CONTENTS OF THE FINANCIAL STATEMENTS

MANAGEMENT STATEMENT

RESERVE BANK
OF NEW ZEALAND
TE PŪTEA MATUA

24 August 2016

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 2016 fairly reflect the financial position and operations of the Bank.

Governor

Deputy Chief Executive

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AUDIT REPORT

Independent Auditors' report

to the readers of the Reserve Bank of New Zealand and Group's financial statements for the year ended 30 June 2016

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

Opinion

We have audited the financial statements of the Bank on pages 58 to 102, that comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets/equity, statement of comprehensive revenue and expense and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion the financial statements of the Bank:

- present fairly, in all material respects:
  - its financial position as at 30 June 2016; and
  - its financial performance and cash flows for the year ended; and
- comply with generally accepted practice in New Zealand in accordance with Public Benefit Entity Accounting Standards.

Our audit was completed on 24 August 2016. This is the date at which our opinion is expressed.

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

Basis of opinion

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

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

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

AUDIT REPORT

An audit also involves evaluating:

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

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

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

Responsibilities of the Governor
The Governor is responsible for the preparation and fair presentation of financial statements for the Bank that comply with generally accepted accounting practice in New Zealand and Public Benefit Entity Accounting Standards.

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

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

Responsibilities of the Auditor
We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

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

In addition to the audit we have carried out assignments in the areas of payment systems audits and systems penetration security testing, which are compatible with those independence requirements. Property advisory services have also been provided by a business acquired by PricewaterhouseCoopers during the year ended 30 June 2016. Appropriate safeguards were put in place to mitigate the threats to audit independence following the acquisition. Other than the audit and these assignments and advisory services, we have no relationship with or interests in the Bank.

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

PricewaterhouseCoopers

GUIDE TO THE MAIN FUNCTIONS OF THE RESERVE BANK

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

For the year ended 30 June 2016, the Bank classified its outputs according to its main functions in the ways described below.

Monetary Policy Formulation:

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

Domestic Market Operations:

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

Prudential Supervision:

Registering and supervising banks, licensing and supervising insurers, regulating non-bank deposit takers and overseeing payment systems, and undertaking policy development in all of these areas. These actions are for the purpose of promoting a sound and efficient New Zealand financial system by limiting damage to the financial system that could arise from bank, non-bank deposit taker and insurer failure(s) or other financial system distress. Supervising banks, non-bank deposit takers and life insurers for compliance with their anti-money laundering obligations.

Macro-financial Stability:

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

Currency Operations:

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

Foreign Reserves Management:

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

Settlement Services:

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June	Note	2016 $M	2015 $M
Assets			
Foreign Currency Financial Assets			
Cash Balances	1(d)	**8,351**	6,742
Securities Purchased under Agreements to Resell	1(d)	**2,258**	4,436
Investments	1(d),3	**10,646**	13,727
Derivative Assets	1(d),4	**716**	347
Other Foreign Currency Assets	1(d),5	**271**	154
Total Foreign Currency Financial Assets		**22,242**	25,406
Local Currency Financial Assets			
New Zealand Government Securities	1(d)	**3,449**	3,117
Other Local Currency Financial Assets	1(d)	**191**	496
Total Local Currency Financial Assets		**3,640**	3,613
Total Financial Assets		**25,882**	29,019
Other Assets	1(e),6	**101**	88
Total Assets		**25,983**	29,107
Liabilities			
Foreign Currency Financial Liabilities			
Short-term Foreign Currency Financial Liabilities	1(d),7	**209**	101
Securities Sold under Agreements to Repurchase	1(d)	**662**	704
Derivative Liabilities	1(d),4	**741**	1,739
Term Liabilities	1(d)	**972**	1,127
Total Foreign Currency Financial Liabilities		**2,584**	3,671
Local Currency Financial Liabilities			
Deposits	1(d),8	**13,121**	14,538
Securities Sold under Agreements to Repurchase	1(d)	**110**	1,096
Reserve Bank Bills	1(d)	**674**	309
Currency in Circulation	1(d)	**5,634**	5,255
Other Local Currency Financial Liabilities	1(d),9	**89**	125
Term Liabilities	1(d)	**796**	800
Total Local Currency Financial Liabilities		**20,424**	22,123
Total Financial Liabilities		**23,008**	25,794
Other Liabilities	1(f),10	**147**	514
Total Liabilities		**23,155**	26,308
Net Assets/Equity	11	**2,828**	2,799
Total Liabilities and Net Assets/Equity		**25,983**	29,107

The above statement is to be read in conjunction with the notes set out on pages 63 to 102.

Derivative Instruments are used to manage the Bank's exposure to foreign currency risk. The effective foreign currency exposure as at balance date is recorded in Note 18.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS/EQUITY

	Note	Contributed Capital $M	Available-for-sale Reserve $M	Property, Currency and Artwork Collections Revaluation Reserve $M	Cash Flow Hedge Reserve $M	Retained Earnings $M	Total $M
Net Assets/Equity as at 1 July 2014		**1,600**	**82**	**46**	**(1)**	**772**	**2,499**
Surplus for the Year		-	-	-	-	624	624
Other Comprehensive Revenue and Expense		-	159	13	14	-	186
Total Comprehensive Revenue and Expense		-	159	13	14	624	810
Transaction with Owners:							
Dividend Payable to the New Zealand Government	11	-	-	-	-	(510)	(510)
Net Assets/Equity as at 30 June 2015	11	**1,600**	**241**	**59**	**13**	**886**	**2,799**
Surplus for the Year		**-**	**-**	**-**	**-**	**52**	**52**
Other Comprehensive Revenue and Expense		**-**	**125**	**-**	**(8)**	**-**	**117**
Total Comprehensive Revenue and Expense		**-**	**125**	**-**	**(8)**	**52**	**169**
Transaction with Owners:							
Dividend Payable to the New Zealand Government	11	**-**	**-**	**-**	**-**	**(140)**	**(140)**
Net Assets/Equity as at 30 June 2016	11	**1,600**	**366**	**59**	**5**	**798**	**2,828**

The above statement is to be read in conjunction with the notes set out on pages 63 to 102.

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

For the Year Ended 30 June	Note	2016 $M	2015 $M
Interest Revenue		**612**	704
Interest Expense		**342**	433
Net Interest Revenue	21	**270**	271
Net Gains from Fair Value Changes		**39**	30
Net (Losses)/Gains from Foreign Exchange Rate Changes		**(201)**	379
Dividend Revenue		**1**	1
Total Net Investment Revenue	21	**109**	681
Other Revenue		**14**	13
Total Operating Revenue		**123**	694
Total Operating Expenses	23	**71**	70
Surplus for the Year		**52**	624

CONSOLIDATED STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

For the Year Ended 30 June	2016 $M	2015 $M
Surplus for the Year from the Consolidated Statement of Financial Performance	**52**	624
Other Comprehensive Revenue and Expense		
Movement in Available-for-sale Revaluation Reserve Taken to Net Assets/Equity	**125**	159
Movement in Property, Currency and Artwork Collections Revaluation Reserve Taken to Net Assets/Equity	**-**	13
Movement in Cash Flow Hedge Reserve Taken to Net Assets/Equity	**(8)**	14
Total Other Comprehensive Revenue and Expense for the Year	**117**	186
Total Comprehensive Revenue and Expense for the Year	**169**	810

The above statements are to be read in conjunction with the notes set out on pages 63 to 102.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June	Note	2016 $M	2015 $M
Cash Flows from Operating Activities			
Sources from Revenue			
Interest Received:			
Foreign Currency:			
Derivatives		**(14)**	(14)
Other		**48**	28
Local Currency:			
Derivatives		**458**	497
Available-for-sale Securities		**127**	133
Other		**15**	25
Dividend		**3**	1
Fees, Commission and Other Revenue Received		**13**	11
Total Sources of Cash Flows from Revenue		**650**	681
Disbursements for Expenses			
Interest Paid:			
Foreign Currency		**(5)**	(7)
Local Currency		**348**	438
Payments to Suppliers and Employees		**72**	60
Total Disbursements of Cash Flows from Expenses		**415**	491
Operating Cash Flows from Revenue and Expenses		**235**	190
Operating Cash Flows from Changes in Asset and Liability Balances		**1,939**	2,988
Net Cash Flows from Operating Activities	25	**2,174**	3,178
Cash Flows from Investing Activities			
Sources			
Disposal of Available-for-sale Securities		**282**	513
Total Sources of Cash Flows from Investing Activities		**282**	513
Disbursements			
Purchases of Available-for-sale Securities		**451**	601
Purchases of Property, Plant and Equipment and Intangible Assets		**6**	5
Total Disbursements of Cash Flows from Investing Activities		**457**	606
Net Cash Flows from Investing Activities		**(175)**	(93)

The above statement is to be read in conjunction with the notes set out on pages 63 to 102.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 30 June	Note	2016 $M	2015 $M
Cash Flows from Financing Activities			
Sources			
Net Issue of Circulating Currency		**379**	372
Issue of Local Currency Term Liabilities		**-**	700
Total Sources of Cash Flows from Financing Activities		**379**	1,072
Disbursements			
Repayment of Foreign Currency Term Liabilities		**99**	640
Dividend Payments to the New Zealand Government		**510**	20
Total Disbursements of Cash Flows from Financing Activities		**609**	660
Net Cash Flows from Financing Activities		**(230)**	412
Net Cash Flows		**1,769**	3,497
Plus Foreign Exchange Rate Effect on Cash Balances at the Beginning of the Year		**(160)**	608
Net Cash Flows from All Activities		**1,609**	4,105
Cash Balances at the Beginning of the Year		**6,742**	2,637
Cash Balances at the End of the Year		**8,351**	6,742

The above statement is to be read in conjunction with the notes set out on pages 63 to 102.

NOTES TO BE READ AS PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

1. Statement of Accounting Policies

a. Reporting Entity and Statutory Base

These are the consolidated financial statements of the Reserve Bank of New Zealand, a body corporate under the Reserve Bank of New Zealand Act 1989 (the Reserve Bank Act). These consolidated financial statements apply to the financial year ended 30 June 2016. They have been prepared in accordance with Part VI of the Reserve Bank Act.

In these financial statements, the Reserve Bank of New Zealand is also referred to as the 'Reserve Bank' or the 'Bank'. The Bank's controlling entity is the Government of New Zealand. The Bank is domiciled and operates in New Zealand.

The Governor and Deputy Governor (Deputy Chief Executive) of the Reserve Bank authorised these financial statements for issue on 24 August 2016.

b. Compliance with PBE Standards

Under XRB A1: *Accounting Standards Framework,* the Bank is classified as a Public Sector Public Benefit Entity (PBE). A PBE is a reporting entity whose primary objective is to provide goods and services for community or social benefit and, where any equity has been provided, with a view to supporting that primary objective rather than for a financial return to equity holders.

The consolidated financial statements have been prepared with, and comply with, Tier 1 Public Benefit Entity Accounting Standards (PBE Standards), issued by the New Zealand Accounting Standards Board based on International Public Sector Accounting Standards (IPSAS), and comply with Generally Accepted Accounting Practice in New Zealand.

c. Basis of Preparation of Financial Statements

Measurement Basis

The consolidated financial statements have been prepared on a going-concern basis and the accounting policies have been applied consistently throughout the period. These financial statements have been prepared using the general principles of historical cost accounting, modified by fair value accounting for available-for-sale financial assets, all derivative contracts, financial assets and liabilities that are held at fair value through surplus/(deficit), land and buildings, and currency and artwork collections.

Changes in Accounting Policies

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

Standards Issued Not Yet Effective but Early Adopted

In July 2015 amendments to the PBE Standards were incorporated into: the 2015 Omnibus Amendments to PBE Standards; PBE IPSAS 1 *Presentation of Financial Statements;* and PBE IPSAS 23 *Revenue from Non-Exchange Transactions.* These updated standards apply for periods beginning on or after 1 January 2016 but allow for early adoption. The Bank has adopted these amendments in preparing its financial statements for 30 June 2016. No changes in reporting have arisen from applying these Standards.

Basis of Consolidation

These consolidated financial statements have been prepared using the acquisition method. All material inter-company balances and transactions are eliminated. Controlling entity financial statements are not produced because the difference between the controlling entity and the economic entity is not material.

Trust and Custodial Activities

Assets held for third parties under custodial arrangements, and revenue arising thereon, are excluded from these financial statements, as they are not assets or revenue of the Bank (see Note 32).

Functional and Presentation Currency

The Bank's financial statements are presented in New Zealand dollars, the Bank's functional and presentation currency. Amounts in the financial statements are rounded to the nearest million dollars unless otherwise stated.

Foreign Currency Conversions

Transactions denominated in foreign currencies are translated to New Zealand dollars using exchange rates applied on the trade dates of the transactions.

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

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

d. Financial Instruments

Classification and Measurement of Financial Instruments

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

Classification Category	Instruments	Valuation Basis in the Statement of Financial Position	Elements Recognised Directly in the Statement of Financial Performance	Elements Recognised Directly in Net Assets/ Equity
Fair Value through Surplus/ (Deficit)	**Assets** • Investments • Securities Purchased under Agreements to Resell • Securities Lending • Derivatives **Liabilities** • Term Loans • Reserve Bank Bills • Securities Lending • Securities Sold under Agreements to Repurchase	Fair Value	• Interest Revenue • Interest Expense • Gains/Losses from Fair Value Changes • Gains/Losses from Foreign Exchange Rate Changes	
Available-for-sale Financial Assets	• New Zealand Government Securities (purchased for investment purposes) • Shareholding in Bank for International Settlements	Fair Value	• Interest Revenue • Dividend Revenue • Realised Gains/Losses from Fair Value and Foreign Exchange Rate Changes • Unrealised Losses Resulting from Impairment of Available-for-sale Instruments	Unrealised Gains/ Losses from Fair Value Changes and Foreign Exchange Rate Changes are included in the Available-for-sale Revaluation Reserve
Financial Instruments Designated as Cash Flow Hedges	• Cash Balances	Fair Value	• Interest Revenue • Expenses covered by the Cash Flow Hedge are recorded at spot rates plus or minus hedge reserves transferred when they are settled	Changes in Foreign Currency Translation on Qualifying Cash Flow Hedges are included in the Cash Flow Hedge Reserve until the expenses covered by the Cash Flow Hedge are realised
Loans and Receivables	• Cash Balances • Receivable for Unsettled Sale of Securities • Fee Income Receivable	Amortised Cost	• Interest Revenue • Gains/Losses from Foreign Exchange Rate Changes • Changes in Impairment	Changes in Foreign Currency Translation on Qualifying Cash Flow Hedges are included in the Cash Flow Hedge Reserve
Financial Liabilities at Amortised Cost	• Deposits • Currency in Circulation • Short-term Foreign Currency Liabilities • Payables for Unsettled Purchases of Securities • Other Local Currency Liabilities	Amortised Cost	• Interest Expense • Gains/Losses from Foreign Exchange Rate Changes	

Fair Value through Surplus/(Deficit)

This category has two sub-categories: financial instruments designated as fair value through surplus/(deficit) at inception; and those that are held for trading.

The Bank's assets and liabilities that are designated as fair value through surplus/(deficit) are done so because compliance with the Bank's investment mandates and the performance of the Bank's Foreign Reserves Management and Domestic Market Operations functions are assessed daily on the basis of the fair value of assets and related liabilities funding those assets.

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

Available-for-sale Financial Assets

Available-for-sale financial securities are those non-derivative financial assets that are designated as available for sale or that are not classified as financial assets at fair value through surplus/(deficit), or loans and receivables.

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

Loans and Receivables

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

Financial Liabilities at Amortised Cost

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

Additional Information on Recognition and Measurement of Financial Instruments

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

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised only when the obligation is discharged, cancelled or expired.

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

Interest revenue and interest expense are calculated using the effective interest method and are recognised in the Statement of Financial Performance.

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

Hedge Accounting on Qualifying Cash Flow Hedges

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

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

When hedged foreign-currency-denominated operating expenditure, capital expenditure or purchases of banknotes and coins are settled, the relevant transactions are recorded at the foreign currency rates at which the foreign currency cash was purchased.

Offsetting of Financial Assets and Financial Liabilities

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

Additional Information on Specific Financial Assets and Financial Liabilities

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

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

Gains and losses on all derivatives are recognised in the Statement of Financial Performance.

Securities Purchased under Agreements to Resell
Where the Bank purchases securities under agreements to resell (reverse-repurchase agreements), the securities are not reported in the Statement of Financial Position, but the Bank records as assets the consideration receivable from the agreements to resell the securities.

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

Securities Sold under Agreements to Repurchase
Where the Bank sells securities it owns under agreements to repurchase (repurchase agreements), the securities continue to be included as assets in the Bank's Statement of Financial Position, and the Bank records as liabilities the considerations payable under the repurchase agreements.

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

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

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

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

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

Short Sales of Investments
A short sale is a sale of a security that the Bank does not own. Securities that are sold short are recorded at fair value through surplus/(deficit) using quoted market offer prices.

Any gains or losses are recognised in the Statement of Financial Performance.

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

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

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

e. Other Assets

Inventories

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

For the portion of inventories of currency on hand that relates to currency repatriated to the Bank through non-exchange transactions, this cost is measured at fair value and is recorded by crediting currency issue expenses and increasing the value of inventory recognised in the Statement of Financial Position.

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

Where inventories of currency on hand are obsolete, the cost of unissued currency, or the fair value of currency repatriated to the Bank through non-exchange transactions, is written down to net realisable value and an expense is recorded in the Statement of Financial Performance.

Property, Plant and Equipment

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

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

The Bank obtains an independent valuation of land and buildings every three years. In the years between independent valuations, the Bank obtains independent short-form reviews of the fair value of the land and buildings. The fair value of the land and buildings is amended only where a material change has occurred.

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

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

Computer Hardware	3-5 years
Plant and Equipment	5-10 years
Buildings	40 years
Property Improvements	8-15 years

Intangible Assets

Intangible assets comprise acquired and internally developed computer software and development costs incurred for the design of banknotes. Intangible assets are stated at cost less accumulated amortisation and impairment losses. Costs include all direct expenses incurred to acquire and bring to use the specific software and banknote designs.

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

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

Capitalised banknote design and development costs are capitalised and classified as inventory, and are amortised over the estimated life of the relevant banknote series.

Impairment of Property, Plant and Equipment and Intangible Assets

Cash-generating Assets
The Bank does not hold any material cash-generating assets. Assets are considered cash-generating where their primary objective is to generate a commercial return.

Non-cash-generating Assets
Property, plant and equipment and intangible assets held at cost that have finite useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable service amount. The recoverable service amount is the higher of the asset's fair value less costs to sell and value in use.

If an asset's carrying amount exceeds its recoverable service amount, the asset is regarded as impaired and the carrying amount is written down to the recoverable amount. The total impairment loss is recognised through surplus/(deficit).

The reversal of an impairment loss is recognised through surplus/(deficit).

f. Other Liabilities

Employee Entitlements

Wages and Salaries, Annual and Sick Leave
Liabilities for wages and salaries, including non-monetary benefits and annual leave, are recognised in Other Liabilities in respect of employees' services and

are measured at the amounts expected to be paid when liabilities are settled.

Retirement Gratuity
Retirement gratuities and post-retirement benefits apply to staff members who joined the Bank before 1 October 1991. These gratuities and benefits are recognised in Other Liabilities in respect of employees' services and are measured at the present value of future payments expected to be made in respect of services provided by employees up to the reporting date. This is calculated by an independent actuary using a discounted cash flow model. Expected future payments are discounted to their net present value using market yields at the reporting date on government bonds with terms that match as closely as possible the estimated timing of future cash flows.

Changes in the value of the liability for retirement gratuities and post-retirement benefits are included within the Statement of Financial Performance in staff expenses within Operating Expenses.

Superannuation Obligations
Obligations for contributions to defined benefit superannuation schemes are recognised as an expense in the Statement of Financial Performance as incurred.

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

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

The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of New Zealand government bonds that have terms to maturity approximating the terms of the related superannuation liability. The calculation is performed annually by an independent qualified actuary using the projected unit credit method.

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

g. Revenue and Expenses

Fee Revenue

Fee revenue earned from the provision of services is recognised in the Statement of Financial Performance on an accruals basis as the services are provided.

Revenue and Expenses Allocated to Functions

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

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

Income Tax

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

h. Cash Flows

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

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

i. Significant Accounting Estimates and Judgements in Applying Accounting Policies

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

Fair Value of Financial Instruments

Financial instruments classified as held for trading or designated at fair value through surplus/(deficit), and financial assets classified as available for sale, are recognised in the financial statements at fair value. All derivatives are measured and recognised at fair value.

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

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

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

Superannuation and Post-retirement Obligations

The Bank has obligations under the defined benefit superannuation plan and for certain post-retirement obligations as described on page 68. The carrying amount of these obligations is based on actuarial valuations, which in turn depend on a series of assumptions. Key valuation assumptions include price inflation, earnings growth, employee retirement dates and investment returns. Valuations are performed on the basis that the scheme will not be wound up.

Valuation of Land and Buildings

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

2. Nature and Extent of Activities

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

a. Local Currency Activities

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

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

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

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

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

b. Foreign Currency Activities

The Bank's foreign currency activities arise mainly from:

— holding foreign currency assets for crisis management purposes;

— the investment of proceeds of foreign currency swaps entered into for managing the aggregate level of liquidity of the New Zealand banking system; and

— the purchase and sale of foreign currency in support of monetary policy objectives.

Foreign reserve assets held for crisis management purposes are funded by a combination of foreign currency and local currency loans from the Treasury, which are made on arm's-length terms, and New-Zealand-dollar-denominated liabilities, including currency in circulation and deposits placed with the Bank by financial institutions. Cross-currency basis swaps are used to convert New Zealand dollar funding into foreign currency and to manage a significant portion of foreign currency risk. A proportion of foreign currency assets held for crisis management purposes is maintained without hedging their foreign currency risk. The hedged/unhedged position will vary over time as the Bank determines appropriate.

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

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

Financial instruments held within foreign currency portfolios consist mainly of sovereign securities, securities issued by quasi-government entities or highly rated supranational institutions, securities held under reverse-repurchase transactions, and balances held with other central banks. Liquidity and credit risks are key criteria in determining the types of instruments held.

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

For further information on the risk management policies relating to financial instruments, see Notes 13 to 20.

c. Foreign Exchange Dealing

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

Sections 17 and 18 of the Reserve Bank Act provide for the Minister of Finance to direct the Bank to deal in foreign exchange, or for the Minister of Finance to fix the foreign exchange rates for foreign exchange dealing by the Bank. Section 21 of the Reserve Bank Act requires the Bank to either pay any foreign currency exchange gains to the Crown or be reimbursed for any foreign exchange losses as a result of dealing in foreign exchange under sections 17 or 18 of the Reserve Bank Act. In the year ended 30 June 2016 there have been no directions from the Minister under section 17 or 18 and there have been no payments to or from the Crown under section 21 of the Reserve Bank Act (2015: nil).

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

d. Derivatives

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

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

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

e. Title to Assets

As part of its foreign currency operations the Bank enters into security repurchase transactions. These foreign currency securities sold by the Bank under repurchase agreements are recorded as assets within Investments in the Bank's Statement of Financial Position. These foreign-currency-denominated transactions are also recognised as liabilities within Securities Sold under Agreements to Repurchase in the Bank's Statement of Financial Position.

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

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

The Bank can be required to deliver collateral under swap arrangements. Any securities delivered by the Bank as collateral remain in the Statement of Financial Position.

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

FINANCIAL POSITION NOTES

3. Analysis of Financial Assets and Financial Liabilities

Foreign Currency Investments

Foreign Currency Investments of $10,646 million (2015: $13,727 million) comprise direct and indirect investments in fixed interest securities issued by foreign governments, foreign near-government entities and supranational organisations. Further details, such as the credit rating and the country in which the issuer is resident, are provided in Note 15 in respect of all financial assets, including Foreign Currency Investments.

Analysis of Financial Assets and Liabilities by Measurement Basis

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The summary of significant accounting policies describes how the classes of financial instrument are measured, and how revenue and expenses, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities in the Consolidated Statement of Financial Position by class and by category as defined by PBE IPSAS 29 *Financial Instruments: Recognition and Measurement* (PBE IPSAS 29).

		Fair Value Through Surplus/(Deficit)					
As at 30 June 2016	Total $M	Designated upon Initial Recognition $M	Derivatives Deemed Held for Trading $M	Available-for-sale Financial Assets $M	Financial Instruments Designated as Cash Flow Hedge $M	Loans and Receivables $M	Financial Liabilities at Amortised Cost $M
Assets							
Foreign Currency Financial Assets							
Cash Balances	8,351	-	-	-	55	8,296	-
Securities Purchased under Agreements to Resell	2,258	2,258	-	-	-	-	-
Investments	10,646	10,494	-	-	-	152	-
Derivative Assets	716	-	716	-	-	-	-
Other Foreign Currency Assets	271	-	-	144	-	127	-
Total Foreign Currency Financial Assets	**22,242**	**12,752**	**716**	**144**	**55**	**8,575**	**-**
Local Currency Financial Assets							
New Zealand Government Securities	3,449	-	-	3,449	-	-	-
Other Local Currency Financial Assets	191	-	-	-	-	191	-
Total Local Currency Financial Assets	**3,640**	**-**	**-**	**3,449**	**-**	**191**	**-**
Total Financial Assets	**25,882**	**12,752**	**716**	**3,593**	**55**	**8,766**	**-**
Liabilities							
Foreign Currency Financial Liabilities							
Short-term Foreign Currency Financial Liabilities	209	-	-	-	-	-	209
Securities Sold under Agreements to Repurchase	662	662	-	-	-	-	-
Derivative Liabilities	741	-	741	-	-	-	-
Term Liabilities	972	972	-	-	-	-	-
Total Foreign Currency Financial Liabilities	**2,584**	**1,634**	**741**	**-**	**-**	**-**	**209**
Local Currency Financial Liabilities							
Deposits	13,121	-	-	-	-	-	13,121
Securities Sold under Agreements to Repurchase	110	110	-	-	-	-	-
Reserve Bank Bills	674	674	-	-	-	-	-
Currency in Circulation	5,634	-	-	-	-	-	5,634
Other Local Currency Financial Liabilities	89	-	-	-	-	-	89
Term Liabilities	796	796	-	-	-	-	-
Total Local Currency Financial Liabilities	**20,424**	**1,580**	**-**	**-**	**-**	**-**	**18,844**
Total Financial Liabilities	**23,008**	**3,214**	**741**	**-**	**-**	**-**	**19,053**

As at 30 June 2015	Total $M	Fair Value Through Surplus/(Deficit) Designated upon Initial Recognition $M	Fair Value Through Surplus/(Deficit) Derivatives Deemed Held for Trading $M	Available-for-sale Financial Assets $M	Financial Instruments Designated as Cash Flow Hedge $M	Loans and Receivables $M	Financial Liabilities at Amortised Cost $M
Assets							
Foreign Currency Financial Assets							
Cash Balances	6,742	-	-	-	66	6,676	-
Securities Purchased under Agreements to Resell	4,436	4,436	-	-	-	-	-
Investments	13,727	13,292	-	-	-	435	-
Derivative Assets	347	-	347	-	-	-	-
Other Foreign Currency Assets	154	-	-	153	-	1	-
Total Foreign Currency Financial Assets	25,406	17,728	347	153	66	7,112	-
Local Currency Financial Assets							
New Zealand Government Securities	3,117	-	-	3,117	-	-	-
Other Local Currency Financial Assets	496	-	-	-	-	496	-
Total Local Currency Financial Assets	3,613	-	-	3,117	-	496	-
Total Financial Assets	29,019	17,728	347	3,270	66	7,608	-
Liabilities							
Foreign Currency Financial Liabilities							
Short-term Foreign Currency Financial Liabilities	101	-	-	-	-	-	101
Securities Sold under Agreements to Repurchase	704	704	-	-	-	-	-
Derivative Liabilities	1,739	-	1,739	-	-	-	-
Term Liabilities	1,127	1,127	-	-	-	-	-
Total Foreign Currency Financial Liabilities	3,671	1,831	1,739	-	-	-	101
Local Currency Financial Liabilities							
Deposits	14,538	-	-	-	-	-	14,538
Securities Sold under Agreements to Repurchase	1,096	1,096	-	-	-	-	-
Reserve Bank Bills	309	309	-	-	-	-	-
Currency in Circulation	5,255	-	-	-	-	-	5,255
Other Local Currency Financial Liabilities	125	-	-	-	-	-	125
Term Liabilities	800	800	-	-	-	-	-
Total Local Currency Financial Liabilities	22,123	2,205	-	-	-	-	19,918
Total Financial Liabilities	25,794	4,036	1,739	-	-	-	20,019

Fair Value of Financial Assets and Liabilities

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

a. Unsettled Transactions

The reported value of unsettled sales and purchases is considered to approximate their fair value due to the very short period between balance date and the settlement date.

b. Cash Balances and Short-term Deposits

The carrying value of cash balances and short-term deposits is considered to approximate their fair value, as they are payable on demand.

c. Currency in Circulation

Currency in Circulation is reported at its face value, as currency in circulation is payable on demand. PBE IPSAS 29 requires that the fair value cannot be less than the face value.

d. Cash Collateral Assets and Liabilities

Collateral received or paid under two-way Credit Support Annex agreements is recorded within Investments and Other Local Currency Financial Assets and in Short-term Foreign Currency Financial Liabilities. The carrying value is considered to approximate the fair value of these financial assets and liabilities due to the short-term nature of the margin calls.

e. Dividend Receivable and Accounts Payable

Any dividends receivable from the BIS are recorded in Other Foreign Currency Assets. Accounts payable are recorded in Other Local Currency Financial Liabilities. The carrying values are considered to approximate the fair values due to the short period between balance date and the receipt or payment of these financial assets and liabilities.

f. Demonetised Currency

The Bank has a liability for currency in circulation that has been demonetised but not returned to the Bank. The liability is recorded in Other Local Currency Financial Liabilities and is reported at its face value as demonetised currency is payable on demand.

Determination of Fair Value of Financial Instruments Carried at Fair Value

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

Fair values are determined according to the following hierarchy:

a. Quoted Market Price

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

b. Valuation Technique Using Observable Inputs

Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets, and financial instruments valued using models where all significant inputs are observable (level 2).

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

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

c. Valuation Technique with Significant Non-observable Inputs

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

As at 30 June 2016	Total $M	Valuation Techniques: Quoted Market Price $M	Using Observable Inputs $M	With Significant Non-observable Inputs $M
Assets				
Foreign Currency Financial Assets				
Securities Purchased under Agreements to Resell	2,258	-	2,258	-
Investments	10,494	4,206	6,288	-
Derivative Assets	716	-	716	-
Other Foreign Currency Assets	144	-	-	144
Total Foreign Currency Financial Assets Carried at Fair Value	13,612	4,206	9,262	144
Local Currency Financial Assets				
New Zealand Government Securities	3,449	3,449	-	-
Total Local Currency Financial Assets Carried at Fair Value	3,449	3,449	-	-
Total Financial Assets Carried at Fair Value	17,061	7,655	9,262	144
Liabilities				
Foreign Currency Financial Liabilities				
Securities Sold under Agreements to Repurchase	662	-	662	-
Derivative Liabilities	741	-	741	-
Term Liabilities	972	-	972	-
Total Foreign Currency Financial Liabilities Carried at Fair Value	2,375	-	2,375	-
Local Currency Financial Liabilities				
Securities Sold under Agreements to Repurchase	110	-	110	-
Reserve Bank Bills	674	-	674	-
Term Liabilities	796	-	796	-
Total Local Currency Financial Liabilities Carried at Fair Value	1,580	-	1,580	-
Total Financial Liabilities Carried at Fair Value	3,955	-	3,955	-

As at 30 June 2015	Total $M	Valuation Techniques: Quoted Market Price $M	Using Observable Inputs $M	With Significant Non-observable Inputs $M
Assets				
Foreign Currency Financial Assets				
Securities Purchased under Agreements to Resell	4,436	-	4,436	-
Investments	13,292	6,115	7,177	-
Derivative Assets	347	-	347	-
Other Foreign Currency Assets	153	-	-	153
Total Foreign Currency Financial Assets Carried at Fair Value	18,228	6,115	11,960	153
Local Currency Financial Assets				
New Zealand Government Securities	3,117	3,117	-	-
Total Local Currency Financial Assets Carried at Fair Value	3,117	3,117	-	-
Total Financial Assets Carried at Fair Value	21,345	9,232	11,960	153
Liabilities				
Foreign Currency Financial Liabilities				
Securities Sold under Agreements to Repurchase	704	-	704	-
Derivative Liabilities	1,739	-	1,739	-
Term Liabilities	1,127	-	1,127	-
Total Foreign Currency Financial Liabilities Carried at Fair Value	3,570	-	3,570	-
Local Currency Financial Liabilities				
Securities Sold under Agreements to Repurchase	1,096	-	1,096	-
Reserve Bank Bills	309	-	309	-
Term Liabilities	800	-	800	-
Total Local Currency Financial Liabilities Carried at Fair Value	2,205	-	2,205	-
Total Financial Liabilities Carried at Fair Value	5,775	-	5,775	-

Collateral Pledged

The carrying amount of securities pledged as collateral for liabilities comprising Securities Sold under Agreements to Repurchase was $110 million (2015: $1,096 million) and the fair value of collateral pledged was $107 million (2015: $1,096 million). Cash collateral of $315 million was provided (2015: $928 million).

Collateral Received

Investments

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

	NZ-Dollar-denominated Investments		Foreign-Currency-denominated Investments	
	2016 $M	2015 $M	**2016 $M**	2015 $M
Principal Amount Subject to Reverse-Repurchase Agreements	**-**	-	**1,597**	3,733
Fair Value of Collateral Received	**-**	-	**1,655**	3,811

Other Collateral Received

In addition, cash collateral received was $133 million (2015: $43 million). Cash collateral received is recorded in the Statement of Financial Position within Short-term Foreign Currency Financial Liabilities.

Under the Bank's securities lending programme, the Bank has lent securities with a fair value of $662 million (2015: $704 million). The Bank has accepted securities with a fair value of $678 million (2015: $718 million) as collateral for the securities lent under this programme.

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

Additional Information for Financial Liabilities

The carrying amount as at balance date of financial liabilities designated at fair value through surplus/(deficit), excluding derivatives, was $8 million less (2015: $5 million less) than the contractual amount at maturity.

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

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

4. Derivatives

The Bank's involvement in derivatives includes interest rate futures, cross-currency basis swaps and foreign exchange swaps. Refer to page 70 for a description of the Bank's use of derivatives.

	Carrying Value 2016 $M	Notional Principal 2016 $M	Carrying Value 2015 $M	Notional Principal 2015 $M
Interest Rate Futures				
Interest Rate Futures Assets	-	-	-	163
Interest Rate Futures Liabilities	(2)	151	-	178
Net Interest Rate Futures Position	(2)	151	-	341
As at 30 June 2016 the Bank had 585 open Interest Rate Futures contracts (2015: 1,471).				
Cross-Currency Basis Swaps				
Cross-Currency Basis Swaps Assets	395	4,332	329	1,930
Cross-Currency Basis Swaps Liabilities	(670)	5,927	(972)	7,278
Net Cross-Currency Basis Swaps Position	(275)	10,259	(643)	9,208
Foreign Exchange Swaps				
Foreign Exchange Swaps Assets	321	11,085	18	1,691
Foreign Exchange Swaps Liabilities	(69)	4,281	(767)	13,155
Net Foreign Exchange Swaps Position	252	15,366	(749)	14,846
Total Derivative Assets	716	15,417	347	3,784
Total Derivative Liabilities	(741)	10,359	(1,739)	20,611
Net Derivatives Recognised in the Statement of Financial Position	(25)	25,776	(1,392)	24,395

5. Other Foreign Currency Financial Assets

	2016 $M	2015 $M
Shareholding in the Bank for International Settlements	144	153
Dividend Receivable	-	1
Receivable for Unsettled Sales of Securities	127	-
	271	154

As at 30 June 2016 the Bank owned 3,211 shares (2015: 3,211 shares) issued by the BIS. This represents approximately 0.6 percent of all shares on issue. The shares have a par value of SDR 5,000 each and are paid up to SDR 1,250 each. The Bank's investment in shares issued by the BIS is valued at fair value, which is determined as being 70 percent of the Bank's interest in the BIS's net asset value.

6. Other Assets

	2016 $M	2015 $M
Property, Plant and Equipment	69	69
Intangible Assets	6	3
Inventory	26	16
	101	88

The Bank obtains an independent valuation of land and buildings every three years. The most recent valuation of land and buildings, dated 30 June 2015, was prepared by Jones, Lang LaSalle Limited, an independent registered valuer. The valuation was prepared by discounting rental and nominal rental flows at current market capitalisation rates. The valuation report included details of recent sales of broadly comparable premises. The capitalisation rate applied in valuing the property was a weighted average of 7.7 percent per annum. The aggregate market value of land and buildings was $53.8 million. The original cost was $10 million.

For 30 June 2016 the Bank engaged Jones, Lang LaSalle Limited to conduct a short-form review of the fair value of the land and buildings. This short-form review, which does not constitute a full valuation, supports the current carrying value.

7. Short-term Foreign Currency Financial Liabilities

	2016 $M	2015 $M
Payable for Unsettled Purchases of Securities	**76**	58
Short-term Deposits	**133**	43
	209	101

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

8. Deposits

	2016 $M	2015 $M
New Zealand Government Deposits	**5,802**	6,112
Settlement Bank Deposits	**7,280**	8,321
Central Bank Deposits	**32**	47
International Monetary Fund Deposits	**7**	58
	13,121	14,538

New Zealand Government Deposits

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

Settlement Bank Deposits

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

Central Bank Deposits and International Monetary Fund Deposits

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

9. Other Local Currency Financial Liabilities

	2016 $M	2015 $M
Accounts Payable	**8**	7
Payable for Unsettled Purchase of Securities	**-**	37
Demonetised Currency	**81**	81
	89	125

10. Other Liabilities

	Note	2016 $M	2015 $M
Dividend Payable to the New Zealand Government	11	**140**	510
Accrued Salaries and Holiday Pay		**3**	2
Accrued Retirement Gratuities		**2**	2
Superannuation Liability	27	**2**	-
		147	514

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

11. Management of the Bank's Capital and Dividend or Similar Distributions

The Bank is not subject to any regulatory capital requirements.

The Bank's capital management objective is to ensure that the Bank has sufficient equity to perform its functions. Specifically, the Bank employs an economic capital framework that ensures the Bank is unlikely, within a 99.9 percent confidence level, to suffer a financial loss through credit, market or operational risks that would result in negative equity.

The Bank uses market and credit risk models using both standard and stressed value at risk (VaR) models, and applies these to its traded, and non-traded, portfolios to model the Bank's capital requirement. An allowance for operational risk is also added. Modelling uses assumptions and judgement. Key inputs in capital modelling include interest rate and foreign currency positions and limits, foreign and local currency investments and counterparty credit exposures, as well as the probability of loss with respect to each of these factors. Based on a 99.9 percent confidence level, the Bank's modelled capital requirement is assessed as being $2,300 million (2015: $2,300 million).

The calculation of required capital is assessed by the Bank's Asset and Liability Committee and the Governing Committee. In making that assessment, consideration is given to whether a capital buffer needs to be retained for hypothetical events such as an extreme economic shock or foreign currency market event. No additional capital buffers were provided as at the reporting date (2015: nil). The Board and Minister review the Bank's assessment of required capital when considering the Bank's annual dividend recommendation.

Dividends

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

— the Bank should maintain sufficient equity for the financial risks associated with performing its functions. Equity in excess of that required to cover those risks will be distributed to the Crown; and

— in general, unrealised gains should be retained by the Bank until they are realised in New Zealand dollars. However, the Bank may recommend the distribution of unrealised gains where the Bank believes that the probability of the gain being realised is high.

For 2016 the Bank has recommended that a dividend of $140 million be paid. The Board has supported that recommendation and the Minister of Finance has determined that a dividend of $140 million be paid for 2016. In 2015 a dividend of $510 million was paid.

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

Net Assets/Equity comprises:

	Total Net Assets/ Equity 2016 $M	Net Assets/ Equity Excluding Unrealised Gains 2016 $M	Unrealised Gains 2016 $M	Total Net Assets/ Equity 2015 $M	Net Assets/ Equity Excluding Unrealised Gains 2015 $M	Unrealised Gains 2015 $M
Accumulated Comprehensive Revenue and Expense						
Realised Gains before Provision for Dividend	**974**	**974**	**-**	1,213	1,213	-
Changes in the Fair Value of Financial Instruments Not yet Realised	**98**	**-**	**98**	93	-	93
Foreign Exchange Losses Not yet Realised in New Zealand Dollars	**(134)**	**(134)**	**-**	90	-	90
Total Accumulated Comprehensive Revenue and Expense before Provision for Dividend and Excluding Revaluation Reserves	**938**	**840**	**98**	1,396	1,213	183
Available-for-sale Revaluation Reserve	**366**	**-**	**366**	241	-	241
Property, Currency and Artwork Collections Revaluation Reserve	**59**	**-**	**59**	59	-	59
Cash Flow Hedge Reserve	**5**	**-**	**5**	13	-	13
	430	**-**	**430**	313	-	313
Total Accumulated Comprehensive Revenue and Expense and Revaluation Reserves before Provision for Dividend	**1,368**	**840**	**528**	1,709	1,213	496
Capital Contributed by the New Zealand Government	**1,600**	**1,600**	**-**	1,600	1,600	-
	2,968	**2,440**	**528**	3,309	2,813	496
Less Provision for Dividend	**(140)**	**(140)**	**-**	(510)	(510)	-
Total Net Assets/Equity after Provision for Dividend	**2,828**	**2,300**	**528**	2,799	2,303	496

To ensure that unrealised gains are not distributed, after a provision for dividend is made, Net Assets/Equity Excluding Unrealised Gains should not be less than required capital. For 2016, after providing for a dividend of $140 million, Net Assets/Equity Excluding Unrealised Gains was $2,300 million against required equity of $2,300 million.

For 2015, after providing for a dividend of $510 million, Net Assets/Equity Excluding Unrealised Gains was $2,303 million against required equity of $2,300 million.

12. Concentrations of Funding

	Total 2016 $M	New Zealand Government $M	New Zealand Public $M	New Zealand Financial Institutions $M	Overseas Financial Institutions $M	Other $M
Financial Liabilities						
Foreign Currency Term Liabilities	**972**	**972**	**-**	**-**	**-**	**-**
Securities Sold under Agreements to Repurchase	**772**	**-**	**-**	**110**	**662**	**-**
Deposits	**13,121**	**5,802**	**-**	**5,369**	**1,887**	**63**
Local Currency Term Liabilities	**796**	**796**	**-**	**-**	**-**	**-**
Reserve Bank Bills	**674**	**-**	**-**	**674**	**-**	**-**
Currency in Circulation	**5,634**	**-**	**5,634**	**-**	**-**	**-**
Other Liabilities	**1,039**	**-**	**81**	**230**	**720**	**8**
Total Financial Liabilities	**23,008**	**7,570**	**5,715**	**6,383**	**3,269**	**71**

	Total 2015 $M	New Zealand Government $M	New Zealand Public $M	New Zealand Financial Institutions $M	Overseas Financial Institutions $M	Other $M
Financial Liabilities						
Foreign Currency Term Liabilities	1,127	1,127	-	-	-	-
Securities Sold under Agreements to Repurchase	1,800	-	-	1,080	720	-
Deposits	14,538	6,112	-	6,630	1,765	31
Local Currency Term Liabilities	800	800	-	-	-	-
Reserve Bank Bills	309	-	-	309	-	-
Currency in Circulation	5,255	-	5,255	-	-	-
Other Liabilities	1,965	-	81	664	1,213	7
Total Financial Liabilities	25,794	8,039	5,336	8,683	3,698	38

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

RISK MANAGEMENT NOTES

13. Risk Management

The Reserve Bank is involved in policy-oriented activities, therefore elements of the Bank's risk management framework might differ from the risk management frameworks of most other financial institutions. The main financial risks to which the Bank is exposed include credit risk, foreign currency risk and interest rate risk on both foreign and local currency assets. In the management of foreign reserves, minimising liquidity risk is a major consideration in maintaining an effective foreign exchange intervention capability. Policies for managing credit, interest rate, foreign currency and liquidity risks are outlined in Notes 15 to 19. As for other financial institutions, the nature of the Bank's operations creates exposure to a broad range of enterprise risks, including operational and reputational risks.

The Bank seeks to ensure that strong and effective risk management and control systems identify, assess, monitor and manage risk exposures. An Asset and Liability Committee (ALCO), comprising the governors and senior management, is responsible for advising the Governing Committee with respect to all balance sheet-related activities, including the appropriateness of risk-return trade-offs underlying the Bank's strategy. Specialist staff conduct the Bank's local currency, foreign currency reserves management and foreign-exchange-dealing operations in accordance with a clearly defined risk management framework, including delegated authorities and limits set by the Governing Committee. The risk management framework is subject to regular review by ALCO. The overall risk management framework is designed to promote the sound and prudent management of the Bank's risks.

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

The Risk Assessment and Assurance department (which includes an internal audit unit) is responsible for an enterprise-wide risk management system and reports on internal audit, enterprise-wide risk management and related issues to the Governing Committee. A risk-based framework, which evaluates key business risks and internal controls, determines the extent and frequency of internal audits conducted. All Bank departments are subject to periodic internal audit reviews. The Head of Risk Assessment and Assurance and the Manager, Internal Audit have direct and independent access to the Audit Committee of the Board of Directors, which comprises three of the Bank's non-executive directors. Summary information on the outcomes of internal audits is reported to the Audit Committee.

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

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

14. Operational Risk

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

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

Managing operational risk in the Bank is an integral part of day-to-day operations and management, and includes an explicit consideration of both the opportunities and the risks of all business activities. Operational risk management includes Bank-wide corporate policies that describe the standard of conduct required of staff, a number of mandated requirements (e.g., a proactive problem management process whereby problems and incidents are reported and analysed for potential risk management improvements), an active internal audit function, and specific internal control systems designed around the particular characteristics of various Bank activities.

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

15. Credit Risk

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

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

a. Foreign Reserves Management Credit Risk Management

Credit risk for Foreign Reserves Management is monitored and managed daily. Exposures are controlled through comprehensive individual counterparty and issuer credit limits. Individual credit limits are set taking into account the credit profile of the counterparty or issuer. Individual credit exposures are also aggregated and managed against cumulative limits, such as country exposure limits.

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

b. Domestic Market Operations Credit Risk Management

Repurchase, reverse-repurchase and swap transactions generated by the Domestic Market Operations function also give rise to credit risk. The Bank accepts a wide range of pre-approved securities for reverse-repurchase transactions. Where funds are advanced by reverse-repurchase agreements, the amount advanced is subject to specified discounts depending on the type of security so as to ensure that the value of security held exceeds the amount advanced. Where funds are advanced by swap transactions, collateral is taken or given in cash. The value of security held is monitored daily and calls are made for additional collateral to be requested from, or excess collateral returned to, the counterparty as required.

c. Concentrations of Credit Exposure

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

Country in which Issuer is Resident:	**Total 2016 $M**	**Sovereign 2016 $M**	**Financial Institutions 2016 $M**	Total 2015 $M	Sovereign 2015 $M	Financial Institutions 2015 $M
United States	**7,585**	**7,183**	**402**	11,765	11,435	330
New Zealand	**3,745**	**3,449**	**296**	3,665	3,117	548
Supranational	**3,454**	**-**	**3,454**	2,114	-	2,114
Japan	**3,454**	**3,454**	**-**	1,599	1,599	-
France	**1,994**	**935**	**1,059**	2,094	1,399	695
Germany	**1,953**	**649**	**1,304**	2,666	697	1,969
Netherlands	**1,658**	**1,547**	**111**	2,070	792	1,278
Australia	**554**	**454**	**100**	598	487	111
United Kingdom	**425**	**380**	**45**	549	549	-
Canada	**325**	**277**	**48**	328	324	4
Asian Bond Funds	**180**	**-**	**180**	186	-	186
China	**144**	**144**	**-**	156	156	-
Denmark	**140**	**-**	**140**	347	-	347
Austria	**140**	**-**	**140**	123	-	123
Other Non-European	**74**	**-**	**74**	227	-	227
Switzerland	**57**	**-**	**57**	-	-	-
Sweden	**-**	**-**	**-**	532	-	532
Total Financial Assets	**25,882**	**18,472**	**7,410**	29,019	20,555	8,464

The following table presents the Bank's financial assets based on end-of-year concentrations of credit exposure, classified by the country in which the counterparty is resident.[8] For this table, any collateral held is not included in determining exposures.

Country in which Counterparty is Resident:	Total 2016 $M	Sovereign 2016 $M	Financial Institutions 2016 $M	Total 2015 $M	Sovereign 2015 $M	Financial Institutions 2015 $M
United States	**5,989**	**4,884**	**1,105**	8,033	6,999	1,034
New Zealand	**3,745**	**3,449**	**296**	3,665	3,117	548
Supranational	**3,454**	**-**	**3,454**	2,114	-	2,114
Japan	**3,454**	**3,454**	**-**	1,599	1,599	-
United Kingdom	**2,056**	**380**	**1,676**	4,281	549	3,732
France	**1,994**	**935**	**1,059**	2,094	1,399	695
Germany	**1,953**	**649**	**1,304**	2,666	700	1,966
Netherlands	**1,658**	**1,547**	**111**	2,070	792	1,278
Australia	**519**	**419**	**100**	598	487	111
Canada	**325**	**277**	**48**	328	324	4
Asian Bond Funds	**180**	**-**	**180**	186	-	186
China	**144**	**144**	**-**	156	156	-
Denmark	**140**	**-**	**140**	347	-	347
Austria	**140**	**-**	**140**	123	-	123
Other Non-European	**74**	**-**	**74**	227	-	227
Switzerland	**57**	**-**	**57**	-	-	-
Sweden	**-**	**-**	**-**	532	-	532
Total Financial Assets	**25,882**	**16,138**	**9,744**	29,019	16,122	12,897

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

d. Credit Exposure by Credit Rating

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

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

Credit Rating Country in which Issuer is Resident:	Total 2016 $M	AAA 2016 $M	AA+/- 2016 $M	A+/- 2016 $M	Various 2016 $M	N/R 2016 $M
United States	**7,585**	-	**7,206**	**378**	-	**1**
New Zealand	**3,745**	-	**3,741**	-	-	**4**
Supranational[9]	**3,454**	**421**	**108**	-	-	**2,925**
Japan	**3,454**	-	-	**3,454**	-	-
France[10]	**1,994**	-	**1,314**	**91**	-	**589**
Germany	**1,953**	**1,953**	-	-	-	-
Netherlands	**1,658**	**1,658**	-	-	-	-
Australia	**554**	**454**	**100**	-	-	-
United Kingdom	**425**	-	**381**	**42**	-	**2**
Canada	**325**	**277**	**21**	**27**	-	-
Asian Bond Funds	**180**	-	-	-	**180**	-
China	**144**	-	-	-	**144**	-
Denmark	**140**	**140**	-	-	-	-
Austria	**140**	-	**140**	-	-	-
Other Non-European	**74**	-	**74**	-	-	-
Switzerland	**57**	-	-	**57**	-	-
Total Financial Assets	**25,882**	**4,903**	**13,085**	**4,049**	**324**	**3,521**

Credit Rating Country in which Issuer is Resident:	Total 2015 $M	AAA 2015 $M	AA+/- 2015 $M	A+/- 2015 $M	Various 2015 $M	N/R 2015 $M
United States	11,765	-	11,440	324	-	1
New Zealand	3,665	-	3,662	-	-	3
Germany	2,666	2,665	-	-	-	1
Supranational[9]	2,114	1,581	-	-	-	533
France	2,094	-	2,035	59	-	-
Netherlands	2,070	-	2,070	-	-	-
Japan	1,599	-	1,599	-	-	-
Australia	598	487	111	-	-	-
United Kingdom	549	549	-	-	-	-
Sweden	532	532	-	-	-	-
Denmark	347	347	-	-	-	-
Canada	328	324	3	1	-	-
Other Non-European	227	-	227	-	-	-
Asian Bond Funds	186	-	-	-	186	-
China	156	-	-	-	156	-
Austria	123	-	123	-	-	-
Total Financial Assets	29,019	6,485	21,270	384	342	538

9. Exposures to Supranationals that do not have credit ratings are exposures to the BIS.
10. Exposures to France that do not have credit ratings by Standard & Poor's are rated as Aa2 by Moody's.

16. Market Risk

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

The Bank uses a range of position size, delta, and stop-loss limits, together with VaR to measure and manage market risk.

Interest Rate Risk and Limits

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

Foreign Currency Risk and Limits

Foreign currency risk is the risk that the fair value of a financial instrument will fluctuate due to a change in foreign exchange rates. Foreign exchange position limits are established for the aggregate net foreign currency position that may be taken, together with limits for the net exposure to individual foreign currency positions.

VaR and VaR Limits

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

VaR limits are utilised to manage market risk arising from the Bank's actively managed portfolios.

	Foreign Reserves Management Portfolios					
	Foreign Currency Risk		Interest Rate Risk		Total Market Risk	
VaR	**2016 $M**	2015 $M	**2016 $M**	2015 $M	**2016 $M**	2015 $M
As at 30 June	**43**	43	**6**	5	**43**	43
Peak over the Year	**50**	43	**6**	6	**50**	43
Low over the Year	**42**	22	**5**	4	**42**	22
Average over the Year	**46**	30	**6**	5	**46**	30

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

Stop-loss Limits

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

Sensitivity to Interest Rate Risk and Foreign Currency Risk

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

	Total Gain/ (Loss) Affecting Compre-hensive Revenue and Expense 2016 $M	Gain/ (Loss) Reported in the Statement of Financial Perform-ance 2016 $M	Gain/ (Loss) Reported Directly in Net Assets/ Equity 2016 $M	Total Gain/ (Loss) Affecting Compre-hensive Revenue and Expense 2015 $M	Gain/ (Loss) Reported in the Statement of Financial Perform-ance 2015 $M	Gain/ (Loss) Reported Directly in Net Assets/ Equity 2015 $M
Impact of:						
A Rise of 10 Percent in the Value of the New Zealand Dollar	**(269)**	**(256)**	**(13)**	(322)	(308)	(14)
A Fall of 10 Percent in the Value of the New Zealand Dollar	**329**	**313**	**16**	394	377	17
A Rise of One Percentage Point in the Local Currency Yield Curve	**(255)**	**(17)**	**(238)**	(184)	(19)	(165)
A Fall of One Percentage Point in the Local Currency Yield Curve	**285**	**17**	**268**	200	19	181
A Rise of One Percentage Point in the Yield Curve for All Foreign Currencies	**(25)**	**(25)**	**-**	(19)	(19)	-
A Fall of One Percentage Point in the Yield Curve for All Foreign Currencies	**28**	**28**	**-**	19	19	-

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

17. Interest Rate Risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in interest rates.

Foreign Reserves Management Interest Rate Risk Management

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

Domestic Market Operations Interest Rate Risk Management

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

The average duration of the Bank's holding of New Zealand government securities in its investment portfolio (which excludes outright purchases of government securities for liquidity management purposes) as at 30 June 2016 was 7.3 years (2015: 7.1 years). Interest rate risk on New Zealand government securities is not dynamically managed and it is intended that these securities be held to maturity.

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

	Total 2016 $M	Non-interest Sensitive $M	Overnight $M	3 Months or Less $M	Between 3 and 12 Months $M	Between 1 and 2 Years $M	Between 2 and 5 Years $M	More Than 5 Years $M
Assets								
Investments	10,646	-	182	7,209	545	1,165	1,201	344
Securities Purchased under Agreements to Resell	2,258	-	-	2,258	-	-	-	-
New Zealand Government Securities	3,449	-	-	1,017	-	501	831	1,100
Other Financial Assets	9,529	299	8,534	696	-	-	-	-
Other Assets	101	101	-	-	-	-	-	-
Total Assets	**25,983**	**400**	**8,716**	**11,180**	**545**	**1,666**	**2,032**	**1,444**
Liabilities								
Foreign Currency Term Liabilities	972	-	-	972	-	-	-	-
Local Currency Term Liabilities	796	-	-	796	-	-	-	-
Securities Sold under Agreements to Repurchase	772	-	-	772	-	-	-	-
Deposits	13,121	39	13,082	-	-	-	-	-
Reserve Bank Bills	674	-	-	674	-	-	-	-
Currency in Circulation	5,634	5,634	-	-	-	-	-	-
Other Financial Liabilities	1,039	165	115	759	-	-	-	-
Other Liabilities	147	147	-	-	-	-	-	-
Net Assets/Equity	2,828	2,828	-	-	-	-	-	-
Total Liabilities and Equity	**25,983**	**8,813**	**13,197**	**3,973**	**-**	**-**	**-**	**-**
Interest Rate Sensitivity Gap excluding Futures Contracts	-	(8,413)	(4,481)	7,207	545	1,666	2,032	1,444
Futures Contracts	(151)	-	-	-	-	(127)	-	(24)
Total Interest Rate Sensitivity Gap	**(151)**	**(8,413)**	**(4,481)**	**7,207**	**545**	**1,539**	**2,032**	**1,420**
Interest Rate Sensitivity Gap by Currency[11]								
New Zealand Dollar	(2,959)	(8,103)	(12,894)	15,606	-	501	831	1,100
United States Dollar	541	(396)	3,670	(3,421)	25	473	168	22
Euro	725	53	1,547	(1,681)	312	-	494	-
Japanese Yen	178	14	3,165	(3,291)	-	222	68	-
British Pound	373	16	6	1	186	-	188	(24)
Australian Dollar	419	3	18	-	22	175	181	20
Canadian Dollar	270	-	7	(7)	-	168	102	-
Chinese Renminbi	144	-	-	-	-	-	-	144
Other	158	-	-	-	-	-	-	158
	(151)	**(8,413)**	**(4,481)**	**7,207**	**545**	**1,539**	**2,032**	**1,420**

New Zealand government inflation-indexed bonds, with a market value of $1,020 million, are included in the 'three months or less' category. These bonds have an earnings rate that is linked to the Consumer Price Index and are reset each quarter.

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

	Total 2015 $M	Non-interest Sensitive $M	Overnight $M	3 Months or Less $M	Between 3 and 12 Months $M	Between 1 and 2 Years $M	Between 2 and 5 Years $M	More Than 5 Years $M
Assets								
Investments	13,727	-	419	9,136	1,263	1,476	1,091	342
Securities Purchased under Agreements to Resell	4,436	-	-	4,436	-	-	-	-
New Zealand Government Securities	3,117	-	-	955	-	-	1,137	1,025
Other Financial Assets	7,739	158	7,192	389	-	-	-	-
Other Assets	88	88	-	-	-	-	-	-
Total Assets	29,107	246	7,611	14,916	1,263	1,476	2,228	1,367
Liabilities								
Foreign Currency Term Liabilities	1,127	-	-	1,127	-	-	-	-
Local Currency Term Liabilities	800	-	-	800	-	-	-	-
Securities Sold under Agreements to Repurchase	1,800	-	-	1,800	-	-	-	-
Deposits	14,538	104	14,434	-	-	-	-	-
Reserve Bank Bills	309	-	-	309	-	-	-	-
Currency in Circulation	5,255	5,255	-	-	-	-	-	-
Other Financial Liabilities	1,965	183	84	1,693	5	-	-	-
Other Liabilities	514	514	-	-	-	-	-	-
Net Assets/Equity	2,799	2,799	-	-	-	-	-	-
Total Liabilities and Equity	29,107	8,855	14,518	5,729	5	-	-	-
Interest Rate Sensitivity Gap excluding Futures Contracts	-	(8,609)	(6,907)	9,187	1,258	1,476	2,228	1,367
Futures Contracts	(300)	-	-	10	-	(305)	(5)	-
Total Interest Rate Sensitivity Gap	(300)	(8,609)	(6,907)	9,197	1,258	1,171	2,223	1,367
Interest Rate Sensitivity Gap by Currency								
New Zealand Dollar	(3,536)	(8,699)	(13,980)	16,676	305	-	1,137	1,025
United States Dollar	690	(2)	5,182	(5,489)	366	417	149	67
Euro	747	60	793	(670)	206	358	-	-
Japanese Yen	193	15	1,059	(1,320)	299	61	79	-
British Pound	520	17	30	-	-	68	405	-
Australian Dollar	487	-	2	-	82	49	354	-
Canadian Dollar	324	-	7	-	-	218	99	-
Chinese Renminbi	156	-	-	-	-	-	-	156
Other	119	-	-	-	-	-	-	119
	(300)	(8,609)	(6,907)	9,197	1,258	1,171	2,223	1,367

18. Foreign Currency Risk

Foreign currency risk is the risk that the fair value of a financial instrument will fluctuate due to a change in foreign exchange rates.

Foreign currency risk arises from:

— the maintenance of a portion of foreign currency reserves on an unhedged basis for crisis management purposes;

— currency interventions to meet monetary policy objectives; and

— active management undertaken in trading portfolios.

The Bank intends to hold some of its reserves on an unhedged basis through most of the exchange rate cycle. The Bank has a policy of maintaining a passive 'benchmark' open foreign exchange position of SDR 1 billion (2015: SDR 1 billion), but can vary the actual open position, and thus the amount of unhedged reserves, around that benchmark level, depending on the behaviour of the exchange rate and foreign exchange markets. This variation might be significant.

For non-trading portfolios, foreign currency risk is managed by way of open position limits, target open-currency composition weights and deviation bands. Additionally, the Bank monitors VaR and stressed-VaR outcomes for these portfolios.

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

As at 30 June 2016, the Bank's net exposure to major currencies, in New Zealand dollar terms, was:

	2016 $M	2015 $M
Australian Dollar	**419**	487
British Pound	**397**	520
Canadian Dollar	**270**	324
Chinese Renminbi	**144**	156
Euro	**725**	884
Japanese Yen	**178**	193
United States Dollar	**668**	863
Various Currencies (Asian Bond Fund 2)	**158**	119
Total Net Open Foreign Exchange Position	**2,959**	3,546

At 30 June 2016 the net open foreign exchange position was SDR 1,512 million (2015: SDR 1,709 million). The quantum of the open position varies over time to the level the Bank determines is warranted by its policy objectives (specified in SDR terms) and economic conditions. The largest net open foreign exchange position (measured in SDR terms) during the 12 months ended 30 June 2016 was SDR 1,703 million (2015: SDR 1,743 million). The smallest net open foreign exchange position (measured in SDR terms) during the 12 months ended 30 June 2016 was SDR 1,481 million (2015: SDR 1,420 million). The largest net open foreign exchange position (measured in New Zealand dollar terms) during the 12 months ended 30 June 2016 was $3,540 million (2015: $3,553 million). The smallest net open foreign exchange position (measured in New Zealand dollar terms) during the 12 months ended 30 June 2016 was $2,959 million (2015: $2,500 million).

19. Liquidity Risk

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

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

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

a. Foreign Currency Activities

Liquidity is a key criterion in determining the composition of the Bank's foreign-currency assets. This reflects the potential requirement to liquidate foreign reserves for intervention purposes should the need arise. Accordingly, the Bank employs a number of controls that aim to ensure quick access to funds. These controls include a required composition of portfolios based on the liquidity characteristics of securities, with defined minimum levels, durations and limits on the minimum and maximum proportion of reserves that may be held in any one currency.

At 30 June 2016 foreign currency assets valued at $20,771 million were classified as being able to be settled within two business days of being liquidated (30 June 2015: $24,027 million).

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

b. Local Currency Activities

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

The Bank manages its own New Zealand dollar cash flows by advancing funds to, and withdrawing funds from, the New Zealand banking system. This is achieved through a range of financial transactions, including entering into foreign exchange swap and basis swap transactions and asset repurchase and reverse-repurchase agreements, and by issuing Reserve Bank bills. As New Zealand's central bank, the Bank is able to create New Zealand dollar liquidity through its daily market operations. Therefore the Bank is not required to maintain liquid assets to meet its New Zealand dollar obligations.

20. Cash Flows by Remaining Contractual Maturities

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

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

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

The table excludes the following financial assets that have no fixed maturity dates: Asian Bond Fund 1, Asian Bond Fund 2, and BIS Investment Pool Sovereign China, which had an aggregate carrying value at 30 June 2016 of $324 million (2015: $342 million). These financial assets are included within Foreign Currency Financial Investments in the Consolidated Statement of Financial Position. Also excluded from the table are shares in the BIS, which had a value at 30 June 2016 of $144 million (2015: $153 million) and are included within Other Foreign Currency Financial Assets in the Consolidated Statement of Financial Position.

Dividend outflows of $140 million (2015: $510 million) are also excluded from the table as they are not contractual cash flows.

	Total 2016 $M	On Demand $M	3 Months or Less $M	3 to 12 Months $M	1 to 2 Years $M	2 to 5 Years $M	More Than 5 Years $M
Foreign Currency Financial Assets							
Cash Balances	8,351	8,351	-	-	-	-	-
Securities Purchased under Agreements to Resell	2,258	-	2,258	-	-	-	-
Investments	10,349	152	7,267	568	1,100	1,245	17
Other Foreign Currency Financial Assets	127	-	127	-	-	-	-
	21,085	8,503	9,652	568	1,100	1,245	17
Foreign Currency Financial Liabilities							
Short-term Foreign Currency Financial Liabilities	209	133	76	-	-	-	-
Securities Sold under Agreements to Repurchase	662	-	662	-	-	-	-
Term Liabilities	972	-	(1)	1	972	-	-
	1,843	133	737	1	972	-	-
Foreign Currency Derivatives							
Contractual Inflows	6,718	-	5,459	364	219	676	-
Contractual Outflows	(23,896)	-	(14,549)	(1,404)	(708)	(3,343)	(3,892)
	(17,178)	-	(9,090)	(1,040)	(489)	(2,667)	(3,892)
Foreign Currency Net Gap in Contractual Maturities	2,064	8,370	(175)	(473)	(361)	(1,422)	(3,875)
Local Currency Financial Assets							
New Zealand Government Securities	3,930	-	12	114	584	1,008	2,212
Other Local Currency Financial Assets	191	191	-	-	-	-	-
	4,121	191	12	114	584	1,008	2,212
Local Currency Financial Liabilities							
Deposits	13,121	13,121	-	-	-	-	-
Securities Sold under Agreements to Repurchase	110	-	110	-	-	-	-
Reserve Bank Bills	674	-	674	-	-	-	-
Currency in Circulation	5,634	5,634	-	-	-	-	-
Term Liabilities	866	-	4	11	14	628	209
Other Local Currency Financial Liabilities	89	81	8	-	-	-	-
	20,494	18,836	796	11	14	628	209
Local Currency Derivatives							
Contractual Inflows	19,351	-	10,344	1,389	560	2,957	4,101
Contractual Outflows	(1,500)	-	(1,017)	(379)	(2)	(102)	-
	17,851	-	9,327	1,010	558	2,855	4,101
Local Currency Net Gap in Contractual Maturities	1,478	(18,645)	8,543	1,113	1,128	3,235	6,104
Total Net Gap in Contractual Maturities	3,542	(10,275)	8,368	640	767	1,813	2,229

	Total 2015 $M	On Demand $M	3 Months or Less $M	3 to 12 Months $M	1 to 2 Years $M	2 to 5 Years $M	More Than 5 Years $M
Foreign Currency Financial Assets							
Cash Balances	6,742	6,742	-	-	-	-	-
Securities Purchased under Agreements to Resell	4,436	-	4,436	-	-	-	-
Investments	13,425	435	9,141	1,284	1,490	1,075	-
Other Foreign Currency Financial Assets	1	-	1	-	-	-	-
	24,604	7,177	13,578	1,284	1,490	1,075	-
Foreign Currency Financial Liabilities							
Short-term Foreign Currency Financial Liabilities	101	43	58	-	-	-	-
Securities Sold under Agreements to Repurchase	704	-	704	-	-	-	-
Term Liabilities	1,131	-	(2)	102	-	1,031	-
	1,936	43	760	102	-	1,031	-
Foreign Currency Derivatives							
Contractual Inflows	3,677	-	2,632	192	377	476	-
Contractual Outflows	(23,999)	-	(14,744)	(1,786)	(2,002)	(2,225)	(3,242)
	(20,322)	-	(12,112)	(1,594)	(1,625)	(1,749)	(3,242)
Foreign Currency Net Gap in Contractual Maturities	2,346	7,134	706	(412)	(135)	(1,705)	(3,242)
Local Currency Financial Assets							
New Zealand Government Securities	3,669	-	13	110	123	1,355	2,068
Other Local Currency Financial Assets	496	496	-	-	-	-	-
	4,165	496	13	110	123	1,355	2,068
Local Currency Financial Liabilities							
Deposits	14,538	14,538	-	-	-	-	-
Securities Sold under Agreements to Repurchase	1,096	-	1,096	-	-	-	-
Reserve Bank Bills	309	-	309	-	-	-	-
Currency in Circulation	5,255	5,255	-	-	-	-	-
Term Liabilities	932	-	6	15	21	459	431
Other Local Currency Financial Liabilities	125	81	44	-	-	-	-
	22,255	19,874	1,455	15	21	459	431
Local Currency Derivatives							
Contractual Inflows	20,023	-	11,435	1,769	1,869	1,828	3,122
Contractual Outflows	(506)	-	(4)	(11)	(384)	(107)	-
	19,517	-	11,431	1,758	1,485	1,721	3,122
Local Currency Net Gap in Contractual Maturities	1,427	(19,378)	9,989	1,853	1,587	2,617	4,759
Total Net Gap in Contractual Maturities	3,773	(12,244)	10,695	1,441	1,452	912	1,517

FINANCIAL PERFORMANCE NOTES

21. Net Investment Revenue

Net Investment Revenue includes:

	Total 2016 $M	Foreign Currency $M	Local Currency $M	Total 2015 $M	Foreign Currency $M	Local Currency $M
Interest Revenue						
Cash Balances	**4**	**4**	**-**	2	2	-
Securities Purchased under Agreements to Resell	**6**	**5**	**1**	3	1	2
Investments	**39**	**39**	**-**	35	35	-
Derivatives	**422**	**(14)**	**436**	506	(14)	520
New Zealand Government Securities	**127**	**-**	**127**	156	-	156
Other	**14**	**1**	**13**	2	-	2
Total Interest Revenue	**612**	**35**	**577**	704	24	680
Interest Expense						
Securities Sold under Agreements to Repurchase	**9**	**-**	**9**	14	-	14
Term Liabilities[12]	**14**	**(5)**	**19**	6	(8)	14
New Zealand Government Deposits	**70**	**-**	**70**	120	-	120
Settlement Bank Deposits	**206**	**-**	**206**	277	-	277
Reserve Bank Bills	**43**	**-**	**43**	16	-	16
Total Interest Expense	**342**	**(5)**	**347**	433	(8)	441
Net Interest Revenue	**270**	**40**	**230**	271	32	239
Net Gains/(Losses) from Fair Value Changes	**39**	**(17)**	**56**	30	47	(17)
Net Gains/(Losses) from Foreign Exchange Rate Changes	**(201)**	**(201)**	**-**	379	379	-
Dividend Revenue	**1**	**1**	**-**	1	1	-
Total Net Investment Revenue/(Expense)	**109**	**(177)**	**286**	681	459	222

Interest Revenue from the New Zealand Government (including entities controlled by the New Zealand Government) comprised 21 percent (2015: 22 percent) of the total interest received.

Components of Net Investment Revenue from Financial Instruments

Net Investment Revenue includes net revenue/(expenses) arising from:

	2016 $M	2015 $M
Financial Assets and Financial Liabilities Classified as Fair Value through Surplus/(Deficit) upon Initial Recognition	**(203)**	430
Derivatives Deemed to be Classified as Held for Trading	**422**	506
Financial Assets and Financial Liabilities Classified as Held for Trading	**2**	1
Interest and Dividend Revenue from Available-for-sale Financial Assets	**129**	135
Realised Gains on Disposal of Available-for-sale Financial Assets	**31**	4
Financial Assets Classified as Loans and Receivables	**4**	2
Financial Liabilities Classified as Financial Liabilities at Amortised Cost	**(276)**	(397)
Total Net Investment Revenue	**109**	681

12. Interest rates on foreign currency Term Liabilities with the New Zealand Government are re-set every quarter, based on market reference rates less a margin agreed at the inception of the loans. During 2016, with market interest rates at very low levels, interest was received by the Bank after the fixed margin was applied.

22. Revenue and Expenses by Function

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

	Operating Revenue 2016 $M	Attribution of Earnings on Investments Funded by Net Assets/Equity 2016 $M	Operating Expenses 2016 $M	Surplus/ (Deficit) 2016 $M
Functions				
Monetary Policy Formulation	-	-	10	(10)
Domestic Market Operations	43	17	5	55
Prudential Supervision	-	-	13	(13)
Macro-financial Stability	-	-	8	(8)
Currency Operations	179	-	21	158
Foreign Reserves Management	(191)	62	6	(135)
Settlement Services	13	-	8	5
Total for Bank before Earnings on Investments Funded by Net Assets/Equity	44	79	71	52
Earnings Not Allocated to Functions				
Earnings on Investments Funded by Net Assets/Equity	79	(79)	-	-
Total for Bank	123	-	71	52

	Operating Revenue 2015 $M	Attribution of Earnings on Investments Funded by Net Assets/Equity 2015 $M	Operating Expenses 2015 $M	Surplus/ (Deficit) 2015 $M
Functions				
Monetary Policy Formulation	-	-	10	(10)
Domestic Market Operations	20	23	5	38
Prudential Supervision	-	-	12	(12)
Macro-financial Stability	-	-	8	(8)
Currency Operations	214	-	22	192
Foreign Reserves Management	359	65	6	418
Settlement Services	13	-	7	6
Total for Bank before Earnings on Investments Funded by Net Assets/Equity	606	88	70	624
Earnings not Allocated to Functions				
Earnings on Investments Funded by Net Assets/Equity	88	(88)	-	-
Total for Bank	694	-	70	624

Operating income for each function includes allocations of notional interest income and expenditure on New Zealand dollar funding provided by (or provided to) the function through internal lending and borrowing. Notional interest rates take into account the estimated term of the funding and the associated external interest earned or incurred. Earnings on net assets/equity are not allocated to individual functions. The total operating expenses for each function include internal transfers between functions.

23. Operating Expenses

	Note	2016 $M	Budget Unaudited 2016 $M	2015 $M	Budget Unaudited 2015 $M
Staff Expenses		**32**	**34**	35	35
Net Currency-issued Expenses		**10**	**14**	13	7
Asset Management Expenses		**8**	**8**	7	7
Other Operating Expenses		**18**	**19**	18	20
Total Operating Expenses Excluding Actuarial Loss/(Gain) on Defined Benefit Superannuation Scheme		**68**	**75**	73	69
Actuarial Loss/(Gain) on Defined Benefit Superannuation Scheme	27	**3**	**-**	(3)	-
Total Operating Expenses		**71**	**75**	70	69

The budgets for 2016 and 2015 are the annual budgets prepared by the management of the Bank and are published in the *Statement of Intent.*

	2016 $000	2015 $000
Net Currency-issued Expenses includes		
Write-down of inventories to net realisable value	**1,604**	6,663
Asset Management Expenses includes		
Depreciation of Property, Plant and Equipment	**3,855**	3,613
Amortisation of Intangible Assets	**1,530**	1,356
Impairment Charges for Property, Plant and Equipment	**-**	-
Impairment Charges for Intangible Assets	**-**	-
Other Operating Expenses includes		
Restructuring Costs	**37**	960
Bad Debt Expenses	**-**	-
Rental and Lease Expenses	**132**	131

Staff Expenses have been reduced by $0.79 million (2015: nil) for the capitalisation of the staff expenses directly attributable to the implementation of three major systems: replacements for the current systems used to provide real-time gross settlement services (ESAS) and securities settlement and depository services (NZClear), and a Trade Valuation Solution to support front-office trading and middle-office valuation and risk management processes.
The capitalised staff expenses have been added to the costs of these systems. The full costs of these systems will be amortised over their useful lives.

Funding Agreement

A funding agreement is agreed between the Bank and the Government for periods of five years. The Funding Agreement sets out the expectations of the levels of operating expenses net of certain items of revenue within which the Bank should manage its operations. The table below sets out the net operating expenses for 2016, 2015 and cumulatively over the five years as specified in the Funding Agreement for the five years ended 30 June 2020.

	2016 Unaudited $M	**Cumulative 5-year Funding Agreement Unaudited $M**	2015 Unaudited $M
Net Operating Expenses	**54.1**	**54.1**	60.5
Net Operating Expenses Specified in Funding Agreement	**64.0**	**64.0**	56.4

Key Management Personnel

Key management personnel form the Governing Committee, which comprises the Governor, two Deputy Governors and the Assistant Governor. Because non-executive Board members are not responsible for decision-making by the Bank, and their statutory role is to monitor the performance of the Bank, they are not considered to be key management personnel as defined in PBE IPSAS 20 *Related Party Disclosures.* For the year ended 30 June, aggregate compensation paid to key management personnel comprised:

	2016 $000	2015 $000
Salaries, Superannuation Contributions and Other Short-term Benefits	**2,150**	2,082
Total Key Management Personnel Compensation	**2,150**	2,082

This table includes all compensation paid to key management personnel.

OTHER NOTES

24. Auditor's Remuneration

	2016 $000	2015 $000
Statutory Audit	**254**	251
Payment Systems Assurance	**77**	76
Advisory Services	**59**	4
	390	331

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

The Payment Systems Assurance expense comprises fees paid for the contractual assurance engagements of the NZClear depository system and ESAS.

The Advisory Services expense comprises fees for advice relating to the utilisation of the Bank's building that were paid to a business that was acquired by the external auditors during the year ended 30 June 2016, and penetration testing of the Bank's key systems. These advisory services were approved in accordance with the Bank's External Auditor Independence Policy, which requires that prior to engaging the external auditor for any of these services, the advice of the Chair of the Audit Committee must be sought and approval must be given by the Governor or Deputy Governor.

25. Reconciliation of Net Cash Flows from Operating Activities with Surplus for the Year

	2016 $M	2015 $M
Surplus for the Year	**52**	624
Add/(Subtract) Items Included in Surplus Relating to Cash Flows from Changes in Operating Asset and Operating Liability Balances and Investing and Financing Activities:		
Foreign Exchange Losses/(Gains)[13]	**201**	(379)
Market Value Changes	**(39)**	(30)
Add/(Subtract) Non-cash Items:		
Depreciation and Amortisation	**5**	5
Amortisation of Premium/Discount on Financial Instruments	**24**	(28)
Net Movement in Repatriated Currency Revenue and Expense	**-**	3
	191	(429)
Movements in Other Working Capital Items		
Decrease/(Increase) in Current Assets:		
Movement in Accounts Receivable	**-**	(2)
Movement in Inventories	**(10)**	6
Movement in Interest Receivable	**-**	(10)
	(10)	(6)
Increase/(Decrease) in Current Liabilities:		
Movement in Miscellaneous Liabilities	**3**	(1)
Movement in Interest Payable	**(1)**	2
	2	1
Net Movements in Other Working Capital Items	**(8)**	(5)
Operating Cash Flows from Revenue and Expenses	**235**	190
Cash Flows from Changes in Operating Asset and Operating Liability Balances	**1,939**	2,988
Net Cash Flows from Operating Activities	**2,174**	3,178

13. Foreign Exchange Losses/(Gains) include the Foreign Exchange Rate Effect on Cash Balances at the Beginning of the Year in the Consolidated Statement of Cash Flows on pages 61 and 62.

26. Statement of Commitments

a. Provision of Funding to the New Zealand Financial System

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

b. Reciprocal Funding Arrangements with Foreign Central Banks

On 24 April 2014 the People's Bank of China (PBOC) and the Bank renewed a reciprocal currency arrangement (swap line) to support the settlement of trade and investment transactions between New Zealand and Chinese businesses in circumstances where it might otherwise be difficult to settle obligations in Chinese renminbi (RMB). The swap facility provides for the PBOC and the Bank to enter foreign exchange swap transactions that have a total value at any point of up to RMB25 billion (NZD5 billion), with the terms of the foreign exchange swaps to be agreed at the time the swaps are entered into. The swap line is for a term of three years, which may be extended if both parties agree. No drawings were made under this arrangement in the year ended 30 June 2016 (2015: nil).

The Bank also has a reciprocal arrangement with the Hong Kong Monetary Authority, which allows either party to enter repurchase agreements with the other to raise up to USD250 million, secured by United States government securities. The existing arrangement expires on 31 March 2017 but may be extended by mutual agreement. No drawings were made under this arrangement in the year ended 30 June 2016 (2015: nil).

c. Commitments to the New Zealand Government

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

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

— to provide loans to the IMF up to SDR 340 million (2015: SDR 624.34 million) if the IMF makes a call on the New Zealand Government in respect of the Government's commitment under the IMF's 'New Arrangements to Borrow' facility; and

— to provide loans to the IMF of up to USD1 billion if the IMF makes a call on the New Zealand Government in respect of the Government's commitment under the IMF's '2012 Borrowing Arrangements' facility.

During the year ended 30 June 2016, no funds were made available to the Government under these arrangements (2015: nil).

d. Commitments for Capital Expenditure and Purchase of Inventories

At reporting date the Bank had commitments for capital expenditure and the purchase of inventories totalling $64.48 million (2015: $74.32 million).

27. Superannuation Commitments

The Bank has a superannuation fund for staff. The superannuation fund includes both a defined contribution scheme and a defined benefit scheme. Contributions, as specified in the rules of the respective schemes, are made by the Bank as required.

Defined Benefit Scheme

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

As at 31 March	**2016 $000**	2015 $000
Superannuation Asset/Superannuation Liability Recognised in the Statement of Financial Position		
Present Value of Wholly or Partly Funded Obligations	**34,684**	33,751
Fair Value of Plan Assets	**32,626**	35,069
Present Value of Net Obligations/(Assets)	**2,058**	(1,318)
Actuarial Gains Not Recognised in the Statement of Financial Position	**-**	896
Net Liability/(Asset) Recognised in the Statement of Financial Position	**2,058**	(422)

The net asset (if any) recognised at the end of the year is limited to the estimated present value of reductions in future employer contributions to the defined benefit plan. The value of the net assets of the defined benefit superannuation scheme not recognised as an asset of the Bank was nil (2015: $896,000).

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

	2016 %	2015 %
Discount Rate at the Beginning of the Year	**3.17**	3.72
Expected Rate of Return on Plan Assets at the Beginning of the Year	**4.50**	4.50
Future Salary Increases	**3.00**	3.50
Other Material Actuarial Assumptions - Pension Increases	**1.55**	2.50

Statutory actuarial valuations of the schemes are undertaken every three years, with the last statutory valuation being undertaken as at 31 March 2015. Each year the actuary provides an assessment of the value of the liabilities of the superannuation fund in relation to the assets of the superannuation fund, with the last valuation performed at 31 March 2016. There were no material changes to the fund's financial position between 31 March 2016 and 30 June 2016. Contributions to the defined benefit scheme are at a rate, reviewed annually, sufficient to keep the scheme solvent, based on actuarial assessments. The defined benefit scheme was closed to new members in 1991.

28. Controlled Entity

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

NZCSD is a non-trading company, incorporated solely for the purpose of acting as a custodian trustee. It holds assets on behalf of the participants in the NZClear System, as described in Note 32.

29. Related Parties

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

Transactions entered into include:

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

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

Year Ended 30 June	2016 $M	2015 $M
Receipts from and Payments to Entities Controlled by the New Zealand Government		
Receipts of Revenue from Entities Controlled by the New Zealand Government		
Interest Revenue	127	156
Rental Revenue	2	1
Receipts of a Capital Nature from Entities Controlled by the New Zealand Government		
Receipt of Proceeds on Disposal of New Zealand Government Securities - Available for Sale	282	513
Receipt of Proceeds on Maturity of New Zealand Government Securities - Fair Value through Surplus/(Deficit)	-	2,174
Issuance of Local Currency Term Liability to the New Zealand Government	-	700
Payments of Expenses to Entities Controlled by the New Zealand Government		
Interest Expense	93	141
Payments of Capital to Entities Controlled by the New Zealand Government		
Net Decrease/(Increase) in Deposits	298	(2,620)
Repayment of Foreign Currency Term Liabilities	99	640
Payment for Purchase of New Zealand Government Securities	451	601

As at 30 June	2016 $M	2015 $M
Balances with Entities Controlled by the New Zealand Government		
Assets that Comprise Claims on Entities Controlled by the New Zealand Government		
New Zealand Government Securities	3,449	3,117
Liabilities that Comprise Claims by Entities Controlled by the New Zealand Government		
Deposits	6,204	6,502
Term Liabilities	1,768	1,927

In addition, as part of the Bank's domestic market operations, the Bank enters securities reverse-repurchase and securities repurchase agreements with Crown-owned entities on standard commercial terms. Except as noted above, all amounts advanced or borrowed under these agreements were repaid during the year. The table above includes interest revenue and interest expenses in relation to these activities.

30. Contingent Liabilities

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

   The actuary carried out a review of the financial position of the Fund as at 31 March 2016.

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

b. The Bank has a contingent liability for currency in circulation that has been demonetised but not returned to the Bank, but only to the extent that the Bank has not recognised an actual liability. The total face value of demonetised currency as at 30 June 2016 was $104.3 million (2015: $104.4 million). Of the total face value of demonetised currency, $81.3 million (2015: $81.4 million) is recognised as a liability in the Statement of Financial Position.

c. The Bank has a liability for the face value of collectors' currency. However, it is most unlikely that significant amounts of collectors' currency will be returned for redemption at face value. The face value of collectors' currency issued before 1 July 2004 and that is not recognised as a liability is $9.8 million (2015: $9.8 million).

d. As at 30 June 2016, the Bank had a contingent liability of $23.56 million (SDR 12.04 million) (2015: $24.98 million [SDR 12.04 million]) in respect of uncalled and unpaid capital attached to its shareholding in the BIS.

31. Income Tax

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

32. Custodial Activities

The Bank operates the NZClear system, which is a securities clearing and settlement system. It holds assets, on behalf of the participants, in the name of NZCSD, which it has appointed as custodian trustee in terms of the Trustee Act 1956.

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

The total value of securities held by NZCSD as at 30 June 2016 was $227.3 billion (2015: $203.4 billion).

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

33. Significant Post-reporting Date Events

There have been no significant post-reporting date events.

FIVE-YEAR HISTORICAL FINANCIAL INFORMATION

Five-year Financial Position

As at 30 June	NZ IFRS PBE Audited 2012 $M	NZ IFRS PBE Audited 2013 $M	PBE Standards Audited 2014 $M	PBE Standards Audited 2015 $M	**PBE Standards Audited 2016 $M**
Assets					
Foreign Currency Financial	21,971	21,163	19,286	25,406	**22,242**
Local Currency Financial	4,695	2,844	3,093	3,613	**3,640**
Other Assets	78	75	82	88	**101**
Total Assets	26,744	24,082	22,461	29,107	**25,983**
Liabilities and Equity					
Foreign Currency Financial	4,129	3,657	3,193	3,671	**2,584**
Local Currency Financial	19,841	17,667	16,742	22,123	**20,424**
Other Liabilities	172	186	27	514	**147**
Net Assets/Equity	2,602	2,572	2,499	2,799	**2,828**
Total Liabilities and Net Assets/Equity	26,744	24,082	22,461	29,107	**25,983**

Five-year Financial Performance

For the Year Ended 30 June	NZ IFRS PBE Audited 2012 $M	NZ IFRS PBE Audited 2013 $M	PBE Standards Audited 2014 $M	PBE Standards Audited 2015 $M	**PBE Standards Audited 2016 $M**
Operating Revenue					
Net Investment Revenue	171	356	105	681	**109**
Other Revenue	8	9	11	13	**14**
Total Operating Revenue	179	365	116	694	**123**
Operating Expenses					
Staff Expenses	28	30	32	35	**32**
Net Currency-issued Expenses	5	6	7	13	**10**
Asset Management Expenses	7	6	6	7	**8**
Other Operating Expenses	15	16	19	18	**18**
Total Operating Expenses Excluding Actuarial Loss/(Gain) on Defined Benefit Superannuation Scheme	55	58	64	73	**68**
Actuarial Loss/(Gain) on Defined Benefit Superannuation Scheme	6	(1)	(4)	(3)	**3**
Total Operating Expenses	61	57	60	70	**71**
Surplus for the Year	118	308	56	624	**52**

Five-year Outcomes under the Funding Agreement

For the Year Ended 30 June	NZ IFRS PBE Unaudited 2012 $M	NZ IFRS PBE Unaudited 2013 $M	PBE Standards Unaudited 2014 $M	PBE Standards Unaudited 2015 $M	**PBE Standards Unaudited 2016 $M**
Actual Net Expenses under the Funding Agreement	47.0	48.3	53.3	60.5	**54.1**
Net Expenditure Specified under the Funding Agreement	50.2	52.7	55.2	56.4	**64.0**
Funding Agreement Under-expenditure/(Over-expenditure)	3.2	4.4	1.9	(4.1)	**9.9**

Five-year Dividends Paid to the New Zealand Government

For the Year Ended 30 June	NZ IFRS PBE Audited 2012 $M	NZ IFRS PBE Audited 2013 $M	PBE Standards Audited 2014 $M	PBE Standards Audited 2015 $M	**PBE Standards Audited 2016 $M**
Dividends Paid to the New Zealand Government	160	175	20	510	**140**

No adjustments to the financial information prepared under New Zealand equivalents to International Financial Reporting Standards (PBE) were made on transition to PBE Standards. No adjustments would be necessary to make the historical financial information presented under NZ IFRS (PBE) comply with PBE Standards.

GLOSSARY

(RBNZ) ACT
The Reserve Bank Act 1989

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

AUD
Australian Dollar

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

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

CAD
Canadian Dollar

CLS system
An international system run by CLS Bank International intended to reduce foreign exchange settlement risk (Herstatt risk). The CLS system does this by ensuring payment of both currencies in a foreign exchange transaction are made simultaneously and irrevocably. The Reserve Bank is a member of the international CLS Oversight Committee.

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

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

ESAS
Exchange Settlement Account System
The Reserve Bank's banking service for certain qualifying institutions that need to make regular high-value payments with each other.

EUR
Euro zone euro

FSAP
Financial Sector Assessment Programme
A comprehensive review of a country's financial system, with a particular focus on the quality of financial sector regulation.

FSIS
Financial Sector Information System
The Bank's central database for time-series data.

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

GBP
United Kingdom pound

IMF
International Monetary Fund
The International Monetary Fund is an organization of 189 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

IPSA
The Insurance (Prudential Supervision) Act 2010
The Act provides for the Bank's role as prudential supervisor of the insurance sector.

JPY
Japanese Yen

LVR
Loan-to-value ratio
A loan-to-value ratio (LVR) is a measure of how much a bank lends against mortgaged property, compared to the value of that property.

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

NBDTs
Non-bank deposit takers
Finance companies, building societies and credit unions, which take deposits from the investing public and which are not registered banks under the Act.

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

NZD
New Zealand Dollar

OCR
Official Cash Rate
The interest rate set by the Bank to meet the inflation target specified in the PTA.

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

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

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

SIFMI
Systemically Important Financial Market Infrastructures

TWI
Trade-Weighted Index
A measure of the value of the New Zealand dollar relative to the currencies of New Zealand's major trading partners.

USD
United States Dollar