Composition of assets

Five year summary

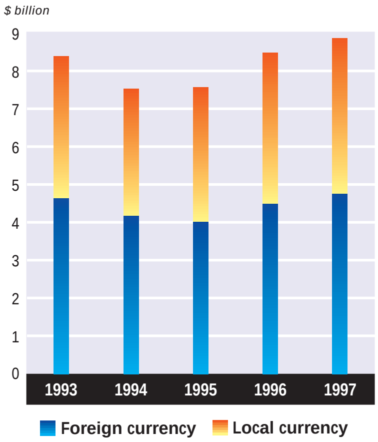

Figure **17**

Composition of liabilities (excluding equity)

Five year summary

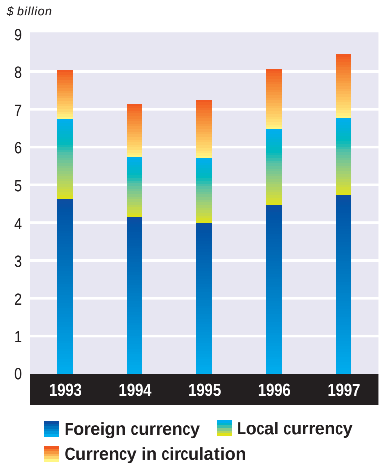

Figure **18**

Operating expenses by function

1992 actual, 1997 actual, 1998 budget

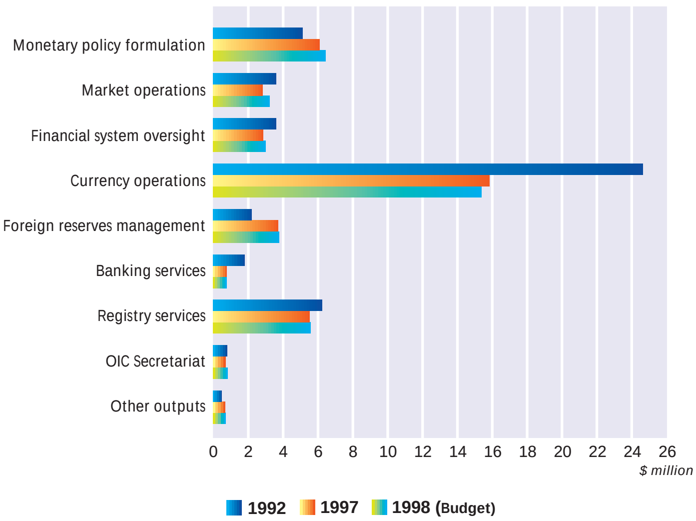

Figure **19**

Operating expenses by type

1992 actual, 1997 actual, 1998 budget

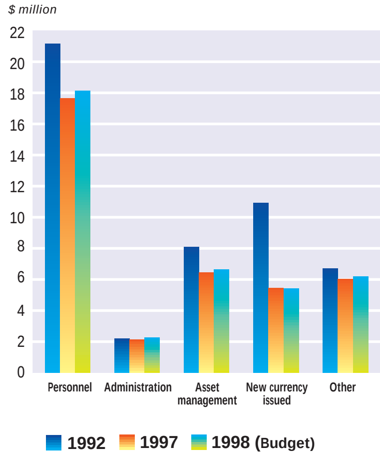

Figure **20**

Guide to the main components of the Reserve Bank's financial statements

The structure of the balance sheet (statement of financial position) of the Reserve Bank reflects its functions. Assets and liabilities are grouped to reflect particular functions.

Foreign reserves management

The Crown and the Earthquake Commission have advanced foreign currency funds to the Reserve Bank. The Bank invests these funds in foreign currency assets that are held as foreign reserves. These assets and liabilities are closely matched by currency, duration and value. As a result the Bank limits its exposure to interest and exchange rate movements in these overseas markets.

The cost of this function reflects the difference between the costs of borrowing and the returns from investing.

Monetary policy implementation

As part of liquidity management, the Reserve Bank issues Reserve Bank bills (a serviced liability). The proceeds from the issue of Reserve Bank bills are advanced to the Government (a financial asset) and earn interest. The asset and liability closely match in terms of value[*] and similarly the interest income and expense flows approximately net off.[†]

A less precise relationship exists between the level of advances to domestic banks and the balance of the Government bank account held at the Bank.

Issuing currency

Registered banks pay the Reserve Bank the face value of the currency being issued to them. These receipts, along with the Bank's reserves, are invested in Government securities, which are included in local currency financial assets on the Reserve Bank's balance sheet to offset the currency in circulation liability. The currency in circulation liability is a non-interest-bearing liability. However the Government securities portfolio asset is interest-bearing. This income directly associated with the issue of currency is referred to as seigniorage income and provides the Bank with its main source of income.

* *See "Advances to Government" in note 1. Financial assets, and "Reserve Bank bills" in note 2. Serviced liabilities, in the notes to the financial statements.*

† *See "Advances to Government" in note 8. Income from financial assets, and "Reserve Bank bills" in note 9. Expenses on serviced liabilities, in the notes to the financial statements.*

Five year financial summary

Financial position as at:	1993 June ($m)	1994 June ($m)	1995 June ($m)	1996 June ($m)	**1997 June ($m)**
Assets:					
Foreign currency financial	4,625	4,154	4,002	4,474	4,743
Local currency financial	3,654	3,278	3,545	3,915	4,029
Other assets	87	76	65	66	62
Total	8,366	7,508	7,612	8,455	8,834
Liabilities and equity:					
Foreign currency financial	4,625	4,153	4,002	4,473	4,742
Local currency financial	1,956	1,460	1,571	1,818	1,880
Currency in circulation	1,283	1,413	1,516	1,599	1,665
Other	161	118	142	174	151
Equity	341	364	381	391	396
Total	8,366	7,508	7,612	8,455	8,834

Income and expenditure‡ financial year ending:	1993§ June ($m)	1994 June ($m)	1995 June ($m)	1996 June ($m)	**1997 June actual ($m)**	1998 June budget ($m)
Net investment income	134.0	131.6	159.1	171.7	170.4	164.2
Other income	12.4	11.0	10.4	34.4	10.7	10.2
Total income	146.4	142.6	169.5	206.1	181.1	174.4
Operating expenses	41.6	39.5	39.7	38.6	37.8	38.7
Tax for current year	0.4	0.5	0.6	0.8	0.9	0.6
Surplus for appropriation	104.4	102.6	129.2	166.8	142.5	135.1
Transfers to equity	10.2	23.2	22.8	5.3	6.4	6.4
Payment to Government	94.2	79.3	106.4	161.4	136.0	128.7

‡ *Figures in this section have been rounded. Totals have not been adjusted for rounding error.*

§ *Fifteen month actuals converted to twelve month equivalents.*

Cost of services[||] *financial year ending:*	*1993[¶] June* *($m)*	*1994 June* *($m)*	*1995 June* *($m)*	*1996 June* *($m)*	***1997 June actual ($m)***	*1998 June budget ($m)*
Monetary policy formulation	5.4	5.6	6.2	6.5	6.1	6.4
Market operations	3.3	3.0	3.0	2.9	2.8	3.2
Financial system oversight	3.8	3.7	3.2	3.2	2.8	3.0
Currency operations	17.9	17.0	17.6	16.7	15.8	15.3
Foreign reserves management	2.7	3.2	3.8	3.5	3.7	3.8
Banking services	1.6	0.8	0.3	0.4	0.8	0.8
Overseas Investment Commission Secretariat	0.6	0.5	0.6	0.6	0.7	0.8
Other outputs	0.6	0.6	0.5	0.5	0.7	0.7
Total for functions within Funding Agreement	36.0	34.5	35.1	34.3	33.4	34.0
Registry services	6.1	5.5	5.2	4.9	5.5	5.5
Total expenditure on functions	42.1	40.0	40.3	39.2	38.9	39.5

The statement of cost of services shows the total cost of providing each function, including internal transfers between functions.

|| *Figures in this section have been rounded. Totals have not been adjusted for rounding error.*

¶ *Fifteen month actuals converted to twelve month equivalents.*

1998 budget information

The Bank has budgeted to provide the following functions in 1998. Details of functions and performance criteria are contained in our *Annual Plan 1998.*

Budgeted cost of services for the year ended 30 June 1998	**Operating income budget 1998 $000**	*Operating income actual 1997 $000*	**Operating expenses budget 1998 $000**	*Operating expenses actual 1997 $000*	**Operating surplus (deficit) budget 1998 $000**	*Operating surplus (deficit) actual 1997 $000*
Function						
Monetary policy formulation	71	77	6,420	6,086	(6,349)	(6,009)
Market operations	13,151	16,444	3,216	2,836	9,935	13,608
Financial system oversight	8	15	2,987	2,847	(2,979)	(2,832)
Currency operations	137,769	141,848	15,297	15,750	122,472	126,098
Foreign reserves management	15,729	14,705	3,770	3,712	11,959	10,993
Banking services	358	431	774	783	(416)	(352)
Overseas Investment Commission Secretariat	802	589	823	705	(21)	(116)
Other outputs	-	1	724	696	(724)	(695)
Total for functions within Funding Agreement	167,888	174,110	34,011	33,415	133,877	140,695
Registry services	6,773»	7,251»	5,556ø	5,496ø	1,217	1,755
Total for Bank	174,661	181,361	39,567	38,911	135,094	142,450

» *Includes Austraclear fees and ESAS recoverable income, which are netted off against related Bank expenses in the Consolidated budgeted statement of financial performance.*

ø *Includes tax payable.*

Consolidated budgeted statement of financial performance

For the year ended 30 June 1998	***Budget 1998 $000***	***Actual 1997 $000***
Operating income:		
Income from financial assets	490,834	402,298
Expenses on serviced liabilities	326,677	231,884
Net investment income	164,157	170,414
Other income	10,228	10,662
Total operating income	174,385	181,076
Operating expenses:		
Personnel	18,126	17,669
Asset management	6,648	6,451
New currency issued	5,429	5,459
Administration	2,280	2,141
Other	6,208	6,038
Total operating expenses	38,691	37,758
Operating surplus	135,694	143,318
Taxation	600	868
Surplus available for appropriation	135,094	142,450

Operating income and expense by function 1997

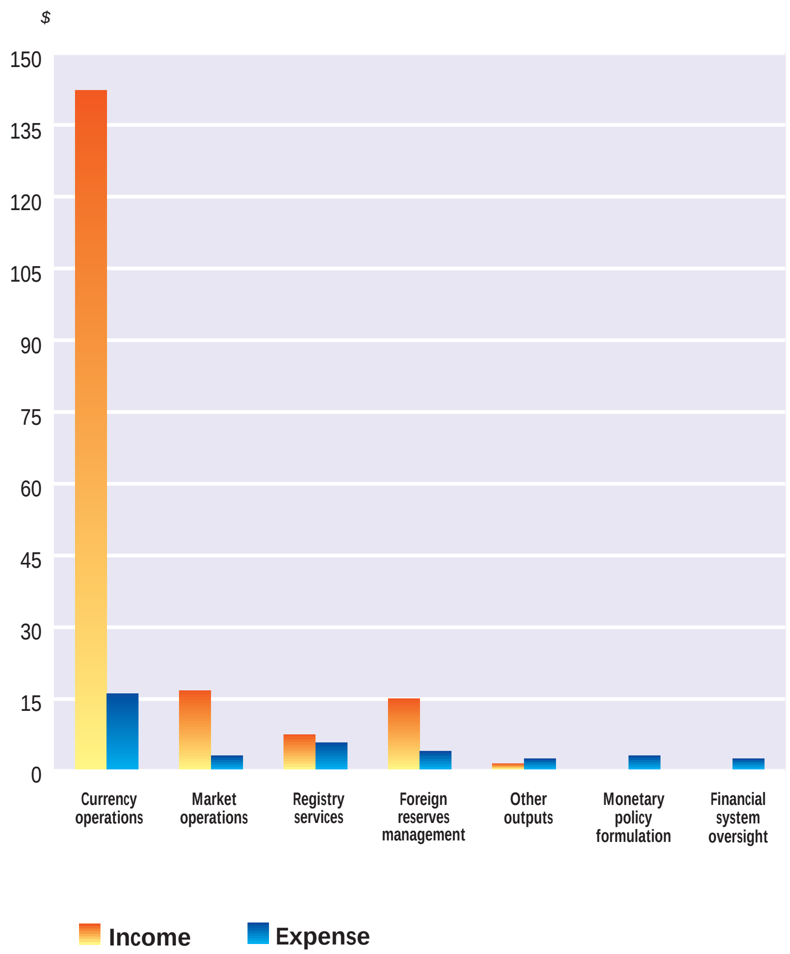

Figure **21**

Accounting policies

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. These statements apply to the financial year ended 30 June 1997. They have been prepared in accordance with part VI of the Reserve Bank of New Zealand Act 1989. Unless otherwise stated, the measurement base is historic cost.

Basis of consolidation

The Reserve Bank accounts for its Registry Services function via a wholly-owned subsidiary company (RBNZ Registry Limited). The consolidated financial statements include this subsidiary company. We have used the purchase method of consolidation. All material inter-company balances and transactions have been eliminated. (Separate financial statements for RBNZ Registry Limited appear in note 31.)

Foreign currency conversions

Foreign currency financial assets and liabilities have been translated to New Zealand currency using mid-market exchange rates applying at balance date. Transactions in foreign currencies have been translated to New Zealand currency using exchange rates applying on the settlement dates of transactions.

Financial assets and liabilities

Except as noted below, foreign currency financial assets and serviced liabilities, along with local currency financial assets held for trading purposes, are valued at market prices. Changes in market value, whether due to exchange rate movements, interest rate movements or other factors, are recognised immediately in the Consolidated statement of financial performance.

Local currency financial assets held for investment purposes, and local currency serviced liabilities, are valued on a yield to maturity basis. Any premium or discount amortisation is recognised in the Consolidated statement of financial performance.

Certain foreign currency and local currency financial assets and serviced liabilities are recorded at face value. These are:

(a) Short-term deposits, repurchase and reverse-repurchase agreements and advances that are not realisable prior to maturity.

(b) Current account deposits and unsecured advances through the daily float tender.

(c) Assets and liabilities denominated in Special Drawing Rights, on which interest rates are determined weekly by the International Monetary Fund.

Financial assets and liabilities are recognised in the Statement of financial position on a trade-date basis. Unsettled sales of securities are reported as assets under the title "Forward sales of securities" and unsettled security purchases are reported as liabilities under the title "Forward purchases of securities." Income and expense recognition on forward transactions is recognised from trade date.

Where derivative instruments have been used to change the characteristics of specifically identified underlying financial instruments, then recognition in the Statement of financial position and Statement of financial performance is on the basis of the combined characteristics of both the derivative and the underlying instrument.

Currency in circulation

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

Commemorative and demonetised currency

The Reserve Bank has a liability for the face value of commemorative currency. However, it is most unlikely that significant amounts of commemorative currency will be returned for redemption. The face value of commemorative currency is therefore recognised as a contingent liability.

The Bank has a liability for the face value of demonetised currency still in circulation. Except for a portion retained in the Statement of financial position to cover expected future repatriations, this is also recognised as a contingent liability.

Land and buildings

Land is carried at market value. Buildings are valued at market value except for the specialised basements and ground floors occupied by the Reserve Bank, which are valued at adjusted replacement cost. Surpluses of book value over historic cost for this class of asset are recorded in the Properties revaluation account. Where the book value of this class of asset falls below historic cost, previous individual asset revaluations are reversed and the remaining balance is charged as an expense in the financial year it occurs. Independent valuations of this class of asset are obtained triennially. Because of this policy of regular valuation, buildings are not depreciated.

Other fixed assets

Other fixed assets are carried at cost, less depreciation. The following assets held by the Reserve Bank of New Zealand are depreciated on a diminishing value basis at the given rates:

Plant, equipment and vehicles	30 percent per annum
Computer hardware	50 percent per annum

Other assets are depreciated on a straight line basis over their expected useful lives. Computer software is capitalised only when total costs exceed $150,000 and is depreciated on a straight line basis over three years.

Assets held by RBNZ Registry Limited are depreciated on a straight line basis at 20 percent per annum with the exception of computer hardware upgrades, which are depreciated at 33 percent per annum.

Inventories

Inventories are carried at the lower of cost or realisable value. Cost is determined on a weighted average basis. Unissued currency stocks are recorded in inventory accounts at the cost of acquisition and expensed when issued.

Accounts receivable

Accounts receivable are carried at expected realisable value after making due allowance for doubtful debts.

Currency and artwork collections and archives

Items held in the Reserve Bank's currency and artwork collections and archives that have a material commercial value are valued at estimated market values. Nominal values have been placed on items with no material commercial value. Collections are not depreciated. Additions are held at cost until subsequent revaluations.

Personnel expenses

Personnel expenses include the full cost of all staff benefits, including applicable Fringe Benefit Tax. Accumulated staff benefits and entitlements are accrued.

Taxation

Only RBNZ Registry Limited is liable for income tax.

The taxation charged against profit includes both current and deferred taxation calculated under the comprehensive method.

Deferred taxation arises from items of income and expenditure being included in taxation computations in periods different from those in which they are recorded in the financial statements.

Cash flows

Cash is defined as those items that are currently convertible "at call".

Investing activities include the cash movements, including realised gains and losses, in the Reserve Bank's financial asset portfolios. Also included are cash flows arising from movements in IMF Special Drawing Rights, fixed assets, and loans to staff.

Financing activities are those arising from the issue of circulating currency, the issue of Reserve Bank bills, borrowing from the Treasury, borrowing from the Earthquake Commission and payment of the net operating surplus to the Crown.

Operating activities include income and expenditure cash flows not included as investing or financing activities.

Cash movements in portfolios have been presented net as this is considered to provide a fairer presentation of the Bank's operations.

Changes in accounting policies

There has been one change in the Reserve Bank's accounting policies for the year ended 30 June 1997.

Financial assets and liabilities are now recognised in the Statement of financial position on a trade-date basis. Previously financial assets and liabilities were recognised in the Statement of financial position on settlement date. This change in accounting policy ensures that the Reserve Bank's financial statements provide a more complete and accurate disclosure of the Bank's exposure to financial assets and liabilities. The effect of the change in accounting policy has been to increase the value of financial assets and liabilities reported in the Statement of financial position by $269 million (1996 $121 million). Comparative numbers for the year ended 30 June 1996 have been re-stated to reflect this change in accounting policy.

Consolidated statement of financial position

As at 30 June 1997	*Note*	***1997*** ***$000***	*1996* *$000*
Assets:			
Financial assets	1	8,771,448	8,389,168
Inventories	2	5,450	6,244
Accounts receivable		3,302	2,785
Currency & artwork collection		767	765
Deferred taxation	14	93	113
Fixed assets	3	53,321	56,054
Total assets		8,834,381	8,455,129
Liabilities:			
Serviced liabilities	4	6,621,618	6,291,099
Currency in circulation		1,665,238	1,598,726
Provision for transfer of surplus	15	136,015	161,432
Accounts payable		10,836	7,750
Demonetised currency	5	1,399	1,474
Other current liabilities	6	2,867	3,173
Total liabilities		8,437,973	8,063,654
Equity	7,15	396,408	391,475
Total liabilities and equity		8,834,381	8,455,129

Consolidated statement of movements in equity

For the year ended 30 June 1997	*Note*	***1997*** ***$000***	*1996* *$000*
Equity at start of year		391,475	381,022
Net surplus for the year		142,450	166,750
Movement in retained earnings	7	798	-
Movement in properties revaluation account	7	(2,300)	5,135
Total recognised revenues and expenses for the year		140,948	171,885
Provision for transfer of surplus to Government	15	(136,015)	(161,432)
Equity at end of year		396,408	391,475

The above statement is to be read in conjunction with the notes on pages 44 to 70.

Consolidated statement of financial performance

For the year ended 30 June 1997	*Note*	***Actual 1997 $000***	***Budget 1997 $000***	*Actual 1996 $000*
Operating income:				
Income from financial assets	8	402,298	541,144	87,354
Expenses on serviced liabilities	9	231,884	373,896	(84,354)
Net investment income		170,414	167,248	171,708
Other income	10	10,662	10,398	34,413
Total operating income		181,076	177,646	206,121
Operating expenses:				
Personnel		17,669	18,398	17,429
Asset management	11	6,451	6,706	6,804
New currency issued	12	5,459	6,596	6,398
Administration		2,141	2,295	2,138
Other	13	6,038	6,396	5,793
Total operating expenses		37,758	40,391	38,562
Operating surplus		143,318	137,255	167,559
Taxation	14	868	591	809
Surplus available for appropriation	15	142,450	136,664	166,750

The above statement is to be read in conjunction with the notes on pages 44 to 70.

Statement of cost of services

For the year ended 30 June 1997	Note	Operating income actual 1997 $000	Operating expenses actual 1997 $000	Operating surplus (deficit) actual 1997 $000	Operating surplus (deficit) budget 1997 $000	Operating surplus (deficit) actual 1996 $000
Functions:						
Monetary policy formulation	16	77	6,086	(6,009)	(6,776)	(6,365)
Market operations	17,22	16,444	2,836	13,608	14,547	16,856
Financial system oversight	18	15	2,847	(2,832)	(3,162)	(2,663)
Currency operations	19,22	141,848	15,750	126,098	122,404	142,711
Foreign reserves management	20	14,705	3,712	10,993	9,686	15,342
Banking services	21,22	431	783	(352)	(648)	(21)
Overseas Investment Commission Secretariat		589	705	(116)	9	(252)
Other outputs		1	696	(695)	(586)	(497)
Total for functions within Funding Agreement		174,110	33,415	140,695	135,474	165,111
Registry services	31	7,251	5,496≠	1,755	1,190	1,639
Surplus available for appropriation				142,450	136,664	166,750

The statement of cost of services shows the total cost of providing each function, including internal transfers between functions.

The above statement is to be read in conjunction with the notes on pages 44 to 70.

≠ *Operating expenses include income tax.*

Consolidated statement of cash flows

For the year ended 30 June 1997	*Note*	***1997 $000***	*1996 $000*
Cash flows from operating activities:			
Source:			
Interest, fees, commission and other income received		515,654	528,107
Disbursements:			
Interest paid		352,854	297,834
Payments to suppliers and employees		42,449	40,017
Income tax paid		755	1,412
		396,058	339,263
Net cash flows from operating activities	23,24	119,596	188,844
Cash flows from investing activities:			
Disbursements:			
Increase in domestic investments		111,990	355,773
Increase in foreign investments		17,899	433,463
Increase in fixed assets		2,626	1,819
		132,515	791,055
Net cash flows from investing activities	24	(132,515)	(791,055)
Cash flows from financing activities:			
Source:			
Issue of circulating currency		66,437	82,202
Issue of foreign currency deposits		5,051	397,762
		71,488	479,964
Disbursements:			
Repayment of Reserve Bank bills		16,000	(8,000)
Payment of surplus to Government		161,432	106,363
		177,432	98,363
Net cash flows from financing activities	24	(105,944)	381,601
Cash flow from all activities		(118,863)	(220,610)
Exchange rate effect		2,977	1,898
Net cash flows from all activities		(115,886)	(218,712)
Opening cash balance		(524,319)	(305,607)
Closing cash balance	25	(640,205)	(524,319)
Increase (decrease) in cash balance		(115,886)	(218,712)

The above statement is to be read in conjunction with the notes on pages 44 to 70.

Notes to be read as part of the consolidated financial statements

1. Financial assets

(a) Financial assets comprise:

	1997 $000	1996 $000
Foreign currency assets:		
Current accounts and deposits	426,690	629,042
Securities purchased under agreements to re-sell	705,584	666,255
Marketable securities	3,363,941	3,080,968
International Monetary Fund special drawing rights	197	510
Forward sales of securities	194,878	50,047
Accrued interest	51,611	47,036
	4,742,901	4,473,858
Local currency assets:		
NZ Government securities - investment portfolio[ß]	1,991,134	1,936,493
Advances to Government[Δ]	1,228,628	1,238,399
Securities purchased under agreements to re-sell	749,000	681,000
Advances to staff	748	984
Term loans	385	587
Cash on hand	770	288
Other securities	-	-
Accrued interest	57,882	57,559
	4,028,547	3,915,310
Total financial assets	8,771,448	8,389,168

The following New Zealand dollar closing exchange rates for major currencies were used to convert foreign currency assets and liabilities to New Zealand dollars for reporting purposes:

	1997	1996
United States dollars	0.6778	0.6829
German marks	1.1777	1.0379
Japanese yen	77.4400	74.8100

ß *The investment portfolio is held to support the liability for currency in circulation and the Bank's net equity.*

Δ *Represents the reinvestment of the proceeds from the issue of Reserve Bank bills, see note 1(b)(ii).*

(b) 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 of New Zealand Act 1989.

i) Foreign currency activities

Foreign activity results mainly from the Reserve Bank's holdings of foreign currency assets under its foreign reserves management function. These assets are held in various currencies. The majority are denominated in United States dollars, Japanese yen and German marks with smaller amounts held in French francs and British pounds.

The overall level of these assets is determined by the Minister of Finance on advice from the Bank. The currency composition of these assets is determined in consultation with the Treasury and the Earthquake Commission as the main providers of the funding for these assets.

The financial instruments held within these foreign currency portfolios mainly consist of sovereign securities, securities held under reverse-repurchase transactions or balances held with other central banks, commercial banks and settlement institutions. Liquidity and credit risk are key criteria in determining the composition of the portfolios. The funding for these assets is provided by foreign currency loans from the Treasury, the Earthquake Commission and special drawing rights issued by the International Monetary Fund.

The loans from the Treasury incur interest at market rates. The cost of the loans from the Earthquake Commission, denominated in United States dollars, Japanese yen, German marks, British pounds and French francs, is based upon the performance of a JP Morgan government bond index for each currency in which the loans are denominated. The cost of these loans from the Earthquake Commission has now been completely off-set by interest rate and currency swaps (foreign currency loans and deposits) transacted between the Treasury and the Bank. The overall result is that the Bank's net cost with respect to the Earthquake Commission funding is based upon the cost of foreign currency loans arising from the swap transaction with the Treasury. The Bank also maintains standby credit facilities to augment the level of physical assets held.

The Reserve Bank also holds, from time to time, foreign currency assets and liabilities that arise from the implementation of domestic monetary policy. Any foreign currency exposures related to domestic monetary policy implementation activity are fully hedged through the use of foreign currency swaps.

The maximum loss that the Bank would suffer as a result of a security issuer or borrower defaulting is the value reported in the accounts, before taking account of the value of any collateral security held.

The Bank also participates in the foreign exchange dealing markets on its own account and to meet the foreign currency needs of public sector customers.

ii) Local currency activities

Local currency activities arise on four main counts:

(a) Liquidity management operations.

Liquidity management involves the Reserve Bank compensating for daily net flows through the Crown Settlement Account by advancing or withdrawing funds from the banking system through daily float tenders and open market operations.

The Bank also issues Reserve Bank bills as part of its liquidity management operations. These bills are offered for sale in twice-weekly tenders of $70 million face value with a term to maturity of 63 days. The funds received from the issue of these bills are on-lent to the Government on an unsecured basis. A term on which Reserve Bank bills are issued is that once they have 28 or fewer days remaining to maturity they may be sold back to the Bank on request. A penalty margin is charged when bills are sold back to the Bank. Bills that are eligible for sale to the Bank are included in the Bank's measure of primary liquidity.

(b) Holding assets representing the investment of the Reserve Bank's net equity and supporting the currency in circulation liability.

This investment portfolio comprises holdings of benchmark issues of New Zealand Government bonds. The Bank's policy is to hold these investments until maturity.

(c) Providing banking services to the Crown and banks.

Banking services include the provision of current account and settlement banking facilities.

(d) Debt management operations.

The Bank undertakes the issue of Treasury bills, Government bond tenders, and bond repurchases as agent for the Treasury.

From time to time the Bank may also hold small trading positions in Crown or registered bank securities.

The maximum loss that the Bank would suffer as a result of a security issuer or borrower defaulting is the value reported in the accounts, before taking account of the value of any collateral security held.

(c) Risk management

Comprehensive guidelines control the manner in which the Reserve Bank conducts its local currency, foreign currency reserves management, and foreign exchange dealing operations. These guidelines contain specific provisions designed to minimise the risk associated with each operation. The main risks that the Bank is exposed to in respect of these operations are:

i) Interest rate risk - the risk of loss arising from changes in the market prices of financial instruments.

ii) Credit risk - the risk of losses arising from one party to a financial contract failing to discharge its obligations under that contract.

iii) Foreign exchange risk - the risk of loss arising from changes in exchange rates.

iv) Operational risk - the risk of loss arising from the breakdown of internal controls.

A separate Risk Unit is responsible for maintaining the Bank's risk management framework and for the daily monitoring of the Bank's risk exposures. A risk management committee comprised of senior management staff is responsible for overseeing the monitoring and management of all financial risks that the Bank is exposed to.

i) Interest rate risk

Foreign currency assets are funded by foreign currency liabilities whose interest rate characteristics cannot be exactly replicated. Foreign currency benchmark asset portfolios are constructed to assist in managing interest rate risks. Most of the interest rate risk between the benchmark asset portfolios and the liabilities is associated with fixed rate instruments, and most is due to spread risk arising from Euro-like liabilities and mainly sovereign assets. As at 30 June 1997, the calculated potential annual variance between the value of the benchmark asset portfolios and the liabilities was around $30 million at a 95% probability. Recent actual annual variances have been substantially smaller.

To manage and monitor the interest rate risk exposures associated with discretionary variances of foreign currency assets from the benchmark, a comprehensive "funds at risk" approach is used. Funds at risk measures the potential loss from an adverse movement in the market interest rates with a specified probability over a specified time period. The funds at risk model developed by the Reserve Bank constrains daily profits or losses to remain under 3.0 basis points on 19 out of 20 days.

Funds at risk limits for the foreign currency asset portfolios, actual funds at risk as at 30 June 1997 and the peak funds at risk values over the period were:

Funds at risk	*United States portfolio basis points*	*German portfolio basis points*	*Japanese portfolio basis points*	*British portfolio basis points*	*French portfolio basis points*	***1997 total basis points***	*1996 total basis points*
Limit	3.00	2.50	2.50	-	-	2.71	2.76
As at 30 June 1997	0.10	0.20	0.20	-	-	0.15	0.56
Peak over period	1.20	1.50	2.10	2.10	0.40	1.47	1.70

Given the funds at risk positions on 30 June 1997, the likely (19 days out of 20 probability) loss from any adverse interest rate movements would have been less than $0.1 million (1996 $0.3 million). Larger losses could have been possible, but the extent is not readily quantifiable.

In addition to the interest rate risk managed and monitored under the funds at risk approach, the Bank is exposed to additional interest rate risk arising from strategic trading decisions. These strategic decisions are not constrained by the funds at risk limits but by controls on the size and duration of these positions and by conservative stop-loss limits.

The effect of these strategic decisions in funds at risk terms would be to increase the likely loss as at 30 June 1997 by $0.7 million (1996 nil).

Domestic interest rate risk is not actively managed as a matter of policy. This decision recognises:

(a) that active risk management could require the Bank to carry out transactions that may seem in conflict with the Bank's monetary policy stance; and

(b) that the investment portfolio held by the Bank is exactly matched by liabilities held by the Crown, so from a consolidated Crown position the risk is eliminated.

The Reserve Bank's exposure to interest rate risk that arises from liquidity management operations is minimal due to the very short term nature of the exposures created and because the exposures are offset by other interest-bearing assets and liabilities.

The Bank's exposure to interest rate risk in relation to the investment portfolio of Government bonds is potentially greater. Because it is the Bank's policy to hold these investments until or near to maturity, this exposure to interim unrealised interest rate risk does not result in the Bank incurring any material actual realised gains or losses.

Financial assets will mature or re-price within the following periods:

Period to next review	New Zealand currency $000	United States currency $000	German currency $000	Japanese currency $000	Other currencies $000	**1997 total $000**	1996 total $000
	Currency of denomination						
Up to 1 month	1,564,746	830,943	472,391	147,836	66,447	3,082,363	2,838,494
1 to 3 months	622,729	278,520	-	-	-	901,249	843,406
3 to 6 months	-	88,568	265,042	2,454	-	356,064	569,027
6 months to 1 year	-	68,379	-	-	-	68,379	316,496
1 to 2 years	149,492	71,308	223,008	8,331	-	452,139	420,435
2 to 3 years	437,548	247,870	105,837	(27,082)	-	764,173	297,461
3 to 4 years	506,951	20,789	114,415	7,700	-	649,855	490,524
4 to 5 years	155,382	34,967	24,916	325,194	-	540,459	465,782
5 years and over	591,701	757,649	163,443	443,974	-	1,956,767	2,147,544
	4,028,549	2,398,993	1,369,052	908,407	66,447	8,771,448	8,389,169

See note 4 (b) for serviced liability maturity or re-pricing details.

The weighted average effective interest rates on financial assets were as follows:

Period to next review	New Zealand currency %p.a.	United States currency %p.a.	German currency %p.a.	Japanese currency %p.a.	Other currencies %p.a.	**1997 total %p.a.**	1996 total %p.a.
	Currency of denomination						
Up to 1 month	6.63	4.78	2.12	0.29	4.98	5.10	6.29
1 to 3 months	6.78	5.69	-	-	-	6.44	8.06
3 to 6 months	-	5.67	3.00	0.38	-	3.65	4.83
6 months to 1 year	-	5.80	-	-	-	5.80	5.92
1 to 2 years	8.34	5.86	3.48	0.95	-	5.41	6.92
2 to 3 years	7.70	6.19	3.87	(1.24)	-	6.91	6.38
3 to 4 years	7.55	6.22	4.18	1.48	-	6.85	7.26
4 to 5 years	9.04	6.65	3.98	1.69	-	4.23	7.30
5 years and over	8.23	6.75	5.36	2.00	-	6.00	6.08
	7.28	5.79	3.24	1.61	4.98	5.63	6.45

See note 4 (c) for weighted average effective interest rates on serviced liabilities.

ii) Credit risk

Credit risk in the foreign currency portfolios is actively monitored and managed. Exposures are controlled through comprehensive individual issuer credit limits. These limits are measured in credit-equivalent terms depending on the nature of the exposure. Geographical exposure (by country) and exposures to particular classes of issuer (sovereign, supranational, non-sovereign) are also constrained by overall limits. These limits are reviewed regularly.

Local currency credit risk, excluding exposures to the New Zealand Government, is controlled through the use of individual issuer credit limits. Exposures are monitored on a daily basis and regularly reviewed. Where an issuer requires funding in excess of their unsecured credit limit, the Reserve Bank provides liquidity by purchasing securities under reverse-repurchase agreements. Securities that the Bank accepts under reverse-repurchase agreements include New Zealand Government bonds, Reserve Bank and Treasury bills, and registered bank paper. The securities are normally held in the Bank's name for the duration of the exposure. The third party exposures in relation to securities purchased under reverse-repurchase agreements are monitored but not against formal limits.

Significant end-of-year concentrations of credit risk (secured and unsecured) to issuers in excess of 10% of the Bank's equity, in bands of 10%, reported by aggregate gross dollar value and by the class and number of individual issuers, were as follows:∞

	1997 $000	***1997 No.***	*1996 $000*	*1996 No.*
Sovereign issuers % of equity				
320% to 329.9%	1,278,753	1	-	-
250% to 259.9%	-	-	996,475	1
230% to 239.9%	-	-	939,237	1
190% to 199.9%	773,936	1	-	-
160% to 169.9%	668,734	1	-	-
90% to 99.9%	-	-	374,028	1
20% to 29.9%	-	-	79,476	1
10% to 19.9%	51,550	1	62,642	1
Supranational financial institutions % of equity				
30% to 39.9% (BIS)	142,248	1	149,296	1
Banks % of equity				
140% to 149.9%	-	-	574,286	1
110% to 119.9%	454,000	1	-	-
60% to 69.9%	493,402	2	266,691	1
40% to 49.9%	-	-	354,064	2
30% to 39.9%	130,349	1	380,673	3
20% to 29.9%	316,567	3	196,147	2
10% to 19.9%	575,665	11	292,504	5
	4,885,204	23	4,665,519	20

All exposures were within approved limits.

∞ *Excludes exposure to the New Zealand Government.*

The maximum gross peak concentrations of unsecured credit risk to issuers allowable under approved issuer credit limits, in excess of 10% of the Bank's equity, in bands of 10%, by class and number of individual issuers, were as follows:[#]

	1997 No.	1996 No.
Sovereign issuers		
% of equity		
610% to 619.9%	3	3
200% to 209.9%	10	8
100% to 109.9%	5	6
International and supranational financial institutions		
% of equity		
200% to 209.9%	3	3
120% to 129.9%	2	2
60% to 69.9%	1	1
30% to 39.9%	4	3
Banks		
% of equity		
50% to 59.9%	6	4
40% to 49.9%	7	5
30% to 39.9%	12	15
20% to 29.9%	3	2
10% to 19.9%	2	5
Other commercial and financial institutions		
% of equity		
20% to 29.9%	24	21
10% to 19.9%	26	24

All exposures during the year have been within these approved limits.

Excludes exposure to the New Zealand Government.

iii) Foreign currency risk

The Reserve Bank is not exposed to any significant foreign currency risk. The assets held in foreign currency portfolios are matched by foreign currency liabilities of approximately equal value. All foreign exchange trading exposures are constrained by low intra-day and overnight position limits and stop-loss limits. Foreign currency assets and liabilities arising from domestic monetary policy implementation activity are fully hedged using foreign currency swaps.

As at 30 June the Reserve Bank's net residual exposure to major currencies, including unsettled forward foreign exchange contracts and foreign currency swaps, was:

	Currency of denomination					
	United States currency $000	*German currency $000*	*Japanese currency $000*	*Other currencies $000*	***1997 total $000***	*1996 total $000*
Net residual position	1,358	237	238	(805)	1,028	893

These exposures were within approved limits.

(d) Chase Manhattan Bank securities lending programme

As part of its foreign operations, the Reserve Bank, during the current year, entered into a securities lending programme managed by Chase Manhattan Bank. Under the programme Chase Manhattan Bank lends out securities owned by the Bank in exchange for cash or alternative securities. Where cash is received, this is re-invested in interest-bearing financial assets which Chase Manhattan holds on behalf of the Bank. The range of financial assets that can be acquired under the programme is constrained by guidelines compatible with those that apply to the Bank's foreign currency asset portfolios. Where alternative securities are received, a fee is charged to the recipient of the Bank's securities.

The total market value of securities available to participate in this programme is limited to US$700 million. As at 30 June 1997 the market value of securities lent out under the programme was US$437 million (1996 nil).

The assets and liabilities arising from participation in this programme have been recorded in the Bank's Statement of financial position. The Bank's share of all income and expenses, including any mark-to-market adjustments, associated with these assets and liabilities has been recorded in the Bank's Statement of financial performance.

(e) Restrictions on title to assets

As part of the active management of its foreign currency operations, the Reserve Bank enters into security repurchase transactions. The securities sold by the Bank under repurchase agreements continue to be recorded in the Bank's Statement of financial position. At balance date securities with a face value of $461 million (1996 $350 million) had been transferred to counter-parties under repurchase transactions. These transactions are recognised as a liability for securities sold under agreements to repurchase 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 re-sell in the Bank's Statement of financial position.

(f) Fair value (market value) of financial assets

The carrying value (the value reported in the accounts) of financial assets represents their fair value with the exception of the New Zealand Government securities – investment portfolio, which has a fair value of $2,210,755,000 (1996 $1,877,748,000).

2. Inventories

	1997 $000	1996 $000
Bank notes for circulation	1,693	2,163
Coin for circulation	3,475	3,832
Commemorative currency	277	235
Office supplies	5	14
Total inventories	5,450	6,244

3. Fixed assets

	Historic cost $000	Accumulated depreciation $000	**1997 book value $000**	1996 book value $000
Freehold land			15,610	17,910
Buildings			25,390	25,390
			41,000	43,300
Computer hardware	4,305	3,629	676	705
Plant	5,640	5,176	464	655
Office equipment	6,543	4,970	1,573	1,970
Software	5,408	4,106	1,302	1,017
Currency processing equipment	5,019	2,039	2,980	3,607
Motor vehicles	319	121	198	123
Building improvements	4,216	1,718	2,498	3,028
Tenancy inducements	2,088	1,108	980	1,258
Work in progress	1,650	-	1,650	391
			12,321	12,754
Total fixed assets			53,321	56,054

The book values for land and buildings are market values provided by Jones Lang Wootton Limited, registered valuers, with the exception of the specialised basement and ground floors occupied by the Bank, which are valued at adjusted replacement cost. The market value of the buildings, to a purchaser not requiring the Bank's specialised facilities, is $20,470,000 (1996 $20,470,000).

	Date	Last valuation $000
Auckland property	June 1996	15,145
Wellington property	June 1995	25,855

4. Serviced liabilities

(a) Serviced liabilities comprise:

	1997 $000	1996 $000
Foreign currency liabilities:		
Term liabilities	3,526,123	3,609,280
Securities sold under agreements to repurchase	594,287	380,682
International Monetary Fund special drawing rights	289,832	298,968
Forward purchases of securities	269,119	120,811
Accrued interest	62,508	63,224
	4,741,869	4,472,965
Local currency liabilities:		
Reserve Bank bills	1,235,909	1,248,557
Government deposits	608,104	535,302
Settlement bank deposits	1,397	17,785
Central bank deposits	9,598	6,644
Staff deposits	6,160	5,670
International Monetary Fund deposits	18,348	3,845
Accrued interest	233	331
	1,879,749	1,818,134
Total serviced liabilities	6,621,618	6,291,099

(b) Serviced liabilities will mature or re-price within the following periods:

Period to next review	New Zealand currency $000	United States currency $000	German currency $000	Japanese currency $000	Other currencies $000	**1997 total $000**	1996 total $000
			Currency of denomination				
Up to 1 month	1,255,100	679,695	538,980	51,398	291,754	2,816,927	2,121,919
1 to 3 months	624,649	453,864	-	-	-	1,078,513	985,630
3 to 6 months	-	-	169,732	77,500	-	247,232	311,458
6 months to 1 year	-	-	-	-	-	-	1,317,749
1 to 2 years	-	207,268	26,835	-	-	234,103	421,554
2 to 3 years	-	221,600	340,074	-	-	561,674	29,941
3 to 4 years	-	-	136,485	-	-	136,485	-
4 to 5 years	-	-	-	365,985	-	365,985	147,586
5 years and over	-	713,873	103,197	363,629	-	1,180,699	955,262
	1,879,749	2,276,300	1,315,303	858,512	291,754	6,621,618	6,291,099

(c) The weighted average effective interest rates on these serviced liabilities were as follows:

Period to next review	New Zealand currency %p.a.	United States currency %p.a.	German currency %p.a.	Japanese currency %p.a.	Other currencies %p.a.	**1997 total %p.a.**	1996 total %p.a.
			Currency of denomination				
Up to 1 month	7.77	3.75	2.36	0.41	4.97	5.34	6.39
1 to 3 months	6.77	5.75	-	-	-	6.34	6.75
3 to 6 months	-	-	3.15	0.55	-	2.33	4.29
6 months to 1 year	-	-	-	-	-	-	5.68
1 to 2 years	-	6.26	4.47	-	-	6.05	5.04
2 to 3 years	-	6.26	4.59	-	-	5.25	4.74
3 to 4 years	-	-	5.49	-	-	5.49	-
4 to 5 years	-	-	-	2.91	-	2.91	-
5 years and over	-	6.78	5.75	2.58	-	5.40	4.53
	7.44	5.57	3.67	2.41	4.97	5.29	5.80

(d) Nature and extent of activities

For further information on the nature and extent of our activities and risk management policies relating to financial instruments, see notes 1 (b) and (c).

The fair value (market value) of local currency and foreign currency serviced liabilities is the value reported in the accounts.

5. Demonetised currency

Pre-decimal-currency bank notes were demonetised in 1967. One and two cent coins were demonetised in 1990. One and two dollar notes were demonetised in 1993. Demonetised currency is recognised as a contingent liability (see note 29(c)) except for $1,399,000, which has been retained to cover future expected repatriations.

Pre-decimal-currency coin was issued by the Treasury and is included in the Bank's contingent liabilities (see note 29(b)).

6. Other current liabilities

	1997 $000	*1996 $000*
Accrued employee entitlements	2,461	2,387
Funds received in advance	-	231
Fees received in advance from issuers	230	141
Funds due to the Treasury	17	106
Other	159	308
Total other current liabilities	2,867	3,173

7. Equity

	1997 $000	*1996 $000*
Retained earnings		
Opening balance	379,863	374,545
Add transfers to retained earnings:		
Reserve Bank of New Zealand	4,680	3,679
RBNZ Registry Ltd	1,755	1,639
Transfer from properties revaluation account	798	-
Closing balance	387,096	379,863
Properties revaluation account		
Opening balance	10,932	5,797
Disposal of Wellington vacant land	(2,300)	-
Increase in value of Auckland property	-	5,135
Closing balance	8,632	10,932
Collections revaluation account		
Currency collection	572	572
Artwork collection	107	107
Archives	1	1
Closing balance	680	680
Total equity	396,408	391,475

The properties revaluation account recognises the surplus of book value over cost of the Bank's properties in Auckland and Wellington.

8. Income from financial assets

	1997 $000	1996 $000
Income from foreign currency assets:		
Current accounts and deposits ≈	37,017	48,815
Marketable securities	211,431	133,861
International Monetary Fund	5,344	4,553
Net foreign exchange revaluation gain (loss)	(163,411)	(420,851)
	90,381	(233,622)
Income from local currency assets:		
NZ government securities - investment portfolio	159,933	155,794
Advances to Government	104,318	110,323
Government bank accounts	233	274
Securities purchased under agreements to re-sell	46,965	54,364
Advances to staff	89	131
Term loans	16	23
Other securities	363	67
	311,917	320,976
Total income from financial assets	402,298	87,354
Income on foreign currency assets included the following gains (losses) due to changes in interest rates:		
Realised	59,505	8,542
Unrealised	11,272	(12,162)

≈ *Includes interest income from securities purchased under agreements to re-sell.*

9. Expenses on serviced liabilities

	1997 $000	1996 $000
Expenses on foreign currency liabilities:		
Term liabilities	236,972	162,856
Current accounts and deposits◊	6,553	6,122
International Monetary Fund	11,307	12,816
Net foreign exchange revaluation (gain) loss	(164,970)	(416,758)
	89,862	(234,964)
Expenses on local currency liabilities:		
Reserve Bank bills	102,205	107,775
Deposits	39,817	42,835
	142,022	150,610
Total expenses on serviced liabilities	231,884	(84,354)
Expenses on foreign currency liabilities included the following gains (losses) due to changes in interest rates:		
Realised	19,840	2,149
Unrealised	21,093	8,738

10. Other income

	Actual 1997 $000	**Budget 1997 $000**	Actual 1996 $000
Fees for registry services	5,859	4,811	5,422
Sales of commemorative currency	1,725	1,909	2,006
Rental income from properties	1,881	1,964	1,916
Registered bank fees	8	22	464
Currency distribution income	452	394	403
Overseas Investment Commission fees	586	768	370
Demonetised currency write-back	-	-	23,000
Miscellaneous	151	530	832
Total other income	10,662	10,398	34,413

11. Asset management

Asset management expenses include depreciation charged against assets of $3,538,000 (1996 $3,902,000).

◊ *Includes interest expense on securities sold under agreements to repurchase.*

12. New currency issued

	Actual 1997 $000	Budget 1997 $000	Actual 1996 $000
New note issue expenses	3,035	3,401	3,432
New coin issue expenses	1,681	2,229	2,078
Commemorative currency expenses	743	966	888
Total issue expenses	5,459	6,596	6,398

13. Other operating expenses

	Actual 1997 $000	Budget 1997 $000	Actual 1996 $000
Other professional fees	2,132	2,279	2,235
Computer expenses	1,474	1,443	1,233
Information	818	962	875
Operational travel	508	587	422
Printing	277	282	250
Agency and commissions	164	449	205
Audit fees	157	154	157
Total non-executive directors' remuneration	83	88	82
Miscellaneous	425	152	334
Total other operating expenses	6,038	6,396	5,793

Other professional fees include $161,000 (1996 $66,000) paid to KPMG for work undertaken outside their capacity as auditors of the Bank.

14. Taxation

Section 180 of the Reserve Bank of New Zealand Act 1989 exempts the Reserve Bank from income tax. The Bank incurs and meets liabilities for goods and services tax and fringe benefit tax.

The Bank's subsidiary company, RBNZ Registry Limited, is liable for income tax. The table below relates only to RBNZ Registry Limited.

	1997 $000	1996 $000
Income tax expense:		
Net profit before tax	2,623	2,448
Add back permanent difference	7	4
	2,630	2,452
Income tax expense at 33%	868	809
Current tax charge:		
Tax effect of timing differences	(20)	(49)
Current tax charge	848	760
Deferred taxation:		
Opening balance	(113)	(162)
Deferred portion of current tax charge	20	49
Deferred taxation liability (asset)	(93)	(113)

15. Transfers to retained earnings and provision for transfer of surplus

Under section 162 of the Reserve Bank of New Zealand Act 1989, the Bank's surplus, after any transfers to or from equity, is paid to the Government.

Transfers to or from the Reserve Bank's equity reflect the difference between actual operating expenses and the level of expenditure specified under the Bank's Funding Agreement with Government plus the RBNZ Registry net surplus. Under-spending by the Bank in relation to the Funding Agreement results in a transfer to equity. Over-spending by the Bank results in a transfer from equity. In the current year, under-expenditure by the Bank of $4,680,000 (1996 $3,679,000) has consequently been transferred to the Bank's equity. In addition the RBNZ Registry net surplus of $1,755,000 (1996 $1,639,000) forms part of the Bank's consolidated equity.

The Bank's subsidiary, RBNZ Registry Limited, proposes to pay the Bank a dividend of $1,500,000 in respect of the year ended 30 June 1997.

The Minister of Finance may authorise additional transfers to equity. In the current year, no additional transfers have been made and the Bank's consolidated surplus, net of the transfers noted above, has been recorded in the Provision for transfer of surplus.

	1997 $000	*1996 $000*
Allowable expenditure under Funding Agreement	38,095	38,000
Operating expenses for functions covered by the Funding Agreement	33,415	34,321
Under-expenditure transferred to equity	4,680	3,679
Surplus available for appropriation	142,450	166,750
Less transfers to equity:		
Under-expenditure under Funding Agreement	4,680	3,679
RBNZ Registry Limited surplus	1,755	1,639
Total transfer to equity	6,435	5,318
Provision for transfer of surplus	136,015	161,432

16. Monetary policy formulation

Operating income comprises $77,000 (1996 $107,000), mainly from the sale of information.

17. Market operations

Investment income and expenses arise as a result of open market operations. The Reserve Bank's domestic investment portfolio is managed within the market operations function but the net income received is allocated to several functions (see note 22).

	Note	1997 $000	1996 $000
Investment income		151,730	164,875
Investment expenses		(102,539)	(108,205)
Functional income adjustments	22	(46,967)	(54,567)
Residual income allocation	22	14,220	17,625
Operating income		16,444	19,728

18. Financial system oversight

Operating income comprises $15,000 (1996 $494,000), mainly from fees charged to banks registering to operate in New Zealand for the first time. Previously an annual fee had been charged to registered banks under section 79 of the Reserve Bank of New Zealand Act 1989. These annual fees were discontinued from 1 January 1996 following the introduction of the registered bank public disclosure requirements.

19. Currency operations

The Reserve Bank owns properties in Auckland and Wellington. Our buildings are primarily designed for secure currency operations, so their operating costs are reported as part of the currency operations function.

The buildings also provide office accommodation for other Bank functions. These functions pay market rentals via internal costing systems. Surplus office space is rented on market terms.

As part of the currency operations function, the Bank issues commemorative currency. The net income associated with this activity in 1997 was $309,000 (1996 $492,000).

Packaging and handling fees are charged to banks for the provision of currency distribution services.

	Note	1997 $000	1996 $000
Seigniorage income	22	137,749	131,452
Demonetised currency write-back		-	23,000
Commemorative currency sales		1,725	2,006
Rental income from properties		1,881	1,916
Packaging and handling income		452	403
Other income		41	659
Operating income		141,848	159,436
Currency processing expenses		10,814	10,845
Currency issue expenses	12	5,459	6,398
Net property management expenses (income)		(523)	(518)
Operating expenses		15,750	16,725

20. Foreign reserves management

	Note	1997 $000	1996 $000
Investment income		485	1,253
Residual income allocation	22	14,220	17,625
Operating income		14,705	18,878

21. Banking services

Banking services are provided to Government, overseas central banks and settlement banks. The Reserve Bank pays and receives interest on Government and settlement accounts, and charges fees to recover operating costs.

	Note	1997 $000	1996 $000
Investment income	22	2,149	2,198
Investment expenses		(1,718)	(1,784)
Operating income		431	414

The Reserve Bank of New Zealand Act 1989 expects Government banking and settlement account services to be self-funding. The net income for Government banking was $20,000 (1996 $21,000) and for settlement account services, a loss of $144,000 (1996 income of $143,000). Implementation of the new real-time gross settlement system involves substantial up-front costs that will be recovered over time through user charges.

22. Income allocated between functions

Some income and expense flows accrue directly to functions because of the assets and liabilities used exclusively by that function. Because the function's assets and liabilities do not balance, an internal transfer of assets or liabilities is made.

Income and expense flows related to these internal transfers are calculated according to the nature of each function. For the market operations function, the flows are calculated using the Crown settlement account rate as this represents the marginal cost of funds to the Reserve Bank. Flows to the banking and currency functions are calculated using the weighted average rate of return on the government stock investment portfolio as this is the main asset backing the banking and currency liabilities.

This structure enables each function to more accurately report the financial outcome from the services provided.

The remaining income earned from the assets funded by the Bank's net equity is allocated equally to the foreign reserves management and market operations functions as this equity is held primarily to facilitate the conduct of these operations.

23. Reconciliation of operating cash flows with reported operating surplus

	1997 $000	1996 $000
Reported operating surplus	142,450	166,750
Add (subtract) non-cash items:		
Depreciation	3,538	3,902
Demonetised currency write-back	-	(23,000)
Capital accretion	10,556	(212)
Revaluations	9,821	3,424
Net change in foreign currency balance Ω	(159,393)	(47,324)
	(135,478)	(63,210)
Add (subtract) movements in other working capital items:		
Decrease in accounts receivable	759	1,132
Decrease in accounts payable	(1,125)	(746)
Decrease in inventories	794	2,736
Decrease in interest payable	(815)	44,032
Increase in interest receivable	(4,898)	(1,940)
Increase in tax payable	113	(604)
Increase in net GST payable	34	(49)
	(5,138)	44,561
Cash flows from operating activities	1,834	148,101
Add (subtract) investing and financing activity		
Realised (gains) losses	117,762	40,743
Net cash flow from operating activities	119,596	188,844

Ω *The net change in the foreign currency balance represents only the unrealised effect of exchange rate movements on the Bank's foreign currency assets and liabilities. The net effect on the Bank's overall results, after allowing for realised exchange rate gains and losses, is a net gain of $1,559,000 (1996 $4,092,000 loss).*

24. Functional reporting of cash flows

	Foreign reserves management 1997 $000	Other functions 1997 $000	Foreign reserves management 1996 $000	Other functions 1996 $000
Cash flows from operating activities:				
Sources	188,415	327,239	201,206	326,901
Disbursements	214,613	181,445	147,083	192,180
Net cash flow from operating activities	(26,198)	145,794	54,123	134,721
Cash flows from investing activities:				
Sources	-	-	-	-
Disbursements	17,899	114,616	433,463	357,592
Net cash flow from investing activities	(17,899)	(114,616)	(433,463)	(357,592)
Cash flows from financing activities:				
Sources	5,051	66,437	397,762	90,202
Disbursements	-	177,432	-	106,363
Transfers between functions	41	(41)	71	(71)
Net cash flow from financing activities	5,092	(111,036)	397,833	(16,232)
Cash flow from all activities	(39,005)	(79,858)	18,493	(239,103)
Exchange rate effect	2,977	-	1,898	-
Net cash flow from all activities	(36,028)	(79,858)	20,391	(239,103)
Opening cash balance	44,639	(568,958)	24,248	(329,855)
Closing cash balance	8,611	(648,816)	44,639	(568,958)
Increase (decrease) in cash balances	(36,028)	(79,858)	20,391	(239,103)

25. Consolidated cash balances

	1997 $000	1996 $000
Foreign currency assets:		
Current accounts	8,611	44,639
Domestic assets:		
Cash and bank account balances	770	288
Staff bank accounts	-	-
	9,381	44,927
Demand liabilities:		
Government deposits	608,104	535,302
Settlement bank deposits	1,398	17,785
Staff deposits	6,178	5,670
Other deposits	33,906	10,489
	649,586	569,246
Closing cash balances	(640,205)	(524,319)

26. Statement of commitments

The Reserve Bank's commitments in relation to outstanding forward foreign exchange contracts at balance date were as follows:

	Foreign exchange transactions	
	1997 $000	1996 $000
The Bank will receive	-	8,676
The Bank will pay	-	8,675

The Bank also leases office and storage space in Christchurch, and is committed to pay an annual rental of $232,595 until 30 June 2000.

27. Free services

The Reserve Bank of New Zealand Act 1989 empowers the Bank to charge directly for some of its functions. Details of direct charges appear in notes to the financial statements and in the Statement of service performance.

Some services are provided free of charge. These include major services as set out in the Statement of service performance, and services such as providing information to Ministers and Parliament, contributing to policy and briefing papers, providing information to the public and storing official documents securely, and providing information and library facilities to parties such as Government departments and economic research organisations.

The Reserve Bank receives some free services from other organisations. In general these relate to the provision of information necessary to perform the Bank's functions.

The Bank liaises closely with other central banks and international agencies. Information and staff training are exchanged free of charge with these institutions.

28. Related parties

In the normal course of its operations the Bank enters into transactions with related parties. Related parties include the Crown, as ultimate owner of the Reserve Bank, various Government departments and Crown entities.

Transactions entered into include:

(a) banking services;

(b) short term advances;

(c) agency transactions (at no charge);

(d) foreign exchange transactions;

(e) funding from the Treasury and the Earthquake Commission as part of the foreign reserves management operations.

Unless otherwise stated, all transactions take place with reference to market rates.

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, following each triennial review of the Fund.

On 2 February 1995 the Bank ceased making contributions to the defined benefit division of the Fund on the advice of the Fund's Actuary that such contributions were no longer necessary. The position is re-examined as part of each triennial review.

The Actuary investigated the financial position of the Fund as at 31 March 1997 and reported on 17 July 1997 that, based on the Fund's annual accounts:

i) the assets of the Fund would have been sufficient at 31 March 1997 to provide for the benefits payable to or in respect of all members, including existing pensioners, in the event of the Fund being wound up at that time;

ii) the assets of the Fund would have been sufficient at 31 March 1997 to provide for benefits to members, including existing pensioners, that are attributable to membership prior to 1 April 1997; and

iii) to his knowledge, there have been no circumstances between 31 March 1997 and 30 June 1997 that would cause him to form a different opinion as at 30 June 1997.

(b) Coin issued by the Treasury prior to July 1989 is not recorded by the Reserve Bank within the total of currency in circulation. The Bank has accepted liability for all coin in the first instance, whether issued by the Treasury or the Bank. However, should coin returned to the Bank exceed that issued by the Reserve Bank, the liability for the excess will revert to the Treasury. The face value of coin issued by the Treasury is $87,702,000.

(c) The Bank has a contingent liability for currency in circulation that has been demonetised but not returned to the Bank.

(d) Also, the Bank has a liability for the face value of commemorative currency. However, it is most unlikely that significant amounts of commemorative currency will be returned for redemption at face value. The face value of all commemorative currency issued by the Bank to date is $6,320,000 (1996 $5,742,000).

Commemorative coin was issued by the Treasury prior to July 1989. Particular specimens of series issued both before and after 1989 are not generally distinguishable. The Bank has in practice accepted a contingent liability for all commemorative coin, but part of this liability could revert to the Treasury should large quantities of coin be returned.

(e) The Bank has indemnified the current and former statutory managers of DFC New Zealand Limited against liability arising from the statutory management of DFC New Zealand Limited. These indemnities have been given under sections 5 and 39 of the Reserve Bank of New Zealand Act 1989, on substantially the same terms as those provided by the Crown in Part V of the Reserve Bank of New Zealand Act 1989.

30. Previous year's contingent liabilities

In our *1996 Annual Report*, we recorded five contingent liabilities:

(a) The Reserve Bank of New Zealand Staff Superannuation and Provident Fund required no additional payment to maintain its actuarial soundness in the 1997 financial year.

(b) Coin issued by the Treasury prior to July 1989. No liability arose in the 1996 financial year.

(c) Demonetised currency issued by the Reserve Bank. Demonetised currency with a face value of $74,985 was returned to the Bank for redemption at face value during the 1997 financial year.

(d) Commemorative currency issued by the Reserve Bank. Commemorative currency with a face value of $6,860 was returned for redemption at face value in the 1997 financial year.

(e) Undertakings in connection with the statutory management of DFC New Zealand Limited. No liability arose from these undertakings in the 1997 financial year.

31. RBNZ Registry Limited

The Reserve Bank operates registry services through a wholly owned subsidiary company, RBNZ Registry Limited. The Bank provides various support services to RBNZ Registry Limited and charges for these services at their cost to the Bank.

RBNZ Registry Limited

Statement of financial position

As at 30 June 1997	***1997 $000***	*1996 $000*
Assets:		
Current assets:		
Bank accounts	7,078	11,578
Accounts receivable	1,113	1,843
Prepayments	33	13
Fixed assets	1,040	1,046
Deferred tax	93	113
Total assets	9,357	14,593
Liabilities:		
Current liabilities:		
Accounts payable	458	2,075
Funds held in trust for stockholders	476	910
Withholding tax	1,381	4,018
Funds received in advance from issuers	479	141
Funds due to the Treasury	420	106
Fees received in advance	230	231
Goods and services tax payable (refundable)	44	20
Provision for dividend	1,500	3,000
Tax payable	22	-
Equity:		
Issued capital	3,000	3,000
Retained earnings	1,347	1,092
Total liabilities and equity	9,357	14,593

RBNZ Registry Limited

Statement of financial performance

For the year ended 30 June 1997	***1997 $000***	*1996 $000*
Operating income:		
Fees for registry services	5,889	5,475
Interest	1,126	1,076
Foreign exchange gain	10	-
Other income	226	5
Total operating income	7,251	6,556
Operating expenses:		
Personnel	1,780	1,541
Administration	1,090	944
Computer expenses	765	730
Asset management	406	412
Depreciation	345	374
Audit fees	25	25
Other¤	217	82
Total operating expenses	4,628	4,108
Net operating profit before tax	2,623	2,448
Taxation	868	809
Net profit after tax	1,755	1,639

RBNZ Registry Limited

Statement of movements in equity

For the year ended 30 June 1997	***1997 $000***	*1996 $000*
Equity at start of year	4,092	3,453
Net surplus for the year	1,755	1,639
Less dividend provided for	1,500	1,000
Equity at end of year	4,347	4,092

¤ *Other expenses include $83,000 (1996 $32,000) paid to KPMG for work undertaken outside their capacity as auditors of the Bank.*

RESERVE
BANK
OF NEW ZEALAND

21 August 1997

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 1997 fairly reflect the financial position and operations of the Bank.

Governor

Deputy Governor

2 The Terrace, PO Box 2498, Wellington
Telephone (NZ) [illegible]
Fax (NZ) [illegible], Telex (NZ) [illegible]

KPMG

Audit report

To the Readers of the Financial Statements of the Reserve Bank of New Zealand

We have audited the financial statements on pages 37 to 69. The financial statements provide information about the past financial performance and financial position of the Reserve Bank of New Zealand and group as at 30 June 1997. This information is stated in accordance with the accounting policies set out on pages 37 to 39.

Governors' responsibilities

The Governors are responsible for the preparation of the financial statements as set out in the management statement on page

Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Governors and report our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Governors in the preparation of the financial statements, and
- whether the accounting policies are appropriate to the Reserve Bank of New Zealand and group circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our firm carries out other assignments for the Reserve Bank of New Zealand and RBNZ Registry Limited in the area of taxation advice and special consultancy projects. The firm has no other interest in the Reserve Bank of New Zealand or its subsidiary.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Reserve Bank of New Zealand as far as appears from our examination of those records; and
- the financial statements on pages 37 to 69:
  - comply with generally accepted accounting practice;
  - give a true and fair view of the financial position of the Reserve Bank of New Zealand and group as at 30 June 1997 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 21 August 1997 and our unqualified opinion is expressed as at that date.

Wellington

Reserve Bank of New Zealand

Head office:
2 The Terrace
PO Box 2498
Wellington
New Zealand
Phone: NZ 4 472 2029
Fax: NZ 4 473 8554

RBNZ Registry Limited
Registered office:
2 The Terrace
PO Box 2099
Wellington
New Zealand
Phone: NZ 4 472 2029
or 0800 655 494 (NZ only)
Fax NZ 4 471 3860

Auckland office:
67 Customs Street East
PO Box 2204
Auckland
New Zealand
Phone NZ 9 355 9615
Fax: NZ 9 377 1636

Christchurch office:
158 Hereford Street
PO Box 2204
Christchurch
New Zealand
Phone NZ 3 372 2097
Fax NZ 3 379 1386

For further information
about the Reserve Bank
of New Zealand
write to:
The Knowledge Centre
Reserve Bank of New Zealand
PO Box 2498
Wellington
New Zealand
E-mail: rbnz-info@rbnz.govt.nz
Visit our World Wide Web site on:
http://www.rbnz.govt.nz

Produced by
the Corporate Affairs section
of the Reserve Bank of New Zealand
editor: Paul Jackman
design and production: Cue Design
photography: Stephen A'Court.