CONTENTS

MANAGEMENT STATEMENT

RESERVE BANK
OF NEW ZEALAND
TE PŪTEA MATUA

26 August 2014

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 2014 fairly reflect the financial position and operations of the Bank.

Governor

Deputy Chief Executive

2 The Terrace, Wellington 6011
PO Box 2498, Wellington 6140, New Zealand
Telephone +64 4 472 2029 Fax +64 4 473 8554

AUDIT REPORT

INDEPENDENT AUDITORS' REPORT

to the readers of the Reserve Bank of New Zealand and Group's Financial Statements for the year ended 30 June 2014

The Auditor-General is the auditor of the Reserve Bank of New Zealand and Group (the 'Bank'). The Auditor-General has appointed me, Chris Barber, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the financial statements of the Bank on her behalf.

We have audited the financial statements of the Bank on pages 52 to 94, that comprise the statement of financial position as at 30 June 2014, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

OPINION

In our opinion the financial statements of the Bank on pages 52 to 94:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect the Bank's:
  - financial position as at 30 June 2014; and
  - financial performance and cash flows for the year ended on that date.

Our audit was completed on 26 August 2014. This 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 our responsibilities, and explain our independence.

BASIS OF OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' 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.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Bank's financial statements that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

AUDIT REPORT

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgments made by the Governor;
- the adequacy of all disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. Also we did not evaluate the security and controls over the electronic publication of the financial statements.

We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

RESPONSIBILITIES OF THE GOVERNOR

The Governor is responsible for preparing financial statements that:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect the Bank's financial position, financial performance and cash flows.

The Governor is also responsible for such internal control as he determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Governor is also responsible for the publication of the financial statements, whether in printed or electronic form.

The Governor's responsibilities arise from the Reserve Bank of New Zealand Act 1989.

RESPONSIBILITIES OF THE AUDITOR

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 166 of the Reserve Bank of New Zealand Act 1989.

INDEPENDENCE

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit we have carried out assignments in the areas of payment systems audits and a system readiness evaluation which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the Bank.

Chris Barber
On behalf of the Auditor-General
Wellington, New Zealand

PricewaterhouseCoopers

GUIDE TO THE MAIN FUNCTIONS OF THE RESERVE BANK

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

For the year ended 30 June 2014, the Bank classified 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.

PRUDENTIAL SUPERVISION:

Registering and supervising banks, licensing and supervising insurers, regulating non-bank deposit takers, overseeing payment systems, and undertaking policy development in all of these areas. 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 bank, non-bank deposit taker or insurer failure(s) or other financial system distress. Supervising banks, non-bank deposit takers and life insurers for compliance with their anti-money laundering obligations.

MACRO-FINANCIAL STABILITY:

Analysing and managing financial system risks to promote a sound and efficient system that supports the functioning of the economy.

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 New Zealand dollar settlement accounts to financial institutions and the New Zealand government and providing securities settlement and depository services, mainly to financial institutions.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June	Note	2014 $M	2013 $M
ASSETS			
Foreign Currency Financial Assets			
Cash Balances	1(d)	**2,637**	3,947
Securities Purchased under Agreements to Resell	1(d)	**3,388**	1,994
Investments	1(d),3	**11,771**	14,033
Derivative Assets	1(d),4	**1,358**	1,003
Other Foreign Currency Assets	1(d),5	**132**	186
Total Foreign Currency Financial Assets		**19,286**	21,163
Local Currency Financial Assets			
Securities Purchased under Agreements to Resell	1(d)	**200**	25
New Zealand Government Securities	1(d)	**2,891**	2,818
Other Local Currency Financial Assets	1(d)	**2**	1
Total Local Currency Financial Assets		**3,093**	2,844
Total Financial Assets		**22,379**	24,007
Other Assets	1(e), 6	**82**	75
Total Assets		**22,461**	24,082
LIABILITIES			
Foreign Currency Financial Liabilities			
Short-term Foreign Currency Financial Liabilities	1(d),7	**987**	551
Securities Sold under Agreements to Repurchase	1(d)	**437**	639
Derivative Liabilities	1(d),4	**228**	596
Term Liabilities	1(d)	**1,541**	1,871
Total Foreign Currency Financial Liabilities		**3,193**	3,657
Local Currency Financial Liabilities			
Deposits	1(d),8	**11,673**	12,627
Securities Sold under Agreements to Repurchase	1(d)	**-**	346
Currency in Circulation	1(d)	**4,883**	4,609
Other Local Currency Financial Liabilities	1(d),9	**85**	85
Term Liabilities	1(d)	**101**	-
Total Local Currency Financial Liabilities		**16,742**	17,667
Total Financial Liabilities		**19,935**	21,324
Other Liabilities	1(f),10	**27**	186
Total Liabilities		**19,962**	21,510
EQUITY		**2,499**	2,572
Total Liabilities and Equity		**22,461**	24,082

The above statement is to be read in conjunction with the notes set out on pages 57 to 94.
Derivatives 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 18.

CONSOLIDATED STATEMENT OF
CHANGES IN EQUITY

	Note	Capital $M	Available-for-Sale Reserve $M	Property, Currency and Artwork Collections Revaluation Reserve $M	Cash Flow Hedge Reserve $M	Retained Earnings $M	Total $M
Equity as at 1 July 2012		1,600	353	46	-	603	2,602
Net Profit for the Year		-	-	-	-	308	308
Total Income and Expense Taken to Equity during the Year		-	(163)	-	-	-	(163)
Dividend Payable to the New Zealand Government	11	-	-	-	-	(175)	(175)
Equity as at 30 June 2013		1,600	190	46	-	736	2,572
Net Profit for the Year		**-**	**-**	**-**	**-**	**56**	**56**
Total Income and Expense Taken to Equity during the Year		**-**	**(108)**	**-**	**(1)**	**-**	**(109)**
Dividend Payable to the New Zealand Government	11	**-**	**-**	**-**	**-**	**(20)**	**(20)**
Equity as at 30 June 2014	11	**1,600**	**82**	**46**	**(1)**	**772**	**2,499**

The above statement is to be read in conjunction with the notes set out on pages 57 to 94.

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June	Note	2014 $M	2013 $M
Interest Income		**520**	584
Interest Expense		**267**	324
Net Interest Income	21	**253**	260
Net Gains from Fair Value Changes		**49**	65
Net Gains/(Losses) from Foreign Exchange Rate Changes		**(198)**	29
Dividend Income		**1**	2
Total Net Investment Income	21	**105**	356
Other Income		**11**	9
Total Operating Income		**116**	365
Total Operating Expenses	23	**60**	57
Net Profit for the Year		**56**	308

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June	2014 $M	2013 $M
Net Profit for the Year from the Consolidated Income Statement	**56**	308
Items Recognised Directly in the Consolidated Statement of Comprehensive Income		
Movement in Available-for-sale Revaluation Reserve Taken to Equity	**(108)**	(163)
Movement in Cash Flow Hedge Reserve Taken to Equity	**(1)**	-
Total Income and Expense Taken to Equity during the Year	**(109)**	(163)
Total Comprehensive (Loss)/Income for the Year	**(53)**	145

The above statements are to be read in conjunction with the notes set out on pages 57 to 94.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June	Note	2014 $M	2013 $M
CASH FLOWS FROM OPERATING ACTIVITIES			
Sources from Income			
Interest Received:			
Foreign Currency:			
Derivatives		**(16)**	(20)
Other		**54**	25
Local Currency:			
Derivatives		**349**	357
Available-for-sale Securities		**138**	173
Other		**5**	62
Dividend		**-**	2
Fees, Commission and Other Income Received		**11**	9
Total Sources of Cash Flows from Income		**541**	608
Disbursements for Expenses			
Interest Paid:			
Foreign Currency		**(6)**	(3)
Local Currency		**274**	329
Payments to Suppliers and Employees		**65**	51
Total Disbursements of Cash Flows from Expenses		**333**	377
Operating Cash Flows from Income and Expenses		**208**	231
Operating Cash Flows from Changes in Asset and Liability Balances		**(978)**	890
Net Cash Flows from Operating Activities	24	**(770)**	1,121
CASH FLOWS FROM INVESTING ACTIVITIES			
Sources			
Disposal of Available-for-sale Securities		**291**	789
Total Sources of Cash Flows from Investing Activities		**291**	789
Disbursements			
Purchases of Available-for-sale Securities		**444**	586
Purchase of Property, Plant and Equipment and Intangible Assets		**7**	4
Total Disbursements of Cash Flows from Investing Activities		**451**	590
Net Cash Flows from Investing Activities		**(160)**	199

The above statement is to be read in conjunction with the notes set out on pages 57 to 94.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 30 June	Note	2014 $M	2013 $M
CASH FLOWS FROM FINANCING ACTIVITIES			
Sources			
Net Issue of Circulating Currency		**274**	234
Issue of Local Currency Term Liabilities		**100**	-
Total Sources of Cash Flows from Financing Activities		**374**	234
Disbursements			
Repayment of Foreign Currency Term Liabilities		**151**	325
Dividend Payments to the New Zealand Government		**175**	160
Total Disbursements of Cash Flows from Financing Activities		**326**	485
Net Cash Flows from Financing Activities		**48**	(251)
NET CASH FLOWS		**(882)**	1,069
Plus Foreign Exchange Rate Effect on Cash Balances at the Beginning of the Year		**(428)**	93
NET CASH FLOWS FROM ALL ACTIVITIES		**(1,310)**	1,162
Cash Balances at the Beginning of the Year		**3,947**	2,785
Cash Balances at the End of the Year		**2,637**	3,947

The above statement is to be read in conjunction with the notes set out on pages 57 to 94.

NOTES TO BE READ AS PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

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). These consolidated financial statements apply to the financial year ended 30 June 2014. 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 26 August 2014.

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 practices adopted in accordance with the Bank's PBE status have 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. Where that inventory is acquired at no cost, or for nominal consideration, it should 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.

Inventories of currency on hand include currency repatriated to the Bank at no cost. In accordance with NZ IAS 2, this portion of inventory is measured at the current replacement cost of that inventory at the time of repatriation. At 30 June 2014, the carrying value of inventory was $3.0 million more than that which would have been reported had IAS 2 been applied (2013: $2.3 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 all accounting policies have been applied consistently by the Bank for all the financial years presented (unless otherwise stated).

Standards and Interpretations Applied with Effect from 1 July 2013

No new accounting standards have been applied since 1 July 2013.

Future Changes to Accounting Standards Applicable to Public Benefit Entities

The External Reporting Board (XRB) has issued a new Accounting Standards Framework, incorporating a tiered structure and a separate suite of accounting standards for PBEs. Under the new framework, the Bank will be classified as a Tier 1 reporting entity and it will be required to apply full public sector Public Benefit Entity Standards (PS PBE Standards). These standards are based mainly on International Public Sector Accounting Standards. The effective date for the new standards for public sector entities is for reporting periods beginning on or after 1 July 2014. This means that the Bank will transition to the new standards in preparing its 30 June 2015 financial statements. The Bank's assessment is that the new standards will not result in a significant change for the Bank.

Due to the change in the Accounting Standards Framework for PS PBEs, all new NZ IFRS and amendments to existing NZ IFRS will not be applicable to PBEs, as the XRB has determined that new IFRS-based accounting standards, or changes to existing IFRS-based accounting standards, with a mandatory effective date of 1 January 2012 or later, may be applied by profit-oriented entities only.

Basis of Consolidation

These consolidated financial statements are prepared using the acquisition 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, are excluded from these financial statements, as they are not assets or income of the Bank (see Note 31).

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 assets and foreign currency financial liabilities 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. Amounts in the financial statements are rounded to the nearest million dollars unless otherwise stated.

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 the reporting 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, except where such gains and losses are deferred in equity as qualifying cash flow hedges. 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.

D FINANCIAL INSTRUMENTS

Classification and Measurement of Financial Instruments

Financial instruments are classified into various categories and are accounted for as shown in the table below. Classification of a financial instrument into a category occurs at the time of initial recognition.

Classification Category	Instruments	Valuation Basis in Statement of Financial Position	Elements Recognised Directly in the Income Statement	Elements Recognised Directly in Equity
Fair Value through Profit or Loss	Assets • Investments • Securities Purchased under Agreements to Resell • Securities Lending • Derivatives Liabilities • Term Loans • Securities Lending • Securities Sold under Agreements to Repurchase	Fair Value	• Interest Income • Interest Expense • Gains/Losses from Fair Value Changes • Gains/Losses from Foreign Exchange Rate Changes	
Available-for-sale Financial Assets	• New Zealand Government Securities (purchased for investment purposes) • Shareholding in Bank for International Settlements	Fair Value	• Interest Income • Dividend Income • Realised Gains/Losses from Fair Value and Foreign Exchange Rate Changes	Unrealised Gains/Losses from Fair Value Changes and Foreign Exchange Rate Changes are included in the Available-for-Sale Revaluation Reserve
Loans and Receivables	• Cash Balances • Receivable for Unsettled Sale of Securities • Fee Income Receivable	Cost less Provision for Impairment	• Interest Income • Gains/Losses from Foreign Exchange Rate Changes (excluding Qualifying Cash Flow Hedges) • Changes in Impairment	Changes in Foreign Currency Translation on Qualifying Cash Flow Hedges are included in the Cash Flow Hedge Reserve
Financial Liabilities at Amortised Cost	• Deposits • Currency in Circulation • Short-Term Foreign Currency Liabilities • Payables for Unsettled Purchases of Securities • Other Local Currency Liabilities	Amortised Cost	• Interest Expense • Gains/Losses from Foreign Exchange Rate Changes	

Fair Value through Profit or Loss

This category has two sub-categories: financial instruments designated as fair value through profit or loss at inception and those that are held for trading.

The Bank's assets and liabilities that are designated as fair value through profit or loss are done so because 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.

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

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.

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 generally 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.

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.

Financial Liabilities at Amortised Cost

Liabilities classified as financial liabilities at amortised cost include short-term liabilities with fixed or determinable payments that are not traded, such as unsettled purchases of securities, cash collateral held, and payables and accruals for services received. Notes and coins issued by the Bank that are either in circulation or demonetised are also classified as financial liabilities at amortised cost.

Additional Information on Recognition and Measurement of Financial Instruments

Purchases and disposals of financial instruments are recognised on trade date, the date on which the Bank commits to the purchase or disposal of the financial instrument.

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

The fair values of financial assets that are quoted in active markets are based on current bid prices and offer prices in the case of financial liabilities. In other cases, the Bank establishes fair value by using appropriate valuation techniques.

Interest income and income expense 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.

Hedge Accounting on Qualifying Cash Flow Hedges

Hedge accounting is applied in respect of purchases of foreign currency cash that are effective in hedging the Bank's exposure to foreign currency risk arising from operating expenditure, capital expenditure and purchases of bank notes and coins.

Unrealised gains or losses due to the changes in foreign exchange rates on foreign currency cash purchased to hedge operating expenditure, capital expenditure and purchases of bank notes and coins are recognised in Other Comprehensive Income and are included in the Cash Flow Hedge Reserve.

When hedged foreign currency-denominated operating expenditure, capital expenditure or purchases of bank notes and coins are settled, the relevant transaction is recorded at the foreign currency rate at which the foreign currency cash was purchased.

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.

Additional Information on Specific Financial Assets and Financial Liabilities

Derivatives

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 that use inputs observed in active markets, 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.

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 Bank records as an asset the consideration receivable from the agreement to resell the security.

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.

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 Investments

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 amortised cost 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, when the Bank adopted NZ IFRS, 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 amortised cost 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 amortised cost of that currency.

E OTHER ASSETS

Inventories

Inventories of currency on hand are recognised in the Statement of Financial Position at cost. Costs include the cost of bringing inventories to their present location and condition.

For the portion of inventories of currency on hand that relates to currency repatriated to the Bank, this cost is measured at the current replacement cost of producing the currency at the time of repatriation, and is recorded by crediting currency issue expense and increasing the value of inventory recognised in the Statement of Financial Position.

When currency is issued, the value of inventory is reduced and an expense is recorded for currency issuance costs. Currency issuance cost is determined on a first-in, first-out (FIFO) basis.

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 reporting period in which it occurs. Buildings are depreciated on a straight-line basis over 40 years.

The Bank obtains an independent valuation of land and buildings every three years. In the years between independent valuations, an annual assessment is made of whether or not there is likely to have been a material change in value. An independent valuation is obtained where a material change is likely to have occurred.

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
Buildings	40 years
Property Improvements	8 years

Intangible Assets

Intangible assets comprise acquired and internally developed computer software and development costs incurred for the design of bank notes. 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 and bank note designs.

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 (3 to 10 years). Costs associated with maintaining computer software are recognised as expenses when incurred.

Capitalised bank note design and development costs are amortised over the estimated life of the relevant bank note series.

Impairment of Non-financial Assets

Non-financial assets are reviewed for indicators of 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 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 apply to staff members who joined the Bank before 1 October 1991. These gratuities and 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 the reporting 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 within the Income Statement in staff expenses in Operating Expenses.

Superannuation Obligations

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

A liability is recognised in the Statement of Financial Position where the present value of defined benefit obligations exceeds the fair value of the scheme's assets (as adjusted for unrecognised past-service costs).

An asset is recognised in the Statement of Financial Position where the present value of defined benefit obligations is less than the fair value of the scheme's assets (as adjusted for unrecognised past-service costs). Any net asset recognised in the Statement of Financial Position is limited to the estimated present value of reductions in future employer contributions to the defined benefit 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 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 within Operating 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.

G INCOME AND EXPENSES

Fee Income

Fee income earned from provision of services is recognised in the Income Statement 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 income 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 report more accurately 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.

H 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 financial 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.

I 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 observable directly or are implied from instrument prices.

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

Superannuation and Post-retirement Obligations

The Bank has obligations under the defined benefit superannuation plan and for certain post-retirement obligations as described on page 61. 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 its 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 NZClear 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 support of monetary policy objectives.

Foreign reserve assets held for crisis management purposes are funded by a combination of foreign currency and local 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. Cross-currency basis 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 and withdraws New Zealand dollars into and from 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 swap entails the Bank paying New Zealand dollars to the counterparty and receiving foreign currency for the term of the swap. 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 and the counterparty repays the New Zealand dollars together with any interest.

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

Financial instruments held within foreign currency portfolios consist mainly of sovereign securities, securities issued by quasi-government entities or highly rated supranational institutions, securities held under reverse-repurchase transactions, or balances held with other central banks. 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 13 to 20.

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 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 2014, there have been no directions from the Minister under section 17 or 18 and there have been no payments to or from the Crown under section 21 of the Reserve Bank Act (2013: 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 DERIVATIVES

The Bank's involvement in derivatives includes primarily foreign currency swaps, bond and interest rate futures, interest rate swaps and cross-currency basis swaps.

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.

Bond and 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 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 Investments 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 swap arrangements. Any securities delivered by the Bank as collateral remain 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

FOREIGN CURRENCY INVESTMENTS

Foreign Currency Investments of $11,771 million (2013: $14,033 million) comprise fixed interest securities issued by foreign governments, foreign near-government entities and supranational organisations. Further details, such as the credit rating and the country in which the issuer is resident, are provided in Note 15 in respect of all financial assets including Foreign Currency Investments.

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.

		Fair Value through Profit or Loss					
As at 30 June 2014	Total $M	Designated upon Initial Recognition $M	Derivatives Deemed Held for Trading $M	Available-for-sale Financial Assets $M	Financial Instruments Designated as Cash Flow Hedge $M	Loans and Receivables $M	Financial Liabilities at Amortised Cost $M
ASSETS							
Foreign Currency Financial Assets							
Cash Balances	2,637	-	-	-	55	2,582	-
Securities Purchased under Agreements to Resell	3,388	3,388	-	-	-	-	-
Investments	11,771	11,771	-	-	-	-	-
Derivative Assets	1,358	-	1,358	-		-	-
Other Foreign Currency Assets	132	-	-	126	-	6	-
Total Foreign Currency Financial Assets	19,286	15,159	1,358	126	55	2,588	-
Local Currency Financial Assets							
Securities Purchased under Agreements to Resell	200	200	-	-	-	-	-
New Zealand Government Securities	2,891	-	-	2,891	-	-	-
Other Local Currency Financial Assets	2	-	-	-	-	2	-
Total Local Currency Financial Assets	3,093	200	-	2,891	-	2	-
Total Financial Assets	22,379	15,359	1,358	3,017	55	2,590	-
LIABILITIES							
Foreign Currency Financial Liabilities							
Short-term Foreign Currency Financial Liabilities	987	-	-	-	-	-	987
Securities Sold under Agreements to Repurchase	437	437	-	-	-	-	-
Derivative Liabilities	228	-	228	-	-	-	-
Term Liabilities	1,541	1,541	-	-	-	-	-
Total Foreign Currency Financial Liabilities	3,193	1,978	228	-	-	-	987
Local Currency Financial Liabilities							
Deposits	11,673	-	-	-	-	-	11,673
Currency in Circulation	4,883	-	-	-	-	-	4,883
Other Local Currency Financial Liabilities	85	-	-	-	-	-	85
Term Liabilities	101	101	-	-	-	-	-
Total Local Currency Financial Liabilities	16,742	101	-	-	-	-	16,641
Total Financial Liabilities	19,935	2,079	228	-	-	-	17,628

As at 30 June 2013	Total $M	Fair Value through Profit or Loss: Designated upon Initial Recognition $M	Fair Value through Profit or Loss: Derivatives Deemed Held for Trading $M	Available-for-sale Financial Assets $M	Financial Instruments Designated as Cash Flow Hedge $M	Loans and Receivables $M	Financial Liabilities at Amortised Cost $M
ASSETS							
Foreign Currency Financial Assets							
Cash Balances	3,947	-	-	-	-	3,947	-
Securities Purchased under Agreements to Resell	1,994	1,994	-	-	-	-	-
Investments	14,033	14,033	-	-	-	-	-
Derivative Assets	1,003	-	1,003	-	-	-	-
Other Foreign Currency Assets	186	-	-	139	-	47	-
Total Foreign Currency Financial Assets	21,163	16,027	1,003	139	-	3,994	-
Local Currency Financial Assets							
Securities Purchased under Agreements to Resell	25	25	-	-	-	-	-
New Zealand Government Securities	2,818	-	-	2,818	-	-	-
Other Local Currency Financial Assets	1	-	-	-	-	1	-
Total Local Currency Financial Assets	2,844	25	-	2,818	-	1	-
Total Financial Assets	24,007	16,052	1,003	2,957	-	3,995	-
LIABILITIES							
Foreign Currency Financial Liabilities							
Short-term Foreign Currency Financial Liabilities	551	-	-	-	-	-	551
Securities Sold under Agreements to Repurchase	639	639	-	-	-	-	-
Derivative Liabilities	596	-	596	-	-	-	-
Term Liabilities	1,871	1,871	-	-	-	-	-
Total Foreign Currency Financial Liabilities	3,657	2,510	596	-	-	-	551
Local Currency Financial Liabilities							
Deposits	12,627	-	-	-	-	-	12,627
Securities Sold under Agreements to Repurchase	346	346	-	-	-	-	-
Currency in Circulation	4,609	-	-	-	-	-	4,609
Other Local Currency Financial Liabilities	85	-	-	-	-	-	85
Total Local Currency Financial Liabilities	17,667	346	-	-	-	-	17,321
Total Financial Liabilities	21,324	2,856	596	-	-	-	17,872

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 below 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 Cash Balances and Short-term Deposits

The carrying value of cash balances and 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

Each financial instrument carried at fair value is categorised within the hierarchy based on the lowest-level input that is significant to the fair value measurement of the whole instrument.

Fair values are determined according to the following hierarchy:

a Quoted Market Price

Financial instruments with quoted prices for identical instruments in active markets (level 1).

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 (level 2).

The determination of what constitutes 'observable' requires significant judgement by the Bank. The Bank considers observable data to be that market data that is available readily, distributed or updated regularly, reliable and verifiable, not proprietary, and provided by independent sources that are involved actively in the relevant market. Judgement is required to be exercised also in determining appropriate margins to representative forward prices and interest rate yield curves in order to model more accurately the market price of the specific instrument that is being valued.

Where necessary, valuation models include estimated future cash flows and discount rates that are calculated using forward prices and interest rate yield curves. Forward prices and interest rate yield curves are sourced from the relevant published market observable exchange rates and interest rates applicable to the remaining life of the instrument at the valuation date. Also, where necessary, margin adjustments are made to representative prices and interest rate yield curves in order to allow for features of the instrument that would be taken into account in valuing a financial instrument, where those features are not included or priced into representative forward prices and interest rate yield curves.

c Valuation Technique with Significant Non-observable Inputs

Financial instruments valued using models where one or more significant inputs are not observable (level 3).

As at 30 June 2014	Total $M	Valuation Techniques: Quoted Market Price $M	Valuation Techniques: Using Observable Inputs $M	Valuation Techniques: With Significant Non-observable Inputs $M
ASSETS				
Foreign Currency Financial Assets				
Securities Purchased under Agreements to Resell	3,388	-	3,388	-
Investments	11,771	5,797	5,974	-
Derivative Assets	1,358	-	1,358	-
Other Foreign Currency Assets	126	-	-	126
Total Foreign Currency Financial Assets Carried at Fair Value	16,643	5,797	10,720	126
Local Currency Financial Assets				
Securities Purchased under Agreements to Resell	200	-	200	-
New Zealand Government Securities	2,891	2,891	-	-
Total Local Currency Financial Assets Carried at Fair Value	3,091	2,891	200	-
Total Financial Assets Carried at Fair Value	19,734	8,688	10,920	126
LIABILITIES				
Foreign Currency Financial Liabilities				
Securities Sold under Agreements to Repurchase	437	-	437	-
Derivative Liabilities	228	-	228	-
Term Liabilities	1,541	-	1,541	-
Total Foreign Currency Financial Liabilities Carried at Fair Value	2,206	-	2,206	-
Local Currency Financial Liabilities				
Term Liabilities	101	-	101	-
Total Local Currency Financial Liabilities Carried at Fair Value	101	-	101	-
Total Financial Liabilities Carried at Fair Value	2,307	-	2,307	-

As at 30 June 2013	Total $M	Valuation Techniques: Quoted Market Price $M	Using Observable Inputs $M	With Significant Non-observable Inputs $M
ASSETS				
Foreign Currency Financial Assets				
Securities Purchased under Agreements to Resell	1,994	-	1,994	-
Investments	14,033	8,355	5,678	-
Derivative Assets	1,003	-	1,003	-
Other Foreign Currency Assets	139	-	-	139
Total Foreign Currency Financial Assets Carried at Fair Value	17,169	8,355	8,675	139
Local Currency Financial Assets				
Securities Purchased under Agreements to Resell	25	-	25	-
New Zealand Government Securities	2,818	2,818	-	-
Total Local Currency Financial Assets Carried at Fair Value	2,843	2,818	25	-
Total Financial Assets Carried at Fair Value	20,012	11,173	8,700	139
LIABILITIES				
Foreign Currency Financial Liabilities				
Securities Sold under Agreements to Repurchase	639	-	639	-
Derivative Liabilities	596	-	596	-
Term Liabilities	1,871	-	1,871	-
Total Foreign Currency Financial Liabilities Carried at Fair Value	3,106	-	3,106	-
Local Currency Financial Liabilities				
Securities Sold Under Agreements to Repurchase	346	-	346	-
Total Local Currency Financial Liabilities Carried at Fair Value	346	-	346	-
Total Financial Liabilities Carried at Fair Value	3,452	-	3,452	-

COLLATERAL PLEDGED

The carrying amount of securities pledged as collateral for liabilities comprising Securities Sold under Agreements to Repurchase was $nil (2013: $346 million) and the fair value of collateral pledged was $nil (2013: $336 million). Cash collateral of $nil was provided (2013: $nil).

COLLATERAL RECEIVED

Investments

The Bank has entered into reverse-repurchase agreements in respect of New Zealand dollar-denominated and foreign currency-denominated marketable securities. The table below shows the principal amount subject to reverse-repurchase agreements and the fair value of collateral received. The Bank may sell or repledge that collateral even if the counterparty is not in default of its obligations.

	NZ Dollar – Denominated Investments		Foreign Currency – Denominated Investments	
	2014 $M	2013 $M	**2014 $M**	2013 $M
Principal Amount Subject to Reverse-Repurchase Agreements	**200**	25	**2,951**	1,355
Fair Value of Collateral Received	**211**	27	**3,014**	1,391

Other Collateral Received

In addition, cash collateral received was $987 million (2013: $551 million). Cash collateral received is recorded in the Statement of Financial Position in Short-term Deposits within Short-term Foreign Currency Financial Liabilities.

Under the Bank's securities lending programme, the Bank has lent securities with a fair value of $437 million (2013: $639 million). The Bank has accepted securities with a fair value of $446 million (2013: $654 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, excluding derivatives, was $3 million less (2013: $4 million more) than the contractual amount at maturity.

Interest rates that are used as observable inputs in determining the fair value of financial liabilities will inherently include a component for credit risk. However, given the Bank's status as a sovereign issuer, it is difficult to isolate and accurately measure the change in interest rates and the resulting change in fair value of financial liabilities directly attributable to credit risk.

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. DERIVATIVES

The Bank's involvement in derivatives includes interest rate futures, cross-currency basis swaps and foreign exchange swaps.

Refer to page 63 for a description of the Bank's use of derivatives.

	Carrying Value 2014 $M	Notional Principal 2014 $M	Carrying Value 2013 $M	Notional Principal 2013 $M
Interest Rate Futures				
Interest Rate Futures Assets	-	124	-	15
Interest Rate Futures Liabilities	-	107	-	-
Net Interest Rate Futures Position	-	231	-	15
As at 30 June 2014, the Bank had 1,263 open Interest Rate Futures contracts (2013: 30).				
Cross-Currency Basis Swaps				
Cross-Currency Basis Swaps Assets	1,242	7,378	936	6,761
Cross-Currency Basis Swaps Liabilities	(198)	680	(258)	2,603
Net Cross-Currency Basis Swaps Position	1,044	8,058	678	9,364
Foreign Exchange Swaps				
Foreign Exchange Swaps Assets	116	6,494	67	4,438
Foreign Exchange Swaps Liabilities	(30)	3,161	(338)	9,539
Net Foreign Exchange Swaps Position	86	9,655	(271)	13,977
Total Derivative Assets	1,358	13,996	1,003	11,214
Total Derivative Liabilities	(228)	3,948	(596)	12,142
Net Derivatives Recognised in the Statement of Financial Position	1,130	17,944	407	23,356

5. OTHER FOREIGN CURRENCY FINANCIAL ASSETS

	2014 $M	2013 $M
Shareholding in the Bank for International Settlements	126	139
Dividend Receivable	1	-
Receivable for Unsettled Sales of Securities	5	47
	132	186

As at 30 June 2014, the Bank owned 3,211 shares (2013: 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.

6. OTHER ASSETS

	2014 $M	2013 $M
Property, Plant and Equipment	57	57
Intangible Assets	5	5
Inventory	20	13
	82	75

The Bank obtains an independent valuation of land and buildings every three years. The most recent valuation of land and buildings, dated 30 June 2012, 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 the property was a weighted average of 8.5 percent. The aggregate market value of land and buildings was $44 million. The original cost was $10 million.

7. SHORT-TERM FOREIGN CURRENCY FINANCIAL LIABILITIES

	2014 $M	2013 $M
Short-term Deposits	**987**	551
	987	551

Cash collateral received in respect of reverse-repurchase agreements is recorded as Short-term Deposits.

8. DEPOSITS

	2014 $M	2013 $M
New Zealand Government Deposits	**3,529**	4,666
Settlement Bank Deposits	**8,112**	7,902
Central Bank Deposits	**26**	52
International Monetary Fund Deposits	**6**	7
	11,673	12,627

NEW ZEALAND GOVERNMENT DEPOSITS

The Bank provides the Crown Settlement Account for the government. This account serves as the Crown's central 'disbursement account', although actual cheque processing and other transactional banking services are provided for the government by one of the registered banks. The balances with this bank are 'cleared' to the Crown Settlement Account at the Reserve Bank at the end of each day.

SETTLEMENT BANK DEPOSITS

The Bank provides exchange settlement account facilities to financial institutions and to the New Zealand government. Balances in exchange settlement accounts are repayable on demand and the Bank pays interest on overnight balances.

CENTRAL BANK DEPOSITS AND INTERNATIONAL MONETARY FUND DEPOSITS

The Bank provides New Zealand dollar transactional banking services for other central banks and the International Monetary Fund. Balances in these accounts are repayable on demand and the Bank pays no interest on overnight balances.

9. OTHER LOCAL CURRENCY FINANCIAL LIABILITIES

	2014 $M	2013 $M
Accounts Payable	**3**	3
Demonetised Currency	**82**	82
	85	85

10. OTHER LIABILITIES

	Note	2014 $M	2013 $M
Dividend Payable to the New Zealand Government	11	**20**	175
Accrued Salaries and Holiday Pay		**2**	2
Accrued Retirement Gratuities		**2**	2
Superannuation Liability	26	**3**	7
		27	186

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.

11. MANAGEMENT OF THE BANK'S CAPITAL AND DIVIDEND

The Bank is not subject to any regulatory capital requirements.

The Bank's capital management objective is to ensure that the Bank has sufficient equity to perform its functions. Specifically, the Bank employs an economic capital framework which ensures that the Bank is unlikely, within a 99 percent confidence level, to suffer a financial loss through credit, market or operational risks that would result in negative equity.

The Bank uses market and credit risk models using both standard and stressed value at risk (VaR) models, and applies these to its traded, and non-traded, portfolios to model the Bank's capital requirement. An allowance for operational risk is also added. Modelling involves the use of assumptions and judgement. Key inputs in capital modelling include interest rate and foreign currency positions and limits, foreign and local currency investments, counterparty credit exposures, as well as the probability of loss with respect to each of these factors. Based on a 99.9 percent confidence level, the Bank's modelled capital requirement is assessed as being $2,300 million (2013: $2,300 million).

The calculation of required capital is assessed by the Bank's Asset and Liability Committee and the Governing Committee. In making that assessment, consideration is given to whether a capital buffer needs to be retained for hypothetical events such as an extreme economic shock or foreign currency market event. No additional capital buffers are required as at the reporting date (2013: nil). The Board and Minister review the Bank's assessment of required capital when considering the Bank's annual dividend recommendation.

DIVIDENDS

The Bank is required to recommend to the Minister the amount of a dividend in respect of each financial year ended 30 June. The Bank must determine the dividend recommendation in accordance with the dividend principles set out in the Statement of Intent. These principles are:

- The Bank should maintain sufficient equity for the financial risks associated with 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.

For 2014, the Bank has recommended that a dividend of $20 million be paid. The Board supported that recommendation and the Minister has determined that a dividend of $20 million be paid for 2014. In 2013, a dividend of $175 million was paid.

The following table shows the components of equity, including the amount of unrealised gains, and sets out how equity excluding unrealised gains is compared with required equity, in order to arrive at the recommended dividend.

Equity comprises:

	Total Equity 2014 $M	**Equity Excluding Unrealised Gains 2014 $M**	**Unrealised Gains 2014 $M**	Total Equity 2013 $M	Equity Excluding Unrealised Gains 2013 $M	Unrealised Gains 2013 $M
Retained Earnings						
Realised Gains before Provision for Dividend	**997**	**997**	**-**	955	955	-
Changes in the Market Value of Financial Instruments not yet Realised	**71**	**-**	**71**	34	-	34
Foreign Exchange Losses not yet Realised in New Zealand Dollars	**(276)**	**(276)**	**-**	(78)	(78)	-
Total Retained Earnings before Provision for Dividend	**792**	**721**	**71**	911	877	34
Available-for-sale Revaluation Reserve	**82**	**-**	**82**	190	-	190
Property Revaluation Reserve	**41**	**-**	**41**	41	-	41
Cash Flow Hedge Reserve	**(1)**	**(1)**	**-**	-	-	-
Currency and Artwork Collections and Archives Revaluation Reserve	**5**	**-**	**5**	5	-	5
	127	**(1)**	**128**	236	-	236
Total Retained Earnings and Revaluation Reserves before Provision for Dividend	**919**	**720**	**199**	1,147	877	270
Capital contributed by the New Zealand Government	**1,600**	**1,600**	**-**	1,600	1,600	-
	2,519	**2,320**	**199**	2,747	2,477	270
Less Provision for Dividend	**(20)**	**(20)**	**-**	(175)	(175)	-
Total Equity after Provision for Dividend	**2,499**	**2,300**	**199**	2,572	2,302	270

In order to ensure that unrealised gains are not distributed, after a provision for dividend is made, Equity Excluding Unrealised Gains should not be less than required capital. For 2014, after providing for a dividend of $20 million, Equity Excluding Unrealised Gains was $2,300 million against required equity of $2,300 million.

For 2013, after providing for a dividend of $175 million, Equity Excluding Unrealised Gains was $2,302 million against required equity of $2,300 million.

12. CONCENTRATIONS OF FUNDING

	Total 2014 $M	New Zealand Government $M	New Zealand Public $M	New Zealand Financial Institutions $M	Overseas Financial Institutions $M	Other $M
Financial Liabilities						
Foreign Currency Term Liabilities	**1,541**	**1,541**	**-**	**-**	**-**	**-**
Securities Sold under Agreements to Repurchase	**437**	**-**	**-**	**-**	**437**	**-**
Deposits	**11,673**	**3,529**	**-**	**6,292**	**1,797**	**55**
Local Currency Term Liabilities	**101**	**101**	**-**	**-**	**-**	**-**
Currency in Circulation	**4,883**	**-**	**4,883**	**-**	**-**	**-**
Other Liabilities	**1,300**	**-**	**82**	**547**	**668**	**3**
Total Financial Liabilities	**19,935**	**5,171**	**4,965**	**6,839**	**2,902**	**58**

	Total 2013 $M	New Zealand Government $M	New Zealand Public $M	New Zealand Financial Institutions $M	Overseas Financial Institutions $M	Other $M
Financial Liabilities						
Foreign Currency Term Liabilities	1,871	1,871	-	-	-	-
Securities Sold under Agreements to Repurchase	985	-	-	346	639	-
Deposits	12,627	4,666	-	6,457	1,463	41
Currency in Circulation	4,609	-	4,609	-	-	-
Other Liabilities	1,232	-	82	397	750	3
Total Financial Liabilities	21,324	6,537	4,691	7,200	2,852	44

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

RISK MANAGEMENT NOTES

13. 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 15 to 19. As for other financial institutions, the nature of the Bank's operations creates exposure to a broad range of enterprise risks, including 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 Governing Committee with respect to all balance sheet-related activities, including the appropriateness of risk-return trade-offs underlying the Bank's strategy. Specialist staff members 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 Governing Committee. The risk management framework is subject to regular review by ALCO. The overall risk management framework is designed to promote 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 separate risk management team is responsible for maintaining the Bank's financial risk management framework and operating 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) is responsible for an enterprise-wide risk management system and reports on internal audit, enterprise-wide risk management and related issues to the Governing Committee. 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 Head of Risk Assessment and Assurance and the Manager, Internal Audit have direct and independent access to the Audit Committee of the Board of Directors, comprising three of the Bank's non-executive directors. Summary information on the outcomes of internal audits is reported to the Audit Committee.

The Bank is subject to an annual external audit by the 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, risk and audit functions within the Bank. The committee reviews the internal audit function and has direct access to the external auditor. The Audit 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.

Following a review this year, the Bank continues to self-insure all property, plant and equipment, including the Bank's Wellington building.

14. OPERATIONAL RISK

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

The Bank has a broad range of functions spanning policy, financial stability, payments systems and internal corporate support, all of which are exposed to operational risk.

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 proactive problem management process whereby problems and incidents are reported and analysed for potential risk management improvements), an active internal audit function, and specific internal control systems designed around the particular characteristics of various Bank activities.

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.

15. CREDIT RISK

Credit risk is the risk of loss due to a borrower or counterparty failing to meet their financial obligations in accordance with agreed terms.

Within the Bank, credit risk arises principally through the investment of funds through Foreign Reserves Management and Domestic Market Operations functions. The Bank faces counterparty risk to the extent that derivative contracts are utilised by these two functions as part of normal operations.

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 taking into account the credit profile of the counterparty or issuer. Individual credit exposures are also aggregated and managed against cumulative limits, such as country exposure limits.

As part of the arrangements for using financial instruments, credit risk is mitigated by receiving collateral. Collateral usually takes 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

Repurchase and reverse-repurchase transactions generated by the Domestic Market Operations function also give rise to credit risk. The Bank accepts a wide range of pre-approved securities for reverse-repurchase transactions. 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 to be requested from, or excess collateral returned to, the counterparty as required.

C CONCENTRATIONS OF CREDIT EXPOSURE

The following table presents the Bank's financial assets based on end-of-year concentrations of credit exposure, classified by the country in which the issuer is resident. For this table, where collateral is held for reverse-repurchase agreements, the exposure measured is that to the issuer of the collateral, as opposed to the counterparty to the reverse-repurchase agreement.

Country in which Issuer is Resident:	**Total 2014 $M**	**Sovereign 2014 $M**	**Financial Institutions 2014 $M**	Total 2013 $M	Sovereign 2013 $M	Financial Institutions 2013 $M
United States	**7,026**	**6,693**	**333**	7,578	7,318	260
New Zealand	**3,630**	**3,091**	**539**	3,250	2,818	432
Germany	**3,252**	**732**	**2,520**	2,073	478	1,595
France	**1,942**	**782**	**1,160**	1,800	1,074	726
Japan	**1,552**	**1,551**	**1**	2,359	2,358	1
Supranational	**1,207**	**-**	**1,207**	2,619	-	2,619
Canada	**865**	**838**	**27**	939	915	24
United Kingdom	**831**	**809**	**22**	900	857	43
Australia	**580**	**363**	**217**	564	416	148
Sweden	**525**	**-**	**525**	258	-	258
Netherlands	**407**	**44**	**363**	1,216	868	348
Austria	**228**	**-**	**228**	-	-	-
Asian Bond Funds	**143**	**-**	**143**	155	-	155
Other Non-European	**111**	**-**	**111**	32	-	32
China	**58**	**58**	**-**	-	-	-
Switzerland	**22**	**-**	**22**	54	-	54
Denmark	**-**	**-**	**-**	210	-	210
Total Financial Assets	22,379	14,961	7,418	24,007	17,102	6,905

The following table presents the Bank's financial assets based on end-of-year concentrations of credit exposure, classified by the country in which the counterparty is resident.[6] For this table, any collateral held is not included in determining exposures.

Country in which Counterparty is Resident:	Total 2014 $M	Sovereign 2014 $M	Financial Institutions 2014 $M	Total 2013 $M	Sovereign 2013 $M	Financial Institutions 2013 $M
United States	4,389	3,720	669	5,896	5,324	572
New Zealand	3,630	2,891	739	3,275	2,818	457
United Kingdom	3,400	809	2,591	1,375	857	518
Germany	2,875	317	2,558	2,073	478	1,595
France	2,358	782	1,576	2,845	1,074	1,771
Japan	1,552	1,551	1	2,359	2,358	1
Supranational	1,207	-	1,207	2,619	-	2,619
Canada	865	838	27	939	915	24
Australia	580	363	217	564	416	148
Sweden	525	-	525	258	-	258
Netherlands	407	44	363	1,191	868	323
Austria	228	-	228	-	-	-
Asian Bond Funds	143	-	143	155	-	155
Other Non-European	111	-	111	151	-	151
China	58	58	-	-	-	-
Switzerland	51	-	51	97	-	97
Denmark	-	-	-	210	-	210
Total Financial Assets	22,379	11,373	11,006	24,007	15,108	8,899

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

D 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.

For this table, where collateral is held for reverse-repurchase agreements, the credit rating is that for the issuer of the collateral and not the credit rating for the counterparty to the reverse-repurchase agreement.

Country in which Issuer is Resident:	Total 2014 $M	AAA 2014 $M	AA+/- 2014 $M	A+/- 2014 $M	Various 2014 $M	N/R 2014 $M
United States	7,026	-	6,713	311	-	2
New Zealand	3,630	-	3,628	-	-	2
Germany	3,252	3,251	-	-	-	1
France	1,942	-	1,845	97	-	-
Japan	1,552	-	1,551	-	-	1
Supranational[7]	1,207	343	-	-	-	864
Canada	865	839	24	2	-	-
United Kingdom	831	809	-	22	-	-
Australia	580	363	217	-	-	-
Sweden	525	525	-	-	-	-
Netherlands	407	44	363	-	-	-
Austria	228	-	228	-	-	-
Asian Bond Funds	143	-	-	-	143	-
Other Non-European	111	-	111	-	-	-
China	58	-	-	-	58	-
Switzerland	22	-	-	22	-	-
Total Financial Assets	22,379	6,174	14,680	454	201	870

Country in which Issuer is Resident:	Total 2013 $M	AAA 2013 $M	AA+/- 2013 $M	A+/- 2013 $M	Various 2013 $M	N/R 2013 $M
United States	7,578	-	7,321	254	-	3
New Zealand	3,250	-	3,248	-	-	2
Supranational[7]	2,619	310	-	-	-	2,309
Japan	2,359	-	2,358	-	-	1
Germany	2,073	2,071	-	2	-	-
France	1,800	-	1,740	60	-	-
Netherlands	1,216	1,191	25	-	-	-
Canada	939	915	21	3	-	-
United Kingdom	900	856	-	44	-	-
Australia	564	416	148	-	-	-
Sweden	258	258	-	-	-	-
Denmark	210	210	-	-	-	-
Asian Bond Funds	155	-	-	-	155	-
Switzerland	54	-	-	54	-	-
Other Non-European	32	-	32	-	-	-
Total Financial Assets	24,007	6,227	14,893	417	155	2,315

7. Exposures to Supranational that do not have a credit rating are exposures to the Bank for International Settlements.

E 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.

Percentage of Equity	**End-of-year 2014**	End-of-year 2013
10% to 19.9%	**10**	7
20% to 29.9%	**3**	1
30% to 39.9%	**5**	4
40% to 49.9%	**1**	3
50% to 59.9%	**-**	1
60% to 69.9%	**1**	-
80% to 89.9%	**1**	1
100% to 109.9%	**-**	1
110% to 119.9%	**1**	-
140% to 149.9%	**1**	-
200% to 209.9%	**-**	1

16. MARKET RISK

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

The Bank uses a range of position size, delta, and stop-loss limits, together with Value at Risk (VaR) for the measurement and management of market risk.

INTEREST RATE RISK AND LIMITS

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in interest rates. Interest rate deltas measure the change in fair value of a financial instrument due to a 0.01 percent increase in interest rates. Interest rate delta limits are established for the aggregate balance sheet as well as individual portfolios.

FOREIGN CURRENCY RISK AND LIMITS

Foreign currency risk is the risk that the fair value of financial instruments will fluctuate due to a change in foreign exchange rates. Foreign exchange position 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 AND VAR LIMITS

VaR estimates financial loss potential, based on historical observations of market rate and price movement. The Bank's VaR models test Bank portfolios against various periods of historical data, including the most recently recorded data, and data recorded during stressed market conditions (such as those recorded during 2008). The Bank's primary VaR model captures the potential financial loss over a one-day time horizon, at 99 percent confidence, referencing the most recent 250 days of price data. A 99 percent confidence interval suggests that the Bank may incur losses greater than those predicted by VaR once every 100 trading days, or 2.5 times a year.

VaR limits are utilised for the management of market risk arising from the Bank's actively managed portfolios.

	Foreign Reserves Management Portfolios					
	Foreign Currency Risk		Interest Rate Risk		Total Market Risk	
VaR	**2014 $M**	2013 $M	**2014 $M**	2013 $M	**2014 $M**	2013 $M
As at 30 June	**25**	26	**4**	5	**25**	27
Peak over the Year	**29**	29	**6**	10	**30**	32
Low over the Year	**24**	21	**4**	5	**25**	22
Average over the Year	**28**	24	**5**	7	**28**	25

Total Market Risk is the sum of Foreign Currency Risk and Interest Rate Risk and also includes a deduction for correlation benefits.

STOP-LOSS LIMITS

Stop-loss limits are set to control losses that may arise in the Bank's actively traded portfolios. Should market risk losses exceed the stop-loss limit, the associated positions are closed.

SENSITIVITY TO INTEREST RATE RISK AND FOREIGN CURRENCY RISK

The sensitivity of the fair value 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 2014 $M	**Gain/(Loss) Reported in the Income Statement 2014 $M**	**Gain/(Loss) Reported Directly in Equity 2014 $M**	Total Gain/(Loss) Impacting Comprehensive Income 2013 $M	Gain/(Loss) Reported in the Income Statement 2013 $M	Gain/(Loss) Reported Directly in Equity 2013 $M
Impact of:						
A rise of 10% in the value of the New Zealand dollar	**(228)**	**(217)**	**(11)**	(238)	(225)	(13)
A fall of 10% in the value of the New Zealand dollar	**279**	**265**	**14**	291	276	15
A rise of one percentage point in the local currency yield curve	**(164)**	**(16)**	**(148)**	(146)	(14)	(132)
A fall of one percentage point in the local currency yield curve	**178**	**16**	**162**	157	14	143
A rise of one percentage point in the yield curve for all foreign currencies	**(39)**	**(39)**	**-**	(57)	(57)	-
A fall of one percentage point in the yield curve for all foreign currencies	**39**	**39**	**-**	63	63	-

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.

17. 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 utilises risk limits to cap the amount of interest rate risk the Bank manages actively.

DOMESTIC MARKET OPERATIONS INTEREST RATE RISK MANAGEMENT

The Bank's exposure to interest rate risk that arises from domestic market operations is also constrained through interest rate risk limits.

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 2014 was 5.6 years (2013: 5.1 years). Interest rate risk on New Zealand government securities is not dynamically managed and it is intended that these securities be held to maturity.

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

	Total 2014 $M	Non-interest Sensitive $M	Overnight $M	3 Months or Less $M	Between 3 and 12 Months $M	Between 1 and 2 Years $M	Between 2 and 5 Years $M	Over 5 Years $M
Assets								
Investments	11,771	-	-	7,585	1,756	1,571	658	201
Securities Purchased under Agreements to Resell	3,588	-	-	3,588	-	-	-	-
New Zealand Government Securities	2,891	-	-	600	482	-	865	944
Other Financial Assets	4,129	134	2,633	1,360	2	-	-	-
Other Assets	82	82	-	-	-	-	-	-
Total Assets	22,461	216	2,633	13,133	2,240	1,571	1,523	1,145
Liabilities								
Foreign Currency Term Liabilities	1,541	-	-	1,541	-	-	-	-
Local Currency Term Liabilities	101	-	-	101	-	-	-	-
Securities Sold under Agreements to Repurchase	437	-	-	437	-	-	-	-
Deposits	11,673	32	11,641	-	-	-	-	-
Currency in Circulation	4,883	4,883	-	-	-	-	-	-
Other Financial Liabilities	1,300	85	982	233	-	-	-	-
Other Liabilities	27	27	-	-	-	-	-	-
Equity	2,499	2,499	-	-	-	-	-	-
Total Liabilities and Equity	22,461	7,526	12,623	2,312	-	-	-	-
Interest Rate Sensitivity Gap excluding Futures Contracts	-	(7,310)	(9,990)	10,821	2,240	1,571	1,523	1,145
Futures Contracts	(184)	-	-	3	-	(136)	(14)	(37)
Total Interest Rate Sensitivity Gap	(184)	(7,310)	(9,990)	10,824	2,240	1,435	1,509	1,108
Interest Rate Sensitivity Gap by Currency[8]:								
New Zealand dollar	(2,510)	(7,445)	(11,641)	14,089	678	-	865	944
United States dollar	507	62	899	(1,818)	753	302	260	49
Euro	524	48	44	185	-	247	-	-
Japanese yen	81	10	630	(1,331)	282	375	151	(36)
British pound	357	14	20	(191)	281	233	-	-
Australian dollar	474	1	19	109	58	134	153	-
Canadian dollar	232	-	39	(219)	188	144	80	-
Other	151	-	-		-	-	-	151
	(184)	(7,310)	(9,990)	10,824	2,240	1,435	1,509	1,108

New Zealand Government Inflation-Indexed Bonds, with a market value of $603 million, are included in the three months or less category. These bonds have an earnings rate that is linked to the Consumer Price Index and are reset each quarter.

8. The Interest Rate Sensitivity Gap by Currency differs from the open foreign exchange position by the notional principal on open futures contracts.

	Total 2013 $M	Non-interest Sensitive $M	Overnight $M	3 Months or Less $M	Between 3 and 12 Months $M	Between 1 and 2 Years $M	Between 2 and 5 Years $M	Over 5 Years $M
Assets								
Investments	14,033	-	-	8,836	2,244	1,978	975	-
Securities Purchased under Agreements to Resell	2,019	-	-	2,019	-	-	-	-
New Zealand Government Securities	2,818	-	-	298	-	661	710	1,149
Other Financial Assets	5,137	189	3,943	1,005	-	-	-	-
Other Assets	75	75	-	-	-	-	-	-
Total Assets	24,082	264	3,943	12,158	2,244	2,639	1,685	1,149
Liabilities								
Foreign Currency Term Liabilities	1,871	-	-	1,871	-	-	-	-
Securities Sold under Agreements to Repurchase	985	-	-	985	-	-	-	-
Deposits	12,627	60	12,567	-	-	-	-	-
Currency in Circulation	4,609	4,609	-	-	-	-	-	-
Other Financial Liabilities	1,232	84	505	636	7	-	-	-
Other Liabilities	186	186	-	-	-	-	-	-
Equity	2,572	2,572	-	-	-	-	-	-
Total Liabilities and Equity	24,082	7,511	13,072	3,492	7	-	-	-
Interest Rate Sensitivity Gap excluding Futures Contracts	-	(7,187)	(9,189)	8,666	2,237	2,639	1,685	1,149
Futures Contracts	15	-	-	10	-	4	-	1
Total Interest Rate Sensitivity Gap	15	(7,187)	(9,189)	8,676	2,237	2,643	1,685	1,150
Interest Rate Sensitivity Gap by Currency[8]:								
New Zealand dollar	(2,611)	(7,768)	(12,628)	15,066	100	661	710	1,248
United States dollar	636	357	1,466	(2,888)	1,005	604	190	(98)
Euro	641	218	870	(1,514)	591	262	214	-
Japanese yen	85	(9)	1,014	(1,559)	-	471	168	-
British pound	390	18	37	(180)	282	233	-	-
Australian dollar	535	(3)	41	121	-	228	148	-
Canadian dollar	237	-	11	(370)	259	184	153	-
Other	102	-	-	-	-	-	102	-
	15	(7,187)	(9,189)	8,676	2,237	2,643	1,685	1,150

8. The Interest Rate Sensitivity Gap by Currency differs from the open foreign exchange position by the notional principal on open futures contracts.

18. 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 SDR 1 billion ($NZ 1.768 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.

For non-trading portfolios, foreign currency risk is managed by way of open position limits, target open-currency composition weights and deviation bands. Additionally, the Bank monitors VaR and stressed-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 2014, the Bank’s net exposure to major currencies, in New Zealand dollar terms, was:

	2014 $M	2013 $M
Australian dollar	**474**	535
British pound	**357**	390
Canadian dollar	**232**	237
Chinese renminbi	**58**	-
Euro	**594**	641
Japanese yen	**117**	85
United States dollar	**588**	631
Various currencies (Asian Bond Fund 2)	**93**	102
Total Net Open Foreign Exchange Position	**2,513**	2,621

At 30 June 2014, the net open foreign exchange position was SDR 1,420 million (2013: SDR 1,352 million). The quantum of the open position varies over time to the level the Bank determines is warranted by its policy objectives and economic conditions. The largest net open foreign exchange position (measured in SDR terms) during the 12 months ended 30 June 2014 was SDR 1,448 million ($NZ 2,584 million) (2013: SDR 1,523 million ($NZ 2,672 million)). The smallest net open foreign exchange position (measured in SDR terms) during the 12 months ended 30 June 2014 was SDR 1,354 million ($NZ 2,633 million) (2013: SDR 1,145 million ($NZ 2,165 million)).

19. 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 that all financial obligations are met when due;
- ensure that foreign reserves assets held for currency intervention purposes are able to be liquidated in an orderly fashion, within agreed timeframes; and
- ensure that 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.

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, the Bank employs a number of controls that aim to ensure quick access to funds. These controls include a required composition of portfolios based on the liquidity characteristics of securities, with defined minimum levels, duration, and limits on the minimum and maximum proportion of reserves that may be held in any one currency.

At 30 June 2014, foreign currency assets valued at $16,682 million were classified as being able to be settled within two business days of being liquidated (30 June 2013: $18,524 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 and asset 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 liquid assets in order to meet its New Zealand dollar obligations.

20. 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, Bank for International Settlements Investment Pool Sovereign China (BISIP CNY), and shares in the Bank for International Settlements. The aggregate carrying value of these assets at 30 June 2014 was $326 million (2013: $294 million).

	Total 2014 $M	On Demand $M	3 Months or Less $M	3 to 12 Months $M	1 to 2 Years $M	2 to 5 Years $M	Over 5 Years $M
Foreign Currency Financial Assets							
Cash Balances	**2,637**	**2,637**	-	-	-	-	-
Securities Purchased under Agreements to Resell	**3,388**	-	**3,388**	-	-	-	-
Investments	**11,492**	-	**7,487**	**1,781**	**1,573**	**651**	-
Other Foreign Currency Assets	**7**	-	**7**	-	-	-	-
	17,524	2,637	10,882	1,781	1,573	651	-
Foreign Currency Financial Liabilities							
Short-term Foreign Currency Financial Liabilities	**987**	**987**	-	-	-	-	-
Securities Sold under Agreements to Repurchase	**437**	-	**437**	-	-	-	-
Term Liabilities	**1,548**	-	**(2)**	**602**	**76**	**872**	-
	2,972	987	435	602	76	872	-
Foreign Currency Derivatives							
Contractual Inflows	**3,352**	-	**2,844**	**3**	**146**	**359**	-
Contractual Outflows	**(16,322)**	-	**(9,597)**	**(782)**	**(1,340)**	**(2,600)**	**(2,003)**
	(12,970)	-	(6,753)	(779)	(1,194)	(2,241)	(2,003)
Foreign Currency Net Gap in Contractual Maturities	1,582	1,650	3,694	400	303	(2,462)	(2,003)
Local Currency Financial Assets							
Securities Purchased under Agreements to Resell	**200**	-	**200**	-	-	-	-
New Zealand Government Securities	**3,637**	-	**11**	**588**	**105**	**1,083**	**1,850**
	3,837	-	211	588	105	1,083	1,850
Local Currency Financial Liabilities							
Deposits	**11,673**	**11,673**	-	-	-	-	-
Currency in Circulation	**4,883**	**4,883**	-	-	-	-	-
Term Liabilities	**130**	-	**1**	**3**	**4**	**13**	**109**
Other Local Currency Financial Liabilities	**85**	**81**	**4**	-	-	-	-
	16,771	16,637	5	3	4	13	109
Local Currency Derivatives							
Contractual Inflows	**15,718**	-	**7,052**	**1,048**	**1,776**	**3,229**	**2,613**
Contractual Outflows	**(638)**	-	**(105)**	**(14)**	**(21)**	**(498)**	-
	15,080	-	6,947	1,034	1,755	2,731	2,613
Local Currency Net Gap in Contractual Maturities	2,146	(16,637)	7,153	1,619	1,856	3,801	4,354
Total Net Gap in Contractual Maturities	3,728	(14,987)	10,847	2,019	2,159	1,339	2,351

	Total 2013 $M	On Demand $M	3 Months or Less $M	3 to 12 Months $M	1 to 2 Years $M	2 to 5 Years $M	Over 5 Years $M
Foreign Currency Financial Assets							
Cash Balances	3,947	3,947	-	-	-	-	-
Securities Purchased under Agreements to Resell	1,994	-	1,994	-	-	-	-
Investments	13,923	-	8,851	2,287	1,980	805	-
Other Foreign Currency Assets	47	-	47	-	-	-	-
	19,911	3,947	10,892	2,287	1,980	805	-
Foreign Currency Financial Liabilities							
Short-term Foreign Currency Financial Liabilities	551	551	-	-	-	-	-
Securities Sold under Agreements to Repurchase	639	-	639	-	-	-	-
Term Liabilities	1,891	-	(2)	155	667	1,071	-
	3,081	551	637	155	667	1,071	-
Foreign Currency Derivatives							
Contractual Inflows	6,681	-	5,504	520	148	432	77
Contractual Outflows	(21,571)	-	(14,135)	(1,395)	(863)	(3,180)	(1,998)
	(14,890)	-	(8,631)	(875)	(715)	(2,748)	(1,921)
Foreign Currency Net Gap in Contractual Maturities	1,940	3,396	1,624	1,257	598	(3,014)	(1,921)
Local Currency Financial Assets							
Securities Purchased under Agreements to Resell	25	-	25	-	-	-	-
New Zealand Government Securities	3,386	-	9	127	755	916	1,579
Other Local Currency Financial Assets	1	-	1	-	-	-	-
	3,412	-	35	127	755	916	1,579
Local Currency Financial Liabilities							
Deposits	12,627	12,627	-	-	-	-	-
Securities Sold under Agreements to Repurchase	346	-	346	-	-	-	-
Currency in Circulation	4,609	4,609	-	-	-	-	-
Other Local Currency Financial Liabilities	85	82	3	-	-	-	-
	17,667	17,318	349	-	-	-	-
Local Currency Derivatives							
Contractual Inflows	17,241	-	8,877	1,432	1,024	3,555	2,353
Contractual Outflows	(1,221)	-	(400)	(187)	(117)	(412)	(105)
	16,020	-	8,477	1,245	907	3,143	2,248
Local Currency Net Gap in Contractual Maturities	1,765	(17,318)	8,163	1,372	1,662	4,059	3,827
Total Net Gap in Contractual Maturities	3,705	(13,922)	9,787	2,629	2,260	1,045	1,906

CONSOLIDATED INCOME STATEMENT NOTES

21. NET INVESTMENT INCOME

Net Investment Income includes:

	Total 2014 $M	Foreign Currency $M	Local Currency $M	Total 2013 $M	Foreign Currency $M	Local Currency $M
Interest Income						
Cash Balances	2	2	-	5	5	-
Securities Purchased Under Agreements to Resell	6	1	5	12	4	8
Investments	34	34	-	25	25	-
Derivatives	338	(17)	355	325	(16)	341
New Zealand Government Securities	140	-	140	217	-	217
Total Interest Income	520	20	500	584	18	566
Interest Expense						
Securities Sold Under Agreements to Repurchase	6	-	6	4	-	4
Term Liabilities[9]	(6)	(7)	1	(6)	(6)	-
New Zealand Government Deposits	69	-	69	145	-	145
Settlement Bank Deposits	193	-	193	179	-	179
Reserve Bank Bills	4	-	4	-	-	-
Other	1	1	-	2	2	-
Total Interest Expense	267	(6)	273	324	(4)	328
Net Interest Income	253	26	227	260	22	238
Net Gains from Fair Value Changes	49	22	27	65	22	43
Net Gains/(Losses) from Foreign Exchange Rate Changes	(198)	(198)	-	29	29	-
Dividend Income	1	1	-	2	2	-
Total Net Investment Income/(Loss)	105	(149)	254	356	75	281

Interest income from the New Zealand government (including entities controlled by the New Zealand government) comprised 27 percent (2013: 37 percent) of total interest received.

COMPONENTS OF NET INVESTMENT INCOME FROM FINANCIAL INSTRUMENTS

Net Investment Income includes net income/(expense) arising from:

	2014 $M	2013 $M
Financial Assets and Financial Liabilities Classified as Fair Value through Profit or Loss upon Initial Recognition	(126)	186
Derivatives Deemed to be Classified as Held for Trading	338	325
Financial Assets and Financial Liabilities Classified as Held for Trading	2	1
Interest and Dividend Income from Available-for-sale Financial Assets	141	165
Realised Gains on Disposal of Available-for-sale Financial Assets	11	-
Financial Assets Classified as Loans and Receivables	2	5
Financial Liabilities Classified as Financial Liabilities at Amortised Cost	(263)	(326)
Total Net Investment Income	105	356

9. Interest rates on Term Liabilities with the New Zealand government are reset every quarter, based on market reference rates less a margin agreed at the inception of the loans. During 2014, with market rates at very low levels, interest was received by the Bank after the fixed margin was applied.

22. INCOME AND EXPENDITURE BY FUNCTION

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

For the year ended 30 June 2014	Operating Income 2014 $M	Attribution of Earnings on Investments Funded by Equity 2014 $M	Operating Expenses 2014 $M	Net Profit/(Loss) 2014 $M
FUNCTIONS				
Monetary Policy Formulation	**-**	**-**	**10**	**(10)**
Domestic Market Operations	**16**	**17**	**5**	**28**
Prudential Supervision	**-**	**-**	**12**	**(12)**
Macro-Financial Stability	**-**	**-**	**6**	**(6)**
Currency Operations	**173**	**-**	**15**	**158**
Foreign Reserves Management	**(170)**	**71**	**6**	**(105)**
Settlement Services	**9**	**-**	**6**	**3**
Total for Bank before Earnings on Investments Funded by Equity	28	88	60	56
Earnings not Allocated to Functions:				
Earnings on Investments Funded by Equity	**88**	**(88)**	**-**	**-**
Total for Bank	116	-	60	56

For the year ended 30 June 2013	Operating Income 2013 $M	Attribution of Earnings on Investments Funded by Equity 2013 $M	Operating Expenses 2013 $M	Net Profit/(Loss) 2013 $M
FUNCTIONS				
Monetary Policy Formulation	-	-	11	(11)
Domestic Market Operations	8	23	5	26
Prudential Supervision	-	-	12	(12)
Macro-Financial Stability	-	-	4	(4)
Currency Operations	177	1	13	165
Foreign Reserves Management	81	66	6	141
Settlement Services	9	-	6	3
Total for Bank before Earnings on Investments Funded by Equity	275	90	57	308
Earnings not Allocated to Functions:				
Earnings on Investments Funded by Equity	90	(90)	-	-
Total for Bank	365	-	57	308

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 on equity are not allocated to individual functions. The total operating expenses for each function include internal transfers between functions.

23. OPERATING EXPENSES

	Note	2014 $M	2013 $M
Staff Expenses		**32**	30
Net Currency-issued Expenses		**7**	6
Asset Management Expenses		**6**	6
Other Operating Expenses		**19**	16
Total Operating Expenses excluding Actuarial Gain on Defined Benefit Superannuation Scheme		**64**	58
Actuarial Gain on Defined Benefit Superannuation Scheme	26	**(4)**	(1)
Total Operating Expenses		**60**	57

	2014 $000	2013 $000
Operating Expenses includes:		
Depreciation of Property, Plant and Equipment	**3,644**	3,128
Amortisation of Intangible Assets	**1,180**	1,148
Impairment Charges for Property, Plant and Equipment	**-**	-
Impairment Charges for Intangible Assets	**-**	-
Bad Debt Expenses	**-**	-
Rental and Lease Expenses	**227**	276
Auditor's Remuneration:		
Statutory Audit	**244**	238
Payment Systems Assurance	**71**	69
Advisory Services	**33**	-

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

The Payment Systems Audits expense comprises fees paid for the contractual assurance engagements of the NZClear depository system and the Exchange Settlement Account System.

The Advisory Services expense comprises fees for advice on the treasury system upgrade. 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 or Deputy Governor.

KEY MANAGEMENT PERSONNEL

Key management personnel comprise the Governor, Deputy Governors and Assistant Governor. 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, aggregate compensation paid to key management personnel comprised:

	2014 $000	2013 $000
Salaries, Superannuation Contributions and Other Short-term Benefits	**1,995**	1,789
Total Key Management Personnel Compensation	**1,995**	1,789

This table includes all compensation paid to key management personnel. In the 2013 financial year, one position was vacant for three months.

OTHER NOTES

24. RECONCILIATION OF NET CASH FLOWS FROM OPERATING ACTIVITIES WITH NET PROFIT FOR THE YEAR

	2014 $M	2013 $M
Net Profit for the Year	**56**	308
Add/(Subtract) Items included in Net Profit relating to cash flows from changes in Operating Asset and Operating Liability Balances, Investing and Financing Activities:		
Foreign Exchange (Gains)/Losses[10]	**198**	(29)
Market Value Changes	**(49)**	(65)
Add/(Subtract) Non-cash Items:		
Depreciation and Amortisation	**5**	4
Amortisation of Premium/Discount on Financial Instruments	**17**	22
Net Movement in Repatriated Currency Income and Expense	**(1)**	-
	170	(68)
Movements in Other Working Capital Items		
Decrease/(Increase) in Current Assets:		
Movement in Accounts Receivable	**(1)**	-
Movement in Inventories	**(6)**	3
Movement in Interest Receivable	**(7)**	(10)
	(14)	(7)
Decrease in Current Liabilities:		
Movement in Miscellaneous Liabilities	**(3)**	(1)
Movement in Interest Payable	**(1)**	(1)
	(4)	(2)
Net Movements in Other Working Capital Items	**(18)**	(9)
Operating Cash Flows from Income and Expenses	**208**	231
Cash Flows from Changes in Operating Asset and Operating Liability Balances	**(978)**	890
	(978)	890
Net Cash Flows from Operating Activities	**(770)**	1,121

10. 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 page 55.

25. STATEMENT OF COMMITMENTS

A PROVISION OF FUNDING TO THE NEW ZEALAND FINANCIAL SYSTEM

As New Zealand's central bank, the Bank is able to create New Zealand dollar liquidity through its liquidity management operations, which include the daily open market operations. The Bank's open market operations include providing New Zealand dollar liquidity facilities to eligible borrowers on terms stipulated by the Bank, including the provision of approved collateral.

B RECIPROCAL FUNDING ARRANGEMENTS WITH FOREIGN CENTRAL BANKS

On 24 April 2014, the People's Bank of China (PBOC) and the Bank renewed a reciprocal currency arrangement (swap line) to support the settlement of trade and investment transactions between New Zealand and Chinese businesses in circumstances where it might otherwise be difficult to settle obligations in Chinese renminbi (RMB). The swap facility provides for the PBOC and the Bank to enter into foreign exchange swap transactions that have a total value at any point in time of up to RMB 25 billion (NZD 5 billion), with the terms of the foreign exchange swaps to be agreed at the time the swaps are entered into. The swap line is for a term of three years, which may be extended if both parties agree. No drawings have been made under this arrangement in the year ended 30 June 2014 (2013: nil).

The Bank also has a reciprocal arrangement with the Hong Kong Monetary Authority, which allows either party to enter into repurchase agreements with the other to raise up to USD 250 million, secured by US government securities. The existing arrangement expires on 31 March 2015, but may be extended by mutual agreement. No drawings have been made under this arrangement in the year ended 30 June 2014 (2013: nil).

C COMMITMENTS TO THE NEW ZEALAND GOVERNMENT

The Bank has agreed to make foreign currency available to the New Zealand government on arm's length terms so that the government may meet any calls made by the International Monetary Fund (IMF) under two standby loan facilities.

The two standby loan facilities entered into by the government are:

- to provide loans to the IMF up to SDR 624.34 million if the IMF makes a call on the New Zealand government in respect of the government's commitment under the IMF's "New Arrangements to Borrow" facility; and
- to provide loans to the IMF of up to USD 1 billion if the IMF makes a call on the New Zealand government in respect of the government's commitment under the IMF's "2012 Borrowing Arrangements" facility.

During the year ended 30 June 2014, no funds were made available to the government under these arrangements (2013: nil).

D COMMITMENTS FOR CAPITAL EXPENDITURE AND PURCHASE OF INVENTORIES

At reporting date, the Bank had commitments for capital expenditure and purchase of inventories totalling $73.53 million (2013: nil).

26. 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. Statutory actuarial valuations of the schemes are undertaken every three years, with the last statutory valuation being undertaken as at 31 March 2012. Each year, the actuary provides an assessment of the value of the liabilities of the superannuation fund in relation to the assets of the superannuation fund, with the last valuation performed as at 31 March 2014. There have been no material changes to the fund's financial position between 31 March 2014 and 30 June 2014. Contributions to the defined benefit scheme are at a rate, reviewed annually, sufficient to keep the scheme solvent, based on actuarial assessments. The defined benefit scheme was closed to new members in 1991.

DEFINED BENEFIT SCHEME

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

As at 31 March	**2014 $000**	2013 $000
Superannuation Asset/Superannuation Liability Recognised in the Statement of Financial Position		
Present Value of Wholly or Partly Funded Obligations	**36,702**	41,887
Fair Value of Plan Assets	**34,004**	35,095
Present Value of Net Obligations	**2,698**	6,792
Net Liability Recognised in the Statement of Financial Position	**2,698**	6,792

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

	2014 %	2013 %
Discount Rate at the Beginning of the Year	**3.29**	2.53
Expected Rate of Return on Plan Assets at the Beginning of the Year	**4.50**	4.50
Future Salary Increases	**3.50**	3.50
Other Material Actuarial Assumptions - Pension Increases	**2.50**	2.50

27. SUBSIDIARY COMPANY

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 NZClear System, as described in Note 31.

28. 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;
- foreign exchange transactions;
- funding from the Treasury as part of the Foreign Reserves Management operations; and
- purchases and disposals of New Zealand government securities.

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

Year ended 30 June	**2014 $M**	2013 $M
RECEIPTS FROM AND PAYMENTS TO ENTITIES CONTROLLED BY THE NEW ZEALAND GOVERNMENT		
Receipts of Income from Entities Controlled by the New Zealand Government		
Interest Income	**140**	217
Rental Income	**1**	1
Receipts of a Capital Nature from Entities Controlled by the New Zealand Government		
Receipt of Proceeds on Disposal of New Zealand Government Securities - Available for Sale	**291**	789
Receipt of Proceeds on Maturity of New Zealand Government Securities - Fair Value through Profit or Loss	**-**	4,989
Issuance of Local Currency Term Liability to the New Zealand Government	**100**	-
Payments of Expenses to Entities Controlled by the New Zealand Government		
Interest Expense	**69**	141
Payments of Capital to Entities Controlled by the New Zealand Government		
Net Decrease in Deposits	**1,111**	4,317
Repayment of Foreign Currency Term Liabilities	**151**	325
Payment for Purchase of New Zealand Government Securities	**444**	586

As at 30 June	**2014 $M**	2013 $M
BALANCES WITH ENTITIES CONTROLLED BY THE NEW ZEALAND GOVERNMENT		
Assets that Comprise Claims on Entities Controlled by the New Zealand Government		
New Zealand Government Securities	**2,891**	2,818
Securities Purchased under Agreements to Resell	**-**	25
Liabilities that Comprise Claims by Entities Controlled by the New Zealand Government		
Deposits	**3,882**	4,993
Term Liabilities	**1,642**	1,871

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 also includes interest income received by the Bank from this activity.

29. 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).

The Actuary carried out a review of the financial position of the Fund as at 31 March 2014.

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 2014 was $104.4 million (2013: $104.5 million). Of the total face value of demonetised currency, $81.4 million (2013: $81.5 million) is recognised as a liability in the 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 that is not recognised as a liability is $9.8 million (2013: $9.8 million).

D As at 30 June 2014, the Bank had a contingent liability of $21.29 million (SDR 12.04 million) (2013: $23.33 million (SDR 12.04 million)) in respect of uncalled and unpaid capital attached to its shareholding in the Bank for International Settlements.

30. 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.

31. CUSTODIAL ACTIVITIES

The Bank operates the NZClear 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 NZClear 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 2014 was $187.7 billion (2013: $167.3 billion).

Under the NZClear System Rules, the Bank's and NZCSD's liability to any member of NZClear, arising out of, or in connection with, the system, is limited to direct losses, up to an aggregate of $5 million for any one event.

32. SIGNIFICANT POST-REPORTING DATE EVENTS

There have been no significant post-reporting date events.

FIVE-YEAR HISTORICAL
FINANCIAL INFORMATION

FIVE-YEAR FINANCIAL POSITION

As at 30 June	Audited 2010 $M	Audited 2011 $M	Audited 2012 $M	Audited 2013 $M	**Audited 2014 $M**
Assets					
Foreign Currency Financial	22,612	24,647	21,971	21,163	**19,286**
Local Currency Financial	3,658	6,360	4,695	2,844	**3,093**
Other Assets	87	83	78	75	**82**
Total Assets	26,357	31,090	26,744	24,082	**22,461**
Liabilities and Equity					
Foreign Currency Financial	5,533	4,481	4,129	3,657	**3,193**
Local Currency Financial	17,953	23,884	19,841	17,667	**16,742**
Other Liabilities	297	216	172	186	**27**
Equity	2,574	2,509	2,602	2,572	**2,499**
Total Liabilities and Equity	26,357	31,090	26,744	24,082	**22,461**

FIVE-YEAR FINANCIAL PERFORMANCE

For the year ended 30 June	Audited 2010 $M	Audited 2011 $M	Audited 2012 $M	Audited 2013 $M	**Audited 2014 $M**
Operating Income					
Net Investment Income	(69)	191	171	356	**105**
Other Income	8	8	8	9	**11**
Total Operating Income	(61)	199	179	365	**116**
Operating Expenses					
Staff Expenses	26	27	28	30	**32**
Currency-issued Expenses	4	7	5	6	**7**
Asset Management Expenses	8	7	7	6	**6**
Other Operating Expenses	14	14	15	16	**19**
Total Operating Expenses excluding Actuarial Loss/(Gain) on Defined Benefit Superannuation Scheme	52	55	55	58	**64**
Actuarial Loss/(Gain) on Defined Benefit Superannuation Scheme	(2)	-	6	(1)	**(4)**
Total Operating Expenses	50	55	61	57	**60**
Net Profit/(Loss) for the Year	(111)	144	118	308	**56**

FIVE-YEAR OUTCOMES UNDER THE FUNDING AGREEMENT

For the year ended 30 June	Unaudited 2010 $M	Unaudited 2011 $M	Unaudited 2012 $M	Unaudited 2013 $M	**Unaudited 2014 $M**
Actual Net Expenses under the Funding Agreement	41.2	46.8	47.0	48.3	**53.3**
Net Expenditure Specified under the Funding Agreement	46.9	47.8	50.2	52.7	**55.2**
Funding Agreement Under-expenditure	5.7	1.0	3.2	4.4	**1.9**

FIVE-YEAR DIVIDENDS PAID TO THE NEW ZEALAND GOVERNMENT

For the year ended 30 June	Audited 2010 $M	Audited 2011 $M	Audited 2012 $M	Audited 2013 $M	**Audited 2014 $M**
Dividends Paid to the New Zealand Government	335	210	160	175	**20**

The dividend paid in 2010 includes a voluntary payment to the Crown of $45 million that was made in April 2010.

GLOSSARY

(THE) ACT
The Reserve Bank Act 1989.

AML/CFT
Anti-Money Laundering and Countering the Financing of Terrorism

Under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009, the Reserve Bank is one of three supervisors tasked with ensuring firms comply with new obligations designed to help deter and detect money laundering and terrorist financing.

BASEL III
Global regulatory standards on bank capital adequacy and liquidity, published by the Basel Committee on Banking Supervision in December 2012.

BIS
Bank for International Settlements

An international financial institution based in Switzerland, owned by about 50 central banks and providing a range of financial services to central banks, international financial institutions and governments.

CFR
Core Funding Ratio

The ratio of a registered bank's total core funding to its total loans and advances. Core funding is the sum of all funding with more than one year remaining to maturity, plus varying percentages of shorter-term funding.

CLS
Continuous Linked Settlement

An international system run by CLS Bank International intended to reduce foreign exchange settlement risk (Herstatt risk). CLS does this by ensuring payment of both currencies in a foreign exchange transaction to be made simultaneously and irrevocably.

CPI
Consumers Price Index

The All Groups Consumers Price Index published by Statistics New Zealand. The CPI measures the rate of price change of goods and services purchased by New Zealand households.

CPSS
The Committee on Payment and Settlement Systems

A forum for 25 central banks to monitor and analyse developments in domestic payment, settlement and clearing systems, and cross-border and multi-currency settlement schemes. The committee also focuses on standard-setting activities.

EMEAP
Executive Meeting of East Asian and Pacific central banks and monetary authorities

A cooperative organisation of central banks and monetary authorities in the East Asia and Pacific region, comprising Australia, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, New Zealand, Philippines, Singapore and Thailand.

ESAS
Exchange Settlement Account System

The Reserve Bank's banking service for certain qualifying institutions that need to make regular high-value payments with each other. All the current account holders are registered banks.

FSIS
Financial Sector Information System

The Bank's central database for time-series data.

FSR
Financial Stability Report

A six-monthly report assessing the soundness and efficiency of the New Zealand financial system.

IOSCO
International Organisation of Securities Commissions

A worldwide organisation of securities regulators, including New Zealand's Financial Markets Authority.

ISL
Interchange and Settlement Limited

A non-real time switch system that enables the settlement of transactions between banks from the processing of cheques, direct debit, direct credits, automatic payments and EFTPOS.

MPS
Monetary Policy Statement

A quarterly assessment, accompanying an OCR Review, of how the Bank proposes to achieve its monetary policy target (see PTA); how it proposes to formulate and implement monetary policy during the next five years; and how monetary policy has been implemented since the last *MPS*.

NBDTS
Non-bank deposit takers

Finance companies, building societies and credit unions, which take deposits from the investing public and which are not registered banks under the Act.

NZCLEAR
A real-time settlement system providing the financial markets with clearing and settlement services for high-value debt securities and equities.

OCR
Official Cash Rate

The interest rate set by the Bank to meet the inflation target specified in the PTA.

PTA
Policy Targets Agreement

A contract, negotiated between the Government and the Governor of the Reserve Bank, defining the Bank's price stability target.

SDR
Special Drawing Right

Unit of account of international reserve assets created by the International Monetary Fund (IMF) to supplement the reserves of IMF member countries. Its value is based on a basket of key international currencies.

SBI
Settlement Before Interchange

The process, operated under Payments New Zealand Ltd's rules, by which any two banks prepare and process files containing details of their customers' bilateral transactions. The net value of the transactions is settled by one bank making a payment from its ESAS account to the other bank's ESAS account. Once settled, the file containing details of the customers' transactions is delivered to the destination bank, which will then update its customers' records.

TWI
Trade-Weighted Index

A measure of the value of the New Zealand dollar relative to the currencies of New Zealand's major trading partners.