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BANK OF NEW ZEALAND OFFICERS' PROVIDENT ASSOCIATION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 OCTOBER 2010

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Bank of New Zealand Officers' Provident Association
Statement of Changes in Net Assets
for the year ended 31 October 2010

	Note	31.10.10 \$(000's)	31.10.09 \$(000's)
Investment Activities			
Investment revenues / (losses)			
NZ Fixed Interest and Cash Interest	7	1,856	1,814
Interest - Non Division 2	7	2,613	(1,277)
Non Division 2 Swap movement		0	1,608
NZ Equities Dividends and Interest	7	592	647
Global Fixed fee rebate Income		298	309
International Equities rebate income		12	6
Global Property rebate income		65	0
Gains/(losses) on Financial Assets at Fair Value Through Profit & Loss	8	13,861	15,210
Total Investment revenues / (losses)		19,297	18,317
Other income			
Miscellaneous income		0	41
Use of Money Interest - received from Inland Revenue		0	0
Total other income		0	41
Total Income		19,297	18,358
Investment management fees		836	771
Sub-total - Income after investment management fees		18,461	17,587
Operating expenses			
Audit fees paid to Deloitte		32	32
Actuarial fees		11	42
Other professional fees		175	160
Depreciation		2	19
General expenses		51	60
Interest		0	0
Staff		217	206
Board of Management Remuneration		20	20
Non-deductible Goods & Service Tax		34	37
Use of Money Interest - paid to Inland Revenue		76	0
Total operating expenses		618	576
Change in Net Assets before Taxation and Membership Activities		17,843	17,011
Income tax expense	13	4,652	5,566
Change in Net Assets after Taxation and before Membership Activities		13,191	11,445
Membership Activities			
Members' contributions		9,824	10,120
Employer contributions		4,712	0
Total contributions		14,536	10,120
Less benefits paid	10	26,092	25,540
Net membership activities		(11,556)	(15,420)
Increase / (Decrease) in net assets during year		1,635	(3,975)
Net assets available to pay benefits at beginning of year		204,399	208,374
Net assets available to pay benefits at end of year		206,034	204,399

The notes on pages 5 to 16 form an integral part of these financial statements.



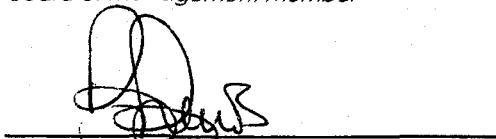
Bank of New Zealand Officers' Provident Association
Statement of Net Assets
as at 31 October 2010

	Note	31.10.10 \$(000's)	31.10.09 \$(000's)
Financial Assets - Fair Value Through Profit & Loss			
Cash mandate	6	31,840	35,492
New Zealand Fixed Interest	6	13,539	13,481
Non Division 2 - NZ Fixed Interest	6	45,290	56,053
Equities - NZ & Australia	6	14,166	14,220
Global Fixed Interest - TOWER product	6	51,181	44,824
International Equities - JANA product	6	39,770	32,568
International Equities - JANA product NZD Hedge 'basket'	6	530	1,910
Global Property - AMP product	6	11,892	9,395
		<u>208,208</u>	<u>207,943</u>
Other assets			
Bank account		24	277
Accounts receivable	11	269	55
Property, Plant & Equipment	9	3	3
Deferred tax Asset	13	16	0
		<u>312</u>	<u>335</u>
Total assets		<u>208,520</u>	<u>208,278</u>
Deduct liabilities			
Accounts payable	12	411	257
Current tax	13	2,075	3,192
Deferred tax liability	13	0	430
Total liabilities		<u>2,486</u>	<u>3,879</u>
Net assets available to pay benefits		<u>206,034</u>	<u>204,399</u>
Represented By Member Liabilities			
Division 2 member balances	19	161,444	148,981
Division 1 and Pension liability	19	39,988	41,200
Current year undistributed earnings	20	411	1,012
Scheme surplus	19	4,191	13,206
		<u>206,034</u>	<u>204,399</u>

For and behalf of Board of Management, who authorised the issue of these financial statements on


Board of Management Member


Board of Management Member


Secretary

26 November 2010
Date

The notes on pages 5 to 16 form an integral part of these financial statements.

Bank of New Zealand Officers' Provident Association
Statement of Cash Flows
for the year ended 31 October 2010

	31.10.10 \$(000's)	31.10.09 \$(000's)
Cash flows used in operating activities - includes all transactions and other events that are not investing activities		
Cash was provided from:		
Member contributions	9,877	10,096
Employer contributions	4,712	0
Dividends and distributions	582	623
Interest	3,443	573
Use of money interest - Inland Revenue	0	0
Miscellaneous	0	41
	<u>18,614</u>	<u>11,333</u>
Cash was applied to:		
Benefits paid	26,081	25,529
Operating expenses	957	1,011
Taxes paid	6,215	4,042
Use of money interest - Inland Revenue	76	0
Goods and services tax	34	37
	<u>33,363</u>	<u>30,619</u>
Net cash flows used in operating activities	<u>(14,749)</u>	<u>(19,286)</u>
Cash flows from investing activities - includes all investment manager trading activities		
Cash was provided from:		
Proceeds from sale and maturity of investments	261,887	227,088
Non Division 2 Swap payments	0	1,608
	<u>261,887</u>	<u>228,696</u>
Cash was applied to:		
Purchase of Property, Plant & Equipment	3	0
Purchase of Investments	247,388	209,321
	<u>247,391</u>	<u>209,321</u>
Net cash flows from investing activities	<u>14,496</u>	<u>19,375</u>
Net (decrease) / increase in cash held	(253)	89
Add opening cash brought forward	277	188
Closing cash carried forward - being balances with registered Banks in New Zealand	<u>24</u>	<u>277</u>

The notes on pages 5 to 16 form an integral part of these financial statements.

Bank of New Zealand Officers' Provident Association
Reconciliation of net cashflow from operating activities to change in net assets
for the year ended 31 October 2010

	31.10.10 \$(000's)	31.10.09 \$(000's)
Increase /(Decrease) in net assets	1,635	(3,975)
Add/(less) non cash items:		
Depreciation / asset write offs	2	19
Unrealised (gain) on investments	(14,684)	(12,565)
Investment Management fees	382	315
Decrease in deferred tax	(446)	(476)
	<u>(14,746)</u>	<u>(12,707)</u>
Add/(less) movements in other working capital items:		
Accounts receivable	(215)	(23)
Current tax	(1,117)	1,999
Accounts payable	155	(81)
Total movements in working capital	<u>(1,177)</u>	<u>1,895</u>
Add / (Less) items classified as other activities:		
Movement in accounts receivable attributable to non current assets	267	(0)
Movement in accounts payable attributable to non current assets	(140)	57
Net gain on sale of investments	(588)	(2,948)
Non Division 2 Swap cash payments	0	(1,608)
	<u>(461)</u>	<u>(4,499)</u>
Net cashflows (used in) operating activities	<u><u>(14,749)</u></u>	<u><u>(19,286)</u></u>

The notes on pages 5 to 16 form an integral part of these financial statements.

Bank of New Zealand Officers' Provident Association
Notes to the Financial Statements
for the year ended 31 October 2010

1. Scheme Description

The Bank of New Zealand Officers' Provident Association (the Association) is a defined contribution and a defined benefit superannuation plan (the Scheme) covering employees of Bank of New Zealand (the Bank) and certain related entities, registered under the Superannuation Schemes Act 1989.

There is only one class of membership open to new members; division 2, a defined contribution section, from which members receive benefits by way of a lump sum on exit. Division 1 is a closed defined benefit section.

Members of division 1 are required to contribute 5.5% of their salary to the Scheme.

Members of division 2 can specify their contribution rate and change their contribution rate once at any time during the year. Members may choose to contribute at a nil rate, but if they make any contribution, then the rate must be at least 2.0% of remuneration and a multiple of 0.5% thereafter.

Members who join the scheme after 1 July 2007 may, because the Bank has exempt employer status under the KiwiSaver Act 2006, need to contribute at least 2% in certain circumstances per the scheme Rules.

Members of division 2 can also make voluntary lump-sum contributions as and when they require. A minimum contribution of \$2,000 applies and the maximum for persons other than new members is \$100,000 per deposit and a total of \$500,000 per member (excluding the initial contribution).

A Bank subsidy (sourced from the scheme surplus until 28 April 2010) / employer contribution from 29 April 2010 matched division 2 members contributions up to a level of 7% and is reviewable annually by the Bank as at 31 October. From review, the Bank has set the maximum level as 6% for the year ending 31 October 2011, payable to the scheme by the Bank net of employer superannuation contribution tax.

Termination terms

The Rules of the Association set out the basis on which the Scheme can be terminated.

Changes in the Scheme

There were no changes to the Rules in the current year.

2. Summary of Significant Accounting Policies

a. Basis of preparation

Bank of New Zealand Officers' Provident Association is the reporting entity.

The financial statements have been prepared in accordance with the Superannuation Schemes Act 1989, the Financial Reporting Act 1993, and with the provisions of Bank of New Zealand Officers' Provident Association Act 1971 and the Association's rules and relevant legislative requirements.

b. Statement of Compliance

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand. They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. They comply with International Financial Reporting Standards (IFRS).

Measurement Base

The measurement base adopted is that of historical cost modified by the revaluation of assets which are measured at fair values at balance date, rounded to the nearest thousand dollars.

Presentational Currency

These financial statements are presented in New Zealand dollars because that is the currency of the primary economic environment in which the Scheme operates.

Classification of assets and liabilities

The Association operates as a superannuation scheme. As such, the assets and liabilities are disclosed in the Statement of Net Assets in an order that reflects their relative liquidity.

Bank of New Zealand Officers' Provident Association
Notes to the Financial Statements
for the year ended 31 October 2010

Summary of Significant Accounting Policies continued

c. Accounting Policies

The following are the significant accounting policies which have been adopted in the preparation of the financial statements:

Investment Income

Interest, dividends and distributions from unitised investments are taken to income on a due and receivable basis. Net realised and unrealised gains and losses are recognised in the Statement of Changes in Net Assets in the period in which they occur.

Foreign currencies

Transactions in currencies other than NZ dollars are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance date, assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance date. Gains and losses arising on retranslation are included in changes in net assets for the period.

Expenses

All expenses are accounted for on an accruals basis.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the Statement of Changes in Net Assets because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Scheme's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Statement of Changes in Net Assets.

With effect from 2 November 2007 the Association registered as a portfolio investment entity (PIE) for tax purposes. Under the PIE regime income is effectively taxed in the hands of the Division 2 members but the Association continues to have tax expense for the Non-Division 2 liabilities.

Under the PIE regime, taxable income is attributed to members of the Association in accordance with the proportion of their interest in the overall fund. The income attributed to each member is taxed at the member's "prescribed investor rate" which is capped at 28% (from 1 October 2010, 30% prior).

Financial instruments

Financial assets and financial liabilities are recognised on the Scheme's Statement of Net Assets when the Scheme becomes a party to the contractual provisions of the instrument. The Scheme shall offset financial assets and financial liabilities if the Scheme has a legally enforceable right to set off the recognised amounts and intends to settle on a net basis.

Investments

Investments are recognised and derecognised on the trade date where a purchase or sale is under a contract

Bank of New Zealand Officers' Provident Association
Notes to the Financial Statements
for the year ended 31 October 2010

Summary of Significant Accounting Policies continued

whose terms require delivery within the timeframe established by the market concerned, and are initially measured at fair value.

Investments are designated as at fair value through profit or loss. As the Scheme's business is investing in financial assets with a view to profiting from their total return in the form of interest, dividends or increases in fair value, listed equities and fixed income securities are designated as at fair value through profit or loss on initial recognition.

Financial assets designated as at fair value through profit or loss, are measured at subsequent reporting dates at fair value, which is the bid price of the exchange on which the investment is quoted.

Investments in units of pooled investment funds are valued at the closing price released by the relevant investment manager.

Accounts receivable

Accounts receivable do not carry any interest and are short-term in nature and are accordingly stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Accounts payable

Accounts payable are not interest-bearing and are initially stated at fair value, and subsequently at amortised cost.

Derivative financial instruments and hedge accounting

The Scheme's activities expose it primarily to the financial risks of changes in foreign currency rate, interest rates and liquidity. The Scheme may use foreign exchange forward contracts and interest rate swap contracts to hedge these exposures. The Scheme does not use derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by the Scheme's policies approved by the Board of Management, which provide written principles on the use of financial derivatives.

Changes in the fair value of derivative financial instruments are recognised in the statement of changes in net assets as they arise.

Goods and Services Tax (GST)

The Scheme is registered for GST and consequently all components of the financial statements are stated exclusive of GST where appropriate. Non-recoverable GST is shown as a separate expense item.

Statement of Cash Flows

The cash flows of the Scheme include direct holdings of assets only.

The following are definitions of terms used within the Statement of Cash Flows:

Cash - comprises cash balances held with banks in New Zealand and overseas.

Investing activities - comprise acquisition and disposal of investments. Investments include securities not falling within the definition of cash.

Operating activities - include all transactions and other events that are not investing activities.

Promised Retirement Benefits

Promised retirement benefits are the benefits which the scheme is presently obliged to transfer in the future to members and participants as a result of membership of the scheme up to the date at which the actuarial valuation of promised retirement benefits is determined.

Contributions and Benefits

Contributions and benefits are accounted for on an accruals basis.

Bank of New Zealand Officers' Provident Association
Notes to the Financial Statements
for the year ended 31 October 2010

Summary of Significant Accounting Policies continued

Other assets

Property, Plant & Equipment are initially stated at cost and depreciated using the diminishing value method using Inland Revenue Department depreciation rates other than for computer equipment. Computer equipment is depreciated for accounting on a 33% straight line basis.

3. Liability for Promised Retirement Benefits

The Association's Rule C2.3 and Section 15 of the Superannuation Schemes Act 1989 require a triennial Actuarial Valuation of the Association; the next is due as at 31 October 2011. A valuation was undertaken by Michael (Mike) Robinson, FNZSA, of the firm Mercer New Zealand Ltd at 31 October 2008. It revealed that the Association was in sound position and in an actuarial surplus position of \$31.3 million at that date.

It was recommended that the Bank continue to suspend contributions to the Association until a subsequent actuarial review is conducted, not more than three years after 31 October 2008.

The funding objective is that contributions should be made by the Bank in a stable manner so that, in combination with the members' contributions and investment income, the assets of the Association will be sufficient at all times to meet the benefit obligations as they fall due.

In order to assess whether this funding objective is being met, the Association's existing assets have been compared with the present value of the promised retirement benefits which are expected to be paid to current pensioners, members and their dependants. The assessment of the value of future benefits necessarily incorporates various assumptions. These assumptions were as follows:

Updates of the valuations as at 31 October 2010, as used in the financial statements, were based on assumptions of:

Investment earnings rate:	4.0% p.a., net of tax and all expenses
Salary increase:	4.50% per annum
Pension augmentation:	3.50% per annum
Mortality (in service - Div. 1 only):	nil
Mortality (in retirement):	NZ LT 2005/07 with 1.5 year set back
Turnover (Division 1 only):	nil
Marital Status (Division 1 only):	assumed to be married, with spouse three years senior
Retirement age:	60 years of age

4. Guaranteed benefits

No guarantees have been made in respect of any part of the net assets of the Association.

5. Vested benefits

Vested benefits are the rights to which, under the conditions of the Association, are not conditional on continued membership.

At the 31 October 2008 actuarial valuation the total account balances of division 2 members amounted to \$136.4 million, of which all but \$2.4 million was vested. All of the actuarial liability relating to pensioners is vested. The equivalent non vested amount at 31 October 2010 was approx. \$2.3 million.

The total vested promised retirement liability was \$174.7 million, compared to assets of \$208.4 million, as at 31 October 2008. The difference (\$33.7 million) between these two amounts has reduced to the extent the Bank continued to meet its subsidy from the surplus, to the extent Special Benefits were paid to members and former members, and will also reduce to the extent that members accrue additional service. The equivalent total vested promised retirement liability at 31 October 2010 was \$199.1 million, compared to assets of \$206.0 million.

Bank of New Zealand Officers' Provident Association
Notes to the Financial Statements
for the year ended 31 October 2010

6. Investments	31.10.10	31.10.09
ING (NZ) (AllianceBernstein for 2009 column)	\$(000's)	\$(000's)
Short Term Deposits	14,933	118
Discounts New Zealand	18,666	35,947
Other Fixed Interest - New Zealand	11,781	12,908
Fixed Interest - Non Division 2	45,290	56,053
	90,670	105,026
ING (NZ)		
Short Term Deposits	457	649
Equities - New Zealand & Australia	13,709	13,571
	14,166	14,220
TOWER Global Fixed Interest pooled product	51,181	44,824
JANA International Equities pooled product	39,770	32,568
BNZ -hedge for International Equities investment	530	1,910
AMP - Global Property pooled product	11,892	9,395
Total Investments	208,209	207,943

There was a single investment that exceeded 5% of the Scheme's net assets and 5% of any class or type of security. The investment, a security in the Non Division 2 - NZ Fixed Interest sector was:

- NZ Govt Stock: maturity date -15 May 2021: Face value: \$18.0m

7. Investment revenue	\$(000's)	\$(000's)
NZ Fixed Interest and Cash Interest:		
Bank deposits	329	122
NZ Discounted Securities	863	1,020
Other fixed interest investments	664	672
	1,856	1,814
Non Division 2 mandate		
NZ Discounts	161	67
Other Fixed Interest	2,452	0
Swaps	0	(1,344)
	2,613	(1,277)
NZ Equities Dividend and Interest:		
Interest short term deposits	10	24
Dividends on New Zealand Equities	516	567
Dividends on Australian Equities	66	56
	592	647
8. Gains/(losses) on Fair Value Through Statement of Changes in Net Assets		
Unrealised gains / (losses) on investments held at the end of the financial year:		
NZ Fixed Interest	229	257
Non Division 2 mandate	1,579	10
NZ Equities	541	3,291
Global Fixed Interest - TOWER product	5,783	7,387
International Equities - JANA product	2,092	(2,472)
International Equities - JANA product AUD hedged	0	1
International Equities - JANA product NZD Hedge 'basket'	530	1,910
Global Property - AMP product	2,519	1,878
	13,273	12,262

Bank of New Zealand Officers' Provident Association
Notes to the Financial Statements
for the year ended 31 October 2010

Gains/(losses) on Fair Value Through Statement of Changes in Net Assets continued

Realised gains / (losses) on investments held during the financial year:

NZ Fixed Interest	182	421
Non Division 2 mandate	0	3,652
NZ Equities	(784)	(1,585)
Global Fixed Interest - TOWER product	469	352
International Equities - JANA product	(6)	0
International Equities - JANA product AUD hedged	0	5
International Equities - JANA product Hedge 'basket'	727	4,209
International Equities - JANA product Hedge AUD to NZD	0	(4,446)
Global Property - AMP product	0	340
	<u>588</u>	<u>2,948</u>
Changes in fair value	<u>13,861</u>	<u>15,210</u>

9. Property, Plant & Equipment

	31.10.10	31.10.09
<u>At Cost</u>	<u>\$(000's)</u>	<u>\$(000's)</u>
Opening	176	186
plus Additions	3	0
less Disposals	(2)	(10)
Closing	<u>177</u>	<u>176</u>
<u>Accumulated depreciation</u>		
Opening	(173)	(164)
plus depreciation expense	(2)	(19)
less Write-backs	1	10
Total accumulated depreciation	<u>(174)</u>	<u>(173)</u>
Property, Plant & Equipment	<u>3</u>	<u>3</u>

10. Benefits paid

	31.10.10	31.10.09
	<u>\$(000's)</u>	<u>\$(000's)</u>
Pensions:	4,181	4,379
Withdrawal Benefits: (Divisions 1 & 2)		
Resignations	5,778	3,572
Redundancies	5,253	4,060
Retirements	722	700
Deaths	0	437
Special benefits	3,945	3,851
In-service withdrawals	4,097	5,818
Partial withdrawals	2,116	2,723
	<u>26,092</u>	<u>25,540</u>

11. Accounts receivable

	31.10.10	31.10.09
	<u>\$(000's)</u>	<u>\$(000's)</u>
Accounts receivable consists of:		
Member Contribution accrual	0	53
Employer Contribution accrual	0	0
Prepayments	2	2
Unsettled sales	267	0
	<u>269</u>	<u>55</u>

12. Accounts payable

	31.10.10	31.10.09
	<u>\$(000's)</u>	<u>\$(000's)</u>
Accounts payable consists of:		
Benefit accrual	34	23
Unsettled purchases	145	5
Sundry operating expenses	232	229
	<u>411</u>	<u>257</u>

Bank of New Zealand Officers' Provident Association
Notes to the Financial Statements
for the year ended 31 October 2010

13. Income tax	31.10.10	31.10.09
	\$(000's)	\$(000's)
Current Tax	4,675	5,599
Prior period adjustment	(19)	0
Deferred Tax (see below)	(4)	(33)
	<u>4,652</u>	<u>5,566</u>
The total charge for the year can be reconciled to the Statement of Changes in Net Assets as follows:		
Change in Net Assets before Tax and Membership Activities	17,843	17,011
Add back permanent differences for tax:	(1,458)	4,086
Change in Net Assets after permanent differences	16,385	21,097
Income Tax Expense - mix of 30% and 19.5%: 28% and 17.5% for October	4,842	5,769
(Less) prior period adjustments	(19)	0
imputation credits	(122)	(121)
foreign tax credits	(45)	(48)
Non Div 2 swap timing adjustment	(4)	(34)
Income tax expense	<u>4,652</u>	<u>5,566</u>
Deferred taxation (liability)		
Opening balance	(430)	(905)
Tax paid	442	442
Movement for the year	4	33
Closing balance	<u>16</u>	<u>(430)</u>
Current tax		
Opening balance - (liability)	(3,192)	(1,193)
Prior period adjustment	19	0
Movement for the year	(4,720)	(5,647)
Foreign Tax Credits	45	48
Use of money interest paid	(76)	0
Final tax paid - last financial year	3,249	1,200
Provisional tax payments	2,600	2,400
Closing balance - (liability)	<u>(2,075)</u>	<u>(3,192)</u>

14. Financial instruments

Exposure to currency, interest rate, and credit, risks arise through investment in financial instruments by the Association. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in the accounting policies.

The Board of Management have approved a statement of investment policies and objectives (SIPO) which seeks to set the overall risk levels for the investment portfolios of the member choice investment options and Non Division 2 assets. Performance against these levels is reviewed quarterly by the Board of Management and asset allocations are reviewed monthly and rebalancing undertaken as required.

There were no significant changes during the year to objectives, policies and processes for managing risk and exposures to risk from a strategic asset review undertaken by the Board of Management.

Fair Value

All assets and liabilities are recorded at their fair values in accordance with the Scheme's accounting policies. Derivative instruments are used as a means of reducing exposure to fluctuations in foreign exchange rates and interest rates. While these financial instruments are subject to the risk of market rates changing subsequent to acquisition, such changes would generally be offset by opposite effects on the items being hedged. The fair value is equivalent to the carrying value.

Bank of New Zealand Officers' Provident Association
Notes to the Financial Statements
for the year ended 31 October 2010

Financial Instrumentscontinued

(a) Currency risk

The Association is exposed to currency risk through investments held in the form of units in a wholesale superannuation scheme which invests in global property securities (AMP), a unit trust in global fixed interest (TOWER), and foreign currency cash deposits (One Path & BNZ).

The market values of the superannuation scheme and unit trust are affected by movements in the New Zealand dollar relative to other currencies, although the units in the scheme and trust are themselves New Zealand dollar denominated. These international investments are diversely held. Bonds denominated in foreign currency are hedged through the use of forward foreign exchange contracts. At any point in time, between 90-100% of Global Fixed Interest held will be hedged.

The hedging for international equities exposure was changed from 100% to 45% from 1 February 2009 for Member choice 'Balanced' and 'Growth' investment options. It is held via Bank of New Zealand to a 'basket' of currencies.

The fair value of the foreign currency contracts is included in the carrying value of the investments in the Statement of Net Assets available for benefits.

Derivative financial instruments

A derivative instrument is a contract whose value depends on (or derives from) the value of an underlying asset, reference rate or index. The Scheme may use derivatives as part of its normal investment management procedures. Derivatives are principally used as a means to hedge against market movements. The most commonly used derivatives are swaps and forward foreign exchange contracts.

The table below details the effective exposure and fair value of investment management derivatives for the Scheme. The effective exposure provides an indication of the Scheme's exposure to various asset classes through the use of derivative instruments. The fair value in the table below gives no indication of the ultimate gain or loss that will occur upon settlement of the derivatives, as the ultimate gain or loss will depend on the applicable market price at the time of settlement.

On 31 July 2010 outstanding forward foreign exchange contracts were settled and rolled for a new period. Any unrealised gains were realised and taken to the statement of changes in net assets. The principal or contract amounts of forward exchange contracts with the foreign currency denominated liability valued at the spot rate on balance date were:

	31.10.10	31.10.09
	\$(000's)	\$(000's)
<u>Int. Equities</u>	<u>Fair Value</u>	<u>Fair Value</u>
- pay	26,521	23,264
- receive	26,521	23,264

Derivatives held by the Scheme are valued on a mark-to-market basis, which involves the calculation and recognition of unrealised gains and losses on all current positions. Accordingly, the balance sheet reflects all unrealised gains and losses on derivatives held by the Scheme.

Sensitivity Analysis

The scheme has exposure to an AUD denominated investment in a JANA International Equities product. A currency hedge is maintained against a 'basket' of currencies relative to the product investments at 45% (after tax) of the JANA product investment value in NZD. Sensitivity to +/-1 cent movement of the NZD on 31 October 2010 was approx. \$250,000

(b) Interest rate risk

All fixed interest securities are subject to market risk in the event of changes in interest rates. A schedule setting out the maturity profile of financial instruments is set out below together with the effective yields, which are weighted average market yields at balance date.

Effective yields are based on market yields, or where no market yields exists, the market yield for an equivalent investment with equivalent maturity and risk characteristics.

Bank of New Zealand Officers' Provident Association
Notes to the Financial Statements
for the year ended 31 October 2010

Financial Instrumentscontinued

Maturity profile

Fixed interest securities are due to mature within the following time frames and have the following weighted average market yields:

	Total \$(000's)	Due within 1 year \$(000's)	Due in 1 to 5 years \$(000's)	Due after 5 years \$(000's)	Yield %
<u>NZ Cash</u>					
NZ Discounts	16,921	16,921	0	0	3.2
Term deposits	14,920	14,920	0	0	4.4
<u>NZ Fixed Interest</u>					
NZ Government stock	6,818	0	4,954	1,864	5.8
Other fixed interest	6,728	2,754	2,791	1,183	5.8
<u>Non Division 2 assets</u>					
NZ Government stock	44,137	0	15,868	28,269	6.0
Other fixed interest	1,146	1,146	0	0	3.2
	90,670	35,741	23,613	31,316	
<u>Last year comparison</u>					
<u>NZ Cash</u>					
NZ Discounts	35,492	35,492	0	0	2.9
<u>NZ Fixed Interest</u>					
NZ Government stock	8,633		1,820	6,813	5.5
Other fixed interest	4,848	577	2,416	1,855	6.6
<u>Non Division 2 assets</u>					
Other fixed interest	56,053	56,053	0	0	2.8
	105,026	92,122	4,236	8,668	

Other investments are actively managed and, therefore, part or all of the Association's portfolio of such securities may not be held to maturity.

Sensitivity Analysis

Sensitivity to interest rate movements by change to interest rates of +/- 1% on 31 October 2010 was:

Investment sector	Cash	NZ Fixed Interest	Non Division 2 assets
	\$87,000	\$440,000	\$2,275,000

Liquidity Risk

All financial assets at fair value through profit or loss can be realised within 12 months.

The Association had entered into swap arrangements that matched the cash inflows of the investments with that of the cash outflows of pension and special benefit payments in order to manage liquidity. The swap was included in the carrying value of the investments until 31 October 2009.

(c) Credit risk

Financial instruments which potentially expose the Scheme to credit risk consist of cash and short term deposits, fixed interest securities and receivables and, indirectly, investments in unitised products which invest in cash and fixed interest investments. The maximum exposure to credit risk is the carrying value of these financial instruments. The maximum exposure to credit risk arising from derivative financial instruments is as follows:

		31.10.10 \$(000's)	31.10.09 \$(000's)
Gross amount receivable	Int. Equities	26,521	23,264
under forward foreign Exchange contracts		26,521	23,264

As investments are made in credit-worthy Governments, local authorities, corporates and financial institutions, credit losses are considered, at this time, unlikely to occur. The investment guidelines issued to the Scheme's investment managers for Fixed Interest investments specify credit quality limits.

Bank of New Zealand Officers' Provident Association
Notes to the Financial Statements
for the year ended 31 October 2010

Financial Instrumentscontinued

The significant counterparties of the Scheme are its investment managers for pooled investments - JANA, TOWER Asset Management, AMP Capital Investors; and for direct investments - ING (New Zealand) Limited - which the Board of Management consider to be financial institutions of high quality. The investments are held in trust by the investment managers for the benefit of the Scheme.

(d) Hierarchy of Fair Value Measurements

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which their fair value is observable:

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Description	Level 1 \$(000's)	Level 2 \$(000's)	Level 3 \$(000's)	Total \$(000's)
Cash mandate	31,840			31,840
New Zealand Fixed Interest	13,539			13,539
Non Division 2 - NZ Fixed Interest	45,290			45,290
Equities - NZ & Australia	14,166			14,166
Global Fixed Interest - TOWER product	51,181			51,181
International Equities - JANA product	39,770			39,770
International Equities - Basket to NZD hedge		530		530
Global Property - AMP product	11,892			11,892
	207,678	530	-	208,208

There were no transfers between Level 1 and 2 in the period.

15. Related parties

Bank of New Zealand Officers' Provident Association is a staff superannuation plan established by the Bank in 1887. The Association is administered by a Board of Management comprising four Bank appointees and four member-elected representatives.

Bank of New Zealand, National Australia Bank and other members of the National Australia Bank Group have no claim on the assets of the Association. Bank of New Zealand provides the Association resources at an assessed market cost. The Association has insurance with National Australia Bank.

From 25 January 2008 the International equities investment has been in an active style multi-manager product of JANA Investment Advisers Pty Limited. JANA is a member of the National Australia Bank group of companies. The market value of the investment with JANA as at 31 October 2010 was \$39.770m. The value of a 'basket' of currencies hedge held with Bank of New Zealand for this investment as at 31 October 2010 was \$0.530m. Income from these investments is identifiable within Note 8.

Detail of BNZ securities held as at 31 October 2010 were:

<u>Cash</u>	<u>Maturity date</u>	<u>Face value</u>
NZ Discount	9/12/2010	\$5,995,000
<u>NZ Fixed Interest</u>		
Corporate Bond	15/09/2011	\$500,000
Corporate Bond	30/06/2015	\$400,000

Interest was received from Bank of New Zealand securities during the year.

Bank of New Zealand Officers' Provident Association
Notes to the Financial Statements
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Financial Instrumentscontinued

No management fees were paid to related parties by the Association. Management fees for the investment with JANA are deducted within the product.

Payments were made to Board of Management members totalling \$20,000 (2009 \$20,000) as remuneration.

16. Contingent liabilities

Agreement as to Future Use of Surplus

The Board of Management and the Bank concluded an agreement in October 2004 which set out a management plan for the surplus until 2009 at which time the Fund was expected to be in equilibrium. The agreement contained member benefit improvements for the 1995 to 2001 period and the 2005 to 2009 period.

It was agreed that up to \$25 million of surplus would be used for Special Member Benefits from 2005 to 2009, subject to providing additional protection for the pension liability (by a % of that being retained as surplus) and a Bank contribution holiday to 2009 based on a subsidy rate of 7% and a subsidy ratio of 1.

The agreement is detailed in Rule amendments which were sanctioned by the directors of the Bank and a Memorandum of Agreement. It prescribes how the Bank contribution rate and the amount of surplus to be released between 2005 and 2009 was determined. The Bank contribution subsidy was ordinarily to be set at 7% and the subsidy ratio at 1, unless there were circumstances which allowed for the level of Bank subsidy to be lowered or increased.

\$5 million was released each year for Special Member Benefits. The final allocation of \$5m was made to members on 6 January 2010 for the year ended 31 October 2009. For the 2008 and 2009 years a gearing ratio level of 1:1.2 was applied because circumstances were such that extra surplus required distribution as Bank subsidy. Although the payment of the Special Member Benefits should have returned the Fund to equilibrium in 2009, surplus assets still remained in the Fund as at 31 October 2009. The Board and the Bank agreed to apportion the remaining excess surplus between the Bank and benefits to members, by continuing the subsidy level and gearing ratio level that was in place until the excess surplus was extinguished. That occurred late in April 2010. Since that date the Bank has paid an employer contribution at the subsidy level of 7%, at a gearing ratio level of 1:1 (in place of 1:1.2). The Bank has absorbed applicable employer superannuation contribution tax. The Bank has set the maximum employer contribution rate at 6% for the 2011 financial year.

There were no other contingent liabilities as at 31 October 2010 (2009: nil).

17. Segment information

The Association invests in products that invest in a variety of countries directly and indirectly in the form of fixed interest securities and equity investments. The Association is involved solely in the provision of superannuation fund services to Bank of New Zealand staff members.

18. Events subsequent to balance date

The Board was negotiating to appoint a replacement manager for the International Equities sector investment.

There were no other material 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.

19. Member liabilities

The classification of member liabilities to the categories shown was based upon:

- a) Division 1 & 2

The Division 1 balance is per an actuarial liability; and Division 2 entitlements per the balances recorded in



Bank of New Zealand Officers' Provident Association
Notes to the Financial Statements
for the year ended 31 October 2010

Member Liabilities continued

the Association's membership system as at 31 October 2010 after allocating distributed earnings.

b) Pension Liability

An updated actuarial liability was provided by the scheme's Actuary, Mike Robinson FNZSA of Mercer (NZ) Ltd, as at 31 October 2010. Because of the Non Division 2 asset investment it was based on an investment earnings rate (net of expenses and tax) of 4.0%.

c) Scheme Surplus

The opening value for last year in the table below was determined from an actuarial valuation of the surplus of \$31.3m as at 31 October 2008.

	31.10.10 \$(000)'s	31.10.09 \$(000)'s
Opening position	14,218	31,298
plus/(less) -allocation as Bank subsidy to members	(4,799)	(10,520)
-allocation as Special Benefits	(5,000)	(5,000)
-Pensioner and division 1 liability adjustments	(628)	(3,044)
-vesting fall back on member exits	400	472
Sub-total	<u>4,191</u>	<u>13,206</u>
plus -undistributed earnings for year	411	1,012
Closing position	<u><u>4,602</u></u>	<u><u>14,218</u></u>

20. Current year undistributed earnings

Net income after tax and before membership activities	13,191	11,445
Less: Earnings credited to member classes	12,712	10,424
Interim earnings paid to exits	68	9
Current year undistributed earnings	<u><u>411</u></u>	<u><u>1,012</u></u>

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

Report on the Financial Statements

We have audited the financial statements of Bank of New Zealand Officers' Provident Association ("BNZ OPA") on pages 1 to 16, which comprise the statement of net assets as at 31 October 2010, and the statement of changes in net assets, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to BNZ OPA's members, as a body, in accordance with Section 13(1)(c) of the Superannuation Schemes Act 1989. Our audit has been undertaken so that we might state to BNZ OPA'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 BNZ OPA'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 Financial Statements

The Board of Management are responsible for the preparation of financial statements, in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the Board of Management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Opinion

In our opinion, the financial statements on pages 1 to 16:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the net assets of BNZ OPA as at 31 October 2010, and its change in net assets and its cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

We also report in accordance with section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 October 2010:

- we have obtained all the information and explanations we have required; and
- in our opinion proper accounting records have been kept by BNZ OPA as far as appears from our examination of those records.



Chartered Accountants
26 November 2010
Wellington, New Zealand



BANK OF NEW ZEALAND OFFICERS' PROVIDENT ASSOCIATION

**Bank of New Zealand Officers' Provident Association
Financial Statements for the year ending 31 October 2010**

In terms of Section 18 (3) of the Financial Reporting Act 1993, we certify that the attached financial statements are a correct copy of the annual accounts of the Association.

A handwritten signature in black ink, appearing to be 'H. Smith', written over a dotted line.

Hugh Alexander Smith
Board of Management member

2 December 2010

A handwritten signature in black ink, appearing to be 'P. Bevin', written over a dotted line.

Paul Steven Bevin
Board of Management member

2 December 2010