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19 August 2009

### MANAGEMENT STATEMENT

Pursuant to section 165 of the Reserve Bank of New Zealand Act 1989, we hereby certify that:

1. We have been responsible for the preparation of the annual financial statements and for the judgements used in them.
2. We have been responsible for establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of the Bank's financial reporting.
3. In our opinion, the annual financial statements for the year ended 30 June 2009 fairly reflect the financial position and operations of the Bank.

A handwritten signature in black ink, appearing to read "Alan Bell".

Governor

A handwritten signature in blue ink, appearing to read "Gustavo".

Deputy Governor

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PO Box 2498, Wellington 6140, New Zealand  
Telephone +64 4 472 2029, Fax +64 4 473 8554



## **Auditors' report**

*To the readers of the Reserve Bank of New Zealand and Group's Financial Statements for the year ended 30 June 2009*

The Auditor-General is the auditor of the Reserve Bank of New Zealand (the 'Bank') and Group. The Auditor-General has appointed me, John Meehan, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the financial statements of the Bank and Group, on his behalf, for the year ended 30 June 2009.

### **Unqualified Opinion**

In our opinion the financial statements of the Bank and Group on pages 56 to 106:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
  - the Bank and Group's financial position as at 30 June 2009; and
  - the results of their operations and cash flows for the year ended on that date.

The audit was completed on 19 August 2009, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Governor and the Auditor, and explain our independence.

### **Basis of Opinion**

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements.

We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Governor;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.



We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

#### **Responsibilities of the Governor and the Auditor**

The Governor is responsible for preparing the financial statements in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the Bank and Group as at 30 June 2009 and the results of their operations and cash flows for the year ended on that date. The Governor's responsibilities arise from the Reserve Bank Act 1989.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.

#### **Independence**

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

In addition to the audit we have carried out assignments in the areas of systems audits and accounting advice, which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the Bank or its subsidiary.

John Meehan  
On behalf of the Auditor-General  
Wellington, New Zealand

PricewaterhouseCoopers

#### **Matters Relating to the Electronic Presentation of the Audited Financial Statements**

This audit report relates to the financial statements of the Reserve Bank of New Zealand and Group for the year ended 30 June 2009 included on the Reserve Bank of New Zealand's website. The Reserve Bank of New Zealand's Governor is responsible for the maintenance and integrity of the Reserve Bank of New Zealand's website. We have not been engaged to report on the integrity of the Reserve Bank of New Zealand's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements as well as the related audit report dated 19 August 2009 to confirm the information included in the audited financial statements presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

# GUIDE TO THE MAIN FUNCTIONS OF THE RESERVE BANK

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The Reserve Bank's role is defined by the Reserve Bank of New Zealand Act 1989 (the Reserve Bank Act).

The Bank classifies its outputs according to its main functions in the ways described below.

## Monetary Policy Formulation:

Developing monetary policy to achieve and maintain price stability in line with the Policy Targets Agreement.

## Domestic Market Operations:

Transacting with, monitoring and liaising with financial markets to manage aggregate liquidity in the New Zealand banking system. These actions are for the purpose of implementing monetary policy, facilitating payments and monitoring financial stability.

## Financial System Surveillance and Policy:

Registering and supervising banks, regulating non-bank deposit takers, overseeing payment systems, and undertaking analysis and surveillance of financial institutions, markets and other sectors of the economy relevant to financial stability. These actions are for the purpose of promoting a sound and efficient New Zealand financial system by limiting damage to the financial system that could arise from a bank or non-bank deposit taker failure or other financial system distress.

## Currency Operations:

Maintaining the supply and integrity of legal tender currency to facilitate cash transactions in the community.

## Foreign Reserves Management:

Managing the Bank's foreign reserves held to support monetary policy objectives and the maintenance of orderly markets. This includes execution of foreign currency intervention activities.

## Settlement Services:

Providing settlement accounts and related payment services to the New Zealand government, financial institutions, and appropriate overseas institutions to meet their banking needs and to facilitate effective implementation of monetary policy.

## Registry and Depository Services:

Providing securities registry and depository services mainly to financial institutions.

## Other Outputs:

Producing other outputs that cannot be classified under the Bank's main functions. These include sundry economic policy advice, and overseas representation and liaison.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June	Note	2009 \$M	2008 \$M
<b>ASSETS</b>			
Foreign Currency Financial Assets			
Cash Balances		1,284	491
Securities Purchased Under Agreements to Resell		2,129	2,007
Marketable Securities		14,906	17,812
Derivative Financial Instruments in a Gain Position	4	1,002	329
Other Foreign Currency Financial Assets	5	139	115
<b>Total Foreign Currency Financial Assets</b>		<b>19,460</b>	20,754
Local Currency Financial Assets			
Securities Purchased Under Agreements to Resell		6,931	-
New Zealand Government Securities		4,435	4,307
<b>Total Local Currency Financial Assets</b>		<b>11,366</b>	4,307
<b>Total Financial Assets</b>		<b>30,826</b>	25,061
Other Assets	6	96	101
<b>Total Assets</b>		<b>30,922</b>	25,162
<b>LIABILITIES</b>			
Foreign Currency Financial Liabilities			
Short-term Foreign Currency Financial Liabilities	9	1,017	290
Securities Sold Under Agreements to Repurchase		711	573
Derivative Financial Instruments in a Loss Position	4	592	176
Term Liabilities		3,219	3,566
<b>Total Foreign Currency Financial Liabilities</b>		<b>5,539</b>	4,605
Local Currency Financial Liabilities			
Deposits	10	15,495	14,888
Securities Sold Under Agreements to Repurchase		190	37
Reserve Bank Bills		2,085	-
Currency in Circulation		3,923	3,448
<b>Total Local Currency Financial Liabilities</b>		<b>21,693</b>	18,373
Other Liabilities	11	723	258
<b>Total Liabilities</b>		<b>27,955</b>	23,236
<b>EQUITY</b>	13	<b>2,967</b>	1,926
<b>Total Liabilities and Equity</b>		<b>30,922</b>	25,162

The above statement is to be read in conjunction with the notes set out on pages 61 to 106.

Derivative Instruments are used to manage the Bank's exposure to foreign currency risk. The effective foreign currency exposure as at balance date is recorded in Note 20.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June	Note	2009 \$M	2008 \$M
Total Comprehensive Income for the Year		<b>1,071</b>	658
Dividend Payable to the New Zealand Government	12	<b>(630)</b>	(168)
Capital Contributed by the New Zealand Government		<b>600</b>	-
<b>Movement in Equity for the Year</b>		<b>1,041</b>	490
<b>Equity at the Beginning of the Year</b>		<b>1,926</b>	1,436
<b>Equity at the End of the Year</b>		<b>2,967</b>	1,926

The above statement is to be read in conjunction with the notes set out on pages 61 to 106.

## CONSOLIDATED INCOME STATEMENT

For the year ended 30 June	Note	2009 \$M	2008 \$M
Interest Income		1,042	1,408
Interest Expense		760	1,174
<b>Net Interest Income</b>		<b>282</b>	234
Net Gains/(Losses) from Fair Value Changes		187	(7)
Net Gains/(Losses) from Foreign Exchange Rate Changes		481	344
Dividend Income		2	2
<b>Total Net Investment Income</b>	23	<b>952</b>	573
Other Income		8	8
<b>Total Operating Income</b>		<b>960</b>	581
<b>Total Operating Expenses</b>	25	<b>54</b>	46
<b>Net Profit for the Year</b>		<b>906</b>	535

The above statement is to be read in conjunction with the notes set out on pages 61 to 106.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June	Note	2009 \$M	2008 \$M
<b>Net Profit for the Year from the Consolidated Income Statement</b>		<b>906</b>	535
<b>Items Recognised Directly in the Consolidated Statement of Comprehensive Income</b>			
Movement in Available-for-sale Revaluation Reserve taken to Equity	13	170	118
Movement in Property Revaluation Reserve taken to Equity	13	(5)	3
Movement in Currency and Artwork Collections and Archives Revaluation Reserve taken to Equity	13	-	2
<b>Total Income and Expense Taken to Equity During the Year</b>		<b>165</b>	123
<b>Total Comprehensive Income for the Year</b>		<b>1,071</b>	658

The above statement is to be read in conjunction with the notes set out on pages 61 to 106.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June	Note	2009 \$M	2008 \$M
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Sources from Income			
Interest Received:			
Foreign Currency		494	975
Local Currency:			
Available-for-sale Securities		250	267
Other		285	118
Dividend		2	2
Fees, Commission and Other Income Received		8	8
<b>Total Sources of Cash Flows from Income</b>		<b>1,039</b>	1,370
Disbursements for Expenses			
Interest Paid:			
Foreign Currency		101	174
Local Currency		668	1,012
Payments to Suppliers and Employees		43	48
<b>Total Disbursements of Cash Flows from Expenses</b>		<b>812</b>	1,234
<b>Operating Cash Flows from Income and Expenses</b>		<b>227</b>	136
<b>Operating Cash Flows from Changes in Operating Asset Balances:</b>			
Net (Increase)/Decrease in Foreign Currency Operating Assets		3,351	(3,481)
Net (Increase)/Decrease in Other Local Currency Operating Assets		(7,076)	16
<b>Total Operating Cash Flows from Changes in Asset Balances</b>		<b>(3,725)</b>	(3,465)
<b>Operating Cash Flows from Changes in Operating Liability Balances:</b>			
Net (Increase)/Decrease in Other Foreign Currency Operating Liabilities		(788)	22
Net (Increase)/Decrease in Local Currency Operating Liabilities		(2,835)	(3,918)
<b>Total Operating Cash Flows from Changes in Liability Balances</b>		<b>(3,623)</b>	(3,896)
<b>Operating Cash Flows from Changes in Asset and Liability Balances</b>		<b>(102)</b>	431
<b>Net Cash Flows from Operating Activities</b>	26	<b>125</b>	567

## CONSOLIDATED STATEMENT OF CASH FLOWS CONTINUED

For the year ended 30 June	Note	2009 \$M	2008 \$M
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Sources			
Maturity of Available-for-sale Securities		2,138	-
<b>Total Sources of Cash Flows from Investing Activities</b>		<b>2,138</b>	<b>-</b>
Disbursements			
Purchases of Available-for-sale Securities		1,791	-
Purchase of Property, Plant and Equipment and Intangible Assets		4	1
<b>Total Disbursements of Cash Flows from Investing Activities</b>		<b>1,795</b>	<b>1</b>
<b>Net Cash Flows from Investing Activities</b>		<b>343</b>	<b>(1)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Sources			
Net Issue of Circulating Currency		475	87
Capital Contributed by the New Zealand Government		600	-
<b>Total Sources of Cash Flows from Financing Activities</b>		<b>1,075</b>	<b>87</b>
Disbursements			
Repayment of Foreign Currency Term Liabilities		649	687
Payment of Dividend to the New Zealand Government		168	193
Payment for Demonetised Currency		-	1
<b>Total Disbursements of Cash Flows from Financing Activities</b>		<b>817</b>	<b>881</b>
<b>Net Cash Flows from Financing Activities</b>		<b>258</b>	<b>(794)</b>
<b>NET CASH FLOWS</b>		<b>726</b>	<b>(228)</b>
Plus Foreign Exchange Rate Effect on Cash Balances at the Beginning of the Year		67	47
<b>NET CASH FLOWS FROM ALL ACTIVITIES</b>		<b>793</b>	<b>(181)</b>
Cash Balances at the Beginning of the Year		491	672
<b>Cash Balances at the End of the Year</b>		<b>1,284</b>	<b>491</b>

The above statement is to be read in conjunction with the notes set out on pages 61 to 106.

# NOTES TO BE READ AS PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

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## 1. Statement of Accounting Policies

### a Reporting Entity and Statutory Base

These are the consolidated financial statements of the Reserve Bank of New Zealand, a body corporate under the Reserve Bank of New Zealand Act 1989 (the Reserve Bank Act and its amendments). These consolidated financial statements apply to the financial year ended 30 June 2009. They are prepared in accordance with part VI of the Reserve Bank Act and comply with Generally Accepted Accounting Practice in New Zealand.

In these financial statements, the Reserve Bank of New Zealand is also referred to as the "Reserve Bank" or the "Bank". The Bank's parent entity is the Government of New Zealand.

The Governor and Deputy Governor of the Reserve Bank authorised these financial statements for issue on 19 August 2009.

### b Compliance with New Zealand Equivalents to International Financial Reporting Standards

Under NZ IAS 1 *Presentation of Financial Statements*, the Bank is classified as a Public Benefit Entity (PBE). A PBE is a reporting entity whose primary objective is to provide goods and services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders. PBEs are required to comply with requirements under New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), which differ from corresponding provisions of the equivalent International Financial Reporting Standards (IFRS). For the reasons set out below, while the Bank asserts full compliance with Generally Accepted Accounting Practice in New Zealand and NZ IFRS, it is unable to make an unreserved statement of compliance with IFRS.

The following accounting practice adopted in accordance with the Bank's PBE status has prevented the Bank from asserting full compliance with IFRS. NZ IAS 2 *Inventories* requires that inventories of currency that are held for distribution be measured at cost. NZ IAS 2 requires that

inventory that is acquired at no cost, or for nominal consideration, be measured at current replacement cost. The corresponding IFRS provision in IAS 2 requires that inventories be measured at the lower of cost and net realisable value. At 30 June 2009, the carrying value of inventory was \$2.2 million more than that which would have been reported had IAS 2 been applied (2008: \$3.0 million more).

### c Basis of Preparation of Financial Statements

#### Measurement Base

These financial statements have been prepared using the general principles of historical cost accounting, modified by fair value accounting for available-for-sale financial assets, all derivative contracts, financial assets and liabilities that are held at fair value through profit or loss, land and buildings, and currency and artwork collections.

#### Changes in Accounting Policies

There have been no changes in accounting policies and these have been consistently applied by the Bank for all the financial years presented (unless otherwise stated).

The Bank has continued to apply the following new standards and interpretations in advance of the mandatory application date:

- NZ IAS 1 *Presentation of Financial Statements* (revised 2007);
- NZ IFRS 8 *Operating Segments*; and
- NZ IFRIC 14 *NZ IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.

From 1 July 2008, the Bank adopted the following revision to an existing standard which has been issued by the Accounting Standards Review Board and which will come into force in a subsequent accounting period:

- Improving Disclosures about Financial Instruments - Amendments to NZ IFRS 7 *Financial Instruments: Disclosures*.

Adoption of this standard has had no impact on reported profits or financial position. These changes did, however, give rise to additional disclosures.

**Comparative Figures**

Where changes have been made in the presentation of the disclosure for the current year, comparative figures have been restated.

**Basis of Consolidation**

These consolidated financial statements are prepared using the purchase method. All material inter-company balances and transactions are eliminated. Parent financial statements are not produced because the difference between the parent and group is not material.

**Trust and Custodial Activities**

Assets held for third parties under custodial arrangements and income arising thereon is excluded from these financial statements, as they are not assets or income of the Bank (see Note 33).

**Segment Reporting**

The Bank's operations comprise a single operating segment for the purposes of NZ IFRS 8 *Operating Segments*. The Bank has significant foreign currency financial liabilities and foreign currency financial assets as part of its Foreign Reserves Management and Domestic Market Operations activities. While the Bank is required by the Reserve Bank Act to report revenue and expenses by reference to the functions carried out by the Bank, these activities do not constitute separate operating segments for the purposes of NZ IFRS 8.

**Functional and Presentation Currency**

The Bank's financial statements are presented in New Zealand dollars, the Bank's functional and presentation currency.

**Foreign Currency Conversions**

Transactions denominated in foreign currency are translated to New Zealand dollars using exchange rates applied on the trade date of the transaction.

Foreign currency assets and liabilities are translated to New Zealand dollars at the relevant market bid or offer foreign exchange rate as at balance date.

Foreign exchange gains and losses resulting from settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currency are recognised in the Income Statement. Where a gain or loss on a non-monetary item is recognised directly in equity, such as equity investments classified as financial assets that are available for sale, the related exchange gain or loss is also recognised in equity.

**Rounding**

Amounts in the financial statements are rounded to the nearest million dollars unless otherwise stated.

**d Financial Assets****Classification of Financial Assets**

The Bank classifies its financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. Bank management determines the classification of its financial assets at initial recognition.

The Bank prepares a daily profit or loss report applying the accounting policies described herein. In broad terms, compliance with the Bank's investment mandates and performance of the Bank's Foreign Reserves Management and Domestic Market Operations functions are assessed daily on the basis of the fair value of assets and related liabilities funding those assets. Accordingly, the bulk of assets and liabilities are designated as fair value through profit or loss.

The Bank also has active management portfolios, which are classified as held for trading.

Available-for-sale financial assets include the Bank's holdings of New Zealand government bonds and its shareholding in the Bank for International Settlements. These assets are intended to be held either to maturity or for an indefinite period of time, and in the case of New Zealand government bonds, these may be sold in the course of the Bank's operations. As part of its liquidity management operations, the Bank purchases New Zealand government securities up to six months before these securities mature. Government securities purchased for liquidity management operations are classified as financial assets at fair value through profit or loss.

**Financial Assets at Fair Value Through Profit or Loss**

This category has two sub-categories: financial assets held for trading and those designated as fair value through profit or loss at inception. A financial asset is classified as held for trading if acquired or incurred principally for selling it in the near term; if it is part of a portfolio of identical financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit taking; if it is a derivative that is not a designated hedging instrument; or if it is so designated on acquisition by management.

This designation may only be made if the financial asset either contains an embedded derivative or will be managed on a fair value basis in accordance with a documented risk management strategy, or if designating it (and any financial liability) at fair value will reduce an accounting mismatch.

#### **Available-for-sale Financial Assets**

Available-for-sale financial securities are those non-derivative financial assets that are designated as available for sale or that are not classified as financial assets at fair value through profit or loss, or loans and receivables.

#### **Loans and Receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides goods or services directly to a debtor with no intention of trading the receivable.

#### **Recognition and Measurement of Financial Assets**

Purchases and sales of financial assets are recognised on trade date, the date on which the Bank commits to purchase or sell the asset. Financial assets are recognised initially at fair value. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets through profit or loss are subsequently carried at fair value.

The fair values of quoted investments in active markets are based on current bid prices. In other cases, the Bank establishes fair value by using appropriate valuation techniques.

Loans and receivables are carried at amortised cost less impairment losses.

Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the Income Statement in the year in which they arise. These realised and unrealised gains and losses exclude interest and dividends.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the Income Statement.

Interest income on all assets is calculated using the effective interest method and is recognised in the

Income Statement. Dividends on available-for-sale equity instruments are recognised in the Income Statement when the right to receive payment is established.

#### **Derivative Financial Instruments**

Derivatives are initially recognised in the Statement of Financial Position at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, or valuation techniques, as appropriate. The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received).

Derivative transactions, such as foreign currency swaps, and the payment and receipt of different currencies are stated in the Statement of Financial Position at the net of the fair value of receipts less the fair value of payments, both expressed in New Zealand dollars. The net fair value of each derivative contract is determined individually and carried as an asset if the net fair value is positive and as a liability if that value is negative.

The majority of the Bank's assets and liabilities are carried at fair value and managed on a fair value basis. Therefore, the Bank has not applied the hedge accounting rules of NZ IAS 39 *Financial Instruments: Recognition and Measurement*.

Gains and losses on all derivatives are recognised in the Income Statement.

#### **Securities Purchased Under Agreements to Resell**

Where the Bank purchases securities under agreements to resell ("reverse-repurchase agreements"), the security is not included as an asset in the Bank's Statement of Financial Position.

The consideration receivable under the agreement to resell is recorded at fair value. Movements in the fair value of reverse-repurchase agreements are reported in the Income Statement.

#### **Securities Lending Programme**

The Bank operates a securities lending programme. Where securities are lent, the Bank receives collateral in the form of cash or other securities and the securities continue to be recorded as assets in the Bank's Statement of Financial Position.

The Bank's agent administers the securities lending programme and monitors the securities lending and related collateral against requirements agreed with the Bank.

The Bank records an asset being the market value of the securities lent and a liability for the same amount in respect of the collateral to be returned by the Bank at the conclusion of the loan.

The Bank records income from securities lending as it accrues. Changes in the value of the asset are reflected by a change in the corresponding liability.

#### **Impairment of Financial Assets**

For financial assets that are not classified as fair value through profit or loss, the Bank assesses as at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence of impairment would include observable data that comes to the attention of the Bank, such as significant financial difficulty of the issuer or counterparty, the disappearance of an active market for the financial asset because of financial difficulties, or a market downgrade in credit rating of the financial asset.

### e Other Assets

#### **Inventories**

Inventories of currency on hand are recognised in the Statement of Financial Position at cost.

When currency is issued, inventory is reduced and an expense is recorded for currency issuance costs. When currency is repatriated to the Bank, currency issue expense is credited with the replacement cost of producing the currency, with a corresponding increase in inventory recognised in the Statement of Financial Position. Currency issuance cost is determined on a weighted average basis. Costs include the cost of bringing inventories to their present location and condition.

#### **Property, Plant and Equipment**

##### *Land and Buildings*

Land and buildings owned by the Bank are classified as Property, Plant and Equipment.

Land is recorded at fair value. Buildings are recorded at depreciated fair value. Surpluses of book value over historical cost for this class of asset are recorded in the Property Revaluation Reserve. Where the book value of this class of asset falls below historical cost, previous revaluations are reversed and any remaining balance is charged as an expense in the financial year it occurs. Buildings are depreciated on a straight-line basis over 40 years.

##### *Currency and Artwork Collections and Archives*

Items held in the Bank's currency and artwork collections and archives that have a material commercial value are independently assessed to determine estimated fair values. Surpluses of book value over historical cost for this class of asset are recorded in the Currency and Artwork Collections and Archives Revaluation Reserve. Nominal values have been placed on items with no material commercial value. Collections are not depreciated. Additions are held at cost until subsequent revaluations.

##### *Other Property, Plant and Equipment*

Other property, plant and equipment is carried at cost less depreciation and impairment losses. The following assets held by the Bank are depreciated on a straight-line basis over the following terms:

Computer Hardware	3-5 years
Plant and Equipment	5-10 years
Property Improvements	8 years
Miscellaneous	expected useful life

#### **Intangible Assets**

Intangible assets comprise acquired and internally developed computer software. Intangible assets are stated at cost less accumulated amortisation and impairment losses. Costs include all direct expenses incurred to acquire and bring to use the specific software.

Costs incurred in bringing to use enhancements to an existing software programme are capitalised only if the enhancement will produce additional future economic benefits exceeding costs over more than one year.

Capitalised software development costs are amortised on a straight-line basis over the estimated useful life of the software (three to five years). Costs associated with maintaining computer software are recognised as expenses when incurred.

#### **Leases**

Leases of plant and equipment where the Bank has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in Other Liabilities. Each lease payment is allocated between the liability and finance charges so as to achieve a constant

rate of return on the finance balance outstanding. Plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Minimum payments made under operating leases (net of any incentives received from the lessor) are charged to the Income Statement on a straight-line basis over the period of the lease.

#### **Impairment of Non-financial Assets**

Non-financial assets are reviewed for impairment annually. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

### f Financial Liabilities

#### **Recognition of Financial Liabilities**

Financial liabilities are recognised initially at fair value. Except for liabilities classified as financial liabilities at fair value through profit or loss, financial liabilities are subsequently stated at amortised cost.

Financial liabilities are derecognised only when the obligation is discharged, cancelled or expired.

Financial liabilities are recorded on trade date, the date on which the Bank commits to borrow or repay the relevant funds.

#### **Financial Liabilities at Fair Value Through Profit or Loss**

This category has two sub-categories: financial liabilities held for trading and those designated as fair value through profit or loss at inception. Financial liabilities that are classified as financial liabilities through profit or loss are included in those sub-categories on the same basis as financial assets at fair value through profit or loss (see page 62).

#### **Securities Sold under Agreements to Repurchase**

Where the Bank sells securities under agreements to repurchase ("repurchase agreements"), the security continues to be included as an asset in the Bank's Statement of Financial Position.

The consideration payable under the agreement to repurchase is recorded at fair value. Movements in the fair value of repurchase agreements are reported in the Income Statement.

#### **Short Sales of Marketable Securities**

A short sale is a sale of a security that the Bank does not own. Securities that are sold short are recorded at fair value through profit or loss using quoted market offer prices.

Any gains or losses are recognised in the Income Statement.

#### **Currency in Circulation**

Currency issued by the Bank represents a claim on the Bank in favour of the holder. The liability for currency in circulation is recorded at face value in the Statement of Financial Position.

#### **Demonetised Currency**

The Bank has a liability for the face value of demonetised currency still in circulation. For currency demonetised before 1 July 2004, this is recognised as a contingent liability except for a provision retained in the Statement of Financial Position to cover expected future redemptions. For currency demonetised from 1 July 2004, the Bank records a liability equal to the face value of that currency still in circulation.

#### **Collectors' Currency**

The Bank has a liability for the face value of collectors' currency. The face value of collectors' currency issued before 1 July 2004 is recognised as a contingent liability. For collectors' currency issued from 1 July 2004, the Bank records a liability equal to the face value of that currency.

#### **Offsetting of Financial Assets and Financial Liabilities**

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### g Other Liabilities

#### **Employee Entitlements**

*Wages and Salaries, Annual and Sick Leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave, are recognised in Other Liabilities in respect of employees' services and are measured at the amounts expected to be paid when liabilities are settled.

*Retirement Gratuity*

Retirement gratuities and post-retirement benefits are recognised in Other Liabilities in respect of employees' services and are measured at the present value of future payments expected to be made in respect of services provided by employees up to balance date. This is calculated by an independent actuary using a discounted cash flow model. Expected future payments are discounted to their net present value using market yields at the reporting date on government bonds with terms that match as closely as possible the estimated timing of future cash flows.

Changes in the value of the liability for retirement gratuities and post-retirement benefits are included in the Income Statement in staff expenses.

*Superannuation Obligations*

Obligations for contributions to defined benefit superannuation schemes are recognised as an expense in the Income Statement as incurred.

The asset or liability recognised in the Statement of Financial Position in respect of the defined benefit superannuation scheme is the present value of the defined benefit obligation at the reporting date less the fair value at the reporting date of the scheme's assets (as adjusted for unrecognised past service costs). The carrying value of an asset or liability recognised in respect of a defined benefit superannuation scheme is restricted to the total of any unrecognised past service cost and the present value of reductions in future contributions from the scheme. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of New Zealand government bonds that have terms to maturity approximating to the terms of the related superannuation liability. The calculation is performed annually by an independent qualified actuary using the projected unit credit method.

Staff Expenses in the Income Statement includes the current service cost, past service cost, an interest cost and an expected return for the defined benefit superannuation scheme. The actuarial gain or loss on the defined benefit superannuation scheme is included as a separate item within Operating Expenses.

## h Income and Expenses

**Interest Income and Interest Expense**

Interest income and expense are recognised in the Income Statement for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument. The calculation includes all fees paid or received between parties, transaction costs and all other premiums or discounts.

**Fee Income**

Fee income earned from provision of services is recognised as revenue on an accruals basis as the service is provided.

**Income and Expenses Allocated to Functions**

The Reserve Bank Act requires the Bank to account for revenue and expenses by reference to the functions the Bank performs. Each function receives income and incurs expenses relating directly to the assets and liabilities used exclusively by that function. Earnings from the investment of the Bank's equity are allocated to each function based on the estimated amount of equity required for each function.

Income and expense flows are attached to the notional funding for each function. The Bank operates notional balance sheets to calculate the notional income and expenditure for each of the Bank's functions as though each function operates autonomously. The Bank also has systems in place to allocate operating costs to functions. Operating costs are allocated as closely as possible to reflect their consumption. Direct operating costs are assigned directly to functions. Indirect operating costs are allocated to functions based on predetermined cost drivers and related activity or usage information. These structures enable each function to more accurately report the financial outcome of the services provided.

**Income Tax**

Section CW38 of the Income Tax Act 2007 exempts the Bank from income tax. Accordingly, no provisions are raised for current or deferred income taxes.

i Cash Flows

For the purposes of the Statement of Cash Flows, cash and cash equivalents include balances with other central banks and amounts available at call with other institutions.

Certain cash flows have been netted in order to provide more meaningful disclosure. Netting of cash flows occurs where cash receipts and payments on behalf of customers reflect the activities of the customer rather than the Bank, or where cash receipts or payments are for items in which turnover is quick, amounts are large, and maturities are short.

j Significant Accounting Estimates and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**Fair Value of Financial Instruments**

Financial instruments classified as held for trading or designated at fair value through profit or loss and financial assets classified as available for sale are recognised in the financial statements at fair value. All derivatives are measured and recognised at fair value.

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Financial instruments are priced either with reference to a quoted market price for that instrument or by using a valuation model. Where the fair value is calculated using financial market pricing models, the methodology used is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to the present value. These models use as their basis independently sourced market parameters including, for example, interest rate yield curves and currency rates. Most market parameters are either directly observable or are implied from instrument prices.

Judgement is also applied in assessing the extent of impairment of financial and other assets.

**Superannuation and Post-retirement Obligation**

The Bank has obligations under the defined benefit superannuation plan and for certain post-retirement obligations as described on page 66 above. The carrying amount of these obligations is based upon actuarial valuations, which in turn are dependent upon a series of assumptions. Key valuation assumptions include price inflation, earnings growth, employee retirement dates, and investment returns. Valuations are performed on the basis that the scheme will not be wound up.

**Valuation of Land and Buildings**

The fair value of the Bank's land and buildings is assessed by an independent registered property valuer. Estimated fair value is arrived at by the valuer, based on a number of assumptions, principally with respect to market rates of rental and market capitalisation rates.

## 2. Nature and Extent of Activities

The Reserve Bank's role as a central bank determines the nature and extent of its activities with respect to financial instruments. This role is defined by the Reserve Bank Act.

### a Local Currency Activities

The Bank provides exchange settlement account facilities to financial institutions and to the New Zealand government. The Bank manages the aggregate level of liquidity held by financial institutions in their exchange settlement accounts.

The financial instruments used to inject funds into the banking system include local currency reverse-repurchase transactions, outright purchases of New Zealand government securities shortly before maturity and foreign currency swaps. The Bank uses securities from holdings of New Zealand government securities in repurchase transactions and issues Reserve Bank bills to withdraw funds from the banking system for liquidity management purposes.

Balances in exchange settlement accounts are repayable on demand and the Bank pays interest on overnight balances. From time to time, the Bank may also hold small trading positions in New Zealand government securities or registered bank securities as part of market test activities.

The Bank issues notes and coins to registered banks in order to meet the currency needs of the public. When currency is issued to a registered bank, that bank's settlement account is debited with the face value of currency issued.

The Bank also operates the Austraclear New Zealand System. This includes carrying out securities registry and paying agent responsibilities.

### b Foreign Currency Activities

The Bank's foreign currency activities arise mainly from:

- holding foreign currency assets for crisis management purposes;
- the investment of proceeds of foreign currency swaps entered into for managing the aggregate level of liquidity of the New Zealand banking system; and
- the purchase or sale of foreign currency in order to meet monetary policy objectives.

Foreign reserve assets held for crisis management purposes are funded by a combination of foreign currency loans from the Treasury which are made on arm's length

terms, and New Zealand dollar-denominated liabilities, including currency in circulation and deposits placed with the Bank by financial institutions. Foreign currency swaps are used to convert New Zealand dollar funding into foreign currency and to manage a significant portion of foreign currency risk. A proportion of foreign currency assets held for crisis management purposes are maintained without hedging their foreign currency risk. The hedged/unhedged position will vary over time as the Bank determines appropriate.

The Bank routinely injects New Zealand dollars into the New Zealand banking system as part of its liquidity management operations. The injection of New Zealand dollars entails the Bank entering into foreign currency swap transactions for a finite term. The foreign currency received from a swap is invested in foreign currency-denominated securities for a term coinciding with the term of the swap. Proceeds received on maturity of the foreign currency investment are used by the Bank to repay the foreign currency at the end of the term of the foreign currency swap transaction.

Foreign currency purchased or sold when the Bank intervenes in the foreign exchange market to meet monetary policy objectives usually entails the Bank borrowing or lending New Zealand currency to finance the foreign currency transaction.

Part of the Bank's foreign reserves assets are held in trading portfolios that are funded by repurchase transactions with foreign securities trading firms.

Financial instruments held within these foreign currency portfolios consist mainly of sovereign securities, securities held under reverse-repurchase transactions, or balances held with other central banks, commercial banks, highly-rated corporates and settlement institutions. Liquidity and credit risk are key criteria in determining the type of instruments held.

The Bank manages the foreign currency exposure arising from certain operating and capital expenditure commitments denominated in foreign currency. The Bank will purchase foreign currency cover for those foreign currency-denominated commitments that will fall due over the following financial year.

For further information on the risk management policies relating to financial instruments, see Notes 15 to 22.

### c Foreign Exchange Dealing

Section 16 of the Reserve Bank Act provides the Bank with the power to deal in foreign currency for the purpose of carrying out its functions and powers. All dealings in foreign currency assets and liabilities occur under that section, except for transactions that occur at the direction of the Minister of Finance.

Sections 17 and 18 of the Reserve Bank Act provide for the Minister of Finance to direct the Bank to deal in foreign exchange, or for the Minister of Finance to fix the foreign exchange rates for foreign exchange dealing by the Bank. Section 21 of the Reserve Bank Act requires the Bank to either pay any foreign currency exchange gains to the Crown, or to be reimbursed for any foreign exchange losses, as a result of dealing in foreign exchange under sections 17 or 18 of the Reserve Bank Act. For the year ended 30 June 2009, there have been no payments to or from the Crown under section 21 of the Reserve Bank Act (2008: nil).

Under section 24 of the Reserve Bank Act, the Minister, in consultation with the Bank, determines the level or range of foreign reserve assets that must be maintained by the Bank.

### d Derivative Financial Instruments

The Bank's involvement in derivative financial instruments includes primarily foreign currency swaps, interest rate futures, interest rate swaps and forward foreign exchange contracts.

Foreign currency swaps are used to manage transactions for foreign exchange for both Domestic Market Operations and Foreign Reserves Management. The arrangements are described in more detail above in (b) Foreign Currency Activities.

Interest rate futures and interest rate swaps are used to enhance expected returns on foreign currency assets and, from time to time, to manage interest rate and foreign exchange risks.

### e Title to Assets

As part of the active management of its foreign currency operations, the Bank enters into security repurchase transactions. These foreign currency securities sold by the Bank under repurchase agreements are recorded as an asset within Marketable Securities in the Bank's Statement of Financial Position. These foreign currency-denominated transactions are also recognised as a liability within Securities Sold Under Agreements to Repurchase in the Bank's Statement of Financial Position.

The Bank enters into security repurchase transactions as part of its liquidity management operations and market testing activities. These local currency-denominated securities sold by the Bank under repurchase agreements are recorded as an asset in New Zealand Government Securities in the Bank's Statement of Financial Position.

The Bank also purchases securities under reverse-repurchase agreements in both its foreign currency and local currency operations. These transactions are recognised as Securities Purchased Under Agreements to Resell in the Bank's Statement of Financial Position.

The Bank can be required to deliver collateral under interest rate swap arrangements. Any collateral delivered by the Bank remains in the Statement of Financial Position.

Note 3 gives details of the collateral taken or provided as at balance date.

## FINANCIAL POSITION NOTES

### 3. Analysis of Financial Assets and Financial Liabilities

#### Analysis of Financial Assets and Liabilities by Measurement Basis

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The summary of significant accounting policies describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities in the Statement of Financial Position by class and by category as defined by NZ IAS 39. There have been no transfers between classes of financial instruments.

As at 30 June 2009	Fair Value Through Profit or Loss						Financial Assets and Liabilities at Amortised Cost \$M
	Total \$M	Designated Upon Initial Recognition \$M	Derivatives Deemed Held for Trading \$M	Held for Trading \$M	Available-for-sale Securities \$M	Loans and Receivables \$M	
<b>ASSETS</b>							
Foreign Currency Financial Assets							
Cash Balances	1,284	1,284	-	-	-	-	-
Securities Purchased Under Agreements to Resell	2,129	2,129	-	-	-	-	-
Marketable Securities	14,906	14,888	-	18	-	-	-
Derivative Financial Instruments in a Gain Position	1,002	-	1,000	2	-	-	-
Other Foreign Currency Financial Assets	139	-	-	-	137	2	-
<b>Total Foreign Currency Financial Assets</b>	<b>19,460</b>	<b>18,301</b>	<b>1,000</b>	<b>20</b>	<b>137</b>	<b>2</b>	<b>-</b>
Local Currency Financial Assets							
Securities Purchased Under Agreements to Resell	6,931	6,931	-	-	-	-	-
New Zealand Government Securities	4,435	341	-	-	4,094	-	-
<b>Total Local Currency Financial Assets</b>	<b>11,366</b>	<b>7,272</b>	<b>-</b>	<b>-</b>	<b>4,094</b>	<b>-</b>	<b>-</b>
<b>Total Financial Assets</b>	<b>30,826</b>	<b>25,573</b>	<b>1,000</b>	<b>20</b>	<b>4,231</b>	<b>2</b>	<b>-</b>
<b>LIABILITIES</b>							
Foreign Currency Financial Liabilities							
Short-term Foreign Currency Financial Liabilities	1,017	363	-	-	-	-	654
Securities Sold Under Agreements to Repurchase	711	703	-	8	-	-	-
Derivative Financial Instruments in a Loss Position	592	-	590	2	-	-	-
Term Liabilities	3,219	3,219	-	-	-	-	-
<b>Total Foreign Currency Financial Liabilities</b>	<b>5,539</b>	<b>4,285</b>	<b>590</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>654</b>
Local Currency Financial Liabilities							
Deposits	15,495	15,495	-	-	-	-	-
Securities Sold Under Agreements to Repurchase	190	190	-	-	-	-	-
Reserve Bank Bills	2,085	2,085	-	-	-	-	-
Currency in Circulation	3,923	-	-	-	-	-	3,923
<b>Total Local Currency Financial Liabilities</b>	<b>21,693</b>	<b>17,770</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,923</b>
<b>Total Financial Liabilities</b>	<b>27,232</b>	<b>22,055</b>	<b>590</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>4,577</b>

As at 30 June 2008	Fair Value Through Profit or Loss						Financial Assets and Liabilities at Amortised Cost \$M
	Total \$M	Designated Upon Initial Recognition \$M	Derivatives Deemed Held for Trading \$M	Held for Trading \$M	Available-for-sale Securities \$M	Loans and Receivables \$M	
<b>ASSETS</b>							
<b>Foreign Currency Financial Assets</b>							
Cash Balances	491	491	-	-	-	-	-
Securities Purchased Under Agreements to Resell	2,007	2,007	-	-	-	-	-
Marketable Securities	17,812	17,793	-	19	-	-	-
Derivative Financial Instruments in a Gain Position	329	-	328	1	-	-	-
Other Foreign Currency Financial Assets	115	-	-	-	113	2	-
<b>Total Foreign Currency Financial Assets</b>	<b>20,754</b>	<b>20,291</b>	<b>328</b>	<b>20</b>	<b>113</b>	<b>2</b>	<b>-</b>
<b>Local Currency Financial Assets</b>							
New Zealand Government Securities	4,307	-	-	-	4,307	-	-
<b>Total Local Currency Financial Assets</b>	<b>4,307</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,307</b>	<b>-</b>	<b>-</b>
<b>Total Financial Assets</b>	<b>25,061</b>	<b>20,291</b>	<b>328</b>	<b>20</b>	<b>4,420</b>	<b>2</b>	<b>-</b>
<b>LIABILITIES</b>							
<b>Foreign Currency Financial Liabilities</b>							
Short-term Foreign Currency Financial Liabilities	290	125	-	-	-	-	165
Securities Sold Under Agreements to Repurchase	573	573	-	-	-	-	-
Derivative Financial Instruments in a Loss Position	176	-	175	1	-	-	-
Term Liabilities	3,566	3,566	-	-	-	-	-
<b>Total Foreign Currency Financial Liabilities</b>	<b>4,605</b>	<b>4,264</b>	<b>175</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>165</b>
<b>Local Currency Financial Liabilities</b>							
Deposits	14,888	14,888	-	-	-	-	-
Securities Sold Under Agreements to Repurchase	37	37	-	-	-	-	-
Currency in Circulation	3,448	-	-	-	-	-	3,448
<b>Total Local Currency Financial Liabilities</b>	<b>18,373</b>	<b>14,925</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,448</b>
<b>Total Financial Liabilities</b>	<b>22,978</b>	<b>19,189</b>	<b>175</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>3,613</b>

### **Fair Value of Financial Assets and Liabilities**

All financial assets and liabilities are recorded at fair value based on either quoted market prices or prices derived from market yield curves, as described in the Bank's accounting policies, except as detailed below. Refer to page 74 for details of the classification by valuation hierarchy of financial assets and financial liabilities carried at fair value.

- a *Unsettled Transactions*  
The reported value of unsettled sales and purchases is considered to approximate their fair value due to the very short period between balance date and the settlement date.
- b *Short-term Deposits*  
The carrying value of short-term deposits is considered to approximate their fair value as they are payable on demand.
- c *Currency in Circulation*  
Currency in Circulation is reported at its face value as currency in circulation is payable on demand. NZ IAS 39 requires that the fair value cannot be less than the face value.

### **Determination of Fair Value of Financial Instruments Carried at Fair Value**

Fair values are determined according to the following hierarchy:

- a *Quoted Market Price*  
Financial instruments with quoted prices for identical instruments in active markets.
- b *Valuation Technique Using Observable Inputs*  
Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- c *Valuation Technique with Significant Non-observable Inputs*  
Financial instruments valued using models where one or more significant inputs are not observable.

The following table analyses the basis for the valuation of financial assets and financial liabilities measured at fair value:

As at 30 June 2009	Valuation Techniques:			
	Total \$M	Quoted Market Price \$M	Using Observable Inputs \$M	With Significant Non- observable Inputs \$M
<b>ASSETS</b>				
<b>Foreign Currency Financial Assets</b>				
Cash Balances	1,284	1,281	3	-
Securities Purchased Under Agreements to Resell	2,129	2,129	-	-
Marketable Securities	14,906	10,315	4,591	-
Derivative Financial Instruments in a Gain Position	1,002	1	1,001	-
Other Foreign Currency Financial Assets	139	-	139	-
<b>Total Foreign Currency Financial Assets</b>	<b>19,460</b>	<b>13,726</b>	<b>5,734</b>	<b>-</b>
<b>Local Currency Financial Assets</b>				
Securities Purchased Under Agreements to Resell	6,931	-	6,931	-
New Zealand Government Securities	4,435	4,435	-	-
<b>Total Local Currency Financial Assets</b>	<b>11,366</b>	<b>4,435</b>	<b>6,931</b>	<b>-</b>
<b>Total Financial Assets</b>	<b>30,826</b>	<b>18,161</b>	<b>12,665</b>	<b>-</b>
<b>LIABILITIES</b>				
<b>Foreign Currency Financial Liabilities</b>				
Short-term Foreign Currency Financial Liabilities	1,017	576	441	-
Securities Sold Under Agreements to Repurchase	711	-	711	-
Derivative Financial Instruments in a Loss Position	592	1	591	-
Term Liabilities	3,219	-	3,219	-
<b>Total Foreign Currency Financial Liabilities</b>	<b>5,539</b>	<b>577</b>	<b>4,962</b>	<b>-</b>
<b>Local Currency Financial Liabilities</b>				
Deposits	15,495	15,495	-	-
Securities Sold Under Agreements to Repurchase	190	-	190	-
Reserve Bank Bills	2,085	2,085	-	-
Currency in Circulation	3,923	3,923	-	-
<b>Total Local Currency Financial Liabilities</b>	<b>21,693</b>	<b>21,503</b>	<b>190</b>	<b>-</b>
<b>Total Financial Liabilities</b>	<b>27,232</b>	<b>22,080</b>	<b>5,152</b>	<b>-</b>

As at 30 June 2008	Valuation Techniques:			
	Total \$M	Quoted Market Price \$M	Using Observable Inputs \$M	With Significant Non- observable Inputs \$M
<b>ASSETS</b>				
<b>Foreign Currency Financial Assets</b>				
Cash Balances	491	491	-	-
Securities Purchased Under Agreements to Resell	2,007	1,523	484	-
Marketable Securities	17,812	3,708	14,104	-
Derivative Financial Instruments in a Gain Position	329	-	329	-
Other Foreign Currency Financial Assets	115	-	115	-
<b>Total Foreign Currency Financial Assets</b>	<b>20,754</b>	<b>5,722</b>	<b>15,032</b>	<b>-</b>
<b>Local Currency Financial Assets</b>				
New Zealand Government Securities	4,307	4,307	-	-
<b>Total Local Currency Financial Assets</b>	<b>4,307</b>	<b>4,307</b>	<b>-</b>	<b>-</b>
<b>Total Financial Assets</b>	<b>25,061</b>	<b>10,029</b>	<b>15,032</b>	<b>-</b>
<b>LIABILITIES</b>				
<b>Foreign Currency Financial Liabilities</b>				
Short-term Foreign Currency Financial Liabilities	290	-	290	-
Securities Sold Under Agreements to Repurchase	573	524	49	-
Derivative Financial Instruments in a Loss Position	176	-	176	-
Term Liabilities	3,566	-	3,566	-
<b>Total Foreign Currency Financial Liabilities</b>	<b>4,605</b>	<b>524</b>	<b>4,081</b>	<b>-</b>
<b>Local Currency Financial Liabilities</b>				
Deposit	14,888	14,888	-	-
Securities Sold Under Agreements to Repurchase	37	37	-	-
Currency in Circulation	3,448	3,448	-	-
<b>Total Local Currency Financial Liabilities</b>	<b>18,373</b>	<b>18,373</b>	<b>-</b>	<b>-</b>
<b>Total Financial Liabilities</b>	<b>22,978</b>	<b>18,897</b>	<b>4,081</b>	<b>-</b>

**Collateral Pledged**

The carrying amount of securities pledged as collateral for liabilities was \$193 million (2008: \$36 million). Cash collateral of \$34 million was provided (2008: nil).

**Collateral Received***Residential Mortgage-Backed Securities, Asset-Backed Securities and Asset-Backed Commercial Paper*

The Bank has entered into reverse-repurchase agreements in respect of New Zealand dollar-denominated residential mortgage-backed securities, asset-backed securities and asset-backed commercial paper. At 30 June 2009, the principal amount subject to reverse-repurchase agreements for residential mortgage-backed securities was \$6,320 million (2008: nil), and asset-backed securities was \$16 million (2008: nil). The principal value of securities received as collateral for those repurchase agreements must be at least 119 percent of the cash to be paid to the Bank when the securities are repurchased. The Bank does not sell or repledge that collateral unless the counterparty is in default of its obligations.

*Marketable Securities*

The Bank has entered into reverse-repurchase agreements in respect of New Zealand dollar-denominated marketable securities. The principal amount subject to reverse-repurchase agreements for New Zealand dollar-denominated marketable securities was \$409 million (2008: nil) and the fair value of collateral received was \$459 million. The Bank may sell or repledge that collateral even if the counterparty is not in default of its obligations.

The Bank has entered into reverse-repurchase agreements in respect of foreign currency-denominated marketable securities. The principal amount subject to reverse-repurchase agreements for foreign currency-denominated marketable securities was \$1,425 million (2008: \$1,427 million). The fair value of collateral received was \$1,445 million (2008: \$1,442 million). The Bank may sell or repledge that collateral even if the counterparty is not in default of its obligations.

*Other Collateral Received*

In addition, cash collateral received is \$363 million (2008: \$125 million). Cash collateral received is recorded in the Statement of Financial Position in Short-term Deposits.

Under the Bank's securities lending programme, the Bank has lent securities with a fair value of \$703 million (2008: \$573 million). The Bank has accepted securities with a fair value of \$712 million (2008: \$584 million) as collateral for the securities lent under this programme.

These transactions are conducted under terms that are usual and customary to standard securities borrowing and reverse-repurchase agreements.

**Additional Information for Financial Liabilities**

The carrying amount as at balance date of financial liabilities designated at fair value through profit or loss was \$79 million less (2008: \$69 million more) than the contractual amount at maturity.

All changes in the fair value of financial liabilities designated as fair value through profit or loss are considered attributable to changes in prevailing interest rates.

Collateral has been pledged for all Securities Sold Under Agreements to Repurchase. All other liabilities of the Bank are unsecured and rank equally in the event that the Bank ceases to trade.

#### 4. Derivative Financial Instruments

	Book Value 2009 \$M	Notional Principal 2009 \$M	Book Value 2008 \$M	Notional Principal 2008 \$M
<b>Interest Rate Futures</b>				
Interest Rate Futures in a Gain Position	1	104	-	5
Interest Rate Futures in a Loss Position	(1)	46	-	70
<b>Net Interest Rate Futures Position</b>	-	150	-	75
As at 30 June 2009, the Bank had 577 open Interest Rate Futures contracts (2008: 514).				
<b>Interest Rate Swaps</b>				
Interest Rate Swaps in a Gain Position	-	-	-	10
Interest Rate Swaps in a Loss Position	(6)	92	(1)	43
<b>Net Interest Rate Swaps Position</b>	(6)	92	(1)	53
<b>Foreign Currency Swaps and Forward Exchange Contracts</b>				
Foreign Currency Swaps and Forward Exchange Contracts in a Gain Position	1,001	12,135	329	8,381
Foreign Currency Swaps and Forward Exchange Contracts in a Loss Position	(585)	6,145	(175)	8,532
<b>Net Foreign Exchange Swaps and Forward Exchange Contracts Position</b>	416	18,280	154	16,913
Total Derivative Financial Instruments in a Gain Position	1,002	12,239	329	8,396
Total Derivative Financial Instruments in a Loss Position	(592)	6,283	(176)	8,645
<b>Net Derivative Financial Instruments Recognised in the Statement of Financial Position</b>	410	18,522	153	17,041

#### 5. Other Foreign Currency Financial Assets

	2009 \$M	2008 \$M
Shareholding in the Bank for International Settlements	137	113
Dividend Receivable	2	2
	139	115

As at 30 June 2009, the Bank owned 3,211 shares (2008: 3,211 shares) issued by the Bank for International Settlements (BIS). This represents approximately 0.6 percent of all shares on issue. The shares have a par value of SDR 5,000 each and are paid up to SDR 1,250 each. The Bank's investment in shares issued by the BIS is valued at fair value, which is determined as being 70 percent of the Bank's interest in the BIS's net asset value. This is the valuation basis confirmed by the International Court at the Hague for the acquisition of shares from former private shareholders of the BIS.

## 6. Other Assets

	Note	2009 \$M	2008 \$M
Receivables from Sales of Services		3	1
Property, Plant and Equipment	7	60	65
Intangible Assets	8	6	7
Inventory		27	27
Superannuation Asset	28	-	1
		<b>96</b>	101

## 7. Property, Plant and Equipment

	Total \$M	Land and Buildings \$M	Property Improve- ments \$M	Computer Hardware \$M	Plant and Equipment \$M	Currency and Artworks Collections and Archives \$M
<b>As at 30 June 2008</b>						
Cost	72	53	5	4	5	5
Accumulated Depreciation	7	-	1	3	3	-
<b>Net Book Value</b>	65	53	4	1	2	5
<b>For the Year Ended 30 June 2009</b>						
Net Book Value at the Beginning of the Year	65	53	4	1	2	5
Additions	2	-	-	1	1	-
Revaluation	(5)	(5)	-	-	-	-
Accumulated Depreciation Written Back	1	1	-	-	-	-
Less Depreciation	3	1	1	-	1	-
<b>Net Book Value at the End of the Year</b>	60	48	3	2	2	5
<b>As at 30 June 2009</b>						
Cost	69	48	5	5	6	5
Accumulated Depreciation	9	-	2	3	4	-
<b>Net Book Value</b>	60	48	3	2	2	5

The valuation of Land and Buildings dated 16 June 2009 and effective 30 June 2009 was prepared by Jones Lang LaSalle Limited, an independent registered valuer. The valuation was prepared by discounting rental and nominal rental flows at current market capitalisation rates. The valuation report included details of recent sales of broadly comparable premises. The capitalisation rate applied in valuing property was a weighted average of 8.2 percent (2008: 7.2 percent). The aggregate market value of Land and Buildings was \$48 million (2008: \$53 million). The original cost was \$10 million.

## 8. Intangible Assets

	Computer Software \$M
<b>As at 30 June 2008</b>	
Cost	16
Accumulated Amortisation	9
<b>Net Book Value</b>	<b>7</b>
<b>For the Year Ended 30 June 2009</b>	
Net Book Value at the Beginning of the Year	<b>7</b>
Additions	<b>2</b>
Less Amortisation	<b>3</b>
<b>Net Book Value at the End of the Year</b>	<b>6</b>
<b>As at 30 June 2009</b>	
Cost	<b>18</b>
Accumulated Amortisation	<b>12</b>
<b>Net Book Value</b>	<b>6</b>

## 9. Short-term Foreign Currency Financial Liabilities

	2009 \$M	2008 \$M
Payable for Unsettled Purchases of Securities	<b>654</b>	165
Short-term Deposits	<b>363</b>	125
	<b>1,017</b>	290

## 10. Deposits

	2009 \$M	2008 \$M
New Zealand Government Deposits	<b>8,320</b>	6,905
Settlement Bank Deposits	<b>7,132</b>	7,955
Central Bank Deposits	<b>36</b>	17
International Monetary Fund Deposits	<b>7</b>	11
	<b>15,495</b>	14,888

## 11. Other Liabilities

	Note	2009 \$M	2008 \$M
Dividend Payable to the New Zealand Government	12	<b>630</b>	168
Accounts Payable		<b>2</b>	3
Accrued Salaries and Holiday Pay		<b>2</b>	2
Accrued Retirement Gratuities		<b>3</b>	3
Superannuation Liability	28	<b>3</b>	-
Demonetised Currency		<b>82</b>	82
Capitalised Lease Obligations	27	<b>1</b>	-
		<b>723</b>	258

No provision is made for non-vesting sick leave, as the pattern of sick leave taken indicates that no additional liability will arise for non-vesting sick leave.

## 12. Dividend Payable to the New Zealand Government

The Bank has recommended that a dividend of \$630 million be paid for the 2008-09 financial year. The Minister has given a direction that a dividend of \$630 million (2008: \$168 million) be paid.

In making this dividend determination, the Minister must have regard to the recommendations of the Bank, the views of the Board of Directors of the Bank and any other relevant matters.

The Bank's *Statement of Intent* includes a statement of the principles in accordance with which the Bank must determine the amount it recommends to the Minister as an annual dividend. Those principles are:

- The Bank should maintain sufficient equity for the financial risks of performing its functions. Equity in excess of that required to cover those risks will be distributed to the Crown.
- In general, unrealised gains should be retained by the Bank until they are realised in New Zealand dollars. However, the Bank may recommend the distribution of unrealised gains where the Bank believes that the probability of the gain being realised is high.

### 13. Equity

The Bank's Equity as at balance date, together with the movements for the financial year, comprised:

	Note	2009 \$M	2008 \$M
<b>Capital</b>			
Balance at the Beginning of the Year		1,000	1,000
Capital Contributed by New Zealand Government <sup>9</sup>		600	-
<b>Total Capital</b>		<b>1,600</b>	1,000
<b>Retained Earnings</b>			
Balance at the Beginning of the Year		881	514
Net Profit for the Year		906	535
Dividend Payable to the New Zealand Government	12	(630)	(168)
<b>Total Retained Earnings</b>		<b>1,157</b>	881
<b>Available-for-sale Revaluation Reserve</b>			
Balance at the Beginning of the Year		(7)	(125)
Fair Value Movements During the Year		170	118
<b>Total Available-for-sale Revaluation Reserve</b>		<b>163</b>	(7)
<b>Property Revaluation Reserve</b>			
Balance at the Beginning of the Year		47	44
Fair Value Movements During the Year		(5)	3
<b>Total Property Revaluation Reserve</b>		<b>42</b>	47
<b>Currency and Artwork Collections and Archives Revaluation Reserve</b>			
Balance at the Beginning of the Year		5	3
Fair Value Movements During the Year		-	2
<b>Total Currency and Artwork Collections and Archives Revaluation Reserve</b>		<b>5</b>	5
<b>Total Equity</b>		<b>2,967</b>	1,926

Retained Earnings includes:

	2009 \$M	2008 \$M
Realised Gains not yet Distributed	649	604
Changes in the Market Value of Financial Instruments not yet Realised	128	(56)
Foreign Exchange Gains not yet Realised in New Zealand Dollars	380	333
<b>Total</b>	<b>1,157</b>	881

9 On 2 July 2008, the Bank received a capital injection from the New Zealand government of \$600 million.

### Management of the Bank's Capital

The Bank's capital management framework focuses on the Bank's total equity reported in its financial statements.

The main drivers of reported equity are reported financial results and the Bank's dividend. The dividend is determined annually by the Minister of Finance under the provisions of the Reserve Bank Act.

The Bank's primary capital management objective is to have sufficient capital to carry out effectively its statutory responsibilities. In determining whether the Bank has sufficient capital for those purposes, it assesses the extent of financial risks and the resulting potential for losses arising from its operations. The Bank assesses the appropriate ranges for capital by considering financial risks across the balance sheet, including the use of statistical models at varying levels of confidence, and supplements that analysis with judgement, where appropriate.

## 14. Concentrations of Funding

The Bank's significant end-of-year concentrations of funding were as follows:

	Total 2009 \$M	New Zealand Government \$M	New Zealand Public \$M	New Zealand Financial Institutions \$M	Overseas Financial Institutions \$M
<b>Financial Liabilities</b>					
Term Liabilities	3,219	3,219	-	-	-
Securities Sold Under Agreements to Repurchase	901	-	-	41	860
Deposits	15,495	8,320	-	7,040	135
Reserve Bank Bills	2,085	-	-	2,085	-
Currency in Circulation	3,923	-	3,923	-	-
Other Liabilities	1,609	5	-	317	1,287
<b>Total Financial Liabilities</b>	<b>27,232</b>	<b>11,544</b>	<b>3,923</b>	<b>9,483</b>	<b>2,282</b>

	Total 2008 \$M	New Zealand Government \$M	New Zealand Public \$M	New Zealand Financial Institutions \$M	Overseas Financial Institutions \$M
<b>Financial Liabilities</b>					
Term Liabilities	3,566	3,566	-	-	-
Securities Sold Under Agreements to Repurchase	610	-	-	-	610
Deposits	14,888	6,905	-	7,955	28
Currency in Circulation	3,448	-	3,448	-	-
Other Liabilities	466	1	-	3	462
<b>Total Financial Liabilities</b>	<b>22,978</b>	<b>10,472</b>	<b>3,448</b>	<b>7,958</b>	<b>1,100</b>

All figures are stated at carrying values in the Statement of Financial Position.

## 15. Risk Management

The Reserve Bank is involved in policy-oriented activities. Therefore, elements of the Bank's risk management framework might differ from the risk management frameworks for most other financial institutions. The main financial risks to which the Bank is exposed include credit risk, foreign currency risk, and interest rate risk on both foreign and local currency assets. In the management of foreign reserves, minimising liquidity risk is a major consideration in order to maintain an effective foreign exchange intervention capability. Policies for managing credit, interest rate, foreign currency, and liquidity risks are outlined in Notes 17 to 21. Like most other central banks, the nature of the Bank's operations creates exposure to a range of operational and reputational risks.

The Bank seeks to ensure that strong and effective risk management and control systems are in place for identifying, assessing, monitoring, and managing risk exposures. An Asset and Liability Committee (ALCO), comprising the governors and senior management, is responsible for advising the Governor on the management and monitoring of the business strategy, risks and performance of all balance sheet-related activities. This review includes the appropriateness of risk-return trade-offs underlying the business strategy. Specialist staff conduct the Bank's local currency, foreign currency reserves management, and foreign exchange dealing operations in accordance with a clearly defined risk management framework, including delegated authorities and limits set by the Governor. The risk management framework is subject to regular review by ALCO. The overall risk management framework is designed to encourage strongly the sound and prudent management of the Bank's risks.

The majority of the Bank's financial risks arise from the Foreign Reserves Management and Domestic Market Operations units of the Bank's Financial Markets Department. Within this department, a Risk Unit is responsible for maintaining the Bank's financial risk management framework. A separate department of the Bank (Financial Services Group) operates independent risk reporting systems that monitor and report compliance with various risk limits and policies.

The Risk Assessment and Assurance Department (which includes an internal audit unit) reports on internal audit and related issues to the governors and the Audit Committee of the Board of Directors, comprising four of the Bank's non-executive directors. A risk-based framework, which evaluates key business risks and internal controls, is used to determine the extent and frequency of internal audits conducted. All Bank departments are subject to periodic internal audit review.

The Bank is subject to an annual external audit by the Office of the Controller and Auditor-General under the Public Audit Act 2001. Auditing arrangements are overseen by the Audit Committee of the Board of Directors, which meets regularly to monitor the financial reporting and audit functions within the Bank. The Committee reviews the internal audit function and has direct access to the external auditor. The Committee reports to the Board of Directors on its activities. The Board of Directors monitors the Bank's management of risk as part of its role of keeping the Bank's performance and use of resources under constant review.

The Bank self-insures all property, plant and equipment, including the Bank's Wellington building.

## 16. Operational Risk

Operational risk is the risk of loss in both financial and non-financial terms resulting from human error and the failure of internal processes and systems.

Managing operational risk in the Bank is seen as an integral part of day-to-day operations and management, which includes explicit consideration of both the opportunities and the risks of all business activities. Operational risk management includes Bank-wide corporate policies that describe the standard of conduct required of staff, a number of mandated requirements (e.g., a project management template), and specific internal control systems designed around the particular characteristics of various Bank activities.

Compliance with corporate policies and departmental internal control systems is supported by:

- an induction programme for new employees that makes them aware of the requirements;
- a quarterly management affirmation by each Head of Department that corporate policies and departmental internal control systems have been complied with;
- a proactive problem management process whereby problems and incidents are reported and analysed for potential risk management improvements;
- periodic review of each department's risks and internal controls; and
- an active internal audit function.

The above policies and procedures for managing operational risk are reinforced by the requirements of section 165 of the Reserve Bank Act. The Reserve Bank Act requires that the financial statements of the Bank include a statement signed by the Governor and Deputy Chief Executive accepting responsibility for, among other things, the establishment and maintenance of a system of effective internal control within the Bank.

## 17. Credit Risk

Credit risk is the potential for loss arising from the failure of a debtor or counterparty to meet their contractual obligations.

Within the Bank, credit risk arises principally through the investment of funds and related derivative contracts entered into for the Foreign Reserves Management and Domestic Market Operations functions.

Credit risks arising from the various Bank activities are aggregated for limit and monitoring purposes.

### a Foreign Reserves Management Credit Risk Management

Credit risk for Foreign Reserves Management is monitored and managed daily. Exposures are controlled through comprehensive individual counterparty and issuer credit limits. Individual credit limits are set on the basis of the rating of the counterparty or issuers. Additionally, sovereign and supranational issuers are assigned a higher limit than similarly rated corporates. Individual credit exposures are also aggregated and managed by cumulative limits, such as country exposure limits. The credit risk framework recognises differences in short-term (settlement risk) and longer-term credit risk.

In measuring compliance with credit limits, actual exposures are calculated on a credit-equivalent basis. In particular, where exposures to counterparties are collateralised by securities issued by sovereign states or other issuers, for the purpose of limit compliance, the measure of actual credit exposure is reduced to reflect the collateral held. Credit exposures arising from Securities Purchased Under Agreements to Resell (reverse-repurchase agreements) are classified according to the issuer of the security for credit exposure concentration purposes. This is consistent with the Bank's view of the substance of the credit exposure and internal risk management.

The Bank does not constrain credit exposure to certain sovereign issuers (e.g., the United States of America). Exposures to these sovereign issuers are managed through other limits and controls (such as currency composition limits).

As part of the arrangements for using financial instruments, the Bank manages credit risk by receiving collateral. Collateral is likely to take the form of cash or government securities. The value of collateral held is required to be within a prescribed range of the value of the exposure to the counterparty. Valuations are updated daily and, as a result, additional collateral may be called for or excess collateral returned to the counterparty.

### b Domestic Market Operations Credit Risk Management

The Domestic Market Operations function gives rise to credit risk primarily by transacting foreign currency swaps and reverse-repurchase transactions. The Bank accepts a wide range of pre-approved securities for reverse-repurchase transactions. Acceptable securities include government securities, securities issued by registered banks, highly-rated entities including supranational organisations, local authorities and state-owned enterprises. Where funds are advanced by reverse-repurchase agreements, the amount advanced is subject to specified discounts depending upon the type of security so as to ensure that the value of security held exceeds the amount advanced. The value of security held is monitored daily and calls are made for additional collateral or excess collateral is returned to the counterparty as required.

Exposures to the New Zealand government are not included in this credit framework.

**c Changes to Credit Risk Management**

The Bank has adopted a number of additional measures in 2008-09 aimed at further improving liquidity in the New Zealand financial system. The Bank has extended the range of Domestic Market Operations facilities and further widened the range of securities it will accept as collateral. The amounts advanced under the new facilities are subject to higher discounts than where the Bank receives New Zealand government securities as collateral. The Bank's decision to further widen the range of acceptable collateral is a temporary response to liquidity pressures in global financial markets experienced since August 2007.

The Bank does not sell or repledge collateral that comprises residential mortgage-backed securities, asset-backed securities and asset-backed commercial paper, except where the counterparty is in default of its obligations.

**d Concentrations of Credit Exposure**

The Bank's significant end-of-year concentrations of credit exposure, classified by issuer and by counterparty, were as follows:<sup>10</sup>

	Classified by Issuer		Classified by Counter-party	
	2009 \$M	2008 \$M	2009 \$M	2008 \$M
New Zealand Government	4,435	4,307	4,435	4,307
Other Sovereign Issuers	13,832	7,761	11,126	5,754
Supranational Financial Institutions	307	2,195	291	2,195
Overseas Financial Institutions	5,183	10,726	7,832	12,733
New Zealand Financial Institutions	7,037	72	7,142	72
State-owned Enterprises / Local Authorities	32	-	-	-
<b>Total Financial Assets</b>	<b>30,826</b>	25,061	<b>30,826</b>	25,061

The carrying value of financial assets is the Bank's maximum exposure to credit risk as at balance date. The Bank's maximum credit risk exposure in relation to financial derivatives is the cost of re-establishing the derivative contracts in the market in the event of the failure of the counterparty to fulfil its obligations. This cost is the fair value of the financial derivatives in a gain position as reported in Note 4.

The Bank's significant end-of-year concentrations of credit exposure, based on the country/region in which the issuer's parent is located, are as follows:

	2009 \$M	2008 \$M
New Zealand	11,504	4,379
United States of America	7,316	3,294
Europe	9,777	12,879
Supranational Financial Institutions	307	2,091
Japan	1,245	1,552
Other	677	866
<b>Total Financial Assets</b>	<b>30,826</b>	25,061

10 The differences between amounts disclosed by issuer and by counterparty relate to Securities Purchased Under Agreements to Resell.

**e Credit Exposure by Credit Rating**

The following table presents the Bank's financial assets based on Standard & Poor's credit rating of the issuer. AAA is the highest-quality rating possible and indicates the entity has an extremely strong capacity to pay interest and principal. AA is a high-grade rating, indicating a very strong capacity, and A is an upper-medium grade, indicating a strong capacity to pay interest and principal. BBB is the lowest investment-grade rating, indicating a medium capacity to pay interest and principal. Ratings lower than AAA can be modified by + or - signs to indicate relative standing within the major categories. N/R indicates the entity has not been rated by Standard & Poor's.

	Credit Rating	2009 \$M	Financial Assets	2008 \$M	Financial Assets
<b>SUMMARY BY MAJOR CREDIT CATEGORY</b>					
Foreign Currency Financial Assets	AAA	<b>16,666</b>	<b>54.1%</b>	15,706	62.7%
	AA +/-	<b>2,094</b>	<b>6.8%</b>	4,802	19.1%
	A +/-	<b>414</b>	<b>1.3%</b>	10	0.0%
	Various <sup>11</sup>	<b>147</b>	<b>0.5%</b>	119	0.5%
	N/R	<b>139</b>	<b>0.5%</b>	117	0.5%
<b>Total Foreign Currency Financial Assets</b>		<b>19,460</b>	<b>63.2%</b>	20,754	82.8%
Local Currency Financial Assets	AAA	<b>11,043</b>	<b>35.8%</b>	4,307	17.2%
	AA +/-	<b>307</b>	<b>1.0%</b>	-	0.0%
	BBB +/-	<b>7</b>	<b>0.0%</b>	-	0.0%
	N/R	<b>9</b>	<b>0.0%</b>	-	0.0%
<b>Total Local Currency Financial Assets</b>		<b>11,366</b>	<b>36.8%</b>	4,307	17.2%
<b>Total Financial Assets</b>		<b>30,826</b>	<b>100.0%</b>	25,061	100.0%

Collateral taken in reverse-repurchase agreements involving residential mortgage-backed securities with a carrying value of \$6,504.1 million (2008: nil) is included in the table above as Local Currency Financial Assets that are AAA-rated securities. The issuers of these securities are bankruptcy-remote entities that are assigned credit ratings by rating agencies in their own right, and these ratings differ from the credit ratings assigned to the counterparties with the reverse-repurchase agreements.

**f Credit Exposure by Counterparty as a Percentage of Bank's Equity**

The following table shows the number of individual counterparties, or groups of closely related counterparties, where the Bank's credit exposures equalled or exceeded 10 percent of the Bank's equity as at the end of the year. These exposures are measured without taking into account collateral held by the Bank for credit exposures to individual counterparties. Credit exposures are measured taking into account any enforceable rights of set-off.

11 This includes the Bank's investments in the Asian Bond Fund 1 and Asian Bond Fund 2 (the Funds). While the Funds themselves are not rated, the underlying investments owned by the Funds have various credit ratings.

Percentage of Equity	End-of-year 2009	End-of-year 2008
10% to 19.9%	3	19
20% to 29.9%	4	4
30% to 39.9%	2	7
40% to 49.9%	1	-
50% to 59.9%	1	2
60% to 69.9%	1	1
70% to 79.9%	1	1
80% to 89.9%	1	1
90% to 99.9%	1	-
140% to 149.9%	1	-
170% to 179.9%	1	-
220% to 229.9%	-	1

## 18. Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. In respect of the Bank, market risk comprises interest rate risk and foreign currency risk.

The Bank uses a range of position size, duration and stop-loss limits, together with Value at Risk (VaR) methodology for measuring and managing market risks. Actual limits and measures differ according to whether the relevant portfolio is established for trading purposes or for policy-related purposes (such as foreign reserves management, foreign exchange intervention or domestic market operations).

### Interest Rate Risk - Effective Duration Limits

For policy-related portfolios (i.e., portfolios that are not trading portfolios), the Bank controls interest rate risk with effective duration limits.

### Foreign Currency Risk - Position Limits

Limits are established for the aggregate net foreign currency position that may be taken, together with limits for the net exposure to individual foreign currency positions.

### VaR Levels and Limits

VaR estimates the potential daily loss from movements in market variables (interest rate changes and foreign currencies movements) in normal market conditions. The Bank uses a VaR model based on equally weighted data for the previous year (250 trading days), a one-day time horizon, and a 99 percent confidence interval. This means the Bank would expect to incur losses greater than that predicted by VaR estimates only once every 100 trading days, or about 2.5 times a year. VaR does not capture market risk losses arising from the extreme price volatility associated with financial market crises.

VaR limits are utilised for the management of market risk arising from the Bank's trading portfolios, and for market risk arising in respect of the investment of foreign currency swaps proceeds received as part of the Domestic Market Operations function. Trading portfolios, in which the Bank actively manages positions to derive short-term returns as well as for market testing and training purposes, generate a relatively small part of the Bank's aggregate exposure to market risk.

VaR is measured in respect of other (non-trading) portfolios, including positions held for crisis management and currency intervention. While actual daily profit and loss outcomes for these portfolios are compared with VaR levels for these positions, VaR limits do not apply, as these positions are held principally for monetary policy or crisis management policy reasons. As noted above, market risk for non-trading portfolios is primarily managed through open position and duration-based limits augmented with monitoring of actual against expected VaR outcomes for the actual position.

VaR	Trading Portfolios		Non-trading Portfolios		Trading and Non-trading Foreign Reserves Management Portfolios Combined			
	Total Market Risk		Total Market Risk		Foreign Currency Risk	Interest Rate Risk	Total Market Risk	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000	2009 \$000	2009 \$000	2009 \$000	2008 \$000
Limit	<b>2,000</b>	2,000	<b>n/a</b>	n/a	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	n/a
As at 30 June	<b>207</b>	333	<b>98,185</b>	78,077	<b>96,892</b>	<b>5,111</b>	<b>97,710</b>	78,210
Peak Over the Year	<b>691</b>	1,625	<b>119,151</b>	78,687	<b>118,186</b>	<b>6,457</b>	<b>119,395</b>	79,250
Low Over the Year	<b>198</b>	128	<b>69,342</b>	1,510	<b>69,185</b>	<b>1,193</b>	<b>69,552</b>	2,094
Average Over the Year	<b>395</b>	516	<b>95,697</b>	53,059	<b>95,012</b>	<b>3,956</b>	<b>95,956</b>	53,345

### Stop-loss Limits

Stop-loss limits are set to control losses that may arise in trading portfolios. When market risk losses exceed the stop-loss limit, trading positions are closed down. The Governor must approve the re-establishment of trading positions.

### Sensitivity to Interest Rate Risk and Foreign Currency Risk

The sensitivity of the Bank's financial assets and liabilities to assumed across-the-board changes in interest rates and the exchange rate is shown below.

	Total Gain/(Loss) Impacting Comprehensive Income 2009 \$000	Gain/(Loss) Reported in the Income Statement 2009 \$000	Gain/(Loss) Reported Directly in Equity 2009 \$000	Total Gain/(Loss) Impacting Comprehensive Income 2008 \$000	Gain/(Loss) Reported in the Income Statement 2008 \$000	Gain/(Loss) Reported Directly in Equity 2008 \$000
<b>Impact of:</b>						
A rise of 10% in the value of the New Zealand dollar	<b>(336,969)</b>	<b>(324,480)</b>	<b>(12,489)</b>	(417,895)	(407,309)	(10,586)
A fall of 10% in the value of the New Zealand dollar	<b>450,589</b>	<b>435,325</b>	<b>15,264</b>	476,625	464,405	12,220
A rise of one percentage point in the local currency yield curve	<b>(155,387)</b>	<b>(35,644)</b>	<b>(119,743)</b>	(151,963)	(11,927)	(140,036)
A fall of one percentage point in the local currency yield curve	<b>165,684</b>	<b>39,025</b>	<b>126,659</b>	160,802	11,971	148,831
A rise of one percentage point in the yield curve for all foreign currencies	<b>(9,728)</b>	<b>(9,728)</b>	-	3,069	3,069	-
A fall of one percentage point in the yield curve for all foreign currencies	<b>7,476</b>	<b>7,476</b>	-	(3,103)	(3,103)	-

The Bank's exposures to foreign currency risk and interest rate risk can change materially over time depending on the Bank's policy objectives and economic conditions.

## 19. Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes to market interest rates.

### **Foreign Reserves Management Interest Rate Risk Management**

The Bank holds an open foreign currency position, effectively financing a portion of its foreign currency assets using New Zealand dollar funding. This exposes the Bank to the risk of changes in the relative interest rates between New Zealand and overseas currencies. Interest rate risk also arises as a result of mismatches between the maturity or interest rate resets of assets and liabilities, where the assets and liabilities are denominated in the same currency. The Bank manages this interest rate risk through effective duration mismatch limits between assets and the corresponding liabilities.

### **Domestic Market Operations Interest Rate Risk Management**

The Bank's exposure to interest rate risk that arises from transacting foreign currency swaps in Domestic Market Operations is constrained by an effective duration limit, which ensures that interest rate exposures are of a short-term nature. The exposure to interest rate risk arising from reverse-repurchase transactions in various liquidity facilities is managed by restricting the tenor of those transactions and by issuing Reserve Bank bills.

As a matter of policy, interest rate risk on New Zealand government securities is not actively managed and it is intended that these securities be held to maturity.

The average duration of the Bank's holding of New Zealand government securities in its investment portfolio (which excludes outright purchases of government securities for liquidity management purposes) as at 30 June 2009 was 2.4 years (2008: 3.5 years).

Assets and liabilities will mature or reprice within the following periods:

	Total 2009 \$M	Non- Interest Sensitive \$M	Overnight \$M	6 Months or Less \$M	Between 6 and 12 Months \$M	Between 1 and 2 Years \$M	Between 2 and 5 Years \$M	Over 5 Years \$M
<b>Assets</b>								
Marketable Securities	14,906	-	-	14,741	-	8	147	10
Securities Purchased Under Agreements to Resell	9,060	-	-	7,184	1,876	-	-	-
New Zealand Government Securities	4,435	-	-	1,327	-	-	1,819	1,289
Other Financial Assets	2,425	139	1,284	1,002	-	-	-	-
Other Assets	96	96	-	-	-	-	-	-
<b>Total Assets</b>	<b>30,922</b>	<b>235</b>	<b>1,284</b>	<b>24,254</b>	<b>1,876</b>	<b>8</b>	<b>1,966</b>	<b>1,299</b>
<b>Liabilities</b>								
Term Liabilities	3,219	-	-	3,219	-	-	-	-
Securities Sold Under Agreements to Repurchase	901	-	-	901	-	-	-	-
Deposits	15,495	-	15,495	-	-	-	-	-
Reserve Bank Bills	2,085	-	-	2,085	-	-	-	-
Currency in Circulation	3,923	3,923	-	-	-	-	-	-
Other Financial Liabilities	1,609	654	-	955	-	-	-	-
Other Liabilities	723	723	-	-	-	-	-	-
<b>Equity</b>	<b>2,967</b>	<b>2,967</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities and Equity</b>	<b>30,922</b>	<b>8,267</b>	<b>15,495</b>	<b>7,160</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	-	(8,032)	(14,211)	17,094	1,876	8	1,966	1,299
Derivative Financial Instruments	-	-	-	(119)	22	-	83	14
<b>Total Interest Rate Sensitivity Gap</b>	<b>-</b>	<b>(8,032)</b>	<b>(14,211)</b>	<b>16,975</b>	<b>1,898</b>	<b>8</b>	<b>2,049</b>	<b>1,313</b>
<b>Interest Rate Sensitivity Gap by Currency:</b>								
New Zealand dollar	(3,881)	(7,516)	(15,494)	14,145	1,876	-	1,819	1,289
United States dollar	1,012	(97)	765	181	22	8	133	-
Euro	1,032	(451)	203	1,280	-	-	-	-
Japanese yen	140	15	47	54	-	-	-	24
British pound	545	15	102	428	-	-	-	-
Australian dollar	712	2	88	622	-	-	-	-
Canadian dollar	347	-	77	270	-	-	-	-
Other	93	-	1	(5)	-	-	97	-
	-	(8,032)	(14,211)	16,975	1,898	8	2,049	1,313

Assets and liabilities will mature or reprice within the following periods:

	Total 2008 \$M	Non- Interest Sensitive \$M	Overnight \$M	6 Months or Less \$M	Between 6 and 12 Months \$M	Between 1 and 2 Years \$M	Between 2 and 5 Years \$M	Over 5 Years \$M
<b>Assets</b>								
Marketable Securities	17,812	-	-	17,674	-	79	40	19
Securities Purchased Under Agreements to Resell	2,007	-	-	2,007	-	-	-	-
New Zealand Government Securities	4,307	-	-	653	-	691	1,721	1,242
Other Financial Assets	935	115	491	329	-	-	-	-
Other Assets	101	101	-	-	-	-	-	-
<b>Total Assets</b>	<b>25,162</b>	<b>216</b>	<b>491</b>	<b>20,663</b>	<b>-</b>	<b>770</b>	<b>1,761</b>	<b>1,261</b>
<b>Liabilities</b>								
Term Liabilities	3,566	-	-	3,566	-	-	-	-
Securities Sold Under Agreements to Repurchase	610	-	-	610	-	-	-	-
Deposits	14,888	-	14,888	-	-	-	-	-
Currency in Circulation	3,448	3,448	-	-	-	-	-	-
Other Financial Liabilities	466	165	125	176	-	-	-	-
Other Liabilities	258	258	-	-	-	-	-	-
<b>Equity</b>	<b>1,926</b>	<b>1,926</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities and Equity</b>	<b>25,162</b>	<b>5,797</b>	<b>15,013</b>	<b>4,352</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	-	(5,581)	(14,522)	16,311	-	770	1,761	1,261
Derivative Financial Instruments	-	-	-	(31)	(10)	(33)	61	13
<b>Total Interest Rate Sensitivity Gap</b>	<b>-</b>	<b>(5,581)</b>	<b>(14,522)</b>	<b>16,280</b>	<b>(10)</b>	<b>737</b>	<b>1,822</b>	<b>1,274</b>
<b>Interest Rate Sensitivity Gap by Currency:</b>								
New Zealand dollar	(4,444)	(5,906)	(14,888)	12,696	-	691	1,721	1,242
United States dollar	1,089	420	132	438	-	-	101	(2)
Euro	1,156	(119)	27	1,236	(10)	-	-	22
Japanese yen	180	12	69	123	-	(33)	-	9
British pound	658	12	51	592	-	-	-	3
Australian dollar	863	-	58	805	-	-	-	-
Canadian dollar	419	-	29	390	-	-	-	-
Other	79	-	-	-	-	79	-	-
	-	(5,581)	(14,522)	16,280	(10)	737	1,822	1,274

## 20. Foreign Currency Risk

Foreign currency risk is the risk of loss arising from changes in exchange rates.

Foreign exchange risk arises from:

- maintenance of a portion of foreign currency reserves on an unhedged basis for crisis management purposes;
- currency intervention to meet monetary policy objectives; and
- active management undertaken in trading portfolios.

The Bank intends to hold some of its reserves on an unhedged basis through most of the exchange rate cycle. The Bank has a policy of maintaining a passive 'benchmark' open foreign exchange position of SDR1 billion, but can vary the actual open position, and thus the amount of unhedged reserves, around that benchmark level, depending on the behaviour of the exchange rate and foreign exchange markets. This variation might be significant. As an indication of the potential variability of the actual open foreign exchange position, in the last year the Bank reported daily open foreign exchange position levels of between SDR 1.517 billion and SDR 2.091 billion.

For non-trading portfolios, foreign currency risk is managed by way of open position limits for various currencies and aggregate open position limits. Additionally, the Bank monitors actual and expected VaR outcomes for these portfolios.

Stop-loss and VaR limits are also used to assist in managing the Bank's trading portfolios, which account for a minor proportion of the Bank's total open foreign exchange position.

As at 30 June 2009, the Bank's net exposure to major currencies, in New Zealand dollar terms was:

	2009 \$M	2008 \$M
Australian dollar	712	863
British pound	545	658
Canadian dollar	347	419
Euro	1,032	1,156
Japanese yen	140	180
Swiss francs	(4)	-
United States dollar	1,012	1,089
Various currencies (Asian Bond Fund 2)	97	79
<b>Total</b>	<b>3,881</b>	<b>4,444</b>

At 30 June 2009, the net open foreign exchange position was SDR 1,621 million (2008: SDR 2,075 million). The open position varies over time as the Bank determines is warranted by its policy objectives and economic conditions. The largest net open foreign exchange position during the 12 months ended 30 June 2009 was SDR 2,091 million (2008: SDR 2,094 million). The smallest net open foreign exchange position during the 12 months ended 30 June 2009 was SDR 1,517 million (2008: SDR 439 million).

## 21. Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting financial obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk also includes the risk that the Bank may have to sell a financial asset quickly at less than its fair value.

The objectives of the Bank's liquidity policy are to:

- ensure all financial obligations are met when due;
- ensure foreign reserves assets held for currency intervention purposes are able to be liquidated in an orderly fashion, within agreed timeframes; and
- ensure the Bank manages the aggregate level of New Zealand dollar liquidity in the New Zealand banking system, so as to, in turn, ensure that interest rates in inter-bank markets are consistent with monetary policy settings, and to facilitate the smooth operation of the inter-bank payment system.

The Bank manages its liquidity risk primarily by forecasting future cash flows, ensuring that cash inflows and cash outflows are matched appropriately.

**a Foreign Currency Activities**

Liquidity is a key criterion in determining the composition of the Bank's foreign currency assets. This reflects the potential requirement to liquidate foreign reserves for intervention purposes, should the need arise. Accordingly, there is an array of interacting controls aimed at ensuring quick access to funds. These controls include liquid asset ratios based on the liquidity characteristics of securities held, and limits on the minimum and maximum proportion of reserves that may be held in any one currency. These limits are monitored daily.

In response to the financial crises in global financial markets, the Bank has held a greater proportion of its foreign currency assets in the form of securities that have the highest credit rating and that, therefore, should be able to be liquidated more readily should the need arise.

As explained in note 17 "Credit Risk", the Bank has offered liquidity facilities to financial institutions and widened the range of collateral it will accept in making funds available to those institutions. Where these facilities have been utilised, the Bank wholly or partly offsets the increase in system liquidity by withdrawing funds through the issuance of Reserve Bank bills.

To assist financial institutions to gain access to liquidity, the Bank and the Federal Reserve Bank of New York (FRBNY) have agreed to a United States dollar-New Zealand dollar swap facility. Under this facility, the FRBNY will make up to 15 billion United States dollars available via a swap for an equivalent amount of New Zealand dollars. This facility was not utilised in the period to 30 June 2009.

At 30 June 2009, foreign currency assets valued at \$17,233 million were classified as being able to be liquidated within two business days (30 June 2008: \$18,710 million).

The Bank also manages refinancing risk on foreign reserves funded from borrowing by applying limits on the amount of borrowing maturing in any 12-month period.

**b Local Currency Activities**

The Bank's management of its own New Zealand dollar liquidity risk is a function of the Bank's management of the daily aggregate liquidity that is available within the New Zealand banking system.

The Bank manages its own New Zealand dollar cash flows by advancing funds to, and withdrawing funds from, the New Zealand banking system. This is achieved through a range of financial transactions, including entering into foreign exchange swap and basis swap transactions, repurchase and reverse-repurchase agreements, and by issuing Reserve Bank bills.

As New Zealand's central bank, the Bank is able to create New Zealand dollar liquidity through its daily market operations.

Therefore, the Bank is not required to maintain a certain level of liquid assets in order to meet its New Zealand dollar obligations.

## 22. Cash Flows by Remaining Contractual Maturities

The following table sets out the maturity profile of the Bank's financial assets and liabilities. The table discloses the contractual principal receivable or due at the maturity date, together with interest receivable or payable for the period to the maturity date based on interest rates and foreign exchange rates prevailing as at balance date. Financial liabilities payable on demand includes Currency in Circulation. However, historical experience has shown such balances provide a stable source of long-term funding for the Bank.

Deposits, which are on-demand liabilities, are managed taking into account the Bank's ability to create New Zealand dollar liquidity through its daily market operations. In all other respects, the Bank manages liquidity on a contractual maturity basis, which is consistent with the expected maturities of financial instruments.

The balances in this table do not equate with the balances in the Consolidated Statement of Financial Position, as the table incorporates all cash flows on an undiscounted basis.

Contractual maturities exclude the following assets, which have no fixed maturity dates: Asian Bond Fund 1, Asian Bond Fund 2, and shares in the Bank for International Settlements. The aggregate carrying value of these assets at 30 June 2009 was \$284 million (2008: \$232 million).

	Total 2009 \$M	On Demand \$M	6 Months or Less \$M	6 to 12 Months \$M	1 to 2 Years \$M	2 to 5 Years \$M	Over 5 Years \$M
<b>Foreign Currency Financial Assets</b>							
Cash Balances	1,284	1,284	-	-	-	-	-
Securities Purchased Under Agreements to Resell	2,129	-	2,129	-	-	-	-
Marketable Securities	14,767	-	14,753	-	-	1	13
Other Foreign Currency Financial Assets	2	-	2	-	-	-	-
	18,182	1,284	16,884	-	-	1	13
<b>Foreign Currency Financial Liabilities</b>							
Short-term Foreign Currency Financial Liabilities	1,017	1,017	-	-	-	-	-
Securities Sold Under Agreements to Repurchase	711	-	711	-	-	-	-
Term Liabilities	3,812	-	175	19	36	1,267	2,315
	5,540	1,017	886	19	36	1,267	2,315
<b>Foreign Currency Derivatives</b>							
Contractual Inflows	6,727	-	3,545	1,702	222	789	469
Contractual Outflows	(17,113)	-	(7,658)	(2,309)	(574)	(4,567)	(2,005)
	(10,386)	-	(4,113)	(607)	(352)	(3,778)	(1,536)
<b>Foreign Currency Net Gap in Contractual Maturities</b>							
	2,256	267	11,885	(626)	(388)	(5,044)	(3,838)
<b>Local Currency Financial Assets</b>							
Securities Purchased Under Agreements to Resell	7,023	-	5,111	1,912	-	-	-
New Zealand Government Securities	5,192	-	1,423	91	182	2,065	1,431
	12,215	-	6,534	2,003	182	2,065	1,431
<b>Local Currency Financial Liabilities</b>							
Deposits	15,495	15,495	-	-	-	-	-
Securities Sold Under Agreements to Repurchase	190	-	190	-	-	-	-
Reserve Bank Bills	2,100	-	2,100	-	-	-	-
Currency in Circulation	3,923	3,923	-	-	-	-	-
	21,708	19,418	2,290	-	-	-	-
<b>Local Currency Derivatives</b>							
Contractual Inflows	12,995	-	4,711	895	702	4,309	2,378
Contractual Outflows	(1,459)	-	(217)	(114)	(259)	(296)	(573)
	11,536	-	4,494	781	443	4,013	1,805
<b>Local Currency Net Gap in Contractual Maturities</b>							
	2,043	(19,418)	8,738	2,784	625	6,078	3,236
<b>Total Net Gap in Contractual Maturities</b>							
	4,299	(19,151)	20,623	2,158	237	1,034	(602)

	Total 2008 \$M	On Demand \$M	6 Months or Less \$M	6 to 12 Months \$M	1 to 2 Years \$M	2 to 5 Years \$M	Over 5 Years \$M
<b>Foreign Currency Financial Assets</b>							
Cash Balances	491	491	-	-	-	-	-
Securities Purchased Under Agreements to Resell	2,010	-	2,010	-	-	-	-
Marketable Securities	17,762	-	17,729	-	1	3	29
Other Foreign Currency Financial Assets	2	-	2	-	-	-	-
	20,265	491	19,741	-	1	3	29
<b>Foreign Currency Financial Liabilities</b>							
Short-term Foreign Currency Financial Liabilities	290	290	-	-	-	-	-
Securities Sold Under Agreements to Repurchase	573	-	573	-	-	-	-
Term Liabilities	4,317	-	336	332	247	1,081	2,321
	5,180	290	909	332	247	1,081	2,321
<b>Foreign Currency Derivatives</b>							
Contractual Inflows	4,986	-	4,060	15	773	109	29
Contractual Outflows	(17,501)	-	(11,876)	(1,070)	(1,417)	(2,420)	(718)
	(12,515)	-	(7,816)	(1,055)	(644)	(2,311)	(689)
<b>Foreign Currency Net Gap in Contractual Maturities</b>							
	2,570	201	11,016	(1,387)	(890)	(3,389)	(2,981)
<b>Local Currency Financial Assets</b>							
New Zealand Government Securities	5,438	-	773	114	874	2,171	1,506
	5,438	-	773	114	874	2,171	1,506
<b>Local Currency Financial Liabilities</b>							
Deposits	14,888	14,888	-	-	-	-	-
Securities Sold Under Agreements to Repurchase	37	-	37	-	-	-	-
Currency in Circulation	3,448	3,448	-	-	-	-	-
Other Local Currency Financial Liabilities	258	82	176	-	-	-	-
	18,631	18,418	213	-	-	-	-
<b>Local Currency Derivatives<sup>12</sup></b>							
	13,231	-	7,949	1,160	787	2,556	779
<b>Local Currency Net Gap in Contractual Maturities</b>							
	38	(18,418)	8,509	1,274	1,661	4,727	2,285
<b>Total Net Gap in Contractual Maturities</b>							
	2,608	(18,217)	19,525	(113)	771	1,338	(696)

12 In 2008, all contractual flows for Local Currency Derivatives were inflows.

## CONSOLIDATED INCOME STATEMENT NOTES

### 23. Net Investment Income

Net Investment Income includes:

	Total 2009 \$M	Foreign Currency \$M	Local Currency \$M	Total 2008 \$M	Foreign Currency \$M	Local Currency \$M
<b>Interest Income</b>						
Cash Balances	10	10	-	22	22	-
Securities Purchased Under Agreements to Resell	259	45	214	72	64	8
Marketable Securities	218	218	-	562	562	-
Derivative Financial Instruments	294	294	-	485	485	-
New Zealand Government Securities	261	-	261	267	-	267
<b>Total Interest Income</b>	<b>1,042</b>	<b>567</b>	<b>475</b>	<b>1,408</b>	<b>1,133</b>	<b>275</b>
<b>Interest Expense</b>						
Securities Sold Under Agreements to Repurchase	29	-	29	11	1	10
Term Liabilities	85	85	-	152	152	-
New Zealand Government Deposits	109	-	109	339	-	339
Settlement Bank Deposits	443	-	443	662	-	662
Reserve Bank Bills	94	-	94	-	-	-
Other	-	-	-	10	10	-
<b>Total Interest Expense</b>	<b>760</b>	<b>85</b>	<b>675</b>	<b>1,174</b>	<b>163</b>	<b>1,011</b>
<b>Net Interest Income/(Expense)</b>	<b>282</b>	<b>482</b>	<b>(200)</b>	<b>234</b>	<b>970</b>	<b>(736)</b>
<b>Net Gains/(Losses) from Fair Value Changes</b>	<b>187</b>	<b>147</b>	<b>40</b>	<b>(7)</b>	<b>(7)</b>	<b>-</b>
<b>Net Gains/(Losses) from Foreign Exchange Rate Changes</b>	<b>481</b>	<b>481</b>	<b>-</b>	<b>344</b>	<b>344</b>	<b>-</b>
<b>Dividend Income</b>	<b>2</b>	<b>2</b>	<b>-</b>	<b>2</b>	<b>2</b>	<b>-</b>
<b>Total Net Investment Income</b>	<b>952</b>	<b>1,112</b>	<b>(160)</b>	<b>573</b>	<b>1,309</b>	<b>(736)</b>

Interest income from the New Zealand government (including entities controlled by the New Zealand government) comprised 25 percent (2008: 19 percent) of total interest received.

### Components of Net Investment Income from Financial Instruments

Net investment income includes net income/(expense) arising from:

	2009 \$M	2008 \$M
Financial Assets and Financial Liabilities Classified as Fair Value Through Profit or Loss Upon Initial Recognition	392	(183)
Derivative Instruments Deemed to be Classified as Held For Trading	294	485
Financial Assets and Financial Liabilities Classified as Held for Trading	3	2
Interest and Dividend Income from Available-for-sale Financial Assets	263	269
<b>Total Net Investment Income</b>	<b>952</b>	<b>573</b>

	2009 \$M	2008 \$M
Market Value Gains and Foreign Exchange Gains on Financial Assets Classified as Available-for-sale reported in the Income Statement	-	-
Interest Expense on Financial Liabilities Measured at Amortised Cost	-	-
Market Value Changes and Foreign Exchange Rate Changes on Financial Liabilities Measured at Amortised Cost reported in the Income Statement	-	-

## 24. Income and Expenditure by Function

The following table sets out operating income and operating expenditure for each of the Bank's main functions.

	Operating Income 2009 \$M	Attribution of Earnings on Investments Funded by Equity 2009 \$M	Operating Expenses 2009 \$M	Net Profit/(Loss) 2009 \$M
For the year ended 30 June				
<b>FUNCTIONS</b>				
Monetary Policy Formulation	-	-	11	(11)
Domestic Market Operations	106	43	6	143
Financial System Surveillance and Policy	-	-	12	(12)
Currency Operations	230	5	11	224
Foreign Reserves Management	472	97	7	562
Settlement Services	3	-	2	1
Registry and Depository Services	4	-	4	-
Other Outputs	-	-	1	(1)
<b>Total for Bank before Earnings on Investments Funded by Equity</b>	<b>815</b>	<b>145</b>	<b>54</b>	<b>906</b>
<i>Earnings not Allocated to Functions:</i>				
Earnings on Investments Funded by Equity	145	(145)	-	-
<b>Total for Bank</b>	<b>960</b>	<b>-</b>	<b>54</b>	<b>906</b>
Income Retained Under the Funding Agreement			8	
<b>Net Operating Expenses</b>			<b>46</b>	

For the year ended 30 June	Operating Income 2008 \$M	Attribution of Earnings on Investments Funded by Equity 2008 \$M	Operating Expenses 2008 \$M	Net Profit/(Loss) 2008 \$M
<b>FUNCTIONS</b>				
Monetary Policy Formulation	-	-	9	(9)
Domestic Market Operations	14	16	6	24
Financial System Surveillance and Policy	-	-	8	(8)
Currency Operations	237	3	9	231
Foreign Reserves Management	208	95	8	295
Settlement Services	4	-	2	2
Registry and Depository Services	4	-	3	1
Other Outputs	-	-	1	(1)
<b>Total for Bank before Earnings on Investments Funded by Equity</b>	<b>467</b>	<b>114</b>	<b>46</b>	<b>535</b>
<i>Earnings not Allocated to Functions:</i>				
Earnings on Investments Funded by Equity	114	(114)	-	-
<b>Total for Bank</b>	<b>581</b>	<b>-</b>	<b>46</b>	<b>535</b>
Income Retained Under the Funding Agreement			8	
<b>Net Operating Expenses</b>			<b>38</b>	

Operating income for each function includes allocations of notional interest income and expenditure on New Zealand dollar funding provided by (or provided to) the function through internal lending and borrowing. Notional interest rates take into account the estimated term of the funding and the associated external interest earned or incurred. Earnings from the investment of equity are allocated to individual functions based on the estimated level of equity required for that function. The total operating expenses for each function include internal transfers between functions.

## 25. Operating Expenses

	Note	2009 \$M	2008 \$M
Staff Expenses		24	22
Net Currency Issued Expenses		6	4
Asset Management Expenses		7	7
Other Operating Expenses		13	13
<b>Total Operating Expenses excluding Actuarial Loss on Defined Benefit Superannuation Scheme</b>		<b>50</b>	46
Actuarial Loss on Defined Benefit Superannuation Scheme	28	4	-
<b>Total Operating Expenses</b>		<b>54</b>	46

	2009 \$000	2008 \$000
<b>Operating Expenses includes:</b>		
Depreciation of Property, Plant and Equipment	2,930	2,890
Amortisation of Intangible Assets	2,651	2,400
Impairment Charges for Property, Plant and Equipment	-	-
Impairment Charges for Intangible Assets	-	-
Bad Debt Expenses	-	-
Rental and Lease Expenses	532	409
Auditor's Remuneration:		
Statutory Audit	200	194
Payment Systems Audits	59	57
Advisory Services	-	30

The Statutory Audit expense comprises the fee for the audit of the annual financial statements of the Bank.

The Payments Systems Audits expense comprises fees paid for the contractual audits of the Austraclear New Zealand depository system and the Exchange Settlement Account System.

The Advisory Services expense comprises fees for advice with respect to the application of accounting policies to the financial statements and for advice regarding payment systems. These advisory services were approved in accordance with the Bank's External Auditor Independence Policy, which requires that prior to engaging the external auditor for any of these services, the advice of the Chair of the Audit Committee must be sought and approval must be given by the Governor.

#### Key Management Personnel

Key management personnel comprise the Governor, Deputy Governor and Assistant Governors. Because non-executive Board members are not responsible for decision-making by the Bank, and their statutory role is to monitor the performance of the Bank, they are not considered to be key management personnel as defined in NZ IAS 24 Related Party Disclosures. For the year ended 30 June 2009, aggregate compensation paid to key management personnel comprised:

	2009 \$000	2008 \$000
Salaries, Superannuation Contributions and Other Short-term Benefits	1,638	1,565
<b>Total Key Management Personnel Compensation</b>	<b>1,638</b>	<b>1,565</b>

## OTHER NOTES

## 26. Reconciliation of Net Cash Flows from Operating Activities with Net Profit for the Year

	2009 \$M	2008 \$M
<b>Net Profit for the Year</b>	<b>906</b>	535
<b>Add/(Subtract) Items included in Net Profit relating to cash flows from changes in Operating Assets and Operating Liability Balances, Investing and Financing Activities:</b>		
Foreign Exchange (Gains)/Losses <sup>13</sup>	<b>(481)</b>	(315)
Market Value Changes	<b>(187)</b>	7
<b>Add/(Subtract) Non-cash Items:</b>		
Depreciation and Amortisation	<b>6</b>	5
Amortisation of Premium/Discount on Financial Instruments	<b>113</b>	(66)
Net Movement in Repatriated Currency Income and Expense	<b>1</b>	(1)
	<b>(548)</b>	(370)
<b>Movements in Other Working Capital Items</b>		
<b>Decrease/(Increase) in Current Assets:</b>		
Movement in Accounts Receivable	<b>2</b>	-
Movement in Inventories	-	(7)
Movement in Interest Receivable	<b>(118)</b>	(9)
	<b>(116)</b>	(16)
<b>Increase/(Decrease) in Current Liabilities:</b>		
Movement in Miscellaneous Liabilities	<b>3</b>	-
Movement in Interest Payable	<b>(18)</b>	(13)
	<b>(15)</b>	(13)
<b>Net Movements in Other Working Capital Items</b>	<b>(131)</b>	(29)
<b>Operating Cash Flows from Income and Expenses</b>	<b>227</b>	136
Cash Flows from Changes in Operating Assets and Operating Liability Balances	<b>(102)</b>	431
<b>Net Cash Flows from Operating Activities</b>	<b>125</b>	567

13 Foreign Exchange (Gains)/Losses includes the Foreign Exchange Rate Effect on Cash Balances at the Beginning of the Year in the Consolidated Statement of Cash Flows on pages 59 and 60.

## 27. Statement of Commitments

### a Capitalised Finance Lease Liabilities

The Bank leases computer equipment under non-cancellable finance leases. The payments are determined at the beginning of the lease agreements and remain constant during the term of the lease. There are no terms of renewal or purchase options attached to the lease agreements. There are no further restrictions imposed by the agreements such as dividends, additional debt and further leasing.

	2009 \$000	2008 \$000
<b>Computer Equipment Finance Leases</b>		
Due Within One Year	307	151
Due Between One and Two Years	220	62
Due Between Two and Five Years	56	2
<b>Present Value of Minimum Lease Payments</b>	<b>583</b>	215
Finance Charge	25	11
<b>Total Minimum Lease Payments</b>	<b>608</b>	226
<b>Comprised:</b>		
Due Within One Year	326	160
Due Between One and Two Years	226	64
Due Between Two and Five Years	56	2
<b>Total Minimum Lease Payments</b>	<b>608</b>	226

### b Operating Lease Commitments

The Bank leases office equipment and premises under operating leases. The payments are determined at the beginning of the lease agreements and remain constant during the term of the lease.

	2009 \$000	2008 \$000
<b>Office Equipment and Premises Operating Leases</b>		
Due Within One Year	324	277
Due Between One and Two Years	274	264
Due Between Two and Five Years	114	323
<b>Total Office Equipment Premises Operating Lease Commitments</b>	<b>712</b>	864

### c Capital Expenditure and Inventory Commitments

	2009 \$000	2008 \$000
<b>Capital Expenditure and Inventory</b>		
Property, Plant and Equipment:		
Due Within One Year	611	1,198
Inventories:		
Due Within One Year	1,453	2,356
<b>Total Capital Expenditure and Inventory Commitments</b>	<b>2,064</b>	3,554

**d Lease Payments Receivable**

The Bank owns its head office in Wellington and leases six and one-half of the 14 floors to tenants under operating leases. Under the current non-cancellable lease agreements, the total minimum lease payments receivable are as follows:

	2009 \$000	2008 \$000
<b>Tenancy Lease Payments Receivable</b>		
Receivable Within One Year	1,579	1,631
Receivable Between One and Five Years	739	1,716
<b>Total Tenancy Lease Payments Receivable</b>	<b>2,318</b>	3,347

**28. Superannuation Commitments**

The Bank has a superannuation fund for staff. The superannuation fund includes both a defined contribution scheme and a defined benefit scheme. Contributions, as specified in the rules of the respective schemes, are made by the Bank as required. Actuarial valuations of the schemes are undertaken triennially, with the last full valuation being undertaken as at 31 March 2009. There have been no material changes to the fund's financial position between 31 March 2009 and 30 June 2009. Contributions to the defined benefit scheme are at a rate, reviewed annually, sufficient to keep the scheme solvent, based on actuarial assessments.

**Defined Benefit Scheme**

The following information is provided in respect of the defined benefit scheme.

As at 31 March	2009 \$000	2008 \$000
<b>Superannuation Asset/Superannuation Liability Recognised in the Statement of Financial Position</b>		
Present Value of Wholly Unfunded Obligations	-	-
Present Value of Wholly or Partly Funded Obligations	39,383	39,117
Fair Value of Plan Assets	36,620	40,576
<b>Present Value of Net Obligations</b>	<b>2,763</b>	(1,459)
Actuarial Gains Not Recognised in the Statement of Financial Position	-	283
<b>Net Liability (Net Asset) Recognised in the Statement of Financial Position</b>	<b>2,763</b>	(1,176)

The net asset (if any) recognised at the end of the year is limited to the estimated present value of reductions in future employer contributions to the defined benefit plan. The value of net assets of the defined benefit superannuation scheme not recognised as an asset of the Bank was \$0 million (2008: \$0.3 million).

**Movements in the Defined Benefit Obligation**

	2009 \$000	2008 \$000
Current Service Cost	154	119
Interest Cost	1,712	1,606
Contributions by Plan Participants	51	54
Actuarial Losses on Defined Benefit Obligations	919	3,411
Benefits Paid	(2,570)	(3,193)
Movement for the Year	266	1,997
Present Value of Defined Benefit Obligations at the Start of the Year	39,117	37,120
<b>Present Value of Defined Benefit Obligations at the End of the Year</b>	<b>39,383</b>	39,117

### Movements in the Fair Value of Plan Assets

	2009 \$000	2008 \$000
Expected Return on Plan Assets	1,768	1,930
Actuarial Gains (Losses) on Plan Assets	(3,205)	(2,704)
Contributions by Plan Participants	51	54
Benefits Paid	(2,570)	(3,193)
Movement for the Year	(3,956)	(3,913)
Fair Value of Plan Assets at the Start of the Year	40,576	44,489
<b>Fair Value of Plan Assets at the End of the Year</b>	<b>36,620</b>	40,576

	2009 % of Plan Assets	2008 % of Plan Assets
<b>Composition of Plan Assets By Type of Financial Instrument</b>		
Cash and Short-term Securities	11.4	16.2
Domestic Fixed-interest Securities	58.9	54.0
Foreign Fixed-interest Securities	0.0	9.6
Domestic Equity Securities	17.7	18.9
Foreign Equity Securities	9.4	1.5
Other Assets	2.6	(0.2)
	<b>100.0</b>	100.0

### Expense Recognised in the Income Statement

The amounts recognised in the Income Statement as operating expenses for the financial year in respect of the defined benefit superannuation scheme are as follows:

For the year ended 30 June	2009 \$000	2008 \$000
Past-service Cost	-	-
Current-service Cost	154	119
Interest Cost	1,712	1,606
Expected Return on Plan Assets	(1,768)	(1,930)
Defined Benefit Scheme Expense (Gain) Recognised in Staff Expenses	98	(205)
Actuarial (Gains) Losses on Plan Assets and Defined Benefit Obligations	4,124	6,115
Addition to (Decrease in) Actuarial Gains Not Recognised in the Statement of Financial Position	(283)	(5,957)
Net Actuarial Loss Recognised in Operating Expenses	3,841	158
<b>Total Defined Benefit Expense (Gain) Recognised in Operating Expenses</b>	<b>3,939</b>	(47)

The estimated employer contribution to be paid to the defined benefit scheme for the year ended 30 June 2010 is \$0.2 million.

The primary actuarial assumptions used in the above calculations expressed as weighted averages are as follows:

	2009 %	2008 %
Discount Rate at the Beginning of the Year	4.20	4.50
Expected Rate of Return on Plan Assets at the Beginning of the Year	4.50	4.50
Future Salary Increases	3.00	3.50
Other Material Actuarial Assumptions - Pension Increases	2.50	2.50

#### Historical Details

The following table provides amounts for the defined benefit superannuation scheme for the current and previous three periods:

For the year ended 30 June	2009 \$000	2008 \$000	2007 \$000	2006 \$000
Present Value of Defined Benefit Obligations	39,383	39,117	37,120	40,914
Fair Value of Plan Assets	36,620	40,576	44,489	45,807
Present Value of Net Obligations	(2,763)	1,459	7,369	4,893
Actuarial Gains Not Recognised in the Statement of Financial Position	-	283	6,240	3,159
<b>Superannuation Asset/(Liability)</b>	<b>(2,763)</b>	1,176	1,129	1,734
<b>Experience Adjustments</b>				
Gain/(Loss) on Plan Liabilities Due to Experience	279	(1,717)	(597)	451
Gain/(Loss) on Plan Assets Due to Experience	(3,205)	(2,704)	242	3,109

#### Defined Contribution Scheme

The Bank recognised as an expense the following contributions to defined contribution superannuation schemes:

	2009 \$000	2008 \$000
Bank's Defined Contribution Scheme	108	110
Other Defined Contribution Schemes	791	781
	<b>899</b>	891

## 29. Subsidiary Companies

The Bank has a wholly-owned New Zealand incorporated subsidiary, New Zealand Central Securities Depository Limited (NZCSD).

NZCSD is a non-trading company, incorporated solely for the purpose of acting as a custodian trustee. It holds assets on behalf of the participants in the Austraclear New Zealand System, as described in Note 33.

### 30. Related Parties

In the normal course of its operations, the Bank enters into transactions with related parties. Related parties include the Crown, various government departments, and Crown entities. Unless stated otherwise, all transactions with related parties take place at arm's length.

Transactions entered into include:

- banking services;
- agency transactions (at no charge);
- foreign exchange transactions;
- funding from the Treasury as part of the Foreign Reserves Management operations;
- purchases of New Zealand government securities; and
- monitoring services and advice concerning the Crown's guarantee of the obligations of certain entities under the Crown Wholesale Funding Guarantee Facility and the Retail Deposit Guarantee Scheme.

Material transactions with entities controlled by the Crown and balances with entities controlled by the Crown were:

For the year ended 30 June	2009 \$M	2008 \$M
<b>Receipts from and Payments to Entities Controlled by the New Zealand Government</b>		
Receipts of Income from Entities Controlled by the New Zealand Government		
Interest Income	265	269
Rental Income	2	2
<b>Receipts of a Capital Nature from Entities Controlled by the New Zealand Government</b>		
Receipt of Proceeds on Maturity of New Zealand Government Securities	2,138	-
Receipt of New Capital	600	-
<b>Payments of Expenses to Entities Controlled by the New Zealand Government</b>		
Interest Expense	202	501
<b>Payments of Capital to Entities Controlled by the New Zealand Government</b>		
Net Decrease/(Increase) in Deposits	(1,435)	(3,708)
Repayment of Term Liabilities	649	687
Payment for Purchase of New Zealand Government Securities	1,791	-
<b>As at 30 June</b>	<b>2009 \$M</b>	<b>2008 \$M</b>
<b>Balances with Entities Controlled by the New Zealand Government</b>		
<b>Assets that Comprise Claims on Entities Controlled by the New Zealand Government</b>		
New Zealand Government Securities	4,435	4,307
Securities Purchased Under Agreements to Resell	176	-
<b>Liabilities that Comprise Claims by Entities Controlled by the New Zealand Government</b>		
Derivative Financial Instruments in a Loss Position	5	1
Deposits	8,545	7,110
Term Liabilities	3,219	3,566

In addition, during the year, as part of the Bank's domestic market operations, the Bank entered into securities reverse-repurchase agreements with Crown-owned entities on standard commercial terms. Except as noted above, all amounts advanced under these agreements have been repaid. The table above includes interest income received by the Bank from this activity.

### 31. Contingent Liabilities

- a In terms of a Trust Deed dated 16 May 1980, the Reserve Bank has a contingent liability to maintain the actuarial soundness of the Reserve Bank of New Zealand Staff Superannuation and Provident Fund (the Fund), following each triennial review of the Fund.

The Actuary carried out a review of the financial position of the Fund as at 31 March 2009 and reported on 3 July 2009. As a result of that review, the Actuary has recommended that the Bank recommence making employer contributions to the Defined Benefit division of the Fund.

The Fund's Trust Deed provides for the Defined Benefit division of the Fund to be wound up in the event that the Bank is wound up or by resolution of the Bank's directors. In the event that the Fund is wound up, the Fund is required to purchase annuities having values equal to the actuarial value of benefits payable by the Fund. The Actuary reported that, based on current estimates of the cost of annuities, in the event the Defined Benefit division of the Fund is wound up, the purchase cost of annuities would exceed the value of Defined Benefit assets of the Fund. On winding up, the Bank is required by the Trust Deed to make good any shortfall. The Bank considers that the likelihood of the Fund being wound up is remote.

- b The Bank has a contingent liability for currency in circulation that has been demonetised but not returned to the Bank, but only to the extent that the Bank has not recognised an actual liability. The total face value of demonetised currency as at 30 June 2009 was \$105.0 million (2008: \$105.3 million). Of the total face value of demonetised currency, \$82.0 million (2008: \$82.3 million) is recognised as a liability in the Consolidated Statement of Financial Position.
- c The Bank has a liability for the face value of collectors' currency. However, it is most unlikely that significant amounts of collectors' currency will be returned for redemption at face value. The face value of collectors' currency issued before 1 July 2004 and which is not recognised as a liability is \$9.8 million (2008: \$9.8 million).
- d As at 30 June 2009, the Bank had a contingent liability of \$28.85 million (SDR 12.04 million) (2008: \$25.79 million, SDR 12.04 million) in respect of uncalled and unpaid capital attached to its shareholding in the Bank for International Settlements.

### 32. Income Tax

Section CW38 of the Income Tax Act 2007 exempts the Bank from income tax. The Bank incurs and meets liabilities for goods and services tax, fringe benefit tax and other withholding tax.

### 33. Custodial Activities

The Bank operates the Austraclear New Zealand System, which is a securities clearing and settlement system. It holds assets, on behalf of the participants, in the name of New Zealand Central Securities Depository Limited (NZCSD), which it has appointed as custodian trustee in terms of the Trustee Act 1956.

NZCSD is a wholly-owned New Zealand incorporated subsidiary of the Bank, which, in terms of a Deed of Appointment between the Bank and NZCSD, is incorporated solely for the purpose of acting as a custodian trustee. The Bank undertakes to accept liability for all costs and debts of NZCSD as a means of reinforcing that role. NZCSD is a non-trading company, but has legal ownership of securities beneficially owned by members of the Austraclear New Zealand System. With the exception of the local currency securities owned by the Bank and held through NZCSD, the Bank has no beneficial interest in the securities that NZCSD holds, or any management obligations apart from safekeeping or acting as paying agent in certain circumstances.

The total value of securities held by NZCSD as at 30 June 2009 was \$131.0 billion (2008: \$100.5 billion).

Under the Austraclear New Zealand System Rules, the Bank's and NZCSD's liabilities to any member of Austraclear, arising out of, or in connection with, the System, are limited to direct losses, up to an aggregate of \$5 million for any one event.

### 34. Significant Post-balance Date Events

There have been no significant post-balance date events.

# FIVE-YEAR HISTORICAL FINANCIAL INFORMATION

On 1 July 2007, the Bank adopted New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). In accordance with NZ IFRS, the comparative information was restated using the new accounting standards from 1 July 2006. Historical financial information for the 2005 and 2006 financial years is presented applying previous New Zealand Financial Reporting Standards (FRS).

Refer to the Bank's 2008 Annual Report for an explanation of the Bank's transition to NZ IFRS and the nature of the main adjustments required to comply with NZ IFRS.

## Five-year Financial Position

As at 30 June	Previous NZ FRS Audited 2005 \$M	Previous NZ FRS Audited 2006 \$M	Previous NZ FRS Audited 2007 \$M	NZ IFRS Audited 2007 \$M	NZ IFRS Audited 2008 \$M	NZ IFRS Audited 2009 \$M
<b>Assets</b>						
Foreign Currency Financial	8,086	11,745	16,653	16,647	20,754	<b>19,460</b>
Local Currency Financial	4,866	5,035	4,358	4,222	4,307	<b>11,366</b>
Other Assets	44	80	89	92	101	<b>96</b>
<b>Total Assets</b>	<b>12,996</b>	<b>16,860</b>	<b>21,100</b>	<b>20,961</b>	<b>25,162</b>	<b>30,922</b>
<b>Liabilities and Equity</b>						
Foreign Currency Financial	7,308	7,130	4,868	4,870	4,605	<b>5,539</b>
Local Currency Financial	790	4,529	11,009	11,009	14,925	<b>17,770</b>
Currency in Circulation	3,183	3,348	3,360	3,361	3,448	<b>3,923</b>
Other Liabilities	161	432	285	285	258	<b>723</b>
Equity	1,554	1,421	1,578	1,436	1,926	<b>2,967</b>
<b>Total Liabilities and Equity</b>	<b>12,996</b>	<b>16,860</b>	<b>21,100</b>	<b>20,961</b>	<b>25,162</b>	<b>30,922</b>

## Five-year Financial Performance

For the year ended 30 June	Previous NZ FRS Audited 2005 \$M	Previous NZ FRS Audited 2006 \$M	Previous NZ FRS Audited 2007 \$M	NZ IFRS Audited 2007 \$M	NZ IFRS Audited 2008 \$M	NZ IFRS Audited 2009 \$M
<b>Operating Income</b>						
Net Investment Income	302	290	362	365	573	<b>952</b>
Other Income	8	8	23	39	8	<b>8</b>
<b>Total Operating Income</b>	<b>310</b>	<b>298</b>	<b>385</b>	<b>404</b>	<b>581</b>	<b>960</b>
<b>Operating Expenses</b>						
Staff Expenses	18	22	22	23	22	<b>24</b>
Currency-issued Expenses	6	6	11	11	4	<b>6</b>
Asset-management Expenses	4	5	7	7	7	<b>7</b>
Other Operating Expenses	9	11	12	12	13	<b>13</b>
<b>Total Operating Expenses excluding Actuarial Loss on Defined Benefit Superannuation Scheme</b>	<b>37</b>	<b>44</b>	<b>52</b>	<b>53</b>	<b>46</b>	<b>50</b>
Actuarial Loss on Defined Benefit Superannuation Scheme	-	-	-	-	-	<b>4</b>
<b>Total Operating Expenses</b>	<b>37</b>	<b>44</b>	<b>52</b>	<b>53</b>	<b>46</b>	<b>54</b>
<b>Net Profit for the Year</b>	<b>273</b>	<b>254</b>	<b>333</b>	<b>351</b>	<b>535</b>	<b>906</b>
<b>Five-year Outcomes Under the Funding Agreement</b>						
Actual Net Expenses Under the Funding Agreement	29.1	35.9	29.1	30.4	38.1	<b>45.7</b>
Net Expenditure Specified Under the Funding Agreement	33.0	39.0	34.0	34.0	41.0	<b>43.3</b>
<b>Funding Agreement Under-Expenditure (Over-Expenditure)</b>	<b>3.9</b>	<b>3.1</b>	<b>4.9</b>	<b>3.6</b>	<b>2.9</b>	<b>(2.4)</b>

Actual Net Expenses Under the Funding Agreement for 2007 excludes a \$16 million timing adjustment required by NZ IFRS. Under NZ IFRS, hedging costs associated with income arising from the disposal of recovered 'silver' coins were required to be expensed in 2006. Under FRS, these costs were deferred and expensed in 2007. Given this was a timing difference that straddled the change-over to NZ IFRS, we have assumed that the FRS treatment applied for the purposes of reporting five-year outcomes under the Funding Agreement.

## Five-year Dividends Paid to the New Zealand Government

For the year ended 30 June	Previous NZ FRS Audited 2005 \$M	Previous NZ FRS Audited 2006 \$M	Previous NZ FRS Audited 2007 \$M	NZ IFRS Audited 2007 \$M	NZ IFRS Audited 2008 \$M	NZ IFRS Audited 2009 \$M
Five-year Dividends Paid to the New Zealand Government	139	410	193	193	168	<b>630</b>