Contents of the Financial Statements

Guide to the Main Functions of the Reserve Bank

For the purpose of this *Annual Report* and for the Reserve Bank's planning and budgeting processes the Bank classifies its outputs according to the main functions in the ways described below. Definitions of each output are described below and where necessary further explanations are provided.

Monetary Policy Formulation:

Formulating and publicly presenting monetary policy to enable the Bank to maintain price stability, in the most efficient manner possible.

Market Operations:

Trading, liaising with and monitoring financial markets, to effectively implement monetary policy and maintain the Bank's capacity to intervene in financial markets in support of the orderly and competitive functioning of those markets.

Financial System Oversight:

Registering and supervising banks, promoting the efficiency and soundness of the New Zealand financial system and limiting the significant damage to the financial system that could arise from a bank failure or other financial system distress.

Currency Operations:

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

Registered banks pay the Bank the face value of the currency being issued to them. These funds are invested in New Zealand government securities, which are included in local currency financial assets on the Bank's balance sheet to back the currency in circulation liability. Currency in circulation is a non-interest bearing liability. However, the New Zealand government securities investment portfolio asset is interest-bearing. The income directly associated with the issue of currency is referred to as seigniorage and provides the Bank with its main source of income.

Foreign Reserves Management:

Maintaining the capability to counter circumstances of severe illiquidity in our foreign exchange market and maintaining the Bank's foreign reserves at a level and in a form suitable for foreign exchange market intervention.

The Bank holds foreign currency assets (financed by borrowings from Treasury) that are held as foreign reserves. The assets and liabilities are managed to ensure that the Bank has limited exposure to interest and exchange rate movements in overseas markets.

Settlement Services:

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

Overseas Investment Commission Secretariat:

Providing the secretariat of the Overseas Investment Commission. The Commission administers New Zealand's legislative controls on major inward foreign direct investment.

Registry and Depository Services:

Providing high quality depository, registry and settlement services to the securities market.

Other Outputs:

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

Five Year

Financial Summary[1]

Consolidated Statement of Financial Position[2] As At	1998 June ($m)	1999 June ($m)	2000 June ($m)	2001 June ($m)	**2002 June ($m)**
Assets:					
Foreign Currency Financial[3]	6,522	6,493	5,898	6,054	**5,606**
Local Currency Financial	4,413	5,321	4,092	5,225	**5,821**
Other Assets	61	60	51	46	**38**
Total Assets	10,996	11,874	10,041	11,325	**11,465**
Liabilities and Equity:					
Foreign Currency Financial[3]	6,519	6,487	5,899	5,908	**5,253**
Local Currency Financial	2,176	2,926	1,405	2,379	**2,962**
Currency in Circulation	1,733	1,885	2,160	2,463	**2,659**
Other Liabilities	164	171	177	170	**180**
Equity	404	405	400	405	**411**
Total Liabilities and Equity	10,996	11,874	10,041	11,325	**11,465**

Consolidated Statement of Financial Performance Financial Year Ending	1998 June ($m)	1999 June ($m)	2000 June ($m)	2001 June ($m)	**2002 June ($m)**	2003 June Budget ($m)
Net Investment Income	187.4	186.1	192.4	189.7	**200.7**	221.0
Other Income	10.7	11.7	11.4	9.2	**10.3**	9.0
Total Operating Income	198.1	197.8	203.8	198.9	**211.0**	230.0
Operating Expenses	37.0	44.2	44.4	38.7	**36.0**	36.4
Taxation[4]	0.8	0.6	0.1	0.7	**0.0**	0.0
Surplus for Appropriation	160.3	153.0	159.3	159.5	**175.0**	193.6
Transfers to Equity	8.4	2.2	1.6	5.4	**6.1**	4.1
Payment to Government	151.9	150.8	157.7	154.1	**168.9**	189.5

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

2 Where amounts have been reclassified, comparative figures have been restated.

3 The changes in the levels of foreign currency assets and liabilities over this period are largely due to changes in exchange rates. Foreign currency assets and liabilities do not match due to $348 million (2001 $148 million) of Short-Term Advances arising from forward foreign exchange swap contracts for Market Operations. These Short-Term Advances are fully hedged through forward transactions.

4 There is no taxation expense as the Bank's subsidiary company (RBNZ Registry Limited) ceased trading on 30 June 2001.

Consolidated Statement of Cost of Services[5] Financial Year Ending	1998 June ($m)	1999 June ($m)	2000 June ($m)	2001 June ($m)	**2002 June ($m)**	2003 June Budget ($m)
Functions:						
Monetary Policy Formulation	6.7	7.2	7.2	7.4	**7.3**	8.0
Market Operations	2.8	2.8	2.8	3.2	**3.3**	3.4
Financial System Oversight	2.8	2.7	3.1	3.6	**3.9**	4.3
Currency Operations[6]	14.0	19.6	19.2	12.9	**10.0**	8.0
Foreign Reserves Management	3.7	4.0	3.7	3.9	**3.9**	4.5
Settlement Services[7]	0.8	1.1	1.3	1.7	**2.1**	2.5
Overseas Investment Commission Secretariat	0.9	0.7	0.7	0.7	**0.9**	0.8
Registry and Depository Services[8]	5.7	5.9	6.1	5.5	**3.9**	4.1
Other Outputs	0.6	1.3	0.8	0.9	**0.7**	0.8
Total	38.0	45.3	44.9	39.8	**36.0**	36.4
Less Intercompany Transactions	0.2	0.4	0.4	0.4	**0.0**	0.0
Total for Bank	37.8	44.9	44.5	39.4	**36.0**	36.4
Income Retained under Funding Agreement	11.2	11.9	11.8	10.8	**11.1**	9.5
Net Expenditure under Funding Agreement	26.6	33.0	32.7	28.6	**24.9**	26.9

The Consolidated Statement of Cost of Services shows the total cost of providing each function, including internal transfers between functions. It includes fees charged by the Registry and Depository Services function to other functions, which are netted off against Registry income in the Consolidated Statement of Financial Performance.

The Consolidated Statement of Cost of Services has been restated to show net expenditure under the Funding Agreement methodology applicable from 1 July 2000.

During the year ended 30 June 2002, the Overseas Investment Commission Secretariat incurred substantial legal fees arising from a judicial review of a Commission ruling. For further information on the Overseas Investment Commission Secretariat performance, see note 25.

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

6 The increase in Currency Operations expenses during the 1999 and 2000 financial years was largely due to the one-off effect of introducing polymer bank notes. These notes are expected to have a much longer life than the previous paper notes and result in a lower note issue cost in future years.

7 The increase in Settlement Services expenses was mainly due to the introduction of the Exchange Settlement Account System and subsequent SWIFT interface system. The costs of these systems are recovered from users.

8 Includes taxation expense.

2002/03
Budget Information

The Reserve Bank's budget has been prepared for a 12 month period and is consistent with the Bank's accounting policies.

The 2002/03 budget has been completed using interest and exchange rates prevailing at the time the budget was prepared. No allowance has been made for future changes in interest and exchange rates.

Budget Assumptions

The major assumptions underlying the preparation of the 2002/03 budget are that:

- The Bank performs the functions prescribed in the Reserve Bank of New Zealand Act 1989, and existing functions not directly specified in the legislation.
- The levels of activity in the Foreign Reserves Management and Market Operations functions in 2002/03 will be similar to the 2001/02 levels.

Budgeted Statement of
Cost of Services

The Bank has budgeted to provide the following functions in 2002/03.

For the year ended 30 June	Operating Income Budget 2003 $000	Operating Income Actual 2002 $000	Operating Expenses Budget 2003 $000	Operating Expenses Actual 2002 $000	Operating Surplus (Deficit) Budget 2003 $000	Operating Surplus (Deficit) Actual 2002 $000
Functions:						
Monetary Policy Formulation	**-**	9	**8,048**	7,254	**(8,048)**	(7,245)
Market Operations	**14,668**	13,387	**3,353**	3,276	**11,315**	10,111
Financial System Oversight	**23**	15	**4,321**	3,872	**(4,298)**	(3,857)
Currency Operations	**192,388**	185,897	**7,991**	10,047	**184,397**	175,850
Foreign Reserves Management	**14,363**	3,134	**4,462**	3,915	**9,901**	(781)
Settlement Services	**2,523**	1,925	**2,481**	2,116	**42**	(191)
Overseas Investment Commission Secretariat	**799**	855	**799**	938	**-**	(83)
Registry and Depository Services	**5,190**	5,815	**4,133**	3,934	**1,057**	1,881
Other Outputs	**-**	1	**799**	680	**(799)**	(679)
Total for Bank	**229,954**	211,038	**36,387**	36,032	**193,567**	175,006
Income Retained under Funding Agreement			**9,469**	11,109		
Net Expenditure under Funding Agreement			**26,918**	24,923		

Budgeted Statement of

Financial Performance

For the year ended 30 June	Budget 2003 $000	Actual 2002 $000
Operating Income:		
Net Investment Income	**220,973**	200,704
Other Income	**8,981**	10,334
Total Operating Income	**229,954**	211,038
Operating Expenses:		
Personnel	**16,031**	15,588
Asset Management	**4,046**	4,992
New Currency Issued	**4,438**	4,720
Administration	**1,360**	1,073
Other	**10,512**	9,299
Total Operating Expenses	**36,387**	35,672
Loss on Disposal of Bank Properties	**-**	360
Total Expenses	**36,387**	36,032
Surplus Available for Appropriation	**193,567**	175,006
Funding Agreement Under-Expenditure	**4,082**	6,077
Provision for Transfer of Surplus	**189,485**	168,929

RESERVE BANK
OF NEW ZEALAND

16 August 2002

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 2002 fairly reflect the financial position and operations of the Bank.

Acting Governor

Acting Deputy Chief Executive

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REPORT OF THE AUDITOR-GENERAL

TO THE READERS OF THE FINANCIAL STATEMENTS OF THE RESERVE BANK OF NEW ZEALAND AND GROUP FOR THE YEAR ENDED 30 JUNE 2002

We have audited the financial statements on pages 44 to 87. 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 2002. This information is stated in accordance with the accounting policies set out on pages 44 to 47.

Responsibilities of the Governor

The Reserve Bank Act 1989 requires the Governor to prepare financial statements in accordance with generally accepted accounting practice in New Zealand that give a true and fair view of the financial position of the Reserve Bank of New Zealand and group as at 30 June 2002 and the results of operations and cash flows for the year ended on that date.

Auditor's Responsibilities

Section 15 of the Public Audit Act 2001 requires the Auditor-General to audit the financial statements presented by the Governor. It is the responsibility of the Auditor-General to express an independent opinion on the financial statements and report that opinion to you.

The Auditor-General has appointed Jim Chin of PricewaterhouseCoopers to undertake the audit.

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 Governor in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the Reserve Bank of New Zealand and group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with the Auditing Standards published by the Auditor-General, which incorporate the Auditing Standards issued by the Institute of Chartered Accountants of 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.

We carried out other assignments for the Reserve Bank of New Zealand, in the areas of systems audits and pre-implementation reviews. Other than these assignments and in our capacity as auditor acting on behalf of the Auditor-General, we have no relationship with or interests in the Reserve Bank of New Zealand or any of its subsidiaries.

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 and group as far as appears from our examination of those records; and
- the financial statements of the Reserve Bank of New Zealand and group on pages 44 to 87:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of:
    - the Reserve Bank of New Zealand and group's financial position as at 30 June 2002; and
    - the results of operations and cash flows for the year ended on that date.

Our audit was completed on 16 August 2002 and our unqualified opinion is expressed as at that date.

Jim Chin

Jim Chin
On behalf of the Auditor-General
Wellington, New Zealand

PricewaterhouseCoopers

PricewaterhouseCoopers

Financial Statements

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 "Act"). These statements apply to the financial year ended 30 June 2002. They are prepared in accordance with part VI of the Act.

In these financial statements, the Reserve Bank of New Zealand is also referred to as the "Reserve Bank" or the "Bank".

The Acting Governor of the Reserve Bank authorised these financial statements for issue on 16 August 2002.

(b) Measurement Base

The financial statements are prepared on the historical cost basis, modified by the revaluation of certain assets and liabilities as identified in specific accounting polices below.

(c) Currency of Presentation

All amounts are expressed in New Zealand dollars unless otherwise stated.

(d) Basis of Consolidation

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

(e) Foreign Currency Conversions

Transactions in foreign currencies are translated to New Zealand dollars using exchange rates applying on the trade date of transactions. Foreign currency financial assets and financial liabilities are translated to New Zealand dollars using mid-market exchange rates applying at balance date. The following New Zealand dollar exchange rates for major currencies are used to convert foreign currency assets and liabilities to New Zealand dollars for reporting purposes:

	2002	2001
Euro	**0.4923**	0.4791
Japanese yen	**58.44**	50.22
United States dollars	**0.488**	0.4052

(f) Financial Assets and Liabilities

The Bank presents financial assets and liabilities, and the associated income and expense streams, by distinguishing between foreign currency and local currency activities. Foreign currency activities mainly arise from the Bank's Foreign Reserves Management function. Local currency activities mainly reflect the assets and liabilities associated with the Market Operations function and investment of the proceeds of issuing circulating currency.

The separate reporting of these activities is considered to provide a better presentation of the Bank's financial position, financial performance and risk profile. The Bank considers that the combined reporting of foreign and local currency activities would weaken the informational value of the financial statements.

All financial assets and liabilities are recognised in the Statement of Financial Position on a trade date basis. This means that purchases and sales of financial assets are recognised from the date at which the purchase or sale is agreed.

Foreign Currency Marketable Securities

Foreign currency marketable securities are valued at quoted market mid-prices. Any premium or discount on purchase is capitalised and amortised over the term of the security on a constant yield to maturity basis. Changes in market value are recognised as an increase or decrease in the value of Marketable Securities in the Statement of Financial Position.

Gains and losses arising from changes in the market value of foreign currency marketable securities are recognised in the Statement of Financial Performance as Gain (Loss) from Market Value Changes.

Foreign Currency Term Liabilities

Foreign Currency Term Liabilities are reported at market or fair value. The funds from these liabilities are invested in foreign currency marketable securities. This valuation policy ensures consistency with the policy adopted for the corresponding assets. Market or fair value is imputed by deriving the fair value rate from the relevant market yield curve of similar liabilities and discounting the future cash flows of the liabilities at this rate. Changes in the value of these liabilities are recognised as an increase or decrease in the value of the Term Liabilities in the Statement of Financial Position.

Gains and losses arising from changes in market value of foreign currency term liabilities are recognised in the Statement of Financial Performance as Loss (Gain) from Market Value Changes.

Repurchase and Reverse-Repurchase Transactions

Securities sold under agreements to repurchase continue to be recorded as Marketable Securities in the Statement of Financial Position. The obligation to repurchase is disclosed within liabilities as Securities Sold Under Agreements to Repurchase. The difference between the sale and repurchase price represents an expense and is amortised over the term of the contract and reported in the Statement of Financial Performance.

Securities held under reverse-repurchase agreements are recorded within assets as Securities Purchased Under Agreements to Re-sell. The difference between the purchase price and sale price represents income and is amortised over the term of the contract and reported in the Statement of Financial Performance.

Both repurchase and reverse-repurchase transactions are reported at the transaction value inclusive of any accrued income or expense.

Securities Lending Programme

Securities lent out under the securities lending programme are accounted for on the same basis as repurchase and reverse-repurchase transactions.

Derivative Instruments

The Bank's involvement in derivative instruments comprises forward foreign exchange swap contracts, interest rate futures and interest rate swaps.

Forward foreign exchange swap contracts are revalued for changes in exchange rates. Premiums or discounts at inception are amortised over the life of the swap and are not revalued for changes in interest rates. Changes in value are reported in the Statement of Financial Performance as Liquidity Management Swap Income. The net value at balance date is reported in the Statement of Financial Position.

Interest rate futures are reported in the Statement of Financial Position at quoted market mid-prices. Changes in market value are recognised in the Statement of Financial Performance as Other Foreign Currency Income (Loss). Margin and cash accounts arising from interest rate futures are recognised in the Statement of Financial Position as Other Cash Balances.

Interest rate swaps are reported at fair value in the Statement of Financial Position. The fair value is derived by discounting the future cash flows based on the relevant market yield curves. Interest receivable or payable and changes in fair value are recognised in the Statement of Financial Performance as Other Foreign Currency Income (Loss). Collateral taken under an interest rate swap arrangement is not recognised by the Bank in the Statement of Financial Position. Collateral delivered under an interest rate swap arrangement remains in the Statement of Financial Position.

All derivative instruments in a gain position are reported within the balance of foreign currency Marketable Securities in the Statement of Financial Position. Derivative instruments in a loss position are reported in the Statement of Financial Position as Derivative Instruments in a Loss Position. Derivative instruments in a loss position are offset against derivative instruments in a gain position where a legal right of set-off exists.

Short Sales of Marketable Securities

A "short sale" is a sale of a security that the Bank does not own. Short sales arise as part of the foreign reserves management function (see note 1) and the net returns on short sales are reported as income generated through active management trading (see note 24). Securities that are sold short are recorded at quoted market prices and reported as Short Sales of Marketable Securities in the Statement of Financial Position. Any gains or losses are recognised in the Statement of Financial Performance on the same basis as foreign currency Marketable Securities.

Unsettled Transactions

Unsettled transactions are security purchases or sales that have been agreed but are yet to be settled. Amounts payable for unsettled purchases of securities are reported as liabilities under the title Payable for Unsettled Purchases of Securities. Amounts due from unsettled sales of securities are reported as assets under the title Receivable from Unsettled Sales of Securities.

Unsettled transactions are reported at the contract value.

Investment Portfolio - NZ Government Securities

The Bank's investment portfolio is accounted for on a constant yield to maturity basis. This reflects the intention to hold the portfolio until maturity as these assets represent the investment of the proceeds from issuing currency and the Bank's equity. Any premium or discount on purchase is capitalised and amortised over the term of the security on a constant yield to maturity basis. The portfolio is recorded in the Statement of Financial Position at historic cost adjusted for amortisation of any premium or discount on purchase. Interest is accrued in the Statement of Financial Performance as Local Currency Interest Income.

Market Test Activities

From time to time, the Bank may hold small trading positions in local currency securities as part of market test activities. These are valued at quoted market prices. Changes in market value are recognised as an increase or decrease in the value of Other Local Currency Financial Assets. Gains or losses are recognised in the Statement of Financial Performance as Gain (Loss) from Market Test Activities.

Other Financial Assets and Liabilities

Local and foreign currency cash, deposits and short-term advances are valued at transaction date value.

(g) 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.

(h) Collectors' and Demonetised Currency

The Reserve 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. Therefore, the face value of collectors' currency is recognised as a contingent liability.

The Bank has a liability for the face value of demonetised currency still in circulation. This is recognised as a contingent liability except for a portion retained in the Statement of Financial Position to cover expected future redemptions.

(i) Land and Buildings

The Reserve Bank has adopted FRS-3 Accounting for Property, Plant and Equipment.

Land is carried at market value. Buildings are carried at depreciated market value. In respect of the specialised basement and ground floor occupied by the Reserve Bank, market value is determined based on adjusted replacement cost. Surpluses of book value over historic cost for this class of asset are recorded in the Properties Revaluation Reserve. Where the book value of this class of asset falls below historic cost, previous revaluations are reversed and any remaining balance is charged as an expense in the financial year it occurs. Independent valuations of this class of asset are obtained every five years. Future valuations will be performed at highest and best use rather than existing use, and disposal costs will not be deducted. Buildings are depreciated on a straight line basis over 40 years.

(j) Other Fixed Assets

Other Fixed Assets are carried at cost less depreciation. The following assets held by the Reserve Bank are depreciated on a straight line basis over the following terms:

Computer Hardware	3-4 years
Computer Software	3-5 years
Plant and Equipment	5 years
Building Improvements	8 years
Miscellaneous	expected useful life

Motor vehicles are depreciated on a diminishing value basis at a rate of 26 percent per annum.

(k) Operating Leases

Where the Reserve Bank is the lessee, the lease rentals payable on operating leases are recognised in the Statement of Financial Performance over the term of the lease on a basis consistent with the expected benefits derived from the leased assets.

(l) 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 independently valued at estimated market values. Surpluses of book value over historic cost for this class of asset are recorded in the Currency and Artwork Collections 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.

(m) 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 as inventory at the cost of acquisition and expensed when issued.

(n) Accounts Receivable

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

(o) Provision for Transfer of Surplus

The Reserve Bank's notional surplus income, as calculated under section 158 of the Reserve Bank of New Zealand Act 1989, is recorded in the Statement of Financial Performance as Provision for Transfer of Surplus. Under section 162 of the Act, the Treasurer directs whether the notional surplus income is paid to the Crown or credited to the Bank's reserves after having regard to the Bank's capital requirements and the views of the Board of Directors. As the full notional surplus is required to be paid to the Crown unless otherwise directed by the Treasurer, the full notional surplus is shown as a liability at balance date.

(p) Provision for Restructuring

A provision for restructuring is recognised only when the Reserve Bank has a detailed restructuring plan and the plan has either started to be implemented or has been communicated to those affected by it. Only those expenses that are necessarily entailed by the restructuring and are not associated with ongoing activities are included in the provision.

(q) Retirement Gratuity

Retirement gratuity liabilities are recorded at actuarial value. This is calculated by an independent actuary using a discounted cash flow model based on the relevant market yield curves. Changes in value are recognised in the Statement of Financial Performance as Personnel Expenses. Retirement gratuity liabilities are reported in the Statement of Financial Position as Accrued Employee Entitlements.

(r) Personnel Expenses

Personnel Expenses include the full cost of all staff benefits, including any applicable Fringe Benefit Tax. Salaries and leave accrued at year-end are reported in the Statement of Financial Position as Accrued Employee Entitlements.

(s) Income Tax

Section CB3 of the Income Tax Act 1994 exempts the Reserve Bank from income tax.

(t) Custodial Activities

Securities held by the Reserve Bank under custodial arrangements are not included in these financial statements (see note 44).

(u) Segmental Reporting

The Reserve Bank presents financial assets and financial liabilities, and their associated income and expense streams, by distinguishing between foreign currency and local currency activities. In addition, the Bank provides operating results by function. The Bank considers that these reporting approaches provide appropriate segmental reporting of the Bank's activities.

(v) Cost Allocation

The Reserve Bank of New Zealand Act 1989 requires the Reserve Bank to account for revenue and expenses with reference to the functions the Bank performs. The Bank has systems in place to allocate costs to functions. Costs are allocated as closely as possible to reflect their consumption. Direct costs are assigned directly to functions. Indirect costs are allocated to functions based on pre-determined cost drivers and related activity/usage information.

(w) Income Allocated Between Functions

Each function receives income and incurs expenses relating directly to the assets and liabilities used exclusively by that function. These income and expenses are presented in the Statement of Cost of Services. Notional balance sheets are calculated for each of the Reserve Bank's functions as though each function operated autonomously. Income and expense flows are also attached to the notional funding for each function. This structure enables each function to more accurately report the financial outcome of the services provided.

The income earned from the assets funded by the Bank's net equity is allocated equally to the Foreign Reserves Management and Market Operations functions.

(x) Cash Flows

Cash is defined as those items that are convertible to cash within two working days and are used in the day-to-day cash management of the Reserve Bank. This definition includes local currency securities purchased under agreements to re-sell and a substantial portion of the Bank's foreign reserves portfolio (see note 2).

Investing activities include cash movements, including realised gains and losses, in the Bank's financial asset portfolios and cash flows arising from movements in fixed assets.

Financing activities include cash flows arising from the issue of circulating currency, borrowing from the Treasury, and payment of the net operating surplus to the Crown.

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

(y) Comparative Amounts

To ensure consistency with the current year, comparative figures have been restated where appropriate.

(z) Changes in Accounting Policies

There have been no material changes to the Reserve Bank's accounting policies for the year ended 30 June 2002 and uniform accounting policies have been applied throughout the Bank.

Consolidated Statement of
Financial Position

As at 30 June	Note	2002 $000	2001 $000
Assets:			
Foreign Currency Financial Assets			
Cash Balances with Other Central Banks		**186,025**	141,936
Other Cash Balances		**6,223**	5,993
Marketable Securities	2	**2,822,359**	4,186,807
Short-Term Advances		**348,361**	148,093
Receivable from Unsettled Sales of Securities		**24,725**	4,400
Securities Purchased Under Agreements to Re-sell		**2,194,682**	1,512,238
Accrued Interest		**24,052**	54,963
Total Foreign Currency Financial Assets[9]		**5,606,427**	6,054,430
Local Currency Financial Assets			
Cash on Hand		**4**	206
Securities Purchased Under Agreements to Re-sell		**2,818,939**	2,516,507
Investment Portfolio - NZ Government Securities		**2,953,554**	2,661,517
Accrued Interest		**48,233**	46,482
Other Local Currency Financial Assets	4	**8**	41
Total Local Currency Financial Assets		**5,820,738**	5,224,753
Total Financial Assets		**11,427,165**	11,279,183
Other Assets			
Accounts Receivable		**2,413**	1,539
Inventories	5	**5,709**	6,692
Fixed Assets	6	**29,968**	37,694
Total Other Assets		**38,090**	45,925
Total Assets		**11,465,255**	11,325,108

9 Foreign currency assets and liabilities do not match due to $348 million (2001 $148 million) of Short-Term Advances arising from forward foreign exchange swap contracts for Market Operations. These Short-Term Advances are fully hedged through forward transactions.

As at 30 June	Note	2002 $000	2001 $000
Liabilities:			
Foreign Currency Financial Liabilities			
Payable for Unsettled Purchases of Securities		**55,254**	-
Short Sales of Marketable Securities		**61,344**	178,992
Derivative Instruments in a Loss Position	3	**14,533**	9,974
Securities Sold Under Agreements to Repurchase		**991,740**	962,676
Term Liabilities	7	**4,063,936**	4,668,965
Accrued Interest		**66,334**	87,241
Total Foreign Currency Financial Liabilities[9]		**5,253,141**	5,907,848
Local Currency Financial Liabilities			
Government Deposits		**2,945,860**	2,248,961
Other Deposits	8	**14,673**	129,051
Accrued Interest		**1,346**	796
Total Local Currency Financial Liabilities		**2,961,879**	2,378,808
Total Financial Liabilities		**8,215,020**	8,286,656
Other Liabilities			
Currency in Circulation	9	**2,658,671**	2,462,737
Provision for Transfer of Surplus	12	**168,929**	154,138
Miscellaneous Liabilities	10	**11,163**	16,182
Total Other Liabilities		**2,838,763**	2,633,057
Total Liabilities		**11,053,783**	10,919,713
Equity	13	**411,472**	405,395
Total Liabilities and Equity		**11,465,255**	11,325,108

The above statement is to be read in conjunction with the notes on pages 56 to 87.

Consolidated Statement of Movements in Equity

For the year ended 30 June	Note	2002 $000	2001 $000
Equity at Start of Year		**405,395**	400,100
Net Surplus for the Year		**175,006**	159,580
Transfer to Properties Revaluation Reserve	13	**(15,671)**	-
Increase (Decrease) in Properties Revaluation Reserve		**15,671**	(147)
Total Recognised Revenues and Expenses for the Year		**175,006**	159,433
Provision for Transfer of Surplus to Government	12	**(168,929)**	(154,138)
Equity at End of Year		**411,472**	405,395

The above statement is to be read in conjunction with the notes on pages 56 to 87.

Consolidated Statement of
Cost of Services

For the year ended 30 June	Note	Operating Income Actual 2002 $000	Operating Expenses Actual 2002 $000	Operating Surplus (Deficit) Actual 2002 $000	Operating Surplus (Deficit) Budget 2002 $000	Operating Surplus (Deficit) Actual 2001 $000
Functions:						
Monetary Policy Formulation		9	7,254	(7,245)	(8,301)	(7,421)
Market Operations		13,387	3,276	10,111	10,687	11,418
Financial System Oversight		15	3,872	(3,857)	(4,785)	(3,630)
Currency Operations	23	185,897	10,047	175,850	171,268	163,334
Foreign Reserves Management[10]	24	3,134	3,915	(781)	10,151	(3,420)
Settlement Services		1,925	2,116	(191)	(299)	(243)
Overseas Investment Commission Secretariat	25	855	938	(83)	2	(94)
Registry and Depository Services	26	5,815	3,934	1,881	992	516
Other Outputs		1	680	(679)	(798)	(880)
Total for Bank		211,038	36,032	175,006	178,917	159,580
Income Retained under Funding Agreement[11]			11,109			
Net Expenditure under Funding Agreement			24,923			

The Consolidated 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 56 to 87.

10 The lower Foreign Reserves Management operating surplus reflects a loss of $11.7 million recorded on the passive benchmark portfolio. This loss arises from unbudgeted changes in differences between borrowing and investing interest rates.

11 The Funding Agreement commencing 1 July 2000 allows the Bank to retain revenue from specified revenue-generating activities and net this revenue against expenses for the calculation of Net Expenditure under Funding Agreement.

Consolidated Statement of

Financial Performance

For the year ended 30 June	Note	Actual 2002 $000	Budget 2002 $000	Actual 2001 $000
Operating Income:				
Income from Foreign Currency Financial Assets				
Interest Income	27	166,891		195,874
Gain (Loss) from Market Value Changes	29	10,326		93,538
Other Foreign Currency Income (Loss)		17,814		(630)
Total Income from Foreign Currency Financial Assets		195,031		288,782
Expenses on Foreign Currency Financial Liabilities				
Interest Expense	28	159,060		210,431
Loss (Gain) from Market Value Changes	29	46,760		93,036
Other Foreign Currency Expenses		945		817
Total Expenses on Foreign Currency Financial Liabilities		206,765		304,284
Net Foreign Exchange Revaluation Gain (Loss)	30	1,530		1,272
Foreign Currency Investment Income		(10,204)		(14,230)
Income from Local Currency Financial Assets				
Interest Income	27	323,079		276,847
Liquidity Management Swap Income		5,204		10,457
Gain from Market Test Activities		86		148
Total Income from Local Currency Financial Assets		328,369		287,452
Total Expenses on Local Currency Financial Liabilities	28	117,461		83,486
Local Currency Investment Income		210,908		203,966
Net Investment Income		200,704	206,680	189,736
Other Income	31	10,334	9,654	9,217
Total Operating Income		211,038	216,334	198,953

For the year ended 30 June	Note	Actual 2002 $000	Budget 2002 $000	Actual 2001 $000
Operating Expenses:				
Personnel[12]		15,588	17,077	16,734
Asset Management	32	4,992	5,033	6,078
New Currency Issued[13]	23	4,720	3,707	4,689
Administration[14]		1,073	1,473	1,319
Other	34	9,299	10,127	9,022
Total Operating Expenses		35,672	37,417	37,842
Loss on Revaluation or Disposal of Bank Properties[15]		360	-	817
Total Expenses		36,032	37,417	38,659
Operating Surplus		175,006	178,917	160,294
Taxation	43	-	-	714
Surplus Available for Appropriation	12	175,006	178,917	159,580

The above statement is to be read in conjunction with the notes on pages 56 to 87.

12 This is due to unfilled vacancies and lower training costs.
13 This reflects higher-than-estimated demand for new bank notes and coins.
14 Lower Administration expenses is due to lower-than-expected communication expenses.
15 This loss arises from the sale of the Auckland building.

Consolidated Statement of
Cash Flows

For the year ended 30 June	Note	2002 $000	2001 $000
Cash Flows From Operating Activities:			
Source:			
Interest Received - Foreign Currency		**193,384**	286,060
- Local Currency - Investment Portfolio		**192,107**	181,101
- Other		**125,163**	91,851
Liquidity Management Swap Income		**8,600**	13,571
Fees, Commission and Other Income Received		**9,674**	10,590
		528,928	583,173
Disbursements:			
Interest Paid - Foreign Currency		**232,534**	283,467
- Local Currency		**116,912**	82,934
Payments to Suppliers and Employees		**39,160**	38,938
Other Foreign Currency Expenses		**17,025**	-
Net GST Paid (Received)		**(49)**	28
Income Tax Paid (Received)		**(132)**	358
		405,450	405,725
Net Cash Flow From Operating Activities	36	**123,478**	177,448
Cash Flows From Investing Activities:			
Source:			
Net (Increase) Decrease in Other Local Currency Financial Assets		**33**	50
Sale of Fixed Assets		**5,890**	19
		5,923	69
Disbursements:			
Net Increase (Decrease) in Foreign Currency Securities Purchased under Agreements to Re-sell		**682,444**	197,678
Net Increase (Decrease) in Foreign Currency Marketable Securities		**53,411**	9,165
Net Increase (Decrease) in Other Foreign Currency Financial Assets		**224,002**	61,961
Net (Increase) Decrease in Other Foreign Currency Financial Liabilities		**37,981**	47,888
Net Purchases of NZ Government Securities for Investment Portfolio		**287,979**	212,086
Purchase of Fixed Assets		**1,104**	980
		1,286,921	529,758
Net Cash Flow From Investing Activities		**(1,280,998)**	(529,689)

For the year ended 30 June	Note	2002 $000	2001 $000
Cash Flows From Financing Activities:			
Source:			
Issue of Circulating Currency		1,359,937	3,549,562
Withdrawal of Circulating Currency		1,164,003	3,246,790
Net Issue of Circulating Currency		195,934	302,772
Disbursements:			
Payment for Demonetised Currency		13	69
Net (increase) repayment of Foreign Currency Term Liabilities		(30,281)	166,473
Payment of Surplus to Government		154,138	157,681
		123,870	324,223
Net Cash Flow From Financing Activities		72,064	(21,451)
CASH FLOW FROM ALL ACTIVITIES		(1,085,456)	(373,692)
Plus Exchange Rate Effect		(330,948)	108,422
NET CASH FLOW FROM ALL ACTIVITIES		(1,416,404)	(265,270)
Opening Cash Balance		2,999,392	3,264,662
CLOSING CASH BALANCE	37	1,582,988	2,999,392

The above statement is to be read in conjunction with the notes on pages 56 to 87.

Cash is defined in the Statement of Cash Flows as those items that are convertible to cash within two working days and are used in the day-to-day cash management of the Reserve Bank. This definition includes local currency securities purchased under agreements to re-sell and a substantial portion of the Bank's foreign reserves portfolio (see note 2).

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

For further information on the management of the Bank's liquidity, see note 22.

Financial Statements

1. 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.

(a) Foreign Currency Activities

Foreign currency activities result mainly from the Bank's holdings of foreign currency assets under its foreign reserves management function. The foreign reserves management portfolio comprises foreign currency assets held for foreign exchange intervention purposes ("foreign reserves"), pursuant to section 24 of the Act, and other foreign currency assets held for trading purposes. The level of foreign reserve intervention assets is determined by the Treasurer on advice from the Bank. The funding for foreign reserves is provided by foreign currency loans from the Treasury. These loans incur interest at market rates. Generally these loans are held to maturity, though from time-to-time the opportunity to repay early may be taken at the instigation of either the Bank or the Treasury, where this is expected to reduce the cost of funding. Funding for other foreign currency assets held for trading purposes usually arises through repurchase transactions with foreign securities trading firms.

Foreign currency assets are held in various currencies. The majority are denominated in United States dollars and euros. Financial instruments held within these foreign currency portfolios consist mainly of sovereign securities, securities held under reverse-repurchase transactions or balances held with other central banks, commercial banks and settlement institutions. Liquidity and credit risk are key criteria in determining the type of instruments held.

The foreign reserves portfolio is actively managed. Subject to liquidity and credit risk constraints, the Bank defines benchmark portfolios that represent a "neutral" asset and liability structure in terms of market risk. The neutral position is established to minimise the Bank's exposure to foreign currency risk and interest rate risk. In general, liquidity and credit risk constraints mean that the neutral structure will return a loss - the returns on assets will be less than the cost of funding those assets.

Departures of the actual asset and liability portfolio from the neutral asset and liability structure are undertaken within defined risk boundaries where there is an expected increase in returns. Departures from the neutral structure also arise when the Bank trades in the foreign exchange markets on its own account and when marketable securities are short sold, again for expected return enhancement, within defined risk boundaries. Departures from the neutral structure involve discretionary trading and portfolio management decisions, and quantitative trading strategies, undertaken by specialist staff with delegated authority from the Governor.

The Bank also holds, from time-to-time, foreign currency assets and liabilities that arise from market operations. Any foreign currency exposures related to market operations are fully hedged through the use of forward foreign exchange swap contracts.

For further information on the risk management policies relating to financial instruments, see notes 16 to 22.

(b) Events during 2001/02

- In February 2002, the Bank sold approximately NZ $770 million of Japanese sovereign long-term debt and bought short-term securities issued by AA rated entities incorporated in North America and Europe. The Bank has no exposure to the Japanese government long-term debt as at 30 June 2002 (2001 22 per cent of foreign reserves). The Bank has no exposure to Japanese corporates or banks at 30 June 2002 (2001 nil).
- The Bank implemented systems and procedures to trade interest rate swaps in the foreign currency portfolios from 15 February 2002. The first interest rate swaps trade was transacted on 11 March 2002.

(c) Derivative Instruments

The Bank's involvement in derivative instruments comprises forward foreign exchange swap contracts, interest rate futures and interest rate swaps. Forward foreign exchange swap contracts are used as a part of hedged foreign exchange transactions for both market operations and foreign reserves management. Any unrealised foreign exchange gain (loss) on unsettled forward foreign exchange swap contracts is offset by the foreign exchange revaluation on the associated money market instruments. Interest rate futures and interest rate swaps are used to enhance expected returns on foreign currency assets and, from time-to-time, to hedge interest rate and foreign exchange risk.

(d) Securities Lending Programme

As part of its foreign reserves operations, the Bank participates in a securities lending programme managed by JPMorgan Chase Bank. Under the programme, JPMorgan Chase Bank lends out securities owned by the Bank in exchange for cash or alternative securities. 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 own foreign currency asset portfolios.

The total market value of securities made available to participate in this programme is limited to US $700 million. As at 30 June 2002, the market value of securities lent out under the programme was US $440.5 million (2001 US $259.4 million).

(e) Local Currency Activities

Local currency activities arise as a result of:

- The Bank's liquidity management that largely involves offsetting the daily net flows to or from government by advancing funds to or withdrawing funds from the banking system. This is done mostly through daily open market operations. Any residual banking system liquidity is advanced or withdrawn using the Official Cash Rate scheme (OCR). Under the OCR scheme, the Bank advances or withdraws cash at a margin to the OCR. The financial instruments used in these operations include local currency reverse-repurchase transactions and forward foreign exchange swap contracts. The Bank periodically uses securities from its investment portfolio of New Zealand government securities in repurchase transactions, to withdraw funds from the banking system, for liquidity management purposes.
- The Bank's investment portfolio of New Zealand government bonds supports its liability for currency in circulation and the Bank's net equity. The Bank holds these investments until maturity.

From time-to-time, the Bank may also hold small trading positions in Crown or registered bank securities as part of market test activities.

(f) Restrictions on Title to Assets

As part of the active management of its foreign currency operations, the Bank enters into security repurchase transactions. The securities sold by the Bank under repurchase agreements continue to be recorded as Marketable Securities in the Bank's Statement of Financial Position. At balance date, securities with a book value of $991.7 million (2001 $962.7 million) had been sold to counterparties under repurchase agreements. These transactions are also 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.

The Bank can be required to deliver collateral under interest rate swap arrangements. Any collateral delivered remains in the Statement of Financial Position. At balance date, collateral delivered by the Bank was $nil (2001 $nil).

Asset Notes

2. Foreign Currency Marketable Securities

	Note	2002 $000	2001 $000
Marketable Securities			
- Liquifiable within two days (considered cash equivalent)[16]	37	**1,532,330**	2,712,762
- Liquifiable outside two days (not considered cash equivalent)		**1,237,501**	1,473,827
Derivative Instruments in a Gain Position	3	**52,528**	218
Total Marketable Securities		**2,822,359**	4,186,807

3. Derivative Instruments

	Book Value 2002 $000	Notional Principal 2002 $000	Book Value 2001 $000	Notional Principal 2001 $000
Interest Rate Futures				
Futures in a Gain Position	**2,384**	**940,507**	218	63,582
Net Futures Position	**2,384**	**940,507**	218	63,582

At 30 June 2002, the Bank had 441 open futures contracts (2001 280).

	Book Value 2002 $000	Notional Principal 2002 $000	Book Value 2001 $000	Notional Principal 2001 $000
Interest Rate Swaps				
Swaps in a Gain Position	**29,722**	**892,914**	-	-
Swaps in a Loss Position	**(1,263)**	**-**	(6,860)	282,855
Net Interest Rate Swap Position	**28,459**	**892,914**	(6,860)	282,855
Forward Foreign Exchange Swaps				
Swaps in a Gain Position	**20,422**	**506,500**	-	-
Swaps in a Loss Position	**(13,270)**	**112,917**	(3,114)	151,948
Net Forward Foreign Exchange Swap Position	**7,152**	**619,417**	(3,114)	151,948
Total Derivatives in a Gain Position	**52,528**	**2,339,921**	218	63,582
Total Derivatives in a Loss Position	**(14,533)**	**112,917**	(9,974)	434,803
Net Derivative Instruments	**37,995**	**2,452,838**	(9,756)	498,385

4. Other Local Currency Financial Assets

	2002 $000	2001 $000
Advances to Staff	**4**	38
Other Financial Assets	**4**	3
Total Other Local Currency Financial Assets	**8**	41

16 The movement in cash balances between 2000/01 and 2001/02 arose from the restructuring of the Foreign Reserves portfolio and the change in exchange rates. See note 37.

5. Inventories

	2002 $000	2001 $000
Bank Notes for Circulation	**3,567**	4,687
Coin for Circulation	**1,711**	1,684
Collectors' Currency	**424**	321
Stationery	**7**	-
Total Inventories	**5,709**	6,692

6. Fixed Assets

	Historic Cost/ Valuation 2002 $000	Accumulated Depreciation 2002 $000	Book Value 2002 $000	Historic Cost/ Valuation 2001 $000	Accumulated Depreciation 2001 $000	Book Value 2001 $000
Freehold Land	**7,980**	**-**	**7,980**	11,880	-	11,880
Buildings	**17,085**	**454**	**16,631**	19,185	27	19,158
Total Land and Buildings			**24,611**			31,038
Computer Hardware	**2,243**	**1,839**	**404**	2,580	1,580	1,000
Plant	**244**	**111**	**133**	314	97	217
Office Equipment	**866**	**593**	**273**	1,486	1,011	475
Software	**4,708**	**3,034**	**1,674**	3,237	2,207	1,030
Currency Processing Equipment	**2,154**	**2,154**	**-**	2,154	1,985	169
Motor Vehicle	**41**	**34**	**7**	41	31	10
Building Improvements	**3,998**	**2,179**	**1,819**	3,826	1,826	2,000
Tenancy Inducements	**626**	**362**	**264**	1,527	1,152	375
Currency Collection	**610**	**-**	**610**	607	-	607
Artwork Collection	**152**	**-**	**152**	154	-	154
Work in Progress	**21**	**-**	**21**	619	-	619
			5,357			6,656
Total Fixed Assets			**29,968**			37,694

The book values for land and buildings are depreciated market values based on existing use with the exception of the Wellington specialised basement and ground floor occupied by the Reserve Bank, which are valued at adjusted replacement cost. The market value of the Bank's land and buildings to a purchaser not requiring the Bank's specialised facilities is assessed at $23,565,000 (2001 $29,565,000).

	Valuation Date	Registered Valuer
Wellington Head Office	June 2001	Jones Lang Lasalle Advisory Limited
Wellington Carparks	June 1999	Darroch Limited

Liability and Equity Notes

7. Term Liabilities

The funding for foreign reserves is provided by foreign currency loans from the Treasury. These loans are unsecured and incur interest at market rates. The weighted average interest rates do not include the impact of the Bank's interest rate swaps.

	Total 2002 $000	Discount/ (Premium) 2002 $000	Weighted Average Interest Rate 2002 %	Total 2001 $000	Discount/ (Premium) 2001 $000	Weighted Average Interest Rate 2001 %
Unsecured Term Liabilities						
One year or less	**415,316**	**(193)**	**1.4%**	1,119,817	(21,827)	2.2%
Between one and two years	**727,244**	**-**	**2.8%**	1,226,717	(21,178)	3.0%
Between two and five years	**2,369,947**	**(57,386)**	**3.4%**	2,046,076	(98,143)	4.9%
Over five years	**551,429**	**-**	**2.9%**	276,355	-	4.5%
Total Unsecured Term Liabilities	**4,063,936**	**(57,579)**		4,668,965	(141,148)	

8. Other Deposits

	2002 $000	2001 $000
Settlement Bank Deposits	**4,387**	65,785
Central Bank Deposits	**1,917**	2,115
International Monetary Fund Deposits	**8,163**	9,506
Claims Due to Stock Holders	**-**	51,451
Other Deposits	**206**	194
Total Other Deposits	**14,673**	129,051

Claims Due to Stock Holders arose in the Reserve Bank's registry operations from the early receipt of funds payable to registered third-party stock holders. These funds were paid to the registered stock holders on 2 July 2001.

9. Currency in Circulation

The exclusive rights of national currency issue are vested with the Reserve Bank. Currency in circulation comprises bank notes and coins issued by the Reserve Bank and does not include coin issued by the Treasury prior to July 1989 (see note 42 (b)).

As at 30 June 2002, the following bank notes and coins were in circulation.

Denomination	Number of Note Forms/Coins 2002 000	Face Value 2002 $000	Number of Note Forms/Coins 2001 000	Face Value 2001 $000
5c	**225,460**	**11,273**	198,580	9,929
10c	**70,170**	**7,017**	59,340	5,934
20c	**20,375**	**4,075**	14,870	2,974
50c	**5,086**	**2,543**	1,830	915
$1	**53,614**	**53,614**	49,851	49,851
$2	**52,730**	**105,460**	49,059	98,117
$5	**15,290**	**76,450**	14,885	74,423
$10	**15,730**	**157,304**	15,182	151,820
$20	**51,094**	**1,021,879**	48,276	965,522
$50	**6,588**	**329,378**	6,538	326,910
$100	**8,897**	**889,678**	7,763	776,342
Total Currency in Circulation	525,034	2,658,671	466,174	2,462,737

10. Miscellaneous Liabilities

	Note	2002 $000	2001 $000
Accounts Payable		**6,835**	11,976
Accrued Employee Entitlements		**2,587**	2,638
Other Current Liabilities		**605**	291
Provision for Restructuring	11	-	130
Demonetised Currency		**1,136**	1,147
Total Miscellaneous Liabilities		**11,163**	16,182

Demonetised currency is recognised as a contingent liability (see note 42(c)) except for $1,136,000 (2001 $1,147,000), which has been retained to cover future expected redemptions.

Pre-decimal coin was issued by the Treasury and is included in the Reserve Bank's contingent liabilities (see note 42(b)).

11. Provision for Restructuring

	2002 $000	2001 $000
Registry and Depository Services		
Balance at Start	130	577
Additions to Provision	-	31
Less Expenses Incurred	(99)	(170)
Unused Balance Written Back	(31)	(308)
Total Provision for Restructuring	-	130

During 1999/2000, the Reserve Bank provided for restructuring RBNZ Registry Limited. This included provision for payments to staff who would be made redundant as a result of the out-sourcing of registry processing activities. Payments relating to out-sourcing of registry processing activities were completed during the 2001/02 financial year.

12. Transfers to Retained Earnings and Provision for Transfer of Surplus

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

Transfers to or from the Bank's Equity reflect the difference between actual net expenditure and the level of net expenditure specified under the Funding Agreement with the Crown. 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 $6,077,000 (2001 $5,442,000) has consequently been transferred to the Bank's Equity.

The Treasurer may authorise additional transfers to Equity. In the year under review, no additional transfers were made and the Bank's surplus, net of the transfers noted above, has been recorded in the Provision for Transfer of Surplus.

	2002 $000	2001 $000
Total Expenses	36,032	39,373
Income Retained under Funding Agreement	11,109	10,815
Net Expenditure under Funding Agreement	24,923	28,558
Funding Level specified in Funding Agreement	31,000	34,000
Funding Agreement Under-Expenditure	6,077	5,442
Surplus Available for Appropriation	175,006	159,580
Less Transfers to Equity		
Funding Agreement Under-Expenditure	6,077	5,442
Provision for Transfer of Surplus	168,929	154,138

13. Equity

	2002 $000	2001 $000
Retained Earnings		
Opening Balance	404,699	399,247
Add Transfers to Retained Earnings	6,077	5,442
Transfer from Currency and Artwork Collections Revaluation Reserve	-	10
Transfer to Properties Revaluation Reserve	(15,671)	-
Closing Balance	395,105	404,699
Properties Revaluation Reserve		
Opening Balance	-	147
Decrease in Value of Bank Properties	-	(147)
Transfer from Retained Earnings	15,671	-
Closing Balance	15,671	-
Currency and Artwork Collections Revaluation Reserve		
Opening Balance	696	706
Disposal of Artwork	-	(10)
Closing Balance	696	696
Total Equity	411,472	405,395

The transfer to the Properties Revaluation Reserve arose from the disposal of the Auckland building.

14. Fair Value of Financial Instruments

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms-length transaction.

Quoted market values represent fair value when a financial instrument is traded in an organised and liquid market that is able to absorb a significant transaction without moving the price against the trader.

Derivative Instruments

Where quoted market prices for derivative instruments are unavailable, the fair value is calculated using discounted cash flow models based on current interest rates for the type and maturity of the underlying instrument. The fair value of all derivative instruments is presented in note 3.

Financial Assets and Liabilities

All other financial assets and liabilities are valued at either quoted market prices or prices derived from market yield curves, as described in the Reserve Bank's accounting policies, except as detailed below.

Repurchase and Reverse-Repurchase Agreements

The reported value of repurchase and reverse-repurchase agreements is considered to approximate their fair value due to the short-term nature of the agreements.

Unsettled Transactions

The reported value of unsettled sales and purchases is considered to approximate their fair value due to the very short term until settlement occurs.

Short-Term Advances

The reported value of Short-Term Advances is considered to approximate their fair value due to the short term until maturity.

Investment Portfolio - NZ Government Securities

The fair value of the Bank's Investment Portfolio - NZ Government Securities is $3,007,971,454 (2001 $2,707,561,000). This has been calculated by valuing the current holdings at 30 June 2002 market prices.

Deposits

The carrying values of deposits are considered to approximate their fair value as they are payable on demand.

Currency in Circulation

The fair value of Currency in Circulation is considered to be its face value as reported in the accounts.

Provision for Transfer of Surplus

The carrying value of the provision is considered to approximate its fair value due to the short period between balance date and expected payment date.

15. Concentrations of Funding

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

As at 30 June 2002	**Total 2002 $000**	New Zealand Government $000	New Zealand Public $000	Overseas Securities Trading Firms $000	Other $000
Foreign Currency Financial Liabilities					
Payable for Unsettled Purchases of Securities	**55,254**	-	-	-	55,254
Short Sales of Marketable Securities	**61,344**	-	-	-	61,344
Derivative Instruments in a Loss Position	**14,533**	-	-	-	14,533
Securities Sold Under Agreements to Repurchase	**991,740**	-	-	991,740	-
Term Liabilities	**4,063,936**	4,063,936	-	-	-
Accrued Interest	**66,334**	66,334	-	-	-
Total Foreign Currency Financial Liabilities	**5,253,141**	4,130,270	-	991,740	131,131
Local Currency Financial Liabilities					
Government Deposits	**2,945,860**	2,945,860	-	-	-
Other Deposits	**14,673**	-	-	-	14,673
Accrued Interest	**1,346**	1,332	-	-	14
Total Local Currency Financial Liabilities	**2,961,879**	2,947,192	-	-	14,687
Total Financial Liabilities	**8,215,020**	7,077,462	-	991,740	145,818
Other Liabilities					
Currency in Circulation	**2,658,671**	-	2,658,671	-	-
Provision for Transfer of Surplus	**168,929**	168,929	-	-	-
Miscellaneous Liabilities	**11,163**	-	1,136	-	10,027
Total Other Liabilities	**2,838,763**	168,929	2,669,834	-	10,027
Total Liabilities	**11,053,783**	7,246,391	2,669,834	991,740	155,845

Comparative figures as at 30 June 2001 were as follows.

As at 30 June 2001	Total 2001 $000	New Zealand Government $000	New Zealand Public $000	Overseas Securities Trading Firms $000	Other $000
Foreign Currency Financial Liabilities					
Payable for Unsettled Purchases of Securities	-	-	-	-	-
Short Sales of Marketable Securities	**178,992**	-	-	-	178,992
Derivative Instruments in a Loss Position	**9,974**	6,860	-	-	3,114
Securities Sold Under Agreements to Repurchase	**962,676**	-	-	962,676	-
Term Liabilities	**4,668,965**	4,668,965	-	-	-
Accrued Interest	**87,241**	87,241	-	-	-
Total Foreign Currency Financial Liabilities	**5,907,848**	4,763,066	-	962,676	182,106
Local Currency Financial Liabilities					
Government Deposits	**2,248,961**	2,248,961	-	-	-
Other Deposits	**129,051**	-	-	-	129,051
Accrued Interest	**796**	753	-	-	43
Total Local Currency Financial Liabilities	**2,378,808**	2,249,714	-	-	129,094
Total Financial Liabilities	**8,286,656**	7,012,780	-	962,676	311,200
Other Liabilities					
Currency in Circulation	**2,462,737**	-	2,462,737	-	-
Provision for Transfer of Surplus	**154,138**	154,138	-	-	-
Miscellaneous Liabilities	**16,182**	-	1,147	-	15,035
Total Other Liabilities	**2,633,057**	154,138	2,463,884	-	15,035
Total Liabilities	**10,919,713**	7,166,918	2,463,884	962,676	326,235

Risk Management Notes

16. Risk Management

The Reserve Bank is involved in policy-orientated activities. Therefore, the Bank's risk management framework differs from the risk management frameworks for most other financial institutions. The main financial risks that the Bank is exposed to include credit risk on foreign currency reserves and interest rate risk on both foreign and local currency assets and liabilities. In the management of foreign reserves, minimising liquidity risk is the prime consideration in order to maintain an effective foreign exchange intervention capability. Policies for managing interest rate, credit, foreign currency and liquidity risk are outlined in notes 18 to 22. Like most other central banks, the nature of the Bank's operations creates exposure to a range of operational risks and reputational risks.

Bank management seeks to ensure that strong and effective risk-analysis, management and control systems are in place for assessing, monitoring and managing risk exposure. A Risk Management Committee, comprising the Governors and senior management, is responsible for advising on the monitoring and management of all risks that the Bank faces. A Reserves Oversight Committee comprising Governors and senior management reviews the foreign reserves business strategy and portfolio structure. This review includes the appropriateness of risk-return trade-offs underlying the business strategy and portfolio structure. Specialist staff conduct the Bank's local currency, foreign currency reserves management and foreign exchange dealing operations in accordance with a clearly defined risk management framework, including limits and delegated authorities, set by the Governor. The risk management framework is subject to regular review by the Risk Management Committee.

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

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

The Bank is subject to annual external audit by the Office of the Controller and Auditor-General under the Public Audit Act 2001. Auditing arrangements are overseen by an Audit Committee including three of the Bank's non-executive directors, which meets regularly to monitor the external reporting and audit functions within the Bank. The Committee also reviews the internal audit function and has direct access to the external auditor.

The overall risk management framework is designed to strongly encourage the sound and prudent management of the Bank's risks. The Bank seeks to ensure the risk management framework is consistent with financial market best practice and it periodically engages external experts to assist in reviewing and modifying risk management practices and processes.

17. Operational Risk

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

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

Compliance with corporate policies, generic requirements and departmental internal control systems are managed by:

- an induction program for new employees, which makes them aware of the requirements;
- a quarterly management affirmation by each departmental head that corporate policies and departmental internal control systems have been complied with; and
- an active internal audit function.

In addition, departmental managers are required to report to Governors any significant incidents that could adversely impact on the Bank. This is known as the Proactive Problem Management process. Its purpose is to notify senior management promptly of important unexpected issues and to provide them with an opportunity to give immediate advice.

The above policies and procedures for managing operational risk are reinforced by the requirements of section 165 of the Reserve Bank of New Zealand Act 1989, which requires the financial statements of the Bank to 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.

18. Credit Risk

Credit risk is the risk of loss arising from a counterparty to a financial contract failing to discharge its obligations.

(a) Credit Risk Management

Credit risk in the foreign currency portfolios is monitored and managed daily. End-of-day exposures are controlled through comprehensive individual counterparty and issuer credit limits. Exposure concentrations to an industry or geographical location are controlled by aggregate credit limits. Exposures against these limits are measured in credit-equivalent terms depending on the nature of the exposure. Individual credit limits are set on the basis of the rating of the counterparty or issuer. Aggregate credit limits are set on the basis of country ratings and views on the likelihood of a default of one entity affecting the credit worthiness of other entities. Limits are updated as necessary when new market information emerges, with all limits formally reviewed on an annual basis. The Governor's tolerance for foreign reserve credit risk is a maximum possible loss in the event of default of an AA+ rated non-sovereign counterparty/issuer of no more than $350 million.

Credit risk in local currency portfolios is also monitored and managed daily. Intra-day and inter-day exposures are controlled through comprehensive individual counterparty and issuer limits. Exposures to the New Zealand government are not included in this credit framework. Most exposures arise under intra-day reverse-repurchase agreements entered into with settlement account holders under the real time gross settlement system. Securities that the Reserve Bank accepts under intra-day reverse-repurchase agreements include New Zealand government bonds, Treasury bills, and short-term paper issued by registered banks, local authorities and highly rated corporates. The securities are held in the Bank's name for the duration of the exposure and there is no charge for this intra-day liquidity. The exposures to the counterparty from whom securities are purchased under reverse-repurchase agreements are monitored but are not subject to formal limits. The Bank only accepts New Zealand government paper in its inter-day liquidity management operations.

As part of the arrangements for using interest rate swaps, the Bank manages credit risk by providing or receiving collateral as swap instruments are revalued over time. This collateral is likely to take the form of cash or government securities. The collateral taken by the Bank at balance date was $nil (2001 $nil).

The maximum loss that the Bank would suffer as a result of a security issuer defaulting is the value reported in the accounts.

(b) Concentrations of Credit Exposure

The Bank's significant end-of-year concentrations of credit exposure by industry type were as follows.

	2002 $000	2001 $000
New Zealand Government	**5,850,452**	5,224,712
Other Sovereign Issuers (excluding New Zealand Government)	**3,667,632**	3,896,854
Supranational Financial Institutions	**262,354**	508,808
Foreign Banks	**1,642,045**	1,647,868
Other	**4,682**	941
Total Financial Assets	**11,427,165**	11,279,183

Credit exposures arising from securities purchased under agreements to re-sell (reverse-repurchase agreements) are classified according to the issuer of the security for credit exposure concentration purposes. This is consistent with the Bank's view of the substance of the credit exposure and internal risk management. An alternative approach would be to classify credit exposures arising from securities purchased under agreements to re-sell according to the counterparty to the transaction. Using this approach would result in credit exposures of:

- $1.5 billion (2001 $1.5 billion) and $0.7 billion (2001 $nil) being reported against securities trading firms and foreign banks respectively, instead of against Other Sovereign Issuers; and
- $2.7 billion (2001 $nil) and $0.1 billion (2001 $2.5 billion) being reported against security trading firms and New Zealand banks respectively, instead of against New Zealand Government.

The Bank's maximum credit risk exposure in relation to derivatives is the cost of re-establishing the derivative contracts in the market in the event of the failure of the counterparty to fulfil its obligations. This cost is the fair value of the derivatives as reported in note 3.

The Bank's significant end-of-year concentrations of credit exposure based on the entity's country of ownership were as follows.

	2002 $000	2001 $000
New Zealand	**5,850,460**	5,224,820
USA	**2,283,216**	1,988,147
Japan	**8,569**	1,036,163
Europe	**2,850,069**	2,343,652
Supranational Financial Institutions	**262,354**	508,808
Other	**172,497**	177,593
Total Financial Assets	**11,427,165**	11,279,183

(c) Credit Exposure by Credit Rating

The following table presents the Bank's financial assets based on Standard and 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. 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 and Poor's.

	Credit Rating	2002 $000	% of 2002 Financial Assets	2001 $000	% of 2001 Financial Assets
Foreign Currency Financial Assets					
Cash Balances with Other Central Banks	AAA	**173,207**	**1.5%**	115,009	1.0%
	AA+	**4,422**	**0%**	26,927	0.2%
	AA-	**8,396**	**0.1%**	-	-
Other Cash Balances	AA+	**3,696**	**0%**	2,258	0%
	AA	**1,271**	**0%**	2,912	0%
	N/R	**1,256**	**0%**	823	0%
Marketable Securities	AAA	**1,821,313**	**15.9%**	1,836,405	16.4%
	AA+	**247,031**	**2.3%**	1,192,385	10.6%
	AA	**328,581**	**2.9%**	676,688	6.0%
	AA-	**425,434**	**3.7%**	481,329	4.3%
Short-Term Advances	AA+	**184,426**	**1.6%**	148,093	1.3%
	AA-	**163,935**	**1.4%**	-	-
Receivable from Unsettled Sales of Securities	AA+	**24,725**	**0.2%**	2	0%
	AA	**-**	**-**	4,398	0%
Securities Purchased Under Agreements to Re-sell	AAA	**2,194,682**	**19.3%**	1,512,238	13.4%
Accrued Interest	Various	**24,052**	**0.2%**	54,963	0.5%
		5,606,427	**49.1%**	6,054,430	53.7%
Local Currency Financial Assets					
Cash on Hand	N/A	**4**	**0%**	206	0%
Securities Purchased Under Agreements to Re-sell	AAA	**2,818,939**	**24.7%**	2,516,507	22.3%
Investment Portfolio - NZ Government Securities	AAA	**2,953,554**	**25.8%**	2,661,517	23.6%
Accrued Interest	AAA	**48,233**	**0.4%**	46,482	0.4%
Other Local Currency Financial Assets	N/R	**8**	**0%**	41	0%
		5,820,738	**50.9%**	5,224,753	46.3%
Total Financial Assets		**11,427,165**	**100.0%**	11,279,183	100.0%

Summary by Major Credit Category					
Foreign Currency Financial Assets	AAA	**4,189,202**	**36.7%**	3,463,652	30.8%
	AA+/-	**1,391,917**	**12.2%**	2,534,992	22.4%
	Various	**24,052**	**0.2%**	54,963	0.5%
	N/R	**1,256**	**0%**	823	0%
Total Foreign Currency Financial Assets		**5,606,427**	**49.1%**	6,054,430	53.7%
Local Currency Financial Assets	AAA	**5,820,726**	**50.9%**	5,224,506	46.3%
	N/R	**8**	**0%**	41	0%
	N/A	**4**	**0%**	206	0%
Total Local Currency Financial Assets		**5,820,738**	**50.9%**	5,224,753	46.3%
Total Financial Assets		**11,427,165**	**100.0%**	11,279,183	100.0%

(d) Credit Exposure by Counterparty

The table below shows the number of issuers where the Bank's credit exposures equalled or exceeded 10 per cent of the Bank's equity[17] for:

- End-of-year actual credit exposure.
- Peak end-of-day credit exposure (on the basis of limits).
- Peak local currency intra-day credit exposures (on the basis of limits). These exposures arise through intra-day reverse-repurchase agreements entered into with settlement account holders under the real time gross settlement system.

% of equity	**End-of-year 2002**	End-of -year 2001	**Peak end-of-day 2002**	Peak end-of-day 2001	**Peak local Currency intra-day 2002**	Peak local Currency intra-day 2001
10% to 19.9%	**6**	3	**22**	26	**14**	19
20% to 29.9%	**3**	1	**1**	1	**1**	1
30% to 39.9%	**1**	5	**1**	1	**10**	11
40% to 49.9%	**1**	2	**20**	20	-	-
50% to 59.9%	**1**	1	**1**	1	-	-
60% to 69.9%	**2**	-	-	-	-	-
80% to 89.9%	-	-	**16**	14	-	-
90% to 99.9%	-	-	**4**	5	-	-
100% to 109.9%	-	-	**4**	1	-	-
110% to 119.9%	-	-	-	3	-	-
120% to 129.9%	-	1	**1**	1	-	-
130% to 139.9%	-	-	**2**	2	-	-
190% to 199.9%	-	-	**6**	6	-	-
210% to 219.9%	-	1	-	-	-	-
240% to 249.9%	-	1	**1**	1	-	-
330% to 339.9%	**1**	-	-	-	-	-
470% to 479.9%	-	1	-	-	-	-
490% to 499.9%	-	-	-	1	-	-
520% to 529.9%	-	-	-	-	-	-
540% to 549.9%	**1**	-	-	-	-	-

Peak end-of-day exposures greater than 100 per cent of the Bank's equity were to sovereign issuers and supranational financial institutions. The Bank does not constrain credit exposure to certain sovereign issuers (e.g. the United States of America). Exposures to these sovereign issuers are managed through other limits and controls (such as currency composition limits). End-of-year exposures greater than 100 per cent were to highly-rated sovereign issuers.

17 Excludes exposures to the New Zealand government.

19. Interest Rate Risk

Interest rate risk is the risk of loss arising from changes in interest rates.

Foreign Currency Interest Rate Risk

The Reserve Bank's "neutral" asset portfolios involve some interest rate risk because the Bank's foreign currency assets are funded by foreign currency liabilities whose interest rate characteristics cannot be exactly replicated. The interest rate characteristics of the liabilities are similar to those of highly-rated bank and corporate instruments, but liquidity considerations require that a significant proportion of investments are in United States and German domestic government instruments, which have different interest rate characteristics to the liabilities. The Bank accepts the associated interest rate risk as inevitable, but seeks to closely limit additional, mainly duration-related, interest rate mismatches. The Bank is continually reviewing investment opportunities for ways to reduce the costs and risks associated with holding reserves, while maintaining the liquidity of its intervention assets.

Interest rate risk arising from departures from the neutral position is managed by way of Value at Risk limits and stop-loss limits for the Bank's combined market risk as described in note 21.

Local Currency Interest Rate Risk

Interest rate risk on the Investment Portfolio - New Zealand Government Securities is not actively managed as a matter of policy. This recognises that:

- active risk management could require the Bank to carry out transactions that conflict with the Bank's monetary policy stance; and
- the investment portfolio held by the Bank is exactly matched by liabilities held by the Crown, so from a consolidated Crown position the interest rate risk is eliminated.

The 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.

Assets and liabilities will mature or re-price within the following periods.

As at 30 June 2002	Weighted Average Interest Rate	Total 2002 $000	Non-Interest Sensitive $000	6 Months or Less $000	6 to 12 Months $000	1 to 2 Years $000	2 to 5 Years $000	Over 5 Years $000
Foreign Currency Financial Assets								
Cash Balances with Other Central Banks	2.79%	**186,025**	-	186,025	-	-	-	-
Other Cash Balances	2.25%	**6,223**	-	6,223	-	-	-	-
Marketable Securities	2.43%	**2,822,359**	-	2,124,257	6,839	336,552	273,725	80,986
Short-Term Advances	1.77%	**348,361**	-	348,361	-	-	-	-
Receivable from Unsettled Sales of Securities	0%	**24,725**	-	24,725	-	-	-	-
Securities Purchased Under Agreements to Re-sell	2.37%	**2,194,682**	-	2,194,682	-	-	-	-
Accrued Interest	0%	**24,052**	-	24,052	-	-	-	-
Total Foreign Currency Financial Assets	2.36%	**5,606,427**	-	4,908,325	6,839	336,552	273,725	80,986
Foreign Currency Financial Liabilities								
Payable for Unsettled Purchases of Securities	0%	**55,254**	-	55,254	-	-	-	-
Short Sales of Marketable Securities	3.91%	**61,344**	-	-	-	-	61,344	-
Derivative Instruments in a Loss Position	0%	**14,533**	-	14,533	-	-	-	-
Securities Sold Under Agreements to Repurchase	2.05%	**991,740**	-	991,740	-	-	-	-
Term Liabilities	2.56%	**4,063,936**	-	2,554,913	-	337,956	1,171,067	-
Accrued Interest	0%	**66,334**	-	66,334	-	-	-	-
Total Foreign Currency Financial Liabilities	2.41%	**5,253,141**	-	3,682,774	-	337,956	1,232,411	-
Foreign Currency Interest Rate Sensitivity Gap		**353,286**	-	1,225,551	6,839	(1,404)	(958,686)	80,986
Local Currency Financial Assets								
Cash on Hand	0%	**4**	-	4	-	-	-	-
Securities Purchased Under Agreements to Re-sell	5.58%	**2,818,939**	-	2,818,939	-	-	-	-
Investment Portfolio - NZ Government Securities	6.93%	**2,953,554**	-	-	445,865	149,564	1,029,109	1,329,016
Accrued Interest	0%	**48,233**	-	48,233	-	-	-	-
Other Local Currency Financial Assets	6.89%	**8**	-	4	3	1	-	-
Other Assets	0%	**38,090**	38,090	-	-	-	-	-
Total Local Currency Assets	6.18%	**5,858,828**	38,090	2,867,180	445,868	149,565	1,029,109	1,329,016
Local Currency Financial Liabilities								
Government Deposits	5.50%	**2,945,860**	-	2,945,860	-	-	-	-
Other Deposits	5.25%	**14,673**	-	14,673	-	-	-	-
Accrued Interest	0%	**1,346**	-	1,346	-	-	-	-
Other Liabilities	0%	**2,838,763**	2,838,763	-	-	-	-	-
Equity	0%	**411,472**	411,472	-	-	-	-	-
Total Local Currency Liabilities and Equity	2.62%	**6,212,114**	3,250,235	2,961,879	-	-	-	-
Local Currency Interest Rate Sensitivity Gap		**(353,286)**	(3,212,145)	(94,699)	445,868	149,565	1,029,109	1,329,016
On-Balance Sheet Interest Rate Sensitivity Gap		**-**	(3,212,145)	1,130,852	452,707	148,161	70,423	1,410,002
Off-Balance Sheet Instruments		**-**	-	(794,662)	(32,787)	(35,988)	812,059	51,378
Total Interest Rate Sensitivity Gap		**-**	(3,212,145)	336,190	419,920	112,173	882,482	1,461,380
All Currencies								
New Zealand		**(1,233)**	(3,212,145)	257,354	445,868	149,565	1,029,109	1,329,016
United States		**(1,894)**	-	39,196	(32,303)	65,967	(74,754)	-
Euro		**(2,236)**	-	58,233	6,355	(103,359)	(71,873)	108,408
Japan		**1,512**	-	(22,444)	-	-	-	23,956
Other		**3,851**	-	3,851	-	-	-	-

Comparative figures as at 30 June 2001 were as follows.

As at 30 June 2001	Weighted Average Interest Rate	Total 2001 $000	Non-Interest Sensitive $000	6 Months or Less $000	6 to 12 Months $000	1 to 2 Years $000	2 to 5 Years $000	Over 5 Years $000
Foreign Currency Financial Assets								
Cash Balances with Other Central Banks	3.05%	**141,936**	-	141,936	-	-	-	-
Other Cash Balances	2.34%	**5,993**	-	5,993	-	-	-	-
Marketable Securities	3.24%	**4,186,807**	-	1,619,161	403,572	609,731	1,250,437	303,906
Short-Term Advances	3.78%	**148,093**	-	148,093	-	-	-	-
Receivable from Unsettled Sales of Securities	0%	**4,400**	-	4,400	-	-	-	-
Securities Purchased Under Agreements to Re-sell	3.99%	**1,512,238**	-	1,512,238	-	-	-	-
Accrued Interest	0%	**54,963**	-	54,963	-	-	-	-
Total Foreign Currency Financial Assets	3.40%	**6,054,430**	-	3,486,784	403,572	609,731	1,250,437	303,906
Foreign Currency Financial Liabilities								
Payable for Unsettled Purchases of Securities	0%	-	-	-	-	-	-	-
Short Sales of Marketable Securities	5.04%	**178,992**	-	-	-	-	116,021	62,971
Derivative Instruments in a Loss Position	3.75%	**9,974**	-	3,114	-	-	6,860	-
Securities Sold Under Agreements to Repurchase	3.46%	**962,676**	-	962,676	-	-	-	-
Term Liabilities	3.74%	**4,668,965**	-	1,969,246	502,753	410,781	1,051,346	734,839
Accrued Interest	0%	**87,241**	-	87,241	-	-	-	-
Total Foreign Currency Financial Liabilities	3.68%	**5,907,848**	-	3,022,277	502,753	410,781	1,174,227	797,810
Foreign Currency Interest Rate Sensitivity Gap		**146,582**	-	464,507	(99,181)	198,950	76,210	(493,904)
Local Currency Financial Assets								
Cash on Hand	0%	**206**	-	206	-	-	-	-
Securities Purchased Under Agreements to Re-sell	5.71%	**2,516,507**	-	2,516,507	-	-	-	-
Investment Portfolio - NZ Government Securities	7.06%	**2,661,517**	-	-	150,919	440,987	735,207	1,334,404
Accrued Interest	0%	**46,482**	-	46,482	-	-	-	-
Other Local Currency Financial Assets	6.33%	**41**	-	3	30	8	-	-
Other Assets	0%	**45,925**	45,925	-	-	-	-	-
Total Local Currency Assets	6.29%	**5,270,678**	45,925	2,563,198	150,949	440,995	735,207	1,334,404
Local Currency Financial Liabilities								
Government Deposits	5.75%	**2,248,961**	-	2,248,961	-	-	-	-
Other Deposits	5.01%	**129,051**	-	129,051	-	-	-	-
Accrued Interest	0%	**796**	-	796	-	-	-	-
Other Liabilities	0%	**2,633,057**	2,633,057	-	-	-	-	-
Equity	0%	**405,395**	405,395	-	-	-	-	-
Total Local Currency Liabilities and Equity	2.51%	**5,417,260**	3,038,452	2,378,808	-	-	-	-
Local Currency Interest Rate Sensitivity Gap		**(146,582)**	(2,992,527)	184,390	150,949	440,995	735,207	1,334,404
On-Balance Sheet Interest Rate Sensitivity Gap		-	(2,992,527)	648,897	51,768	639,945	811,417	840,500
Off-Balance Sheet Instruments		-	-	63,582	-	-	(30,265)	(33,317)
Total Interest Rate Sensitivity Gap		-	(2,992,527)	712,479	51,768	639,945	781,152	807,183
All Currencies								
New Zealand		**(1,226)**	(2,992,527)	329,746	150,949	440,995	735,207	1,334,404
United States		**31,529**	-	209,251	85,404	197,394	(9,194)	(451,326)
Euro		**(21,374)**	-	27,643	38,016	48,164	(59,302)	(75,895)
Japan		**(4,845)**	-	149,923	(222,601)	(46,608)	114,441	-
Other		**(4,084)**	-	(4,084)	-	-	-	-

20. Foreign Currency Risk

Foreign currency risk is the risk of loss arising from changes in exchange rates. The assets held in foreign currency portfolios are largely matched by foreign currency liabilities of approximately equal value. The Reserve Bank's exposure to foreign currency risk arises from trading positions undertaken by specialist staff. Foreign currency risk is managed by way of Value at Risk limits and stop-loss limits for the Bank's combined market risk as described in note 21.

Foreign currency assets and liabilities arising from domestic Market Operations are fully hedged using forward foreign currency swaps.

As at 30 June, the Bank's net exposure to major currencies, including forward foreign exchange swap contracts and foreign currency swaps, was as follows.

	Currency of Denomination				
As at 30 June 2002	United States Dollar $000	Euro $000	Japanese Yen $000	Other Currencies $000	**Total All Currencies $000**
Foreign Currency Financial Assets					
Cash Balances with Other Central Banks	44,064	127,731	8,396	5,834	**186,025**
Other Cash Balances	992	2,394	1,462	1,375	**6,223**
Marketable Securities	1,848,035	957,229	17,095	-	**2,822,359**
Short-Term Advances	348,361	-	-	-	**348,361**
Receivable from Unsettled Sales of Securities	-	24,725	-	-	**24,725**
Securities Purchased Under Agreements to Re-sell	1,412,225	782,457	-	-	**2,194,682**
Accrued Interest	6,648	17,404	-	-	**24,052**
Total Foreign Currency Financial Assets	3,660,325	1,911,940	26,953	7,209	**5,606,427**
Foreign Currency Financial Liabilities					
Payable for Unsettled Purchases of Securities	-	55,254	-	-	**55,254**
Short Sales of Marketable Securities	-	61,344	-	-	**61,344**
Derivative Instruments in a Loss Position	-	14,021	296	216	**14,533**
Securities Sold Under Agreements to Repurchase	902,709	89,031	-	-	**991,740**
Term Liabilities	2,339,056	1,562,937	161,943	-	**4,063,936**
Accrued Interest	26,872	30,026	9,436	-	**66,334**
Total Foreign Currency Financial Liabilities	3,268,637	1,812,613	171,675	216	**5,253,141**
Off-Balance Sheet Instruments	(393,582)	(101,563)	146,234	(3,142)	**(352,053)**
Net Currency Exposure	(1,894)	(2,236)	1,512	3,851	**1,233**

All net currency exposures were within approved limits at balance date.

	Currency of Denomination				
As at 30 June 2001	United States Dollar $000	Euro $000	Japanese Yen $000	Other Currencies $000	**Total All Currencies $000**
Foreign Currency Financial Assets					
Cash Balances with Other Central Banks	102,216	8,029	26,926	4,765	**141,936**
Other Cash Balances	1,792	1,793	1,171	1,237	**5,993**
Marketable Securities	2,540,435	646,544	999,828	-	**4,186,807**
Short-Term Advances	148,093	-	-	-	**148,093**
Receivable from Unsettled Sales of Securities	15	5	4,380	-	**4,400**
Securities Purchased Under Agreements to Re-sell	1,120,743	391,495	-	-	**1,512,238**
Accrued Interest	30,126	15,958	8,879	-	**54,963**
Total Foreign Currency Financial Assets	3,943,420	1,063,824	1,041,184	6,002	**6,054,430**
Foreign Currency Financial Liabilities					
Payable for Unsettled Purchases of Securities	-	-	-	-	-
Short Sales of Marketable Securities	143,158	35,834	-	-	**178,992**
Derivative Instruments in a Loss Position	6,494	-	-	3,480	**9,974**
Securities Sold Under Agreements to Repurchase	925,433	37,243	-	-	**962,676**
Term Liabilities	2,659,855	982,407	1,026,703	-	**4,668,965**
Accrued Interest	38,201	29,714	19,326	-	**87,241**
Total Foreign Currency Financial Liabilities	3,773,141	1,085,198	1,046,029	3,480	**5,907,848**
Off-Balance Sheet Instruments	(138,750)	-	-	(6,606)	**(145,356)**
Net Currency Exposure	31,529	(21,374)	(4,845)	(4,084)	**1,226**

21. Market Risk

The Reserve Bank manages interest rate risk and foreign currency risk in an integrated manner under the following market risk management arrangements.

(a) Tolerance for Extreme Market Risk Losses

The Governor's tolerance for loss from interest rate risk and foreign currency risk is no more than $100 million in aggregate in any financial year. Within this aggregate outer tolerance for market risk losses, the Governor's tolerance for market risk losses from actively managed positions is $50 million in any financial year. The two loss tolerances include tolerance in times of extreme global financial market crises.

(b) VaR Limits and Stress Testing

Interest rate and foreign exchange risks are controlled on a day-to-day basis by way of Value at Risk (VaR) limits. VaR measures the potential daily loss from most movements in market interest rates and foreign currencies. On 99 out of 100 days, actual daily losses from market risk are expected to be less than VaR. VaR does not capture market risk losses arising from financial market crises. Therefore, the foreign reserves portfolio is subjected to extreme financial market stress scenarios to ensure that the market risk positions taken within VaR limits do not result in losses which exceed the Governor's tolerance for loss, including in times of financial crises.

VaR limits are set for the aggregate portfolios (total foreign reserves assets and liabilities), risk-neutral portfolios, and actively managed portfolios (trading portfolios). The VaR for the trading portfolios is calculated as the difference between the actual portfolios and neutral portfolios.

VaR	Actual Portfolios 2002 $000	2001 $000	Neutral Portfolios 2002 $000	2001 $000	Trading Portfolios 2002 $000	2001 $000
Limit	**10,000**	10,000	**4,000**	4,000	**6,000**	6,000
As at 30 June	**390**	1,333	**342**	1,190	**48**	143
Peak over period	**2,063**	7,108	**2,069**	3,874	**1,303**	4,687
Low over period	**373**	1,193	**343**	1,170	**(103)**	(349)
Average over period	**1,228**	1,970	**1,153**	1,845	**75**	87

During 2001/02, actual daily losses on the traded portfolios were within (predicted) VaR 97 per cent (2000/01 98 per cent) of the time. The number of times actual losses exceeded VaR was slightly higher than expected in 2001/02 mainly due to losses on intra-day portfolio changes which are not captured by VaR and a higher frequency of large interest rate changes. Losses which exceed VaR more frequently than expected are analysed to verify the integrity of the VaR model and the results of analysis are reported to senior management at Risk Management Committee.

The composition of market risk for the aggregate portfolios is as follows.

VaR	Foreign Currency Risk $000	Interest Rate Risk $000	Correlation[18] $000	Total Market Risk 2002 $000	Total Market Risk 2001 $000
Limit				**10,000**	10,000
As at 30 June	153	707	(470)	**390**	1,333
Peak over period	103	3,146	(1,186)	**2,063**	7,108
Low over period	202	672	(501)	**373**	1,193
Average over period	185	1,684	(641)	**1,228**	1,970

(c) Stop-Loss Limits

Stop-loss limits are set to control losses that may arise from departures from the risk neutral position. A stop-loss limit of $9 million in any rolling 20-day trading period is applied to the aggregate interest rate and foreign currency losses from trading positions. When aggregate market risk losses exceed the stop-loss limit, positions are closed down. The Governor must approve the re-establishment of positions.

22. Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds at short notice to meet commitments associated with financial instruments. Liquidity risk is also the risk that an entity will have to sell a financial asset quickly at much less than its fair value.

Foreign Currency Activities

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

The Bank has additional liquidity arrangements for foreign currency assets including:

- Repurchase agreements with other central banks enabling the Bank to sell securities in exchange for foreign currency, while simultaneously agreeing to repurchase those same securities at a specified later date for an agreed amount. In essence, the arrangement allows the Bank to enhance the liquidity of its foreign reserves portfolio with minimum additional risks.
- A standby credit facility (US $100 million) to augment the foreign currency that can be accessed quickly.

Local Currency Activities

The Bank is responsible for managing the daily liquidity of the banking system. This includes advancing funds to and withdrawing funds from the banking system to smooth out daily liquidity peaks and troughs. The nature of these activities, which mostly involve offsetting the flow of funds from the Crown to settlement banks, is such that the Bank is not subject to the liquidity constraints that impact on other organisations.

18 Correlation is the reduction in overall risk due to risks in one portfolio offsetting risks in another portfolio.

Cost of Services Notes

23. Currency Operations

Seigniorage is the income directly associated with the issue of currency and provides the Reserve Bank with its main source of income. Registered banks pay the Bank the face value of the currency issued to them. These funds are invested in New Zealand government securities, which are included in local currency financial assets, to back the currency in circulation liability. Currency in circulation is a non-interest bearing liability. However, the New Zealand government securities investment portfolio is interest bearing. The resulting interest income is seigniorage.

As part of the Currency Operations function, the Bank issues collectors' currency. The net profit for this activity in 2001/02 was $228,500 (2001 $48,000 loss, which included inventory write-offs of $309,000).

	2002 $000	2001 $000
Seigniorage	**183,220**	173,431
Other Income	**2,677**	2,784
Operating Income	**185,897**	176,215
New Note Issue Expenses	**1,119**	1,814
New Coin Issue Expenses	**3,064**	2,308
Collectors' Currency Issue Expenses	**537**	567
Currency Issue Expenses	**4,720**	4,689
Other Currency Expenses	**5,327**	8,192
Operating Expenses	**10,047**	12,881
Currency Operations Operating Surplus	**175,850**	163,334

24. Foreign Reserves Management

The Reserve Bank holds foreign currency assets to enable intervention in the foreign exchange market, should that ever prove necessary. These foreign reserves are fully funded by foreign currency borrowings through the Treasury. New Zealand pays more to borrow overseas than it can earn investing in high quality assets able to be realised quickly. As a result, holding reserves involves a small net cost, although some reduction in that cost is possible through active management of the holdings.

Subject to liquidity and credit risk constraints being satisfied, the Bank defines benchmark portfolios that represent a "neutral" asset and liability structure in terms of market risk. The neutral position is established to minimise the Bank's exposure to foreign currency risk and interest rate risk. Departures from the neutral position involve discretionary trading and portfolio management decisions, and quantitative trading strategies, undertaken by specialist staff with delegated authority from the Governor. The net income arising from departures from the neutral portfolio represents the active management of reserves.

	2002 $000	2001 $000
Active Management Trading Gains	**1,882**	6,287
Gain (Loss) on Neutral Asset/Liability Structure	**(11,674)**	(19,616)
Net Investment Income	**(9,792)**	(13,329)
Other	**(886)**	(872)
Foreign Exchange Difference on Translation	**491**	(29)
Foreign Reserves Management Gain (Loss)	**(10,187)**	(14,230)
Residual Income Allocation[19]	**13,321**	14,678
Operating Income	**3,134**	448
Operating Expenses	**3,915**	3,868
Foreign Reserves Management Operating Surplus	**(781)**	(3,420)

For further information on the Foreign Reserves Management Function, see note 1, parts (a) to (d). Further information on risk management is contained in notes 16 to 22.

25. Overseas Investment Commission Secretariat

The Commission administers New Zealand's legislative controls on major inward foreign direct investment. The Reserve Bank provides the secretariat of the Overseas Investment Commission and funds its activities to the extent these are not covered by application fees.

The cost of services of the Overseas Investment Commission Secretariat (the "OIC") for the year ended 30 June 2002 was as follows.

	2002 $000	2001 $000
Application Fees	**848**	573
Other	**7**	8
Operating Income	**855**	581
Personnel	**363**	313
Administration	**30**	26
Asset Management	**66**	70
Professional Services	**64**	65
Legal Fees	**287**	52
Computing Expenses	**72**	80
Other	**56**	69
Operating Expenses	**938**	675
Overseas Investment Commission Secretariat Operating Surplus (Deficit)	**(83)**	(94)

The increase in legal fees arose from a judicial review of an Overseas Investment Commission ruling.

19 Residual Income allocation represents the income earned from the assets funded by the Bank's net equity, which is allocated equally to the Foreign Reserves Management and Market Operations functions.

Fees for the OIC were introduced on 15 January 1996. Under the Funding Agreement from 1 July 2000, the OIC operating surplus (deficit) is retained by the Bank. The annual operating income and surplus (deficit) since 15 January 1996 was as follows.

	Operating Income $000	Operating Surplus (Deficit) $000
1996 (six months)	373	46
1997	589	(116)
1998	583	(279)
1999	764	41
2000	628	(63)
2001	581	(94)
2002	**855**	**(83)**
	4,373	**(548)**

26. Registry and Depository Services

The Reserve Bank provides registrar and paying agency services to issuers of fixed interest securities. The Bank also operates the Austraclear New Zealand System, which provides the financial markets with depository, clearing, and settlement services for debt securities and equities.

Though the Bank outsourced the processing of registry services to Computershare Investor Services (NZ) Limited, the Bank remains responsible for the services now carried out on its behalf.

	Note	2002 $000	2001 $000
Fees for Registry and Depository Services		**5,162**	5,070
Other Income		**653**	951
Operating Income		**5,815**	6,021
Personnel		**830**	886
Other		**3,104**	3,905
Operating Expenses		**3,934**	4,791
Registry and Depository Services Operating Surplus before Taxation		**1,881**	1,230
Taxation[20]	43	**-**	714
Registry and Depository Services Operating Surplus after Taxation		**1,881**	516

20 Up to 30 June 2001, the Registry and Depository Services function was provided through a wholly-owned subsidiary company, RBNZ Registry Limited, which was liable for income tax. RBNZ Registry Limited ceased trading on 1 July 2001.

Consolidated Statement of
Financial Performance Notes

27. Interest Income from Financial Assets

	2002 $000	2001 $000
Interest Income from Foreign Currency Financial Assets		
Cash Balances with Other Central Banks	4,189	6,116
Other Cash Balances	2,864	122
Marketable Securities	132,742	159,465
Securities Purchased Under Agreements to Re-sell	26,616	29,639
Securities Lending	480	532
Total Interest Income from Foreign Currency Financial Assets	166,891	195,874
Interest Income from Local Currency Financial Assets		
Securities Purchased Under Agreements to Re-sell	125,161	89,947
Investment Portfolio - NZ Government Securities	197,916	184,996
Government Bank Accounts	-	1,899
Advances to Staff	2	5
Total Interest Income from Local Currency Financial Assets	323,079	276,847
Total Interest Income from Financial Assets	489,970	472,721

28. Interest Expense on Financial Liabilities

	2002 $000	2001 $000
Interest Expense on Foreign Currency Financial Liabilities		
Securities Sold Under Agreements to Repurchase	4,196	10,839
Term Liabilities	154,864	199,592
Total Interest Expense on Foreign Currency Financial Liabilities	159,060	210,431
Interest Expense on Local Currency Financial Liabilities		
Government Deposits	111,326	75,698
Other Deposits	6,135	7,788
Total Interest Expense on Local Currency Financial Liabilities	117,461	83,486
Total Interest Expense on Financial Liabilities	276,521	293,917

29. Gain/Loss from Market Value Changes

	2002 $000	2001 $000
Market Value Changes - Financial Assets		
(Loss) Gain from Unrealised Market Value Changes	(22,574)	65,952
Gain from Realised Market Value Changes	32,900	27,586
Total Gain from Market Value Changes from Financial Assets	10,326	93,538
Market Value Changes - Financial Liabilities		
Loss from Unrealised Market Value Changes	30,419	71,310
Loss from Realised Market Value Changes	16,341	21,726
Total Loss from Market Value Changes on Financial Liabilities	46,760	93,036

30. Net Foreign Exchange Revaluation Gain (Loss)

	2002 $000	2001 $000
Foreign Exchange Revaluations		
Gain (Loss) on Financial Assets	(623,321)	280,638
Gain (Loss) on Financial Liabilities	624,851	(279,366)
Net Foreign Exchange Revaluation Gain (Loss)	1,530	1,272

31. Other Income

	Actual 2002 $000	Budget 2002 $000	Actual 2001 $000
Fees for Registry and Depository Services	5,162	4,582	5,070
Sales of Collectors' Currency	897	1,100	814
Rental Income from Properties	1,979	1,817	1,858
Registered Bank Fees	10	23	11
Currency Distribution Income	-	-	90
Overseas Investment Commission Fees	853	809	580
Miscellaneous	1,433	1,323	794
Total Other Income	10,334	9,654	9,217

32. Asset Management Expenses

	Note	Actual 2002 $000	Budget 2002 $000	Actual 2001 $000
Depreciation of Property, Plant and Equipment	33	2,941	2,968	3,474
(Gain) Loss on Disposal of Fixed Assets		15	142	573
Other Asset Management Expenses		2,036	1,923	2,031
Total Asset Management Expenses		4,992	5,033	6,078

33. Depreciation of Property, Plant and Equipment

	Actual 2002 $000	Actual 2001 $000
Buildings	**466**	513
Computer Hardware	**458**	541
Plant	**60**	148
Office Equipment	**225**	296
Software	**972**	605
Currency Processing Equipment	**169**	594
Motor Vehicle	**3**	4
Building Improvements	**500**	594
Tenancy Inducements	**88**	179
Total Depreciation of Property, Plant and Equipment	**2,941**	3,474

34. Other Operating Expenses

	Note	Actual 2002 $000	Budget 2002 $000	Actual 2001 $000
Other Professional Fees		**3,567**	**3,700**	2,798
Computer Expenses		**1,508**	**2,191**	2,051
Information		**1,026**	**1,059**	1,136
Operational Travel		**752**	**888**	775
Rental and Lease Expenses		**366**	**240**	250
Printing		**207**	**220**	198
Agency and Commissions		**1,386**	**1,025**	1,295
Audit Fees		**163**	**204**	192
Non-Executive Directors' Remuneration	35	**105**	**135**	105
Donations		**-**	**-**	-
Miscellaneous		**219**	**465**	222
Total Other Operating Expenses		**9,299**	**10,127**	9,022

Other Professional Fees include $31,000 (2001 $23,000) paid to the Reserve Bank's auditors for work undertaken outside their capacity as auditors of the Bank.

In March 2002, the Bank policy was changed so that the auditors are not engaged for any work other than work related to the provision of an external audit opinion, except after seeking the advice of the Chair of the Audit Committee and with the prior approval of the Governor.

35. Non-Executive Directors' Remuneration

		Remuneration 2002 $000	Remuneration 2001 $000
Non-Executive Directors			
G Simpson	(to 8 June 2002)	**14**	15
A Paterson		**15**	15
V Hall	(to 28 February 2002)	**10**	15
W Wilson		**15**	15
R Richardson		**15**	15
J Goulter		**15**	15
P Baines		**15**	15
A Grimes	(from 1 March 2002)	**5**	-
H Fletcher	(from 10 June 2002)	**1**	-
Total Non-Executive Directors' Remuneration		**105**	105

Non-Executive Directors' Remuneration consists of director's fees. Director's fees represent consideration for services provided to the Bank for acting as a director of the Bank.

36. Reconciliation of Operating Cash Flows with Reported Operating Surplus

	2002 $000	2001 $000
Reported Operating Surplus	175,006	159,580
Add (Subtract) Non-Cash Items		
Depreciation	2,941	3,474
Amortisation of Premium/Discount on Purchase of Securities	(57,315)	7,259
Net Unrealised Market Value Changes[21]	17,041	5,358
Loss on Revaluation of Bank Properties	-	817
Net Unrealised Foreign Exchange (Gain) Loss	(324,161)	234,961
	(361,494)	251,869
Add (Subtract) Movements in Other Working Capital Items		
(Increase)/Decrease in Accounts Receivable	(874)	283
Decrease in Miscellaneous Liabilities	(5,019)	(3,531)
Decrease in Inventories	983	1,459
Decrease in Interest Payable	(20,357)	(6,855)
Decrease in Interest Receivable	29,159	16,519
Decrease in Deferred Taxation	-	214
	3,892	8,089
Add (Subtract) Investing and Financing Activities		
Net Realised Foreign Exchange (Gain) Loss	322,631	(236,233)
Net Realised Market Value Changes	(16,559)	(5,860)
Return of Demonetised Coin	2	3
	306,074	(242,090)
Net Cash Flow from Operating Activities	123,478	177,448

21 Net unrealised market value changes include unrealised gains on derivatives, which are reported in the Statement of Financial Performance as Other Foreign Currency Income (Loss).

37. Consolidated Cash Balances

	2002 $000	2001 $000
Foreign Currency Assets		
Cash Balances with Other Central Banks	**186,025**	141,936
Other Cash Balances	**6,223**	5,993
Marketable Securities – Liquifiable Within Two Working Days	**1,532,330**	2,712,762
Local Currency Assets		
Cash on Hand	**4**	206
Securities Purchased Under Agreements to Re-sell	**2,818,939**	2,516,507
	4,543,521	5,377,404
Demand Liabilities		
Government Deposits	**2,945,860**	2,248,961
Settlement Bank Deposits	**4,387**	65,785
Central Bank Deposits	**1,917**	2,115
International Monetary Fund Deposit	**8,163**	9,506
Claims Due to Stock Holders	**-**	51,451
Other Deposits	**206**	194
	2,960,533	2,378,012
Closing Cash Balances	**1,582,988**	2,999,392

The movement in cash balances between 2000/01 and 2001/02 arose from:

- The restructuring of the Foreign Reserves portfolio where securities that were classified as cash were sold and the proceeds invested in reverse-repurchase transactions. Reverse-repurchase transactions are not classified as cash for the purposes of the Consolidated Statement of Cash Flows.
- The change in exchange rates had a negative impact on cash balances.

38. Statement of Commitments

	2002 $000	2001 $000
Operating lease commitments		
Computer equipment		
• Due within one year	**359**	373
• Due within one to two years	**181**	278
• Due within two to five years	**24**	159
Total operating lease commitments	**564**	810
Capital expenditure commitments		
• Due within one year	**4,729**	821
Total capital expenditure commitments	**4,729**	821

39. Subsidiary Companies

The Reserve Bank has two wholly-owned New Zealand-incorporated subsidaries, RBNZ Registry Limited and New Zealand Central Securities Depository Limited (NZCSD).

Up to 30 June 2001, RBNZ Registry Limited provided the Bank's Registry and Depository Services function under an agency agreement with the Bank. Since 1 July 2001 these services have been provided directly by the Bank. RBNZ Registry Limited ceased trading on 30 June 2001 and is being wound up.

NZCSD is a non-trading company, incorporated solely for the purpose of acting as a custodian trustee. It holds assets on behalf of the participants in the Austraclear New Zealand System, as described in note 44.

40. Free Services

The Reserve Bank of New Zealand Act 1989 empowers the Bank to charge directly for some of its functions.

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

The Bank receives some free services from other organisations, generally involving the provision of information.

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

41. Related Parties

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

Transactions entered into include:

- banking services;
- agency transactions (at no charge);
- foreign exchange transactions;
- funding from the Treasury as part of the foreign reserves management operations; and
- purchases of New Zealand government securities.

The Bank does not disclose the values of transactions and outstanding balances with Crown-related parties due to the large volume of transactions and the large number of related parties. Unless otherwise stated, all transactions take place with reference to market rates. Therefore, disclosure of the values of transactions and outstanding balances with Crown entities would not provide useful or material additional information.

42. 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 (last completed for the period ended 31 March 2002).

The Actuary carried out an investigation into the financial position of the Fund as at 31 March 2002 and reported on 29 July 2002 that, based on the Fund's annual accounts:

- The assets of the Fund were sufficient at 31 March 2002 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;
- The assets of the Fund were sufficient at 31 March 2002 to provide for benefits to members, including existing pensioners, that are attributable to membership prior to 1 April 2002. In assessing the expected cost of those benefits the Actuary allowed for future salary increases in the Consumer Price Index; and
- To the Actuary's knowledge, there had been no circumstances between 31 March 2002 and 30 June 2002 that would cause the Actuary to form a different opinion as at 30 June 2002.

(b) Coin issued by the Treasury prior to July 1989 is not recorded by the 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 Bank, the liability for the excess would 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. The face value of demonetised currency is $37,106,000. This includes coin issued by Treasury with a face value of $12,950,000.

(d) 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 all collectors' currency issued by the Bank to date is $9,037,000 (2001 $8,826,000).

Collectors' 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 collectors' coin, but part of this liability could revert to the Treasury should large quantities of coin be returned.

(e) The Bank has indemnified the statutory managers of DFC New Zealand Limited against liability arising from the statutory management of DFC New Zealand Limited, which essentially ended on 15 October 1997. However, these indemnities continue and were 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 under Part V of the Act.

Previous Year's Contingent Liabilities

The above five contingent liabilities were recorded in the Reserve Bank's *2001 Annual Report*. The only liabilities to arise during the year were:

- demonetised currency with a face value of $13,000 returned to the Bank for redemption at face value; and
- collectors' currency with a face value of $300 returned to the Bank for redemption at face value.

43. Income Tax

Section CB3 of the Income Tax Act 1994 exempts the Reserve Bank from income tax. The Bank incurs and meets liabilities for goods and services tax, fringe benefit tax and other withholding tax.

Until 30 June 2001, the Bank provided Registry and Depository Services through its wholly-owned subsidiary RBNZ Registry Limited. The subsidiary was liable for income tax on its net earnings. From 1 July 2001, these services were provided directly by the Bank, which, as stated above, is exempt from income tax.

44. Custodial Activities

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

NZCSD is a wholly-owned 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. NZCSD is a non-trading company but has legal ownership of securities beneficially owned by members of the Austraclear 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 safe-keeping or acting as paying agent in certain circumstances.

The total of securities held by NZCSD at 30 June 2002 was $74.2 billion (2001 $78.8 billion).

The Bank undertakes to accept liability for all costs and debts of NZCSD and all liabilities of NZCSD in the event of a claim by a third party. No claims have been notified or advised at balance date.