expenses were in line with last year's level after allowing for fees now payable annually to the Financial Markets Authority which were \$36k;
- Income tax expense was higher by \$2.9m than the previous year due mainly to higher taxable income from the Fixed Interest investment sectors.
- Contributions received and Benefits paid to Division 2 Members were at about last year's levels; which was a net \$(1.2)m; and
- The Scheme surplus, shown under Member Liabilities decreased in value during the year, as shown by:

Opening value	\$6.63m
Plus / (less)	
Pensioner / Division 1 adjustments	(3.81)
Vesting fall back from exits/ adjustments	<u>0.40</u>
Sub-total	\$3.22m
Undistributed earnings 2013	<u>0.33</u>
Closing value	\$3.55m

The Pensioner / Division 1 adjustment mainly resulted from a change by the Scheme's Actuary from a 4% to a 2.5% discount rate for valuation purposes (and removal of an investment reserve).

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

ABRIDGED FINANCIAL STATEMENTS

Bank of New Zealand Officers' Provident Association Abridged Statement of Changes in Net Assets For the year ended 31 October 2014

	2014 \$(000's)	2013 \$(000's)
INVESTMENT ACTIVITIES		
Investment revenues / (Losses)		
New Zealand Fixed Interest and Cash revenue	2,104	2,033
Global Fixed Interest revenue	0	2
New Zealand Equities dividend and interest	834	798
Non Division 2 assets – Fixed interest	1,875	2,003
International Equities rebate income	0	68
International Equities distribution income	3,549	3,370
Global Property rebate income	51	27
Changes in net market values		
Unrealised Gains / (Losses)	14,337	8,149
Realised Gains / (Losses)	701	1,582
Total investment revenues	23,451	18,033
Miscellaneous Income – use of money interest	23	0
Total revenues	23,474	18,033
Less Investment management fees	987	900
Net investment activities	22,487	17,133
Operating expenses		
Audit fees	31	31
Other fees paid to Auditors	0	0
Actuarial fees	11	15
Depreciation	1	1
Financial Markets Authority and Other Compliance	36	13
General expenses	47	32
Interest expense	0	0
Other professional fees	139	145
Staff	249	254
Board remuneration	20	20
Non-deductible GST	39	38
Use of money interest – IRD	0	9
Total operating expenses	573	558
Net income/(deficit) before tax and Membership activities	21,914	16,575
Income tax expense	3,684	779
Net income/(deficit) after tax and before Membership activities	18,230	15,796
MEMBERSHIP ACTIVITIES		
Members' contributions	10,009	9,932
Employer contributions	8,460	8,273
Less Benefits paid	19,705	19,565
Net Membership activities (decrease)	(1,236)	(1,360)
Net (decrease) in assets	16,994	14,436
Net assets available to pay benefits at beginning of year	226,417	211,981
Net assets available to pay benefits at end of year	243,411	226,417

Bank of New Zealand Officers' Provident Association
Abridged Statement of Net Assets
as at 31 October 2014

	2014 \$(000's)	2013 \$(000's)
Bank accounts	50	61
Accounts receivable	440	460
Fixed Assets	1	1
Deferred tax asset	18	16
Current tax	0	338
	509	876
Investments		
Cash mandate	33,782	33,377
New Zealand Fixed Interest	18,982	17,449
Non Division 2 assets – Fixed Interest	36,266	37,956
Equities – New Zealand and Australia	21,496	18,798
Global Fixed Interest (Fisher product)	67,480	60,414
International Equities – Russell un-hedged	31,715	27,537
International Equities – Russell hedged	25,842	22,591
Global Property Securities (AMP product)	9,036	7,718
	244,599	225,840
Total assets	245,108	226,716
Deduct liabilities		
Accounts payable	349	299
Current tax	1,348	0
Total liabilities	1,697	299
Net assets available to pay benefits	243,411	226,417
Represented by member liabilities		
Division 2	206,549	187,723
Division 1 and Pension liability	33,314	32,061
Undistributed earnings – current year	330	(130)
Scheme surplus	3,218	6,763
	243,411	226,417

Abridged Statement of Cash Flows
for the year ended 31 October 2014

Net cash flows used in operating activities	(32)	(622)
Net cash flows from investing activities	21	623
Net increase in cash held	(11)	1
Add opening cash brought forward	61	60
Closing cash carried forward	50	61

The full statutory financial statements for the year ended 31 October 2014 comply with International Financial Reporting Standards, New Zealand equivalents to International Financial Reporting Standards and other applicable financial reporting standards, as appropriate for profit-oriented entities. An explicit and unreserved statement of compliance is contained in Note 2 of the full statutory financial statements.

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; and
- 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 presentation currency is New Zealand dollars, rounded to the nearest thousand.

The abridged financial statements have been extracted from the Association's audited full statutory format financial statements, which were authorised for issue by the Board on 27 November 2014, with an unqualified audit opinion. They should be read in conjunction with Notes 1 to 3 below and Notes 1 to 20 from the full financial statements. The abridged financial statements do not include all the disclosures provided in the full financial statements and cannot be expected to 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.

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 triennial actuarial examination 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 2014 was \$241.32 million, compared to assets of \$243.41 million. The surplus value on a vested accrued liability basis was about \$3.55 million (net of current year earnings allocated), with non-vested benefits being about an additional \$2.09 million.

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.

NOTE 3 – Compliance

The abridged financial statements comply with accounting standard FRS-43: Summary Financial Statements.

INDEPENDENT AUDITOR'S REPORT ON THE ABRIDGED FINANCIAL STATEMENTS



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE BANK OF NEW ZEALAND OFFICERS' PROVIDENT ASSOCIATION

Report on the Abridged Financial Statements

The accompanying abridged financial statements of the Bank of New Zealand Officers' Provident Association (the 'Association') on pages 18 to 20, which comprise the abridged statement of net assets as at 31 October 2014, and the abridged statement of changes in net assets and abridged statement of cash flows for the year then ended, and related notes, are derived from the audited financial statements of the Association for the year ended 31 October 2014. We expressed an unqualified or unmodified audit opinion on those financial statements in our report dated 27 November 2014.

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

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

Board of Management's Responsibility for the Financial Statements

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

Auditor's Responsibilities

Our responsibility is to express an opinion on the abridged financial statements based on our procedures, which were conducted in accordance with International Standard 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 the Association.

Opinion

The abridged financial statements are correctly extracted from the audited financial statements of the Association for the year ended 31 October 2014 and in our opinion are consistent, in all material respects, with those financial statements.

A stylized, handwritten-style signature of the Deloitte firm, written in dark ink.

Chartered Accountants

17 December 2014
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. These areas 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 is akin to a cash accumulation Scheme. The OPA, established over 100 years ago, operates under the Bank of New Zealand Officers' Provident Association Act, 1971 (the Act) and is governed by the OPA Rules.

The primary purpose of the Scheme 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.

Division 2 of the Scheme 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 depending on the Member Choice Investment Option selected by the member.

Members of the BOM are either elected by the Scheme Members or appointed by the Bank in accordance with the Rules. The management of the investment assets of the Scheme, administered by the BOM, is prescribed by the Rules and the Act.

This 'Statement of Investment Policy and Objectives' (SIPO) for the Scheme is reviewed by the BOM as needed, but at least annually, to ensure that its contents satisfies the requirements of the OPA's Rules and Act. Changes to the Investment Objectives for a Member Choice Investment Option require the prior consent of the Bank.

Board of Management Responsibility

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

Specifically Section 5 (2) (k) states that the BOM will:

'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 that:

'...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 investment managers to undertake the investment of the OPA's assets. The appointments are to be arranged in such a manner so that the investment managers are mandated to fulfil an investment function as directed by the BOM. The appointments are to be 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 Committee;
 - The BOM is to appoint a Secretary to administer the Scheme on an on-going basis;
 - Employing other consultants for external advice and services and to determine the scope of their responsibility towards and/or role in the efficient operation of the Scheme; and,
 - Ensuring the BNZOPA meets the requirements of common law and statute must be met.
- The Investment Committee of the BOM considers and reports to the full 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. It is advised to, and understood by the appointed investment managers.

INVESTMENT POLICIES

The Investment Policies set by the BOM are:

1. Investment risk must be minimised for the expected level of return for the relevant Member Choice Investment Option or the Non Division 2 investment portfolio;
2. An appropriate level of portfolio risk will be determined and accepted by the BOM in consultation with its advisors;
3. Investment 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 Investment Objectives for that Member Choice Investment Option or the Non Division 2 investment portfolio;
5. Tax efficiency is regarded as important;
6. Liquidity must be maintained at an appropriate level;
7. Costs incurred in the running of the Scheme will be controlled as effectively as possible;
8. Switching between Member Choice Investment Options at regular intervals should be permitted ;
9. The performance of investment 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.

INVESTMENT OBJECTIVES

The Investment Objectives of the four Member Choice Investment Options are detailed below.

Cash & Cash 17.5

The Investment Objective of this Member Choice Investment 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%), fund expenses and fees.

In any given year this Member Choice Investment 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 Investment Objective of this Member Choice Investment Option is to provide returns over the long term (over 10 years), 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 Member Choice Investment 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 expectation is that the investment return will outperform, over a long term horizon (over 10 years), 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 Investment Option the probability of experiencing a negative return over a medium term horizon (around five years) is approximately 1 in 40, or 2.5%, after tax, fund expenses and fees are taken into account.

Balanced & Balanced 17.5

The Investment Objective of this Member Choice Investment Option is to provide returns over the long term (over 10 years), 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 Member Choice Investment 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 expectation is that the investment return will outperform, over a long term horizon (over 10 years), 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 Investment Option the probability of experiencing a negative return over a medium term horizon (around five years) 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 Investment Objective of this Member Choice Investment Option is to provide returns over the long term (over 10 years), 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 Member Choice Investment 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 expectation is that the investment return will outperform, over a long term horizon (over 10 years), 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 Investment Option the probability of experiencing a negative return over a medium term horizon (around five years) 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 refer to the Scheme's website www.bnzopa.co.nz or 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

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 examination

With an exception of the actuarial examination, all are available for reading on the Association's website:

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 appointed Financial Services Complaints Limited (FSCL) as its disputes resolution service provider.

Communication with the Board of Management

Please address correspondence to:

The Chairperson

Bank of New Zealand Officers' Provident Association

P O Box 2392

Wellington

Your feedback is welcome

The Board is committed to keeping Members informed of the significant issues facing the Scheme. The main communication channels used are email and the website www.bnzopa.co.nz.