Annual Report

Rīpoata-ā-Tau

2022–2023

Reserve Bank of New Zealand
Te Pūtea Matua

22–23

B.33

The Reserve Bank of New Zealand – Te Pūtea Matua

Te Pūtea Matua acknowledges its working partnership with Te Roroa, who support the Tāne Mahuta narrative and continue as stewards of the kauri in the Waipoua Forest.

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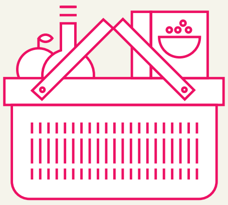
Reserve Bank of New Zealand Annual Report and Financial Statements for the year ended 30 June 2023, prepared pursuant to sections 239 to 247 of the Reserve Bank of New Zealand Act 2021, published in October 2023.

Contents

The year at a glance

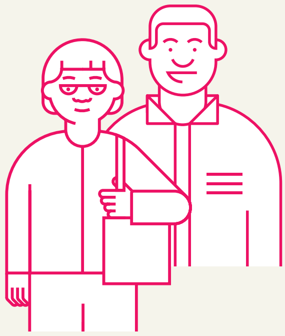
He tirohanga o tēnei tau

Inflation



Consumer price inflation was at 6.0 percent in June 2023 – **above the 1 to 3 percent target band**.

Unemployment rate



The unemployment rate was 3.6 percent. The Monetary Policy Committee in June 2023 noted employment is **above** its maximum sustainable level.

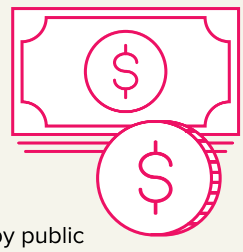
Financial stability

New Zealand's financial system remains sound, with banks' capital levels strengthening ahead of increasing regulatory requirements.

The banking system and our largest insurers remain resilient to a range of downturn scenarios, as demonstrated by our regular stress testing programme.

Banknotes and coins

Banknotes and coins in circulation were down by $0.06 billion (to $8.92 billion) in the year to 30 June 2023.



$8.92b

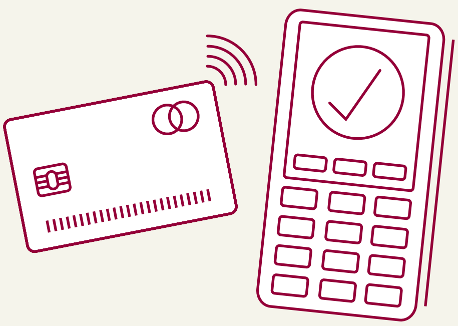
Currency in circulation is influenced by public demand for cash, which is affected by a number of factors including changing payment and shopping preferences and reduced access to bank branches for cash services for individual and retail customers.

NZClear

99.91%

(↑ 0.01%)

Availability during core hours

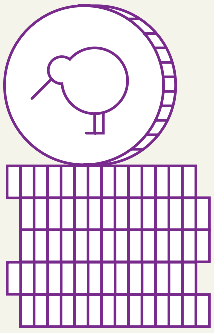


ESAS

100%

Availability during core hours

Te Toto *Sap, represents money, cash and foreign reserves*



The MPC raised the Official Cash Rate from 2 percent (as at 30 June 2022) to

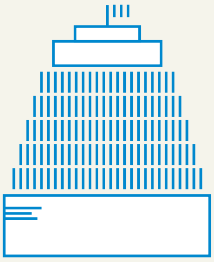
5.5%

(as at June 2023)

We released our five-yearly review of monetary policy

The review found that our formulation of monetary policy from 2017 to 2022 was consistent with the objectives set out in our Remit. There were 9 areas identified for improvement. The lessons and areas of focus are informing our policy design, our capability building and our research agenda.

Ngā Pekanga *Branches and leaves, represents the regulated entities – banks, insurers and non-bank deposit takers*



The Deposit Takers Bill was introduced to Parliament in September 2022 and the Deposit Takers Act received Royal Assent on 6 July 2023.

This legislation provides for a single regulatory regime for all deposit takers and introduces a Depositor Compensation Scheme, so depositors can have confidence that their deposits, in the event of a deposit taker failure, are eligible for compensation up to $100,000 per depositor, per institution.

We continue to engage with others, such as through the **Council of Financial Regulators**, to encourage improved **financial inclusion** and **Māori access to capita**l, and the understanding and mitigation of risks to the financial system from **climate change**.

We published the Foreign Reserves Management and Coordination Framework in January 2023.

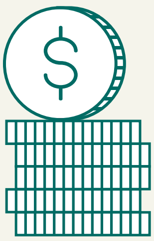
Te Tariwai *Vascular system, represents the payment and settlement systems*

NZClear

$7.1b

(↑ $1.8b)

NZClear average daily transaction values



ESAS

$36.3b

(↑ $2.8b)

ESAS average daily transaction values

Chair's statement
Te Whakapuaki a Te Heamana

It is my privilege to present this report for the year to 30 June 2023 on behalf of the Board. It covers a significant turning point in the history of the Reserve Bank – the coming into force of the Reserve Bank of New Zealand Act 2021 (the RBNZ Act 2021), our new foundational legislation, and a fully empowered governance board, with authority to exercise the powers and perform the functions of the Reserve Bank – other than those reserved to the MPC.

Embedding the Reserve Bank of New Zealand Act 2021

A great deal of work has been required to embed and operationalise the new governance framework, policies and processes. A comprehensive decision-making and delegation framework was developed by 1 July 2022 and has been successfully operationalised during the year. The Board has established standing Committees – an Audit Committee, Financial Stability Oversight Committee, and People, Culture and Change Committee – and these have been integrated into the flow of work associated with senior management committees across the Bank.

The Board has overseen the development of our Statement of Intent (2022-2026) (SOI), as well as the new accountability documents required by the Act. We also agreed the first Foreign Reserves Management and Coordination Framework (FRCF) with the Minister of Finance, which sets out how we manage foreign reserves. This ensures that the Reserve Bank is well prepared for the extreme circumstances that may justify foreign exchange interventions to support our policy objectives.

A major focus was the review of financial resources, as signalled in the SOI. The review considered the risks associated with the new FRCF and the broader risks we are required to manage to meet our monetary policy and financial stability objectives, both now and in the future. We have since agreed the additional capital and indemnities to ensure we are well placed to support the economy and steady financial markets in times of crisis.

As the first annual report required to contain all the information prescribed by section 240 of the RBNZ Act 2021, it has several new features: our Statement of Financial Risk Management (which sets out how the Board fulfils its duty to ensure the Reserve Bank operates in a financially responsible manner); information on how the Board has had regard to our Financial Policy Remit; and our first Statement of Performance, reporting on the Reserve Bank's performance against the measures in the SPE. The report covers a great deal more on our activities and achievements this year.

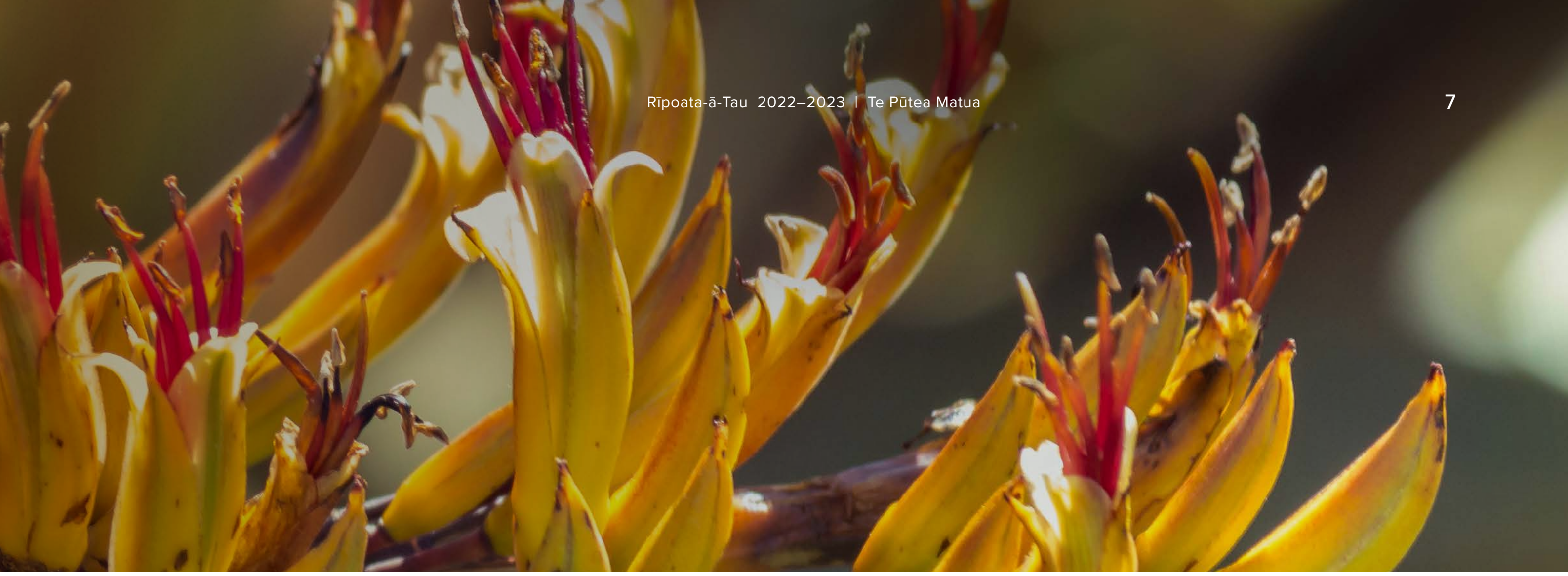
Monetary policy and the Monetary Policy Committee

This year has been a challenging one for monetary policy, with levels of inflation outside the target range resulting from international and domestic inflationary pressures. The Board's annual assessment concluded that the MPC has a credible plan for returning inflation to within its target range of 1% to 3% per annum over the medium term, while also supporting maximum sustainable employment.

Continuing our tradition of internal review and of learning from the past conduct of monetary policy, the Reserve Bank carried out a substantial review and assessment of the formulation and implementation of monetary policy in the period from 2017-2022 (also known as RAFIMP). This review was comprehensive and detailed, and published in November 2022 with the Board's oversight and support. The Board looks forward to overseeing the extensive work programme to act on the areas identified for improvement in the review.

The Board approved the advice given by the Reserve Bank to the Minister of Finance on the review of the MPC Remit. The Minister of Finance accepted the Board's recommendation that the terms of Professor Saunders and Peter Harris be extended on the MPC. Doing so retains their expertise as external MPC members during a challenging period of monetary policy formulation.

The Minister also accepted the Board's recommendation that the Governor be appointed to a second 5-year term, effective from 27 March 2023. The re-appointment of the Governor provides continuity for the Reserve Bank during this period of significant change.



Financial Stability

The Reserve Bank continued to be active in the area of prudential policy, with the Board approving the issuance of new interim solvency standards for licensed insurers, a framework to facilitate the implementation of Debt-to-Income restrictions (should this tool be needed in future), further consultations on the review of the Insurance (Prudential Supervision) Act 2010, and new standards for the regulation of financial market infrastructures.

In carrying out this work, the Board has had regard to our Financial Policy Remit – the first one issued under the Act, by the Minister of Finance in July 2022.

Strategic issues

While pursuing the work programme set out above, the Reserve Bank has continued to engage with a range of long-term strategic issues including the impact of climate change on the financial system and economy more generally, the future of money and role of digital currencies, financial inclusion and Maori access to capital. The Board supported the development of a Te Tiriti o Waitangi statement for the Reserve Bank, providing a platform for the Reserve Bank's efforts to give practical effect to the Treaty.

In closing

A great deal has been achieved over the past year, and our implementation of the RBNZ Act 2021 is as advanced as we could have hoped it to be after only one year in force. But much remains to be done as we continue our programme of transformation and modernisation, and new challenges for the Reserve Bank are already well defined. In particular, implementation of the Deposit Takers Act, establishing a Depositor Compensation Scheme, and setting robust new prudential standards for deposit taking institutions represent multi-year programmes of work.

I thank all of my Board colleagues for their advice, support and contributions to our new governance framework throughout the year.

The Board considers that all Reserve Bank staff should be proud of their contribution over the year past. The considerable achievements made in the Board's first year of operation could not have happened without their professionalism and dedication. It has been a huge effort.

Professor Neil Quigley
Chair

22 September 2023

On behalf of the Reserve Bank Board of Directors

Governor's statement
Te Whakapuaki a Te Kāwana

This report sets out the activities and achievements of the Reserve Bank of New Zealand – Te Pūtea Matua during the 2022/23 year.

This was our first year of operating under the new RBNZ Act 2021, and our new accountability documents: the Statement of Performance Expectations (SPE), Statement of Prudential Policy and Statement of Financial Risk Management, alongside our Statement of Intent (2022-2026) (SOI). These documents set out how we approach our work, what we aim to achieve and how our performance is measured.

Our first audited Statement of Performance against those expectations is included in this Annual Report.

The domestic and global environment

In the 2022/23 financial year, the Reserve Bank continued to operate in a complex and challenging economic environment, with significant inflationary pressures domestically and internationally, together with labour shortages and volatility in financial markets. The effects of major disruptions to the global economy – due to the COVID-19 pandemic, war and geopolitics, climate change and associated policy responses – continued to be felt. Many of my central banking colleagues around the world faced similar challenges. I remain of the view that New Zealand has weathered this period of economic uncertainty more successfully than many others.

We continued to reinforce and strengthen our relationships with the other agencies on the Council of Financial Regulators and our overseas counterparts, including the Reserve Bank of Australia and the Australian Prudential Regulation Authority. We also deepened our relationship with the Treasury through its new role as our monitoring agency under the RBNZ Act 2021, providing additional oversight of the activities outlined in our SOI and SPE.

Monetary policy

Over the course of the year the Monetary Policy Committee (MPC) increased the Official Cash Rate (OCR) from 2 percent to 5.5 percent. This was the most rapid increase in the Reserve Bank's history. The effects of this are flowing through as anticipated to our economy. The OCR will need to stay at restrictive levels for the foreseeable future to ensure annual consumer price inflation returns to our 1 to 3 percent target range, while supporting maximum sustainable employment.

A major achievement during the year was the completion of our first formal Review and Assessment of the Formulation and Implementation of Monetary Policy (RAFIMP). The review covered how we made decisions about monetary policy in the five years from 2017 to 2022 and how those decisions were brought into effect.

We provided advice to the Minister of Finance on the MPC's Remit. This advice was informed by feedback from two public consultations, findings from surveys and public workshops, and relevant analyses of key monetary policy issues. The review found that the current approach of flexible inflation targeting with a medium-term focus remains the most appropriate framework for New Zealand. As a consequence of this work, the Minister issued a new remit and the MPC and the Minister agreed to a new Charter. The changes to the MPC Remit provide more clarity for the monetary policy objectives.

Financial stability

The increasing-interest-rate environment exposed some fragilities in the global financial system, particularly where risks had been inadequately managed. New Zealand households and businesses faced increased debt-servicing costs as their borrowing repriced to higher interest rates. However, there have been limited signs to date of distress in banks' lending portfolios.

Last year was a significant one for the profound ongoing shift in our approach to regulating entities and supervising regulated entities. A major focus was on the progress of the Deposit Takers Bill. We achieved a major milestone just after the end of this financial year with the enactment of the Deposit Takers Act. The new legislation will transform our approach to the regulation of banks and other deposit takers, and introduce the Depositor Compensation Scheme. There are many years of work ahead to implement this legislation and make sure the new regime works well.

In conjunction with the Financial Markets Authority, we also made significant progress on the regime for financial market infrastructures, and the new standards that have since been published. Our review of our insurance legislation continues, and we have published a new interim solvency standard.

The cash system

HM Queen Elizabeth II passed away last September, after more than 70 years on the throne. We marked this sad moment with a display at our Wellington head office of the bank notes on which the late Queen is depicted.

The northern and eastern parts of New Zealand suffered extreme weather events in January and February. The consequent disruption highlighted one of our fundamental responsibilities – the supply of cash – and we worked hard with other agencies to secure the continued distribution of notes and coins throughout the affected regions. The resilience of the cash system remains a key concern for us, and an area of policy and operational focus.

Great team, best central bank

As the Chair says in his report, we have worked hard during the year to operationalise the new governance structure. This has been a significant undertaking, but it has enabled us to maximise the advantages of our new corporate structure. I am grateful for the support shown by the Board Chair and the other Board members.

The Reserve Bank's modernisation and transformation into 'great team, best central bank' continued, with good progress made on leadership development, diversity, equity and inclusion and employee wellbeing. We continued to modernise our workplace and support our staff with a refreshed information and data-management strategy, and IT systems. This will ensure that the Reserve Bank remains a strong and effective central bank, well placed to continue to perform our critical role in achieving our price stability and financial stability objectives.

I am proud of all the work that all the staff in the Reserve Bank have undertaken throughout the year.

Noho ora mai

Adrian Orr
Governor

22 September 2023

Tahi

The year in review

He tirohanga whakamuri ki te tau

The 2022-2026 Statement of Intent outlines four strategic themes supported by 25 key activities.

We have highlighted our key activities and outcomes through the Tāne Mahuta narrative encompassing Ngā Pūtake, Te Tariwai, Te Toto, Ngā Pekanga and our role as kaitiakitanga.

Ngā Pūtake

Roots represent our legislation and balance sheet

Legislation that clearly outlines our purpose, functions and powers allows the Reserve Bank to enable the economic prosperity and wellbeing of New Zealanders and contribute to a sustainable and productive economy.

Key outcomes for 2022/23:

- Our financial resources are sufficient to support our balance sheet operations
- Our legislative foundations are renewed and strengthened for the future
- Increased accountability and transparency
- Our frameworks are future-focused, adaptable and innovative
- Operational excellence and delivering best-practice governance
- A sound and dynamic financial and monetary system

Key activities

Embed the Reserve Bank of New Zealand Act 2021

In the past 12 months we have modernised the way we work and how we interact with our key stakeholders. It also marks a full year of our new governing Board being in place following the implementation of the RBNZ Act 2021. The Board now has three committees, the Audit Committee, the Financial Stability Oversight Committee and the People, Culture and Change Committee to enable greater oversight for decision-making purposes.

The past year has also involved our working with the Treasury as our external monitor. We have significantly re-aligned and strengthened our planning and reporting processes to enable us to be more accountable and meet public expectations.

We have invested a significant amount of work in implementing the provisions of the RBNZ Act 2021 and will continue to embed them into our operations over the coming months and years.

Financial risk management

We use our balance sheet to implement monetary policy decisions, manage foreign reserves and manage liquidity in the banking system. Sound financial risk management is a key part of our balance sheet operations in pursuit of our mandate. Over the past 12 months we have completed significant work to maintain fit-for-purpose and best-practice financial risk management under the RBNZ Act 2021. See the Statement of Financial Risk Management chapter for more details.

We have completed our preparations for the transition away from the London Interbank Offered Rate (LIBOR), which finally ceased on 30 June 2023. The Reserve Bank, along with many other financial market participants, is now operating in a new environment where more accurate and robust benchmark rates have been created to replace LIBOR, a benchmark interest rate that had been used globally to price credit contracts and derivatives for many years.

Review of the Reserve Bank's foreign reserves and financial resources

The Reserve Bank and Minister of Finance agreed to the Foreign Reserves Management and Coordination Framework (FRCF) in December 2022. The FRCF is a requirement under the RBNZ Act 2021 and sets out expectations for the management and use of foreign reserves in New Zealand and the respective roles of the Reserve Bank and Minister of Finance. It also sets the level of foreign reserves that we need to hold to meet our objectives.

We will review the FRCF with the Treasury at least every five years. This will allow the Government to have regular input into how we manage and use foreign reserves, and make sure we can meet our monetary policy, financial stability and other central bank objectives.

We are undertaking work to ensure that our financial resources are fit for purpose and sufficient to mitigate the financial risks faced by the Reserve Bank. This includes an analysis of the scope of our activities and the form of the recommended financial resources.

The FRCF was an important component of this analysis. In July 2023 the Minister of Finance provided a capital injection of $500 million and agreed to a Crown indemnity to manage the financial risks associated with the FRCF.

Financial resources

The Reserve Bank seeks to have financial resources to support its management of financial risks and reduce the likelihood of a reliance on negative equity. Financial resources may take the form of capital or indemnities.

Following the enactment of the RBNZ Act 2021, the Reserve Bank undertook a review to ensure that its financial resources were fit for purpose and sufficient to mitigate the financial risks it faces. This review was set out in the Reserve Bank's Statement of Intent 2022-2026.

In the past 12 months we have modernised the way we work and how we interact with our key stakeholders.

Following the review, Cabinet agreed in August 2023 to increase the Reserve Bank's financial resources in the form of:

- a $1.3 billion capital injection; and
- a standing indemnity to cover up to $5 billion of losses on bond purchases to support financial stability and market functioning.

This was in addition to the standing indemnity and $500 million capital injection received to support a higher level of foreign reserves agreed in the FRCF in December 2022. The total $1.8 billion in additional capital brings the Reserve Bank's target capital level to a recommended minimum of $4.2 billion for the 2022/23 dividend assessment.

Te Tariwai

Vascular system, represents the payment and settlement systems

Trust and confidence in New Zealand's payment and settlement systems, so everyone is able to make safe and efficient payments and complete day-to-day financial transactions.

Key outcomes for 2022/23:

- A safe and efficient payments and settlement system that is reliable, trusted and resilient
- Phase 1 of the ISO 20022 programme implemented
- SBI365 (seven day a week banking) available for New Zealanders

Key activities

NZClear and the Exchange Settlement Account System

The Reserve Bank supports the operation of fair, efficient and transparent financial markets. The key interbank operating systems, the NZClear system and the Exchange Settlement Account System (ESAS), are crucial components of New Zealand's financial architecture and enable transactions between financial institutions to be cleared and settled.

NZClear provides the financial markets with clearing and settlement services for high-value debt securities and equities. ESAS is the Reserve Bank's exchange settlement account system, and is used by banks and other approved financial institutions to settle their obligations.

To promote confidence in these key interbank operating systems, third-party audits of the internal controls for NZClear and ESAS are undertaken annually, and each quarter the Reserve Bank's securities reconciliation processes for NZClear are reviewed by third-party auditors. All external audit reports, including recommendations to improve processes and controls, are reviewed by the Reserve Bank's Audit Committee.

We received unmodified opinions for the NZClear and ESAS audits, which tested the controls for these systems. This ensured that systems in New Zealand that are critical to supporting day-to-day financial transactions in the economy were operating effectively.

Table 3: Key NZClear statistics

NZClear	2018	2019	2020	2021	2022	2023
Average daily transaction volumes	1,971	1,927	2,301	2,382	2,325	2,187
Average daily transaction values	$8.4b	$6.6b	$6.3b	$6.6b	$5.3b	$7.1b
Availability during core hours	99.93%	99.82%	99.92%	99.67%	99.90%	99.91%
Customer satisfaction	100%	95%	96%	92%	100%	100%

Table 2: Key ESAS statistics

ESAS	2018	2019	2020	2021	2022	2023
Average daily transaction volumes	13,118	12,719	13,253	13,229	12,763	12,926
Average daily transaction values	$30.6b	$31.1b	$33.6b	$33.2b	$33.5b	$36.3b
Availability during core hours	99.93%	99.82%	100%	99.95%	100%	100%
Customer satisfaction	100%	95%	96%	92%	100%	100%

We are committed to adapting and improving our operations where possible to ensure we continue to be an effective kaitiaki of our financial system. As the payments industry continues to evolve in New Zealand, noting the rapid changes in technologies and business models that have occurred, we too must keep pace to maintain the trust and security of all New Zealanders.

To support this we are currently undertaking a review of our ESAS access criteria and an examination of how the regulatory architecture and payment system governance affects the development of payment systems in Aotearoa New Zealand. The review could lead to revisions of the access policy and criteria and make ESAS accounts more readily available to a broader range of institutions (subject to maintaining the integrity and robustness of the ESAS system). There will be an opportunity for public consultation on the review, which is expected to be completed by the end of 2023.


MATANGIRUA
KI MATANGIREIA.
GREAT TEAM,
BEST CENTRAL BANK.
1:50 PM

Payments industry projects – ISO 20022 and SBI365

During 2022/23 we continued to progress ISO 20022, and successfully launched SBI365. This will ensure our payment systems support the evolution of payments in New Zealand.

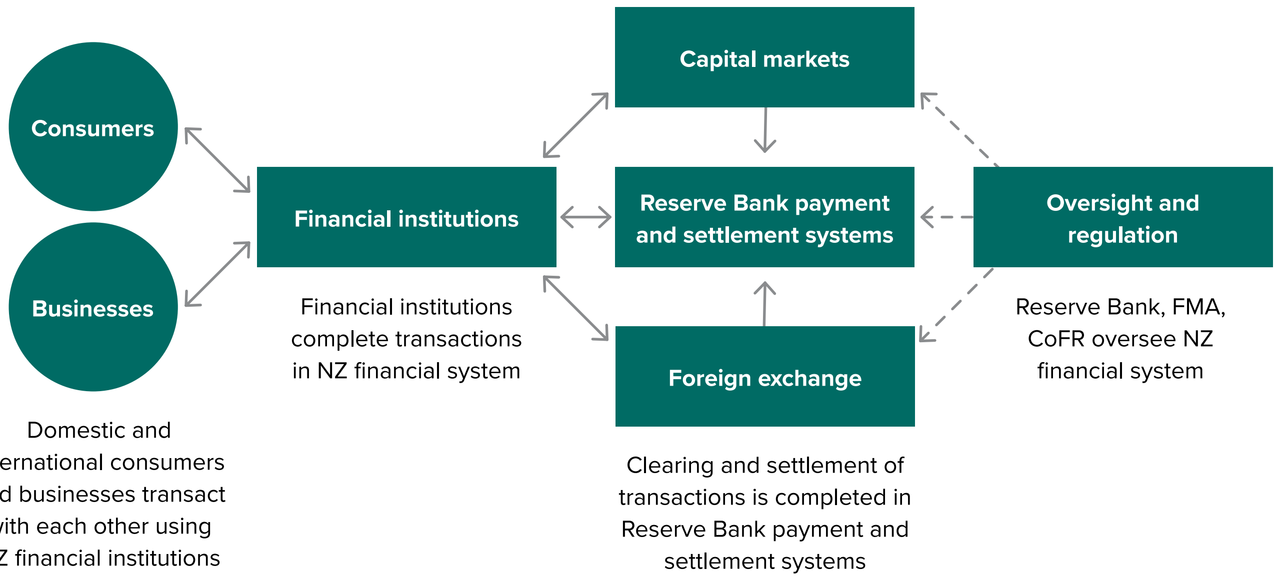
ISO 20022 is a technical standard that creates a common language for payment data around the globe. We are adopting the ISO 20022 global standard for payment messaging to make sure New Zealand's financial system remains current and stakeholders can have confidence in our financial system.

We successfully completed the first phase of ISO 20022 in March 2023, with full adoption of the standard expected to be completed by all institutions by November 2025.

SBI365 is a major industry project to enable the banking system to run 365 days per year. It allows New Zealanders to make and receive electronic payments between banks every day of the year as opposed to only on business days.

SBI365 was successfully delivered to the New Zealand payments environment in May 2023, representing a significant milestone for the processing of financial transactions.

Figure 1: New Zealand payments and settlements environment



Te Toto

Sap represents money, cash and foreign reserves

We use monetary policy to maintain price stability and support maximum sustainable employment. Currency and physical cash support a monetary and financial system that works for all and is trusted as a store of value.

Key outcomes for 2022/23:

- Public confidence in our ability to discharge monetary policy
- Transparent and rigorous processes in monetary policy formulation
- Our Monetary Policy Framework remains fit for purpose now and into the future
- Cash and the cash system meet New Zealanders' needs
- A resilient, sustainable and efficient cash system

Key activities

Monetary policy

Monetary policy plays a critical role in supporting our purpose of enabling economic wellbeing and prosperity for all New Zealanders. In our legislation, monetary policy is focused on achieving price stability, while supporting maximum sustainable employment. High or variable prices come with avoidable costs to the economy. At the same time, a focus on supporting maximum sustainable employment ensures the broader economy is on as stable a footing as possible in the pursuit of price stability, and that our framework is appropriately flexible when we are faced with unexpected economic developments. Internationally, this 'flexible inflation-targeting' approach is seen as the best way to maximise well-being with monetary policy.

The performance of the Monetary Policy Committee

The Board regularly reviews the performance of the MPC and its members. In the Board's opinion, the MPC and its members have adequately discharged their respective responsibilities during the financial year 2022/23.

The Board made its assessment of the performance of the MPC and its members in accordance with an agreed framework, process and procedures. The Board's assessment included:

- reviewing background papers prepared for, and the minutes of the various meetings associated with, each of the MPC's decisions;
- reviewing the quarterly Monetary Policy Statements;
- discussions with the Governor and other internal members of the MPC at Board meetings on key issues and new insights identified by research covered in the background papers;
- regular meetings of the MPC Chair and Board Chair to discuss matters relating to the MPC;
- sighting checklist summaries signed by each member of the MPC affirming compliance with their procedural responsibilities as MPC members;
- meeting external members of the MPC in June 2023 to establish a more detailed understanding of the operation and functioning of the MPC; and
- reviewing a report of a self-review carried out by the MPC members in July 2023.

The Board also noted the review of the MPC's recent performance in conducting and implementing monetary policy found in the RAFIMP published in November 2022. The areas for improvement identified in the RAFIMP are driving enhancements to the policy design, capabilities and research agenda that supports the monetary policy process and the work of the MPC.

The Reserve Bank, acting through the MPC, formulates monetary policy by setting the Official Cash Rate (OCR) as well as making decisions on additional monetary policy tools such as forward guidance and asset purchases. The MPC reviews the settings of its monetary policy tools seven times a year – four times at the release of the Monetary Policy Statements, and three times at the Monetary Policy Reviews.

We are continually reviewing the decisions we make and our understanding of the economy and monetary policy. In addition, the RBNZ Act 2021 requires us every five years to formally review and assess how we formulate and implement our monetary policies. This year we conducted our first such review. We also undertook a review of the MPC's Remit, which sets objectives for the MPC to focus on when setting monetary policy. These two projects were a major focus of monetary policy analysis and research during the year.

Monetary policy research

We recognise the importance of understanding the effectiveness of monetary policy and the channels through which our policy actions affect the economy. Ongoing research in this area ensures our actions are targeted and contribute to economic wellbeing over time.

This year we undertook a monetary policy review alongside the MPC Remit review.

Monetary policy review

The findings from RAFIMP, published in November 2022, highlighted that:

- our formulation of monetary policy in 2017 to 2022 had been consistent with the objectives set out in the Remit.
- the five years between 2017 and 2022 were uniquely challenging. In particular, COVID-19 was a highly disruptive shock. Monetary policy makers were faced with widespread uncertainty; and
- there were nine areas for improvement. These lessons and areas of focus fed into an extensive work programme that will inform our policy design, capability building and research agenda.

We are continually reviewing the decisions we make and our understanding of the economy and monetary policy.

MPC Remit review

The RBNZ Act 2021 specifies the MPC's economic objectives of achieving and maintaining price stability and supporting maximum sustainable employment. Under the RBNZ Act 2021, every five years we are required to advise the Minister of Finance on possible changes to the Remit.

In the process of developing advice, we must consult the MPC, ask members of the public for their views and consult the Minister of Finance on the scope of the Remit advice.

The MPC Remit review process included:

- research and analysis;
- two public consultations;
- public surveys; and
- public discussion workshops.

The review also considered whether we should amend our Charter.

The first public consultation was opened on 1 June 2022 and closed on 15 July 2022. We used the feedback to inform a second consultation paper, which was published on 20 November 2022. This paper proposed a range of options and informed a second public consultation that was open until 27 January 2023.

Our research and analysis, feedback from both public consultations, the public surveys and the public discussion workshops fed into advice that we provided to the Minister of Finance in April 2023. The current Remit and Charter were informed by this advice.

On 27 June 2023 the Minister of Finance issued a new Remit, and the MPC and the Minister of Finance agreed to a new Charter. The Remit and the Charter both came into effect on 28 June 2023.

The new Remit largely represents a continuation of the current monetary policy regime, with some changes that support greater clarity in the monetary policy objectives. These changes include clarifying how the MPC should respond to transitory shocks to inflation and moving a requirement to assess the impact of monetary policy on house price sustainability out of the operational objectives and into the Charter. The new Charter also clarifies expectations of MPC members when speaking publicly on issues relevant to monetary policy, and includes communication requirements relating to the processes followed in reaching monetary policy decisions, such as the considerations in the choice of monetary policy tools.

Figure 2: MPC Remit review consultation timeline

Timeline

2022

- **First public consultation opened** — 1 June
- **Public consultation closed** — 15 July
- **Second consultation opened** — 30 November

2023

- **Second consultation closed April 2023: Remit advice provided to Minister of Finance** — 27 January
- **Minister of Finance issued new Remit and new Charter agreed to by Minister and MPC** — 27 June
- **New remit and Charter came into effect** — 28 June

Evolution of money and cash system redesign

In February 2023 Cyclone Gabrielle caused significant social and economic disruption. The physical movement of cash into and out of the affected areas by road was impractical or impossible, and this put added pressure on the local cash system and its users, including retailers. The Reserve Bank collaborated with cash industry participants and other government agencies, including the National Emergency Management Agency (NEMA), New Zealand Police and the New Zealand Defence Force, to facilitate the movement of cash into and out of the affected regions.

We also provided daily public updates on ATM availability, advice on accessing banking services and information on the safe handling of contaminated cash, including with geographically targeted social media messaging.

In addition, our cash system incident response capability was enhanced by the finalisation of our Cash System Incident Response Memorandum of Understanding, NEMA's informal recognition of the cash system as critical infrastructure, and our corresponding informal recognition as the Sector Coordinating Entity for the cash system. This provides us greater access to emergency planning and response machinery. Once passed, the Emergency Management Bill will provide a mechanism to formalise this arrangement.

In December 2022 we published an issues paper, The Future of Money – Private Innovation: Te Moni Anamata – Te Auahatanga. Public submissions on the paper reinforced our view that there are significant risks and opportunities, but also significant uncertainties, in how the sector will develop and where the optimal balance will lie. The issues paper and submissions received are on our website.

We have progressed cash system redesign work, including preparing to run Cash Trials, which will test the costs and benefits of alternative cash circulation models for communities. We are also researching the potential to mandate cash acceptance and generally building out our stewardship function, including cash and payments data collection and coordinating with other agencies with intersecting interests.

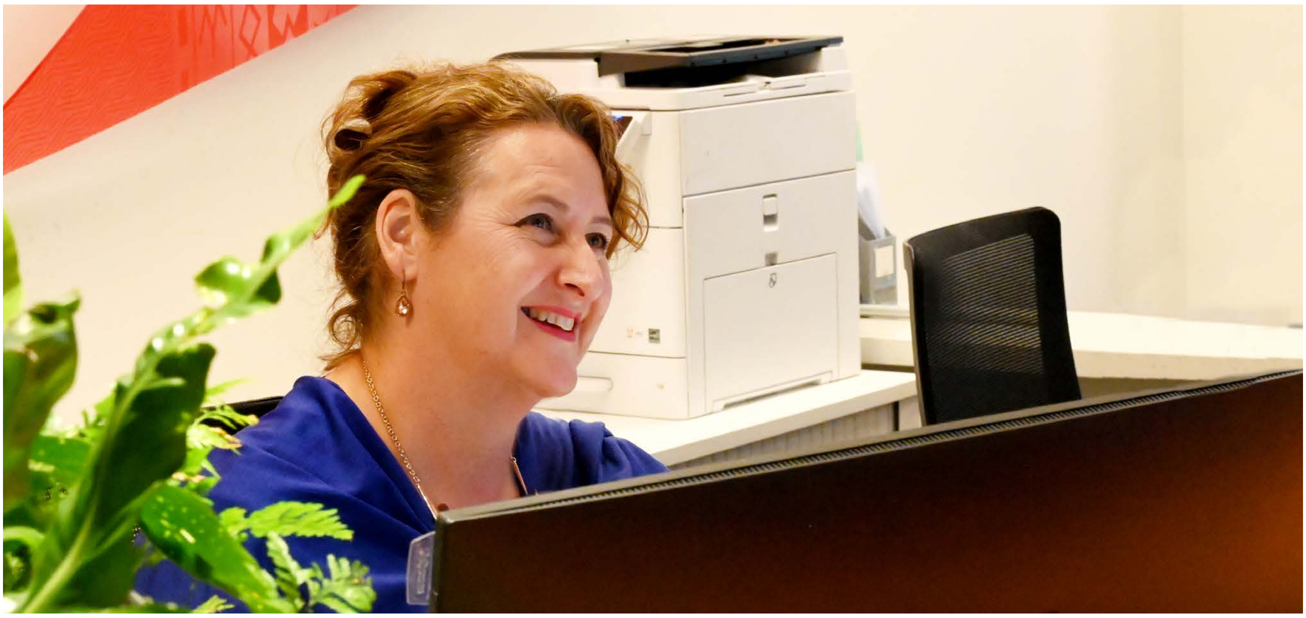
We have kept in regular contact with the New Zealand Bankers' Association as it enhances and expands its regional banking hubs pilot, to learn lessons from this on how communities respond to new models of service delivery.

Our research, design and stakeholder engagement exploring a Central Bank Digital Currency (CBDC) for New Zealand has continued, and has included completing a proof-of-concept project with an external provider that explored CBDC design options and use cases.

We continue to focus our efforts on improving resilience, sustainability and efficiency in the cash system, and within our own operations.

Climate change

We have been developing our understanding of how climate-related risks may affect our ability to conduct effective monetary policy. Our economics directorate is building our capability to monitor the impact of physical climate change and the transition to a low-carbon economy on inflation and economic activity. More broadly, we are working to understand how an increase in the frequency and severity of supply shocks may affect our ability to operate monetary policy.



Ngā Pekanga

Branches and leaves represent the regulated entities – banks, insurers and non-bank deposit takers (NBDTs)

Regulated entities – banks, insurers and NBDTs – maintain clear standards, are held to account, are under sound management, are resilient to financial shocks and support a competitive and diverse financial system.

Key outcomes for 2022/23:

- Deposit Takers Bill passed and implemented
- We are seen as a trusted, flexible and proactive regulator
- A stable and efficient financial system with sound institutions
- Strong capital and liquidity requirements
- Climate change considerations inform the way we operate

Key activities

Deposit Takers Act 2023

The Deposit Takers Bill was introduced to Parliament on 22 September 2022, and the Deposit Takers Act (DTA) received Royal Assent on 6 July 2023.

The DTA 2023 modernises our regulatory framework to help ensure the safety and soundness of deposit takers. This is in line with our mandate to promote the prosperity and wellbeing of New Zealanders.

The DTA:

- provides a single, coherent regulatory regime to enable robust regulation of all deposit takers:
- provides for new inspection powers and the framework for managing and resolving a deposit taker in financial distress; and
- introduces a new Depositor Compensation Scheme (DCS) so depositors can have confidence that their deposits, in the event of a deposit taker failure, are eligible for compensation up to $100,000 per depositor, per institution.

There is a substantial work programme to implement the new prudential framework for deposit takers. It will take some years for the Reserve Bank to develop and consult on the secondary legislation that will implement the regulatory requirements for the new regime, and complete a licensing process for deposit takers to operate under the regime. The parts of the current Banking (Prudential Supervision) Act 1989 (IPSA) relating to the regulation and supervision of registered banks and the Non-bank Deposit Takers Act 2013 will stay in force until the remaining parts of the DTA have been fully implemented.

Figure 3: DTA/DCS timeline

Timeline

2018 — **Review begins**

2023 — **Deposit Takers Bill passed**
July

Consultation and engagement
July to September
Proportionality, DCS, Levy and Statement of Funding Approach, DCS regulations

2024 — **Proportionality framework published**
by April

DCS regulations consultation
February to March

Policy consultation on core standards
May

DCS Regulations in force
July to August

Policy consultation on non-core standards
September to October

DCS commences
By December

2025 — **Exposure draft consultation on core standards**
October to December

2026 — **Exposure draft consultation on non-core standards (C2)**
February to April

2027 — **Core and non-core standards issued including SCV***
January

All remaining regulations in force
July

Licensing process (relicense or exit)
January 2027 to July 2028

2028 — **All DTA standards including SCV commence**
July

2029 — **Legislative backstop**
July

Depositor Compensation Scheme

In accordance with the DTA, the DCS will ensure that eligible depositors are compensated up to $100,000 per depositor, per institution, in the event their deposit taker fails.

The DCS will be funded by an industry levy set by the Minister of Finance and is expected to come into effect by late 2024.

The Reserve Bank will prioritise the operational implementation of the DCS, the development of, and consultation on, the regulatory requirements related to the calculation of industry levies and the classification of eligible deposits ahead of the DCS commencement in late 2024. Once the DCS has been established, supporting regulatory requirements will be established to further improve the efficiency and timeliness of compensation to eligible depositors.

The Minister of Finance will publish the DCS funding strategy and investment parameters. To support this, the Treasury will develop and consult on the DCS funding strategy and investment parameters, on behalf of the Minister of Finance, ahead of the commencement date.

* *Single Customer View (SCV) requirements refer to the relevant standards that the Reserve Bank is currently developing under the DTA to facilitate its fulfilment of the functions under the Depositor Compensation Scheme. The requirements would ask deposit takers to build the capability to produce customer-based information that reflects all covered deposits held by an eligible customer in an efficient and effective way. Customer data requirements for the Depositor Compensation Scheme will be introduced in 2 stages: a transitional period from late 2024; and the SCV standard to be introduced in 2026 and be fully compliant by 2028. The Reserve Bank will be engaging with deposit takers on their data requirements should a pay-out event occur in the transitional period.*

Figure 4: Relationship Charter survey results

90%	90 percent of bank participants rated their relationships with the Reserve Bank at 4 or 5 (out of 5) compared to 93 percent in 2022 and 91 percent in 2021
92%	92 percent of insurer participants rated their relationships with the Reserve Bank highly (4 or 5 out of 5), which was a significant increase from 72 percent last year
78%	78 percent of NBDT participants rated their relationships with the Reserve Bank highly (4 or 5 out of 5) in their first year of being included in the Relationship Charter survey

IPSA/insurance solvency standards

The Reserve Bank is responsible for the prudential regulation of New Zealand's insurance sector. We started a review of the existing suite of insurance solvency standards in mid-2020, in part to address a new accounting standard for insurance contracts (NZ IFRS 17).

The solvency standards are being reviewed alongside the IPSA – the primary legislation that empowers regulation and supervision.

For the IPSA review, we will publish an 'omnibus consultation' in late September 2023. The omnibus consultation will bring together concrete policy proposals on policy questions already consulted on (through five previous public consultations) and a small number of remaining policy issues.

We published the Interim Solvency Standard 2023 on 3 October 2022, informed by two years of planning and consultation with the insurance industry and other interested parties. The standard came into force on 1 January 2023 and will be applied to individual insurers from the start of their first annual reporting period commencing in 2023. We also published a subsequent Amendment Standard to correct some minor and technical issues in the Interim Solvency Standard. We are planning public consultation on a second amendment later in 2023 to resolve some other issues that we are aware of.

We have started planning for stage two of the review, which will look at methods and calibrations.

Intensification of supervision and enforcement

We have undertaken significant work to improve and modernise our supervisory systems and processes. These are central to enabling modern, risk-based, high-quality, insight-driven supervision through efficiency, consistency and digital capability. We completed the design and build of a supervisory entity risk assessment model and framework for use from March 2023, with work underway to produce the first round of reporting. Furthermore, we finalised the system requirements for Koru (the system for managing relationships with external organisations, particularly our regulated entities) and commenced the build. The system is currently targeted to go live in October/November 2023.

We have continued to modernise and strengthen our enforcement function. We published our Enforcement Guidelines and Investigation Guidelines in January 2023. That completed our Enforcement Framework, which provides guidance on how we propose to act when considering and pursuing enforcement matters. The framework comprises the two guidelines, and our Principles and Criteria Guidelines (published in May 2022). We have also established an Enforcement Risk Appetite and have updated our Whistleblowing Policy.

We established the Licensing & Authorisations team, whose focus will be on the licensing regime introduced by the Deposit Takers Act. Furthermore, we established the Risk Specialists team, who oversee the operational resilience of regulated entities (including technology risk and cyber resilience – in support of our agreed CoFR priority) and enhanced actuarial capability.

Modernised recovery and resolution capabilities

We have operationalised a dedicated resolution function as part of the intensification of supervision and in preparation for our role as the resolution authority under the DTA. We are in the process of strengthening and modernising our internal resolution preparedness (policies, procedures and frameworks) as part of the establishment phase. This work has included updating our decision-making and governance framework for recovery and resolution.

Figure 5: Regulated entities as at 30 June 2023

27	Registered banks
16	Licensed NBDTs
87	Licensed insurers
5	Designated financial market infrastructures
68	Reporting entities supervised under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (AML/CFT)

Climate change

We have increased our understanding of the potential impacts of climate change on financial stability by undertaking an analysis of the sensitivity to climate-related risks of large banks' loan exposures in residential mortgages and agriculture. We are currently undertaking our first full climate stress test with large banks and expect to conclude this exercise in the first quarter of 2024.

We have also conducted a climate-related disclosure readiness assessment, establishing how the Reserve Bank would fare if disclosing against the current draft of the Network for Greening the Financial System recommended disclosures for central banks. This assessment will serve as a platform for the development of our first climate-related disclosure.

In March 2023 we published a draft climate-related risk management guidance note and an accompanying consultation paper. We expect to publish a finalised version of the guidance once we have considered feedback from the consultation period.

We have also recently published the findings of a survey of prudentially regulated climate-reporting entities on their climate-related risk management and disclosure.

We intend to further embed climate-related risk into our supervisory frameworks, data collection and internal capacity building for staff across the Reserve Bank. We will also continue to have discussions with regulated entities regarding climate-related risk, including the responsibilities, oversight and implementation of the entities' work to manage climate-related risk.

Financial Policy Remit

The Minister of Finance issued the first Financial Policy Remit (FPR) on 1 July 2022. The Financial Policy Remit provides a mechanism for the Government to communicate its broader policy objectives to the Reserve Bank in terms of our role in achieving our financial stability objective and our functions as prudential regulator and supervisor.

The Board must have regard to the Financial Policy Remit when acting in relation to prudential strategic intentions and issuing standards, as set out in section 49 of the RBNZ Act 2021.

The Board had regard to the Financial Policy Remit when:

- setting the prudential strategic intentions in our Statement of Intent 2022-2026, and when outlining our intentions in the 'Working with our stakeholders' and 'Our strategic approach' chapters. These chapters outline our intentions related to developing macroprudential tools, our climate change strategy, our approach to financial inclusion and our activities to strengthen our cyber resilience;
- issuing the Insurance Solvency Standard in October 2022 and the standards made under the Financial Markets Act 2021 in July 2023; and
- making the significant policy decision to approve the Debt-to-Income (DTI) framework as a macroprudential tool in March 2023.

The Minister of Finance issued the first FPR on 1 July 2022. It states that:

- it is desirable to have a financial system that is strong, efficient and inclusive, with a low incidence of failure of entities regulated by the Reserve Bank;
- within the appetite for a low incidence of failure, a competitive financial system should be encouraged so as to best ensure ongoing financial efficiency and inclusion. In this respect, the Reserve Bank should have regard to the benefits of:
  - imposing regulatory and supervisory costs that are proportionate to the expected risks and benefits to the financial system and society;
  - encouraging new investment and financial innovation that raise the productive potential of the economy; and
  - encouraging the allocation of financial resources in a way that maximises the sustainable long-term growth of the New Zealand economy; and
- if a regulated entity does fail, the Reserve Bank is expected to manage the failure in a manner that minimises the costs of the failure and the disruption to the broader economy, and prioritises protections for vulnerable consumers, depositors and public funds.

The FPR also considers it desirable for the Reserve Bank to have regard to Government priorities regarding sustainable house prices; building resilience and facilitating adaptation of New Zealand's economy, society and environment to climate change; improving financial inclusion and maintaining financial sector diversity; and improving New Zealand's cyber resilience.

Enhancing banks' financial resilience

Our prudential policy regimes require banks to meet a range of requirements, including minimum capital and liquidity requirements. Enhancing banks' financial resilience at both capital and liquidity levels reduces the likelihood of bank failures. These requirements strengthen financial stability and increase confidence in New Zealand's financial system.

In June 2021 we published revised bank capital adequacy requirements to reflect the Capital Review decisions made in 2019[1]. The new capital adequacy framework increases the amount of capital registered banks must have and has also changed some of the definitions of regulatory capital. The changes will make the banking system safer for all New Zealanders. The new higher required level of capital will be phased in over a seven-year period, which started on 1 July 2022.

A comprehensive review of our liquidity policy is ongoing. The objective of our liquidity policy is to strengthen financial stability by lowering the likelihood of liquidity problems affecting banks and improving their ability to manage such problems. The review is expected to take several years to complete. We published our second consultation paper for the review in February 2023 and intend to issue at least two more consultation papers as part of the review. The third consultation paper will seek feedback on additional policy issues, while the fourth consultation paper will contain the proposed text for the final liquidity policy.

Macroprudential tools

We announced our decision to add a DTI tool to our macroprudential policy toolkit in April 2022, and a public consultation on the exposure draft of the DTI framework was held in November 2022. Following consideration of the submissions, we released our finalised DTI restriction framework in April 2023, which sets out the technical specifications which banks need to comply with if a DTI tool is activated. We asked banks to undertake system changes necessary to implement the DTI tool by April 2024.

The publication of the framework does not immediately activate DTI restrictions or set a calibration for them. Instead, it provides banks with clarity in terms of the definitions of debt and income and future data reporting requirements. Further, it provides them with a timeframe for making any changes to their internal systems and processes to be able to comply with a possible DTI restriction in future. We will conduct a public consultation ahead of any eventual activation of the DTI tool.

While we have no current plans to add other tools to our toolkit, we will continue to monitor the need for other tools as the financial system and risks evolve.

We will consult on any changes required to enable the operation of other macroprudential instruments if deemed necessary.

Financial Market Infrastructures Act implementation – standards and designations

The Financial Market Infrastructures Act 2021 (the FMI Act) is a comprehensive regulatory framework for multilateral systems that provide clearing, settling and recording services in relation to electronic payments and other financial market transactions. Under the FMI Act, the Reserve Bank and the Financial Markets Authority (FMA) are joint regulators of most types of FMI, including central securities depositories, securities settlement systems, central counterparties and trade repositories. The Reserve Bank is the sole regulator of pure payment systems under the FMI Act.

Following an exposure draft consultation in late 2022, a set of finalised standards and associated materials were published in July 2023. This package of materials closely follows international regulatory practice for FMIs but has been adapted to Aotearoa New Zealand circumstances. The standards are the result of a robust development process that included two rounds of public consultation and two rounds of legal review.

Since publishing the FMI standards, we are working to redesignate five FMIs (under the FMI Act) that are currently designated under the Banking (Prudential Supervision) Act 1989. This redesignation process includes class assessments for domestic FMIs, equivalence assessments for overseas-based FMIs, updated information requests and issuing new designation notices.

1 Capital requirements for banks in New Zealand – Reserve Bank of New Zealand – Te Pūtea Matua (rbnz.govt.nz)

Kaitiakitanga

Reflects our role as a guardian of New Zealand's financial system

Elevate growth, evolve organisational capabilities and strengthen our operating model.

Key outcomes for 2022/23:

- We developed our strategic people framework, which focuses on uplifting and sustaining our people, culture and organisation now and into the future. It aims to recognise the enduring nature of our actions in our role as kaitiaki of Aotearoa New Zealand's financial system
- We increased our organisational and leadership resilience, built our capabilities and capacity, and supported our people and organisation's wellbeing. Our people are empowered, collaborative, innovative and accountable
- Our people are enabled to work flexibly and have access to modern tools that are easily accessible, are secure and facilitate easy collaboration and decision-making anywhere, any time.
- We have scalable, reliable and resilient digital and data foundations
- We continued to deliver excellent forward-looking economic and financial policies and services, that address risk and are sustainable and effective.

Key activities

Transformation programme

We completed our initial transformation programme and are transitioning the new capabilities to operational functions. The transformation programme focused on targeted enabling activities to support the ongoing modernisation of Te Pūtea Matua and to put in place the necessary capacity and capabilities to prepare the Reserve Bank for the future. Specific focus areas included:

- completing the review of our organisational structure and capabilities, with resulting realignment, and uplifting our leadership capability through a targeted senior leadership development programme;
- creating and embedding new transformation frameworks and building a portfolio view of transformation and change across the Reserve Bank;
- establishing enterprise project- and change-management methodologies, functions, tools and services;
- targeted initiatives and pilots for improving diversity, equity and inclusion (DEI), and uplifting Te Ao Māori capability; and
- bolstering our people support functions and processes, including embedding our new Human Resources Management Information System and employee survey tools to assist us to monitor and develop our organisational culture, engagement, inclusion and wellbeing.

We build and evolve our capabilities and create an environment where our people, culture and organisation can sustainably thrive.


Reserve Bank
of New Zealand
Te Pūtea Matua

Matangirua – enabling our great teams

Leadership development – Kia Māia and Kōkako

We completed phase one of our Kia Māia senior leadership development programme and commenced the next phase, which involves embedding the principles, values and key lessons learnt into the day-to-day running of the organisation.

We launched our inaugural Women in Leadership programme, called Kōkako, which is designed to ensure the development and progression of women in our leadership talent pipeline throughout the Reserve Bank. This is one part of our strategy to establish greater gender diversity within our leadership. We have achieved our gender goal of 40:40:20 in both the overall workforce and our leadership, so our focus now is on increasing the number of women in senior leadership roles across all individual departments.

Focusing on diversity, equity and inclusion and employee wellbeing

Our overarching vision for DEI is to better reflect and connect with the population of Aotearoa, embed DEI into everything we do, and use our roles as kaitiaki, regulator and influencer to promote financial inclusion. We also recognise the foundation that Te Tiriti provides for equity and inclusion.

Our DEI work has focused on building DEI foundations with targeted programmes to accelerate our organisational maturity in this area. We have delivered unconscious bias and cultural intelligence training, created a Te Ao Māori capability programme and are focusing on embedding a DEI and Te Ao Māori lens across our people-related systems, policies and procedures.

We are continually striving to ensure Te Pūtea Matua is a safe and healthy place in which to work, where we put our people first and keep abreast of the latest best-practice guidance in health, safety and wellbeing.

Pay gaps

Addressing gender and ethnic pay gaps is a priority for Te Pūtea Matua. This requires medium- and longer-term strategies involving deliberate and targeted interventions. Following our annual remuneration review round, our gender pay gap at the end of the financial year was 15.1 percent, which was a 2.2 percent reduction on the previous financial year.

Te Waka Hourua, our Te Ao Māori strategy – culture, people and organisation pou

Through Te Waka Hourua, we aim to embed a Te Ao Māori lens throughout our organisation by increasing our representation of Māori, nurturing our existing talent and building knowledge and Te Ao Māori capabilities.

During the year we released the Reserve Bank Te Tiriti o Waitangi statement to underpin and enable us to identify opportunities to give effect to Te Tiriti through our mahi and to show how we are delivering on those commitments. We have a cross-departmental working group focused on the implementation of the statement across departments. We have also completed our work on translating the key metrics of our Financial Strength Dashboard into te reo Māori.

Our first Te Ao Māori learning pathway framework, Ngā Muka o te Harakeke, was released, focusing on our people and their learning journeys in te reo Māori me ōna tikanga, New Zealand History and Te Tiriti. An initiative under this framework included immersive New Zealand history training delivered to multiple cohorts of staff across Te Putea Matua.

How we work – continuing to modernise our workplace

The Reserve Bank targets a fit-for-purpose, modern work environment that enables our people to perform at their best. We continue to assess and update our digital and support capabilities to ensure we are effectively supporting flexible working, collaboration and integration between colleagues, whether they are working in the office or remotely. We also monitor our people's use of our workspaces to understand the optimal use of our physical workspaces and ensure our staff are able to operate effectively. This has included refreshing our flexible working policy in the past year.

Matangireia – towards the best central bank

Future-focused policy and services

We continue to proactively assess and address current and future environment opportunities and risks to ensure we can continue to deliver our mandate sustainably, including through anticipating the impacts of future changes, whether that be through our policy, regulatory, supervisory or other approaches as kaitiaki of the New Zealand financial system. Examples of this work are detailed in other parts of the Annual Report.

Enabled by data and technology

In our role as kaitiaki of New Zealand's financial system we collect and manage data from regulated entities and other financial institutions as a key enabler to inform our policy decisions, prudential supervision activities and economic research. The data is a critical statistical resource for New Zealand. We publish financial markets data every business day, alongside a wide range of monetary and financial sector statistics derived from data sourced directly from the finance industry, households and businesses.

We make our data, charts and insights available to a wide audience, with open data releases on our website and Stats Alerts to our email subscribers. We also provide New Zealand financial system data and statistics to international agencies such as the International Monetary Fund (IMF), the Organisation for Economic Cooperation and Development and the Bank for International Settlements. Our statistics are compiled in line with international standards and frameworks – ensuring that New Zealand data is comparable and available for cross-country assessments and surveillance.

In the past 12 months we have refreshed our information and data management strategy and continued to grow our capability in the data and information governance area. This has included refreshing our Records Management Policy.

Data collections and processes have been supported by dedicated Data and Information governance, data development and data science functions delivering the data required to support our mandate. We actively ensure that the data we collect is securely managed through strong governance practices.

We continue to progress our data strategy and approach to the collection of anonymised unit records from New Zealand banks, which will enable us to take steps towards expanding our data capability to support core functions while preserving confidentiality.

We continued to deliver on our sample survey programme, with content and process improvements including the refreshment of the Cash Use in New Zealand Survey.

New data collections have been established for the insurance industry, which will enable data-driven supervision that aligns with the latest NZIFRS17 accounting and solvency standards for licenced insurers. We have expanded our coverage to include quarterly data from all licenced insurers operating in New Zealand – a threefold increase in the number of insurers providing data in this way.

New climate disclosure data reporting and cyber material incident reports for regulated entities have also been established to support prudential regulation activities.

Additional official statistics on bank lending have been published on our website, with a focus on new lending in the business and agricultural sectors. An interactive statistics highlights feature is now available on our website homepage, further increasing the visibility of our data and statistics publications for all stakeholders.

Connected operations

We have continued to work toward having secure and trusted systems and connected capabilities, and being operationally excellent. Our enabling functions are critical to increasing our organisational resilience, capacity and diversity of thinking in the way we support the financial system.

In the past 12 months we have delivered modern and resilient telephony for our financial markets operations, completed implementation of the Reserve Bank's new website, upgraded our document and information management system, and deployed a new tool for service management.

We have completed a stock-take of our technology landscape, assessing the health and security of all applications. This has provided for enhanced application life-cycle management, based on a comprehensive and accurate overview of the status of our IT assets. We have refreshed our technology policies and commenced work on a strategy to guide decision-making in the next five to seven years.

We have improved our disaster recovery process, reviewed our recovery objectives for critical systems and implemented a two-year rolling schedule of tests.

We have carried out two crisis simulations, testing our processes, documentation and decision-making under pressure.

We have also made progress on our strategic frameworks, including embedding Huarewa (our internal transformation programme, depicted in figure 6 overleaf) and the Operating Model Framework as consistent frameworks for assessing activities, projects, change and general operations.

Figure 6: Huarewa Programme

Huarewa

Matangirua programme

Enabling our Great Team

Capability focus areas

E Tipu — **Connected culture and healthy organisation**

We put people first and inclusive practices are embedded – everyday. We are diverse and our culture promotes wellbeing, effectiveness and innovation.

E Rea — **Thriving people**

We nurture and develop our people, learning from each other and those around us.
We feel we belong and our voices count.

Rangatira — **Courageous and inclusive leadership**

Our leaders empower our people to grow with courage and creativity. Our leadership is inclusive, intentional and purposeful.

Kaitiakitanga

Guardians of New Zealand's financial system

Matangireia programme

Towards the Best Central Bank

Capability focus areas

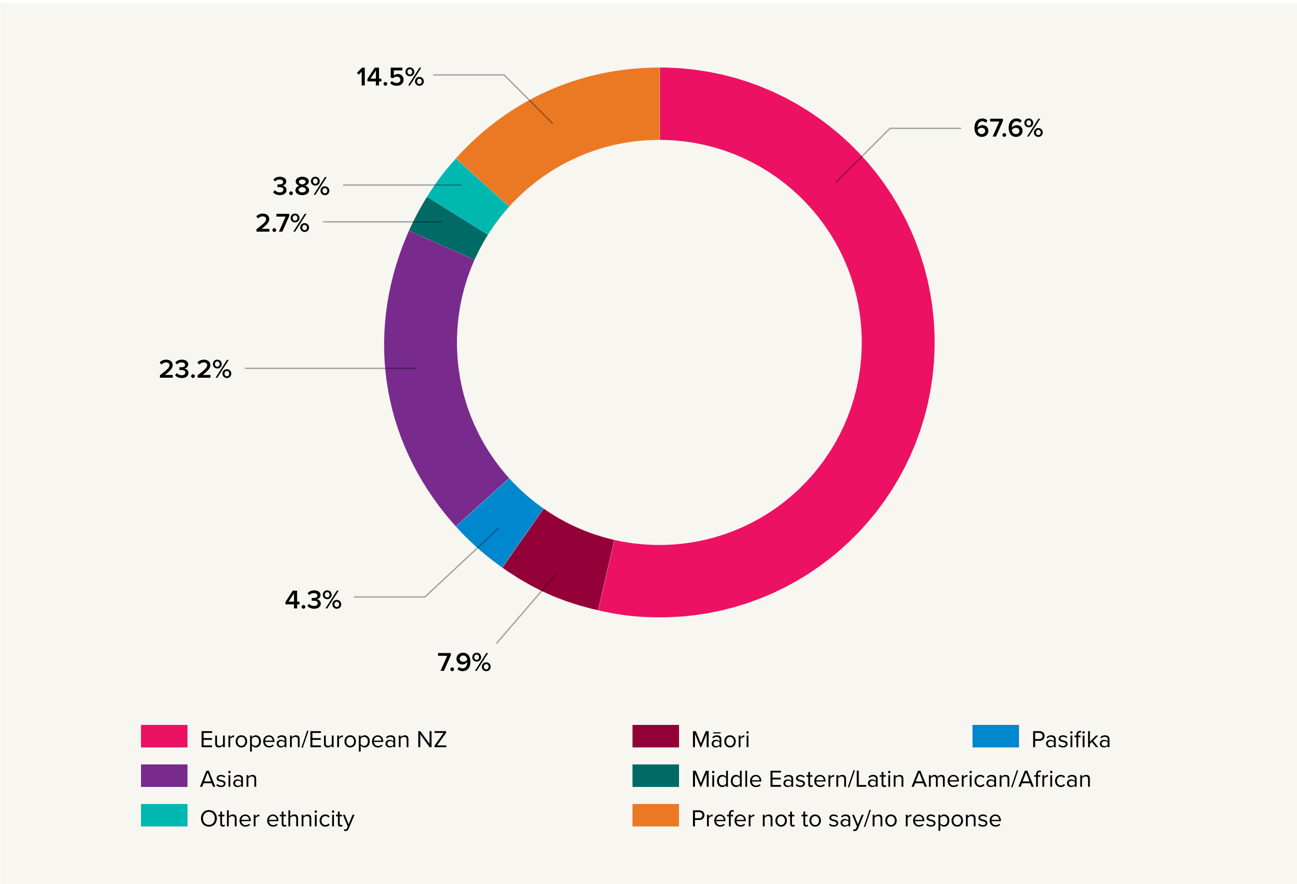
Future-focused policy and services	Tātai
We deliver economic and financial policy and services, strategically addressing risk, sustainability, and effectiveness.	
Enabled by data and technology	**Tatau**
We have open, secure and accessible data, are digitally enabled and use insights to enable better informed outcomes.	
Connected operations	**Tātou**
We have trusted foundations, connected capabilities and are operationally excellent.	

Table 4: People statistics

	2019	2020	2021	2022	2023
Total staff at 30 June (full time equivalents [FTEs])	275	349	411	454	510.2
Average years of service	7.1	5.9	5.2	4.6	4.4
Annual staff turnover (%)*	16.5	11.4	13.5	21.7	16.5

*Note: For 2023, we commenced work to align our data methodology (including the annual staff turnover) with the Public Service Commission guidance, which calculates annual staff turnover based on core unplanned turnover.

Figure 7: Workforce ethnicity June 2023



*Note that as our people can identify with more than one ethnicity, percentages may be greater than 100 percent.

Figure 8: Workforce Diversity and Representation

47.6% female

51.3% male

0.2% Not specified

1% Not stated/ not provided

45.8% Female people leaders (excluding Strategic Advisers)

54.2% Male people leaders (excluding Strategic Advisers)

50% Female Executive Leadership Team members

50% Male Executive Leadership Team members

Note: Gender diverse and not stated/not provided categories are less than 2 percent of the workforce.

Table 5: Gender pay gap and position in range data as at 30 June 2023

	Percentage difference between the median FTE salary
Gender pay gap i.e. the difference between the median FTE salaries of all male and female staff	15.1%
Position in range i.e. the difference between the median FTE salaries for all male and female staff in the same remuneration band	2%

Remuneration and investing in our people

We continue to ensure that our people are well supported in, developed and rewarded for their roles, to ensure we can meet fast-moving external trends affecting the ways we attract and retain our people. We spent $80 million on personnel in 2022/23. This funded all forms of remuneration, including superannuation contributions, redundancy payments and short-term benefits.

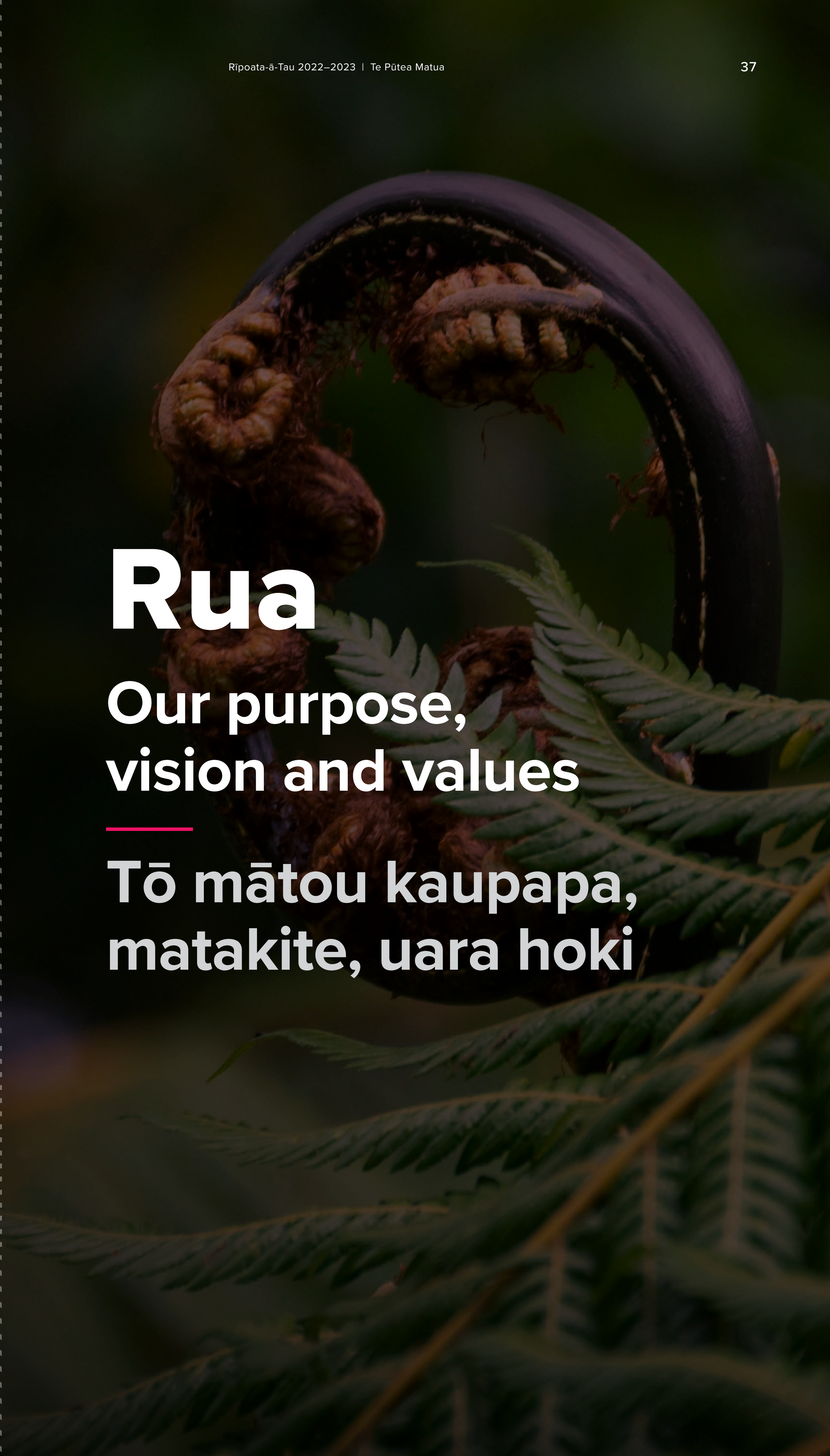
We have commenced a review of our existing remuneration framework, which includes a current state assessment to inform the forward project plan, with the completion and roll-out of a revised remuneration framework scheduled for the next financial year.

Table 5 shows the number of staff who received more than $100,000 in total remuneration in 2022/23 in $10,000 bands.

We have seen steady growth in FTEs since 2018, in line with our funding agreement and to support priorities such as the intensification of supervision as well as expanded requirements under the RBNZ Act 2021 and other legislation and regulation, including the Deposit Takers Act.

Table 6: Remuneration over $100,000

Total remuneration ($)	Staff number
100,000 to 110,000	35
110,001 to 120,000	29
120,001 to 130,000	39
130,001 to 140,000	38
140,001 to 150,000	29
150,001 to 160,000	30
160,001 to 170,000	27
170,001 to 180,000	21
180,001 to 190,000	21
190,001 to 200,000	15
200,001 to 210,000	9
210,001 to 220,000	12
220,001 to 230,000	5
230,001 to 240,000	3
240,001 to 250,000	3
250,001 to 260,000	2
260,001 to 270,000	3
270,001 to 280,000	2
280,001 to 290,000	4
290,001 to 300,000	1
300,001 to 310,000	1
310,001 to 320,000	1
320,001 to 330,000	4
330,001 to 340,000	1
340,001 to 350,000	2
350,001 to 360,000	1
360,001 to 370,000	1
370,001 to 380,000	1
390,001 to 400,000	1
400,001 to 410,000	1
430,001 to 440,000	1
440,001 to 450,000	1
450,001 to 460,000	1
460,001 to 470,000	1
470,001 to 480,000	1
480,001 to 490,000	1
490,001 to 500,000	1
530,001 to 540,000	1
580,001 to 590,000	1
850,001 to 860,000	1



Rua

Our purpose, vision and values

Tō mātou kaupapa, matakite, uara hoki

Our purpose, vision and values
Tō mātou kaupapa, matakite, uara hoki

Purpose

We enable economic wellbeing and prosperity for all New Zealanders – Toitū te Ōhanga, Toitū te Oranga

Objectives

Economic objectives

Achieving and maintaining stability in the general level of prices over the medium term; and supporting maximum sustainable employment.

Financial stability objective

Protecting and promoting the stability of New Zealand's financial system.

Central bank objective

Acting as New Zealand's central bank. This includes managing foreign reserves, meeting the cash needs of the public, providing liquidity facilities, providing and operating payment and settlement systems for New Zealand's financial institutions, and liaising and cooperating with other central banks and relevant institutions.

Vision

Our vision is Great Team, Best Central Bank – Matangirua ki Matangireia

Tāne Mahuta

The interconnected parts of the financial system and our role as kaitiaki:

Ngā Pūtake/Roots

Represents our legislation and balance sheet.

Te Tariwai/Vascular system

Represents the payment and settlement systems.

Te Toto/Sap

Represents money, cash and foreign reserves.

Ngā Pekanga/Branches and leaves

Represents the regulated entities – banks, insurers and NBDTs.

Kaitiakitanga/Guardianship

Reflects our role as guardians of New Zealand's financial system.

Values

Our values are our core principles, the standards that guide our decision-making and signal what is important to us at Te Pūtea Matua. They enable us to be better kaitiaki and meet the diverse needs of New Zealanders now and in the future:

Wānanga/Innovation

Innovation stems from knowledge gained through our diverse perspectives.

Tauira/Integrity

Integrity is sustained through self-reflection and modelling our shared principles.

Taura/Inclusion

Inclusion binds our individual strengths together, enabling our resilience and collective success.

Working with our stakeholders | Te mahi tahi me te hunga whai pānga ki a mātou

As Aotearoa's full-service central bank, we engage widely with a diverse range of stakeholders – from financial institutions and markets to the media, academics, the general public and other regulatory agencies within Aotearoa and internationally.

We are committed to working with all our stakeholders to deliver on our vision and support our learning. Engaging and collaborating effectively with our stakeholders is vital to our performance and we continually look to develop new ways to keep our stakeholders informed of our work. Maintaining meaningful relationships enables us to access the insights we need and cooperate in achieving our shared strategic goals.

Relationship Charter

The Relationship Charter guides our working relationships with our regulated entities[2] – banks, insurers and non-bank deposit takers (NBDTs). We continue to assess our performance against it and use the findings from annual surveys to inform work on our engagement strategy. We extended the survey to include NBDTs for the first time in 2023. The results from the 2023 survey are included in our 'Statement of Performance' chapter.

International stakeholders

We continue to build strong relationships internationally, including with other central banks and regulators, and through relevant international institutions such as the Trans-Tasman Banking Council, the regular meetings of South Pacific Central Bank Governors, the International Monetary Fund (IMF), the Bank for International Settlements and the Executives' Meeting of East Asia Pacific Central Banks (EMEAP).

These relationships enable us to support initiatives that provide benefits for global and regional economies, as well as New Zealand, and to learn from and respond to international standards and best practice.

Our international work relating to the Central Bank Network for Indigenous Inclusion, to the Network of Central Banks and Supervisors for Greening the Financial System and with our Pacific partners is described in the respective sections of this Annual Report.

Improving our cyber resilience

We continued to strengthen relationships with key stakeholders to improve cyber resilience for the Reserve Bank and for the financial system.

In May 2023 we published a consultation paper proposing that cyber-resilience-related data be collected for our regulated entities. The proposal is part of the Reserve Bank's three-step approach to supporting improved cyber resilience in our regulated entities. It will improve our situational awareness of cyber incidents impacting the financial sector and our understanding of the cyber resilience of our regulated entities.

We also established a Risk Specialists team within the Specialist Supervision function. A key early focus area for the team was the operational resilience of regulated entities – including technology risks and cyber resilience – in support of an agreement on priorities with the Council of Financial Regulators (CoFR) and the Financial Policy Remit.

We continue to lift our cyber resilience in line with international best practice. During the year we expanded the coverage of our vulnerability scanning and improved the processes used to prioritise and address vulnerabilities. We also improved our management of privileged access to our information systems and introduced role-based access control.

Council of Financial Regulators

We cooperate and coordinate regularly with the other guardians of the financial system through our ongoing commitment to CoFR – which is made up of the Reserve Bank, the Financial Markets Authority (FMA), the Treasury, the Ministry of Business, Innovation and Employment and the Commerce Commission. The Reserve Bank Governor co-chairs CoFR alongside the FMA chief executive.

The five CoFR agencies work together proactively on risks, issues and responses that require cross-agency involvement, and develop shared views on long-term strategic priorities for the financial system. CoFR currently has five priority themes: climate risks; cyber resilience; digital and innovation; inclusion; and regulatory effectiveness. The Reserve Bank continues to lead the regulatory effectiveness community of interest, and has taken over leadership of the inclusion community, passing leadership of the climate community to the FMA.

2 Relationship Charter – Reserve Bank of New Zealand – Te Pūtea Matua (rbnz.govt.nz)

Financial inclusion and sustainability | Te wātea mai o te ao ahumoni ki te tangata me te toitū

Financial inclusion

Financial inclusion, or promoting broad access to financial products and services, is increasingly being recognised as an important way that a modern financial system can contribute to prosperity and well-being. Financial inclusion is also referenced in the Financial Policy Remit issued to the Reserve Bank by the Minister of Finance and the Purposes and Principles in the Deposit Takers Act 2023. We are currently determining our whole-of-Reserve Bank approach to financial inclusion. Our work this year has included: finalising a Financial Inclusion Literature Review; engaging with public and private stakeholders; investigating an initial set of financial inclusion indicators; and establishing an internal working group on financial inclusion to support the development of our strategic approach to financial inclusion. We also have a number of work streams already well in train, such as our Māori Access to Capital programme.

Similarly, our Future of Money – Te Moni Anamata programme helps to ensure that the money we issue as a central bank continues to enjoy trust and confidence and promotes financial and social inclusion. The impact of Cyclone Gabrielle highlighted issues with resilience in the cash system and vulnerability to outages of power, data and roading networks. Given the increased likelihood of extreme weather events with climate change, this resilience needs to be enhanced.

We also continue to collaborate and coordinate with external stakeholders including CoFR and the financial services sector, for which financial inclusion is one of the five priority themes. We intend to continue to work with CoFR and the financial services sector to explore the barriers that people face when accessing products and services, and associated opportunities for financial regulators to improve outcomes for New Zealanders.

South Pacific

We recognise the importance of our neighbours in the South Pacific having strong economies. Some Pacific Island countries use the New Zealand dollar and are serviced by New Zealand and Australian banks.

There are growing concerns in the South Pacific around the maintenance of cross-border finance channels, the enduring presence of financial service providers, and the associated impacts on the accessibility and affordability of financial products and services. The Reserve Bank – through our Specialist Supervision and Financial Inclusion directorates – is working closely with New Zealand agencies (the Ministry of Foreign Affairs and Trade and the Treasury) to support the development of policy options to help address Pacific banking challenges.

Climate change

Our climate change strategy helps us to better understand and mitigate both the risks associated with the physical impacts of climate change and the risks from transitioning to a low-carbon economy. It has three components: managing our own climate impacts (getting our house in order); mainstreaming climate change considerations into our core functions (getting the settings in place); and leading through collaboration (showing the way).

In the 2022/23 financial year, we carried out the following work under the three components of our climate change strategy.

Getting our house in order: Monitoring and managing our climate impacts

We are committed to reducing our carbon emissions wherever we have the means and the opportunity to do so. Like many other central banks and regulators, we are taking action to integrate Climate Change considerations into our operations.

During the year we continued to measure all our operational emissions. In 2022/23, the Reserve Bank's carbon footprint was 7,852.2 tonnes of carbon dioxide equivalent (tCO_2e)[3]. This was 2 percent lower than the Reserve Bank's emissions in 2021/22. The main drivers of this decrease in emissions were decreases in goods and services purchased from external providers (largely IT, management consultancy, communications and building services), lower direct emissions resulting from efficiency gains after the refurbishment of the boiler at the Reserve Bank's building at 2 The Terrace, Wellington, and lower indirect emissions from currency production and freight. These decreases were offset by a sharp increase in business travel emissions as face-to-face meetings and engagements rebounded to an extent following the easing of COVID-19-related travel restrictions.

3 The operational emissions of the Reserve Bank have been independently verified by Toitu Envirocare in accordance with ISO 14064-1:2018

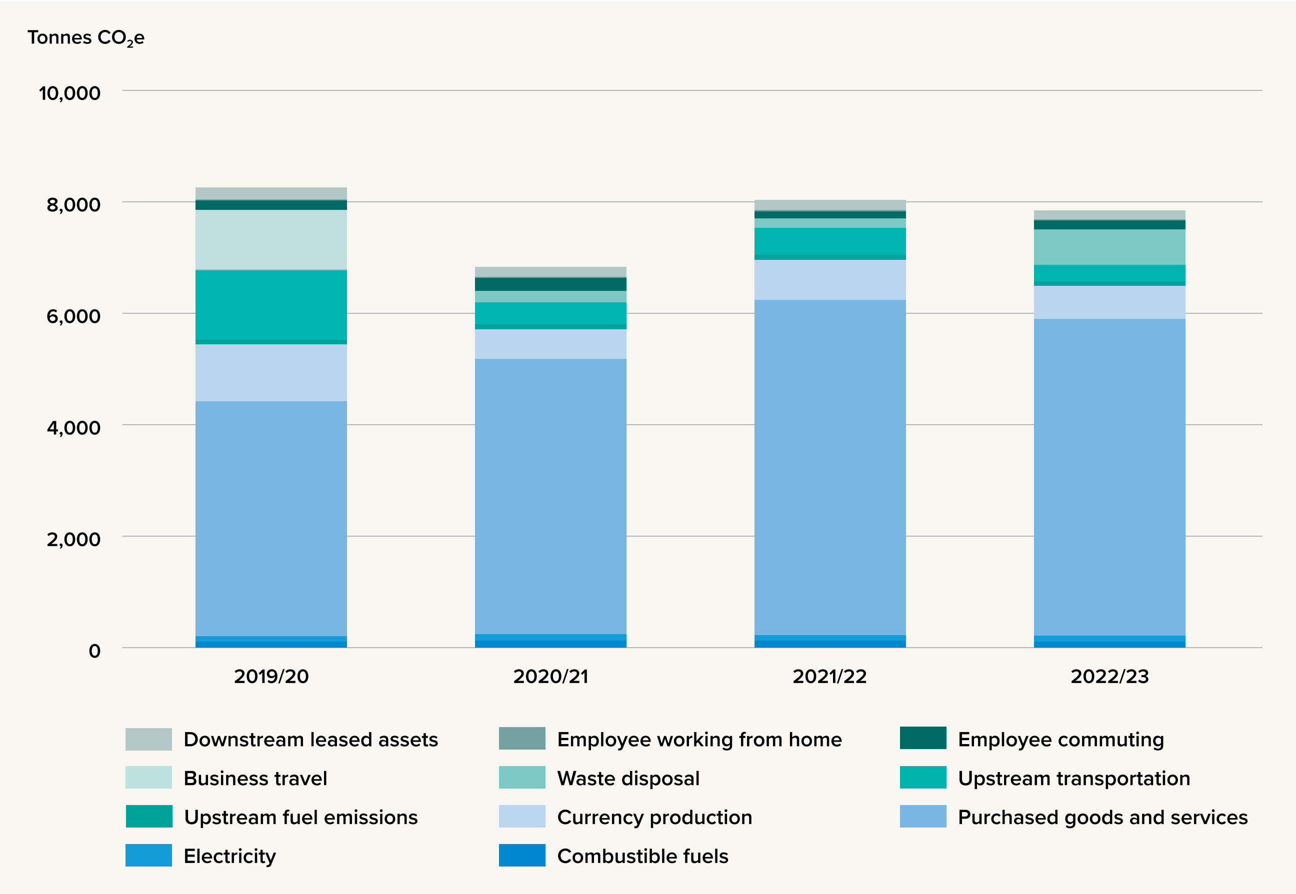
Table 1: The Reserve Bank's operational greenhouse gas (GHG) inventory for 2022/23, 2021/22, and the percentage change. Measured in tCO_2e, using 100-year global warming potentials.

	Source of GHG emissions (GHG protocol)		2022/23		2021/22		Increase/Decrease	
			tCO_2e	%	tCO_2e	%	tCO_2e	%
Scope 1	**Combustible fuels**							
	Natural gas		99.2	1.3%	118.9	1.5%	(20)	-17%
	Other combustible fuel		–	–	0.2	0.0%	(0)	-100%
	Refrigerant		–	–	–	–	–	–
	Total scope 1		**99.2**	**1.3%**	**119.1**	**1.5%**	**(20)**	**(17%)**
Scope 2	**Electricity**		**112.8**	**1.4%**	**100.5**	**1.3%**	**12**	**12%**
Scope 3	**Other indirect emissions**							
	Purchased goods and services	C1	5,690.1	72.5%	6,022.3	75.0%	(332)	(6%)
	Currency production	C1	590.2	7.5%	718.6	8.9%	(128)	(18%)
	Upstream fuel emissions	C3	75.5	1.0%	83.4	1.0%	(8)	(9%)
	Upstream transportation	C4	287.3	3.7%	477.3	5.9%	(190)	(40%)
	Waste disposal	C5	13.7	0.2%	12.3	0.2%	1	11%
	Water supply	C5	0.1	0.0%	0.1	0.0%	0	0%
	Wastewater treatment	C5	1.1	0.0%	0.7	0.0%	0	0%
	Business travel	C6	639.5	8.1%	172.8	2.2%	467	270%
	Employee commuting	C7	160.2	2.0%	122.3	1.5%	38	31%
	Employee working from home	C7	17.2	0.2%	26.9	0.3%	(10)	(36%)
	Downstream leased assets	C13	165.3	2.1%	178.0	2.2%	(13)	(7%)
	Total scope 3		**7,640.3**	**97.3%**	**7,814.7**	**97.3%**	**(174)**	**(2%)**
	Total direct emissions		99.2	1.3%	119.1	1.5%	(20)	(17%)
	Total indirect emissions		7,753.1	98.7%	7,915.2	98.5%	(162)	(2%)
	Total emissions		**7,852.2**	**100%**	**8,034.3**	**100%**	**(182)**	**(2%)**

Table 2: The Reserve Bank's operational GHG inventory for 2022/23 and base year 2019/20 and the percentage change. Measured in tCO_2e, using 100-year global warming potentials continued.

	Source of GHG emissions (GHG protocol)		2022/23		Base year 2019/20		Increase/Decrease	
			tCO_2e	%	tCO_2e	%	tCO_2e	%
Scope 1	**Combustible fuels**							
	Natural gas		99.2	1.3%	97.2	1.2%	2	2%
	Other combustible fuel		–	–	8.4	0.1%	(8)	(100%)
	Refrigerant		–	–	–	–	–	–
	Total scope 1		**99.2**	**1.3%**	**105.7**	**1.3%**	**(7)**	**(6%)**
Scope 2	**Electricity**		**112.8**	**1.4%**	**94.0**	**1.1%**	**19**	**20%**
Scope 3	**Other indirect emissions**							
	Purchased goods and services	C1	5,690.1	72.5%	4,216.4	51.1%	1,474	35%
	Currency production	C1	590.2	7.5%	1,022.9	12.4%	(433)	(42%)
	Upstream fuel emissions	C3	75.5	1.0%	84.4	1.0%	(9)	(11%)
	Upstream transportation	C4	287.3	3.7%	1,248.7	15.1%	(961)	(77%)
	Waste disposal	C5	13.7	0.2%	14.9	0.2%	(1)	(8%)
	Water supply	C5	0.1	0.0%	–	–	–	–
	Wastewater treatment	C5	1.1	0.0%	–	–	1	0%
	Business travel	C6	639.5	8.1%	1,071.9	13.0%	(432)	(40%)
	Employee commuting	C7	160.2	2.0%	166.7	2.0%	(6)	(4%)
	Employee working from home	C7	17.2	0.2%	20.0	0.2%	(3)	(14%)
	Downstream leased assets	C13	165.3	2.1%	211.6	2.6%	(46)	(22%)
	Total scope 3		**7,640.3**	**97.3%**	**8,057.5**	**97.6%**	**(417)**	**(5%)**
	Total direct emissions		99.2	1.3%	105.7	1.3%	(7)	(6%)
	Total indirect emissions		7,753.1	98.7%	8,151.5	98.7%	(398)	(5%)
	Total emissions		**7,852.2**	**100%**	**8,257.2**	**100%**	**(405)**	**(5%)**

Figure 9: **GHG emissions inventory**



The Reserve Bank's operational GHG inventory for the last four financial years. Measured in tCO_2e, using 100-year global warming potentials.

We set our first ever gross emission reduction targets (ERTs) of -25 percent for the 2024/25 financial year and -50 percent for the 2029/30 financial year, relative to our base year of 2019/20. Our ERTs cover Scope 1 (combustible fuels), Scope 2 (electricity) and some Scope 3 (waste disposal and business travel) emissions. The ERTs represent a reduction in gross emissions and irrespective of changes in staff numbers. These are sources of emissions that the Reserve Bank can control and measure relatively accurately. They make up around 11 percent of the Reserve Bank's greenhouse gas inventory.

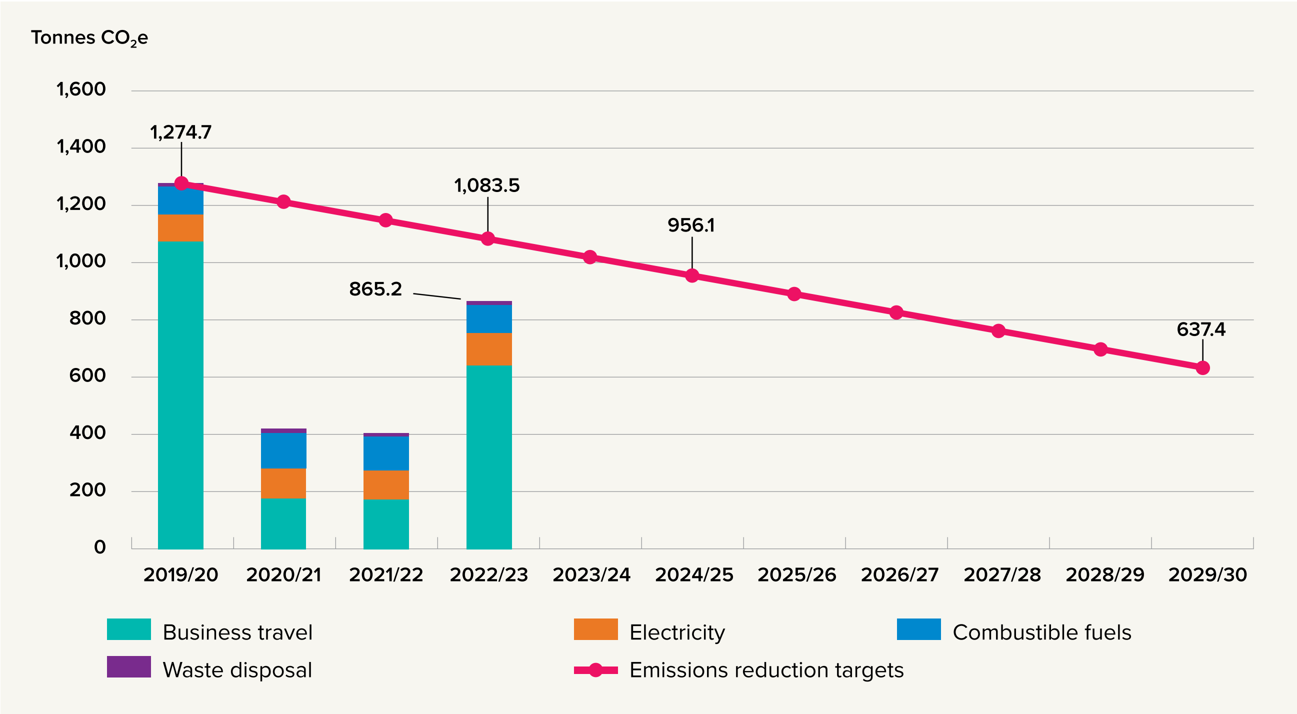
For the year ended 30 June 2023, emissions within scope of our ERTs were 32 percent below those in our base year. This was largely due to the success of a pilot programme to reduce our emissions from business travel, which helped to bring about a 40 percent reduction in business travel emissions against our 2019/20 base year. We have implemented a trial carbon budget and monthly management reporting for the next financial year to further our emission reduction journey.

In addition, we are exploring the metrics available to measure the carbon intensity and total footprint of our balance sheet. We also liaised with officials from the Carbon Neutral Government Programme (CNGP) to better understand our obligations as a Tranche 3 organisation, meaning the Reserve Bank is encouraged but not directed or instructed to join the CNGP.

Getting the settings in place: Mainstreaming climate by understanding and incorporating the impacts of climate change on our core functions

We have increased our understanding of the potential impacts of climate change on financial stability and improved our regulation and supervision of climate-related risks. Our key actions in respect of our climate change strategy and regulated entities are described in more detail in Tahi – The year in review – Ngā Pekanga. Our climate actions in relation to monetary policy are described in Tahi – The year in review – Te Toto.

Figure 10: Combined emissions reduction track



The Reserve Bank's progress against our ERTs relative to our 2019/20 base year. Our ERTs are -25 percent in 2024/25, and -50 percent in 2029/30.

Showing the way: Leading through collaboration

We collaborate internationally and domestically to improve our understanding of and contribute to an aligned global response. For example, our Governor delivered the keynote speech at the 2022 Climate Change and Business Conference on why climate change matters to the Reserve Bank. We are a member of the CoFR climate working group, and have hosted several speakers to build awareness on climate issues across the CoFR agencies.

We have taken steps towards achieving the goals of our climate strategy through our work as part of the Network for Greening the Financial System (NGFS). The NGFS is made up of more than 120 central banks and supervisors that are collaborating on climate-related and sustainability matters. We co-chair the NGFS workstream Net-zero for Central Banks with the Bank of Italy, and attended meetings and webinars convened by the Disclosure, Sustainable and Responsible Investment and Greening Operations sub-groups. We are currently co-authoring a revision of the strategy chapter of the 2024 version of the NGFS guide on climate-related disclosure for central banks. Our involvement in the Net-zero for Central Banks workstream has been instrumental in helping us to assess our readiness to develop our own climate-related risk disclosure.

We want to play an active role in helping to support policy development and close information gaps through considerable domestic collaboration. In addition to being an active member of the CoFR Climate group, we had a series of bilateral and multilateral engagements with other government agencies, climate scientists and non-profits on our emission reduction and financial stability work. These domestic collaborations have helped us to begin to align our emission measurement, target-setting and reduction practices with what is expected of Tranche 3 organisations under the CNGP.

We also participate in the Bank for International Settlements' Asia Pacific Climate Network and engage with the IMF and EMEAP. We also engage with other central banks and regulators in bilateral meetings and workshops, including with the Bank of England, the Monetary Authority of Singapore, Bank Negara Malaysia, and the Australian Prudential Regulation Authority.

Te Ao Māori

Tā te mea ko mātou te kaitiaki o te pūnaha ahumoni, e hiahia ana mātou kia puta ai he ōhanga Māori hauora kia tautokona hoki te toiora ōhanga me te taurikura mō ngā tāngata katoa o Aotearoa, tae atu ki te ōhanga Māori. I whakatūria tō mātou rautaki mō Te Ao Māori – Te Waka Hourua i te tau 2018. Kei raro i ēnei mahi he mahi mō te:

- waihanga huarahi māramatanga ki te tangata whenua, tae atu ki te ahure me ngā whāinga ōhanga, kaipakihi ahurei hoki o ngā iwi me ngāi Māori;
- whakapakari i tō mātou raukaha, me ō mātou pūmanawa whakaroto ki te hīkoi tahi me Te Ao Māori;
- tuitui, te whakapakari hononga hoki ki ngā iwi me ngāi Māori
- te whakatūturu i ngā putanga Māori ki roto i ā mātou kaupapa here, ā mātou hātepe, pūnaha, ahurea hoki.

Mai i te whakaputanga o te pūrongo e mōhiotia nei ko Te Ōhanga Māori – The Māori Economy 2018 Report[4], kei te whakaoti mātou i tā mātou mahi whakawātea urutomo ki te moni, ki te ao Māori. E arotahi ana tēnei mahi ki te kohinga o ngā raraunga ā-inerahi, ā-ine kounga hoki kia pai ake ai te urutomo o te ao Māori ki ngā moni puta noa i te ōhanga o Aotearoa, tae atu ki tētahi tāhuhu matua mō ngā pīkauranga me ngā whāinga wāhi mō ngā whakapikinga puta noa i te pūnaha.

Mai i te whakaputanga o tā mātou tuhinga pūtake mō Te Whakawātea Urutomo ki te Moni ki te ao Māori. i te marama o Hereturikōkā 2022, kua ahu whakamua tā mātou mahi tahi me ngā pēke hokohoko ki te kimi rongoā, tae atu ki te mahi pāhekoheko ki te āhua o te arotake a ngā pēke i ngā tukutuku moni i te taha o ngā whenua Māori, e taea ai e mātou te hanga pitomata whakawāteatanga moni punga ki ngā kaipupuru whenua Māori me ngā rōpū tūhonohono.

Ko tā te hōtaka mahi o Te Moni Anamata he whiriwhiri i ngā maioro ka puta pea i te panonitanga o te pūnaha moni ukauka. E mahi kōtui ana mātou me ētahi mātanga Māori ki te tūhura he pēhea te whāinga wāhi ki tētahi moni ā-kiko e tautoko ā-ahumoni ai, e āwhinatia ai ngā ōhanga Māori kia tupu motuhake i ō rātou whenua tuku iho, me te mōhio, he tawhiti pea aua whenua i ō tātou pūtahi taupori nui, ā, he whāiti kē atu ngā ara tuku utunga matihiko i aua takiwā. Kua oti tētahi anga te whakarite tahi me tōna whakaata i ngā whakaaro o Te Ao Māori, hei kawe māramatanga mai ki te hoahoatanga anō o te pūnaha moni ukauka, ka whakamahia hoki hei hanga whiringa kaupapa here.

E noho tonu ana mātou hei mema ngākau-ū o te Whatunga Pēke Matua ā-Ao mō te Whāinga Wāhi o ngā iwi taketake, ā, ko tā tēnei whatunga he tiri mōhiotanga, tikanga mahi pai hoki, he whakatairanga i te mahi pipiri ki ngā iwi taketake, me te whakapiki i te māramatanga me te akoranga mō ngā pūtake ōhanga, me ngā tātai kōrero iwi taketake. I roto i te tau i hautū mātou i te tuatahi o ngā wānanga whenua motuhake mō te wātea o ngā iwi taketake ki ngā moni punga, ā, tōna tikanga ka hautū mātou i tētahi Hui Wānanga mō te Hao i Ngā Iwi Taketake hei te marama o Mahuru 2023.

Kei te whanake haere tonu Te Waka Hourua, ā, kei te aronui mātou ki te tautoko i tō tātou iwi kia piki te māia, kia taea ai te mahi pipiri ki Te Ao Māori. Kei te anga tētahi hōtaka mahi whakaroto ki te whakapakari tangata i tēnei wāhanga, ki te whakarahinga hoki i te tokomaha o ngāi Māori i roto i tō mātou rāngai mahi, me te whakahihiko i ō tātou kaihautū kia mārama, kia whakaata hoki i tō mātou piripono ki Te Tiriti.

I te taha o ēnei kei te āta whakawhanaunga haere mātou ki ngā iwi, ki ngā rūnanga me ngā whakahaere Māori, ā, kei te mahi pipiri mātou ki tētahi wehenga whānui o te pāpori nui tonu i ā mātou mahi katoa. Ka āta inea, ka āta aroturukingia hoki ngā hononga katoa hei ngā rā e tū mai nei kia noho tonu ai te iwi Māori hei hoa kōtui i roto i ā mātou mahi hira, kia piki ai te toiora ōhanga mō rātou, otirā mō Aotearoa nui tonu.

4 Te Ōhanga Māori – The Māori Economy 2018 (rbnz.govt.nz)

Te Ao Māori

As kaitiaki of the financial system we want to contribute to the economic wellbeing and prosperity of all New Zealanders, including those in the Māori economy. Our Te Ao Māori strategy – Te Waka Hourua was established in 2018. It includes work to:

- build a robust understanding of tangata whenua, including the culture and unique economic and business aims of iwi and Māori,
- build our own internal Te Ao Māori capacity and capability;
- engage with and have relationships with iwi and Māori; and
- meaningfully embed Māori outcomes within our policies, processes, systems and culture.

Since the release of the Te Ōhanga Māori – The Māori Economy 2018 report[5], we are working on our Māori access-to-capital work programme. This work focuses on quantitative and qualitative data to better understand Māori access to capital in Aotearoa New Zealand's economy, and includes key themes around the challenges and opportunities for improvements across the system.

Since we released our issues paper on Māori Access to Capital in August 2022, we have been working with retail banks to find solutions, including working collaboratively on how banks assess lending against whenua Māori, which has the potential to improve access to capital for Māori landowners and collectives.

Our Te Moni Anamata work programme considers the barriers that may emerge from a changing cash system. We are partnering with Māori experts to explore how access to physical currency supports financial inclusion and helps Māori economies to thrive independently on ancestral lands, which may be far from our main population centres and have limited access to digital payments. A framework has been developed with a Te Ao Māori view to provide clarity on the cash system re-design, and will be used to develop policy options.

We continue to be a committed member of the Central Bank Network for Indigenous Inclusion, which aims to share knowledge and practices and promote deeper engagement with indigenous peoples and foster a greater understanding of and education in indigenous economic issues and histories. During the year we hosted the first of a series of country presentations on indigenous access to capital, and are due to host a Symposium on Indigenous Inclusion in September 2023.

Te Waka Hourua continues to evolve and we are focused more than ever on supporting our people to be more confident and capable in engaging in Te Ao Māori. An internal work programme is supporting growing capability in this area and greater representation of Māori across our workforce, and inspiring leaders to better understand and reflect our commitment to Te Tiriti.

Alongside these projects we are consciously building relationships with iwi, rūnanga and Māori organisations and working actively to engage a broader and more representative cross-section of society in all that we do. Future engagements will be measured and monitored to ensure we continue to progress in our endeavours to partner with Māori in key pieces of work, to give greater effect to their economic wellbeing and that of all Aotearoa New Zealand.

5 Te Ōhanga Māori – The Māori Economy 2018 (rbnz.govt.nz)

Toru

Governance and accountability

Te taha whakaruruhau me te kawe haepapa

Governance and accountability
Te taha whakaruruhau me te kawe haepapa

Our legislation

We perform functions derived from several pieces of legislation. They are the:

- RBNZ Act 2021, which specifies the Reserve Bank's high-level objectives, functions, governance and funding arrangements;
- Banking (Prudential Supervision) Act 1989, which specifies the Reserve Bank's banking supervision and financial market infrastructures oversight functions;
- IPSA, under which we issue licences to insurers operating in New Zealand and supervise licensed insurers;
- Non-bank Deposit Takers Act 2013, under which we act as the prudential regulator and licensing authority for NBDTs;
- Financial Market Infrastructures Act 2021, which provides for our role as prudential regulator and supervisor of financial market infrastructures, alongside the Financial Markets Authority; and
- Anti-Money Laundering and Countering Financing of Terrorism Act 2009, under which we act as the supervisor for banks, life insurers and NBDTs.

These statutes, and regulations made under them, can be viewed on the New Zealand legislation website.

The Deposit Takers Act 2023 received Royal Assent on 6 July 2023 and will replace the Banking (Prudential Supervision) Act 1989 and Non-bank Deposit Takers Act 2013 once it fully comes into force.

Under the RBNZ Act 2021, the Reserve Bank carries out its functions under the direction of the Board, apart from monetary policy, which is formulated independently by the MPC, chaired by the Governor, for the Reserve Bank to implement.

The MPC is subject to a monetary policy Remit, Charter and Code of Conduct that together form the Monetary Policy Framework[6] under which the MPC operates and makes decisions. The Minister of Finance sets the operational objectives for monetary policy through the Remit.

Our funding is based on a five-year funding agreement[7] between the Governor and the Minister of Finance, which states how much of the Reserve Bank's income may be used to meet operating expenses in each financial year. We also receive an annual Letter of Expectations[8] from the Minister of Finance setting out the Minister's expectations of the Reserve Bank for the year ahead.

Our governance and accountability

We play an important role in promoting economic wellbeing and prosperity for all New Zealanders. We have statutory independence from the Government. This means we have operational autonomy to achieve our long-term objectives for the financial system.

To ensure trust and confidence in our day-to-day operations, we have an accountability structure that enables our Board, the Minister of Finance and our monitor, the Treasury, to review and ensure we act in a manner consistent with our objectives and the delivery of our outcomes.

We publish a range of accountability documents, including:

- Monetary Policy Statements;
- Financial Stability Reports;
- our Statement of Intent;
- our Statement of Performance Expectations;
- our Statement of Performance, which is included in our Annual Report;
- Statement of Prudential Policy;
- our Statement of Financial Risk Management, which is included in our Annual Report; and
- our Annual Report.

6 Monetary Policy Framework – Reserve Bank of New Zealand – Te Pūtea Matua (rbnz.govt.nz)
7 Our funding agreements – Reserve Bank of New Zealand – Te Pūtea Matua (rbnz.govt.nz)
8 Letter of Expectations 2023 – Reserve Bank of New Zealand – Te Pūtea Matua (rbnz.govt.nz)

The Financial Policy Remit came into force on 1 July 2022 after being issued by the Minister of Finance under the RBNZ Act 2021. It specifies or provides for matters that the Minister of Finance considers are desirable for the Reserve Bank to have regard to in relation to our financial stability objective, the objectives or purposes of our prudential legislation, and our actions as a prudential regulator and supervisor.

In December 2022 the Reserve Bank and Minister of Finance agreed to the FRCF. It sets out expectations for the management and use of foreign reserves in New Zealand and the respective roles of the Reserve Bank and Minister of Finance.

Our activities are examined by Parliament's Finance and Expenditure Committee. Typically, select committee hearings are held to cover the quarterly Monetary Policy Statements, the six-monthly Financial Stability Reports and the Reserve Bank's annual review.

Our Board

The RBNZ Act 2021 and the Board Charter set out the responsibilities of the Board and its members. The Board has overall responsibility for our strategic direction, functions and operations, and is ultimately accountable for the delivery of our outcomes.

The Board's responsibilities include:

- ensuring the Reserve Bank acts in a manner consistent with its objectives, functions, current Statement of Intent and current Statement of Performance Expectations;
- nominating the Governor and recommending the appointment of MPC members;
- regularly reviewing the performance of the MPC and the MPC members;
- approving our key accountability documents;
- having regard to the Financial Policy Remit when acting in relation to prudential strategic intentions, and issuing and reviewing standards in relation to our financial stability objective;
- ensuring the Reserve Bank performs its functions efficiently and effectively and in collaboration with other public entities, in a manner consistent with the spirit of service to the public; and
- ensuring we operate in a financially responsible manner.

Non-executive directors' remuneration and meeting attendance

In 2022/23 the Board established another two committees, in addition to the Audit Committee. They are the Financial Stability Oversight Committee and People, Culture and Change Committee. The remuneration paid to all non-executive directors is included in Tables 7 to 10. No fees are paid to the Governor, who is an executive director of the Reserve Bank.

Table 7: Non-executive directors' meeting attendance

Non-executive directors	Board meeting attendance (total of 10 meetings for the year)	Audit Committee attendance (total of 5 meetings for the year)	Financial Stability Oversight Committee attendance (total of 4 meetings for the year)	People, Culture and Change Committee attendance (total of 1 meeting for the year)
N Quigley (Chair)	10	5	4	1
R Finlay (Deputy Chair)	9	5	4	N/A*
J Banks	9	5	4	N/A*
R Higgins (Chair of the People, Culture and Change Committee)	9	3	N/A*	1
S Paterson (Chair of the Audit Committee)	10	5	4	N/A*
B Pepper	9	4	4	N/A*
H Raumati	9	5	N/A*	1

*Denotes Board members who are not members of the relevant committee.

Table 8: Board-hosted functions (1 July 2022 to 30 June 2023)*

Date	Location
March 2023	Auckland
April 2023	Christchurch
June 2023	Wellington

* Industries invited included utilities, accountancy, agriculture and farming, arts/entertainment, business, community, education, energy, hospitality, Government, healthcare, iwi/iwi organisations, local government, transport/logistics, manufacturing/industrial, property, finance/sharebrokers/investment, technology, research, MPs, retail, tourism, automotive, construction, legal and wholesalers.

Table 9: Board workshops (1 July 2022 to 30 June 2023)

Date	Topic
8 September 2022	Foreign reserves framework
31 October 2022	RAFIMP
1 November 2022	Te Ao Māori strategy
25 January 2023	Deposit Takers Bill
8 February 2023	Board strategy
8 March 2023	Financial risk management

Non-executive directors' remuneration

Table 10: Total non-executive directors remuneration

Non-executive directors	2023 $
N Quigley (Chair)	170,127
R Finlay (Deputy Chair and Chair of the Financial Stability Oversight Committee)	96,375
J Banks	77,875
R Higgins (Chair of the People, Culture and Change Committee)	80,750
S Paterson (Chair of the Audit Committee)	80,750
B Pepper	77,875
H Raumati	77,875
Total	**661,627**

* Remuneration of non-executive directors is set by the Remuneration Authority.

MPC members' remuneration

The remuneration for the external members of the MPC is determined by the Minister of Finance in accordance with the Government's fees framework. The remuneration of external MPC members is based on hours worked.

Table 11: Total MPC external members' remuneration

MPC external members	2023 $
B Buckle	71,890
C Saunders	67,200
P Harris	66,500
Total	**205,590**

Insurance and indemnity arrangement

The RBNZ Act 2021 permits the Reserve Bank to indemnify members of its Board in respect of certain acts or omissions committed in carrying out their duties in that role. The Reserve Bank provides an indemnity policy to Board members for certain acts and omissions to the maximum extent permitted by the RBNZ Act 2021.

Conflicts of interest

We maintained policies and practices to avoid or manage conflicts of interest among all personnel, including the Governor and Board members. The policies and practices for Board members are consistent with the relevant provisions of sections 61 to 68 of the RBNZ Act 2021. The policies and practices require all personnel to act honestly and impartially, and not use sensitive non-public information for personal gain for themselves or others.

The policies state that personnel must identify and declare their personal interests that may conflict or be seen to conflict with their duties to the Reserve Bank and continue to do this on an ongoing basis.

Financial disclosure of the Governor

As the Reserve Bank has extensive responsibilities, and in the interests of promoting sound organisational governance and transparency, there is merit in reporting the Governor's financial disclosure. This is reported in each Annual Report, and any changes made during the previous 12 months are highlighted.

Total remuneration paid to the Governor during the financial year

The Governor's remuneration includes base salary, KiwiSaver employer contributions and other employee benefits:

Table 12: Governor's remuneration

Reserve Bank Governor	2023 $
Adrian Orr	853,810

* Remuneration of the Governor is set by the Remuneration Authority.

Governor's financial disclosure as at 30 June 2023[9]

Marketable securities, real estate, rights, proprietary and other interests, business and other assets owned during 2022/23 and valued above $10,000:

Real property:

- Two residential properties (Wellington and Bay of Plenty).

Deposits and marketable securities:

- Deposit at Kiwibank; KiwiSaver employee and employer contributions; passive investment fund with Simplicity (an index fund of listed assets in which the Governor has no decision-making role).

Sources of non-Bank income over $5,000 during 2022/23 (other than from listed investments):

- None.

Liabilities over $50,000 owed during 2022/23:

- None.

Trading in foreign currency or in financial instruments:

- None.

Positions held outside the Reserve Bank:

- Director: Kai Waho Ltd, Taupō; Chair of Fale Malae Charitable Trust; Trustee of Nikau Foundation Charitable Trust (excluded from all investment decisions).

9 All assets are jointly owned with the Governor's spouse.

Our Board members
Ō mātou Mema Poari

Professor Neil Quigley
Board Chair

Rodger Finlay
Deputy Chair

Jeremy Banks
Board member

Professor Rawinia Higgins
Board member

Adrian Orr
Governor/CEO and Board member

Susan Paterson, ONZM
Board member

Byron Pepper
Board member

Hinerangi Raumati, MNZM
Board member

Our Executive Leadership Team

Tō Mātou Tira Hautū Whakahaere

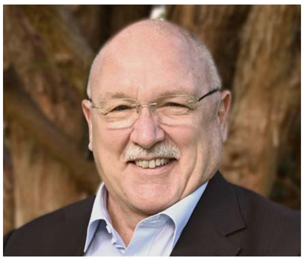
Adrian Orr
Governor/CEO

Christian Hawkesby
Deputy Governor/
General Manager
Financial Stability

Kate Kolich
Assistant Governor/
General Manager Information,
Data and Analytics

John McDermott
Assistant Governor/
General Manager
Digital Solutions and Security

Sarah Owen
Assistant Governor/
General Manager Risk,
Compliance and Legal Services



Nigel Prince
Strategic Advisor

Simone Robbers
Assistant Governor/
General Manager Strategy,
Governance and Sustainability

Karen Silk
Assistant Governor/
General Manager Economics,
Financial Markets and Banking

Greg Smith
Assistant Governor/
General Manager Finance
and Commercial Operations

Juliet Tainui-Hernandez
Assistant Governor/General
Manager Transformation,
Innovation, People and Culture

The Monetary Policy Committee
Te Komiti Kaupapahere Moni

The MPC is the decision-making committee at the Reserve Bank responsible for making monetary policy decisions in Aotearoa New Zealand, directed towards the economic objectives of:

- achieving and maintaining stability in the general level of prices over the medium term; and
- supporting maximum sustainable employment.

The MPC is subject to a Remit, Charter and Code of Conduct that together form the Monetary Policy Framework under which the MPC operates and makes decisions.

Internal members[10]

Adrian Orr
MPC Chair/Governor

Appointed for a five-year term from March 2023 to 2028

Christian Hawkesby
Deputy Governor/General Manager Financial Stability

Appointed for a five-year term from January 2022 to 2027

Paul Conway
Chief Economist and Director of Economics

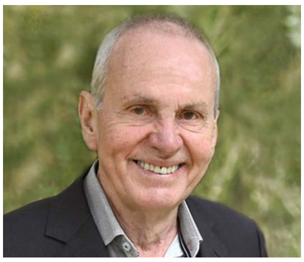
Appointed for a five-year term from September 2022 to 2027

Karen Silk
Assistant Governor/ General Manager Economics, Financial Markets and Banking

Appointed for a five-year term from May 2022 to 2027

External members

Professor Bob Buckle
Reappointed for a three-year term from April 2022 to 2025



Peter Harris
Reappointed for an 18-month term from April 2022 and extended for a term commencing October 2023 and ending March 2024

Professor Caroline Saunders
Reappointed for a term commencing April 2023 and ending June 2024

10 As at 30 June 2023.


Risk?
GREAT TEAM! BEST CENTRAL BANK!
Innovation
Post
Inclusion
Integrity

Whā

Statement of Financial Risk Management

Tauākī Whakahaere Mōrea Ahumoni

Statement of Financial Risk Management
Tauākī Whakahaere Mōrea Ahumoni

Introduction

The Reserve Bank is required to prepare and keep up to date a Statement of Financial Risk Management (SFRM) in accordance with sections 250 and 251 of the RBNZ Act 2021. The first SFRM was approved by the Board with effect from 1 July 2022.

The purposes of the SFRM are to:

1. report on the Board's approach to complying with its duty to ensure that the Reserve Bank operates in a financially responsible manner (section 47 of the Act);
2. report on our management of financial risks;
3. ensure the accountability of the Reserve Bank for its management of financial risks;
4. provide the principles for determining the Reserve Bank's annual dividend paid to the Crown; and
5. facilitate the role of the Treasury, as the monitor of the Reserve Bank.

This document:

1. sets out the Board's approach to complying with its duty under section 47;
2. provides information on how it has complied with its duty in the most recently completed financial year;
3. sets out how we approach financial risk management and provides an assessment of how we manage financial risk that may impact our ability to perform our functions;
4. identifies the significant risks that we have been exposed to during the most recently completed financial year, as well as those we are currently exposed to and those we expect to be exposed to in the medium term; and
5. sets out the statement of principles for determining the annual dividend.

Overview of financial responsibility

Under section 47 of the RBNZ Act 2021, the Reserve Bank must operate in a financially responsible manner and prudently manage its assets and liabilities, ensuring that its total expenditure complies with the funding agreement for the respective five-year period. Under section 117, the Reserve Bank, acting through the MPC, formulates monetary policy directed to the Reserve Bank's economic objectives. The Reserve Bank is required to implement monetary policy formulated by the MPC under section 120. However, section 121 provides that the Reserve Bank is not required to implement monetary policy to the extent that the Board considers that implementing the policy would be inconsistent with either or both of:

- the Board's duty under section 47; and
- the Reserve Bank's duty to comply with a direction given under section 208. A section 208 direction is given by the Minister of Finance and may require the Reserve Bank to take all reasonable steps to maintain a minimum level of capital or set out the Minister's expectations as to the Reserve Bank's financial risk management. There is currently no such direction in place.

Under section 209, the Minister of Finance and the Reserve Bank agree to a five-year funding agreement. The funding agreement sets out how much of its income the Reserve Bank may spend in carrying out its functions and exercising its powers. From time to time the five-year funding agreement may be amended with the agreement of the Minister of Finance. The Reserve Bank does not receive a direct funding contribution for operating expenditure through the Parliamentary appropriation process.

The Reserve Bank's current funding agreement period runs from 1 July 2020 to 30 June 2025. The Reserve Bank aims to confirm future funding prior to the start of any funding agreement period. During the 2022/23 financial year, the Reserve Bank requested an amendment to the current funding arrangement to cover the remaining two financial years of the current funding period. In response to this, Cabinet agreed to provide additional funding to the Reserve Bank to support the delivery of key legislative requirements under the Deposit Takers Act and a sound management of enterprise-wide risks. This has been formalised through a variation to the funding agreement.

The Reserve Bank targets a minimum level of capital that is sufficient to cover a prudent range of potential financial risks in meeting its policy objectives. Under section 213 of the RBNZ Act 2021, as soon as practicable after the end of each financial year the Reserve Bank is required to recommend to the Minister of Finance the amount of dividend to be paid to the Crown, determined in accordance with the dividend principles set out below.

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

The Minister of Finance receives the dividend recommendation from the Reserve Bank and determines the amount the Reserve Bank must pay to the Crown as an annual dividend.

The Board's approach to complying with section 47

The Board ensures that the Reserve Bank operates in a financially responsible manner by:

a) ensuring the Reserve Bank's strategies, plans and budgets are aligned with the funding agreement;

b) receiving regular reports and undertaking due inquiry into financial management and outcomes against plans and budgets;

c) receiving regular updates on financial forecasts and assisting management with re-prioritising and/or extending timeframes for the delivery of outputs if funding is not sufficient to deliver within a current funding agreement period, such that the Reserve Bank meets its obligations under section 47 of the RBNZ Act 2021;

d) holding management accountable for delivering outcomes relating to the Reserve Bank's functions, objectives set by the Board and any expectations or directions set by the Minister of Finance;

e) ensuring resources are applied so that the Reserve Bank can adequately carry out its functions over time;

f) establishing, overseeing and regularly reviewing the Reserve Bank's Decision Making Policy;

g) setting and reviewing the Reserve Bank's Risk Appetite Statement;

h) holding management to account for managing risks within the risk appetite;

i) oversight of regular reporting from external and internal auditors, ensuring and supporting their independence through the Board's Audit Committee;

j) ensuring the Board receives sufficient information to oversee major projects in accordance with the Reserve Bank's Decision Making Policy; and

k) ensuring management adopts policies that are designed to optimise value for money in spending and procurement.

The Reserve Bank's approach to financial risk management

Under the RBNZ Act 2021, the Board has responsibility for the overall governance of the Reserve Bank, including oversight of its risk management framework. The Board sets the Reserve Bank's tolerance for risks through its risk-appetite statement, risk culture expectations, and oversees governance structures and control frameworks. The risk-appetite statement acknowledges that the Reserve Bank is committed to achieving its monetary policy, financial stability and liquidity-management objectives and takes financial risks to the extent necessary to do so.

In accordance with the Risk Management Policy set by the Board, the Reserve Bank's Enterprise Risk Management Committee oversees the enterprise risk management framework to ensure that risks are identified, assessed and managed in line with risk appetite. The Chief Risk Officer is responsible for systematic, enterprise-wide risk management, ensuring that all significant enterprise-wide emerging, disruptive and change risks are identified and reported on. The Risk and Compliance Directorate supports the Enterprise Risk Management Committee in ensuring that agreed standards and policies are effected, and in providing support, advice, education and challenge in all risk management and compliance activities.

Financial risks arise from the Reserve Bank using its balance sheet in pursuit of its policy objectives: to manage liquidity in the financial system, implement monetary policy, facilitate the smooth functioning of the payment and settlement systems, and manage foreign reserve assets. These activities involve foreign currency, interest rate, credit and liquidity risks.

The Reserve Bank's balance sheet management and associated financial risks are overseen by the Assets and Liabilities Committee (ALCO). ALCO is a management-level committee of nine members with relevant expertise in a range of Reserve Bank functions to support strong oversight of financial risks. ALCO meets at least 10 times per year.

ALCO oversees the management of operational and investment frameworks for financial market operations. These set out the objectives, governance arrangements and operational controls within which financial risks are taken, to ensure compliance with the Reserve Bank's Risk Appetite Statement. These frameworks translate the Reserve Bank's risk appetite into a comprehensive set of qualitative and quantitative limits which facilitate day-to-day assessment and control of financial exposures and appropriate escalation of risks. Daily monitoring of financial risks against these limits is undertaken by the Portfolio Risk team in the Financial Markets Directorate.

The Reserve Bank is also exposed to operational financial risk that may arise through inadequate or failed internal controls, people and systems, or from external events.

The Reserve Bank operates a three lines model for risk management, which is outlined below:

Reserve Bank Board

Accountability to stakeholders for ensuring that the Reserve Bank operates in a financially responsible manner

Our values: Wānanga/Innovation, Tauira/Integrity, Taura/Inclusion

Management

Action, including managing risk to achieve organisational objectives and mandates

Financial Markets directorate

Financial risk management

First line roles:

- Risk ownership and accountability
- Day-to-day risk management and decision-making
- Identifying, assessing, controlling and mitigating key risks
- Reporting risks in line with risk appetite and risk policies and guidelines
- Appropriate escalation of risks

Second line roles:

- Providing challenge and oversight of financial risk management via Assets and Liabilities Committee
- Development of comprehensive financial risk management frameworks and policies
- Robust loss modelling to ensure balance sheet resilience and capital adequacy

Risk and compliance

Enterprise risk management

Second line roles:

- Oversee risk management/risk policy frameworks via Enterprise Risk Management Committee
- Systematic enterprise-wide risk management to ensure an appropriate methodology is applied to identify and assess key risks and the effectiveness of internal controls
- Provide risk infrastructure (registers, taxonomy, standards and guidelines)
- Advisory support to first line, providing independent view, challenge and escalation

Internal audit

Independent assurance

Third line roles:

- Independent assurance on governance and risk management
- Review adequacy and effectiveness of controls and treatments

External assurance providers

How the Board complied with its section 47 duty in 2022/23

The 2022/23 financial year was the first year under the new RBNZ Act 2021.

Following commencement of the RBNZ Act 2021, a new Decision Making Policy was approved by the Board to define the authorities for day-to-day decision making and ensure best-practice governance of the balance sheet. Staff have delivered periodic updates and workshops to members of ALCO and the Board to support a thorough understanding and robust oversight of our financial risks, demonstrating the diligent risk management culture across the Reserve Bank.

The Board has overseen significant work undertaken by the Reserve Bank in the past financial year to ensure its risk methodologies remain fit for purpose, ensuring robust financial risk modelling and development of risk limits in line with industry best practice. We have increased our resourcing of financial risk management capabilities to ensure strong coverage across both first line risk management and second line risk oversight of financial risks.

The Reserve Bank's operational and investment frameworks and financial risk limits are continuously assessed to ensure they are up to date and fit for purpose, with any changes overseen by ALCO and the Board as appropriate.

The Board has overseen work to ensure sound financial risk management of the Reserve Bank's foreign reserves. A key development in the Reserve Bank's financial risk management in 2022/23 is the implementation of the FRCF. The FRCF was agreed between the Reserve Bank and the Minister of Finance in December 2022 and outlines how the Reserve Bank manages its foreign reserves in order to meet its policy objectives of monetary policy implementation, financial stability and liquidity management in the financial system.

To ensure strong financial risk management of increased foreign reserves under the FRCF, the Reserve Bank's financial risk management frameworks and limits have been extensively reviewed and updated. These seek to manage the risks associated with the FRCF within the Reserve Bank's financial resources.

When determining the level of financial resources required to operationalise the FRCF, the Reserve Bank completed extensive loss modelling of the financial risks associated with the holding and use of foreign reserves. This work has been independently reviewed to provide assurance that it is in line with global best practice.

Significant financial risks

The Reserve Bank holds domestic and foreign currency-denominated financial instruments to support its operations in financial markets in pursuit of its policy objectives. These instruments expose the Reserve Bank to financial risks.

The significant financial risks to which the Reserve Bank is currently exposed and how the Reserve Bank manages these risks are outlined in the table below. The table provides information on how we manage financial risks that impact on our ability to perform our functions and is intended to allow an assessment of how we manage those financial risks.

Financial risk	Nature of the Reserve Bank's exposure	How this is managed by the Reserve Bank
Interest rate risk *is the risk that the fair value of a financial instrument will fluctuate due to changes in interest rates.*	The Reserve Bank's foreign currency assets are funded in part by New Zealand dollar liabilities. The Reserve Bank is exposed to the risk of changes in New Zealand interest rates relative to interest rates overseas. The Reserve Bank is exposed to mismatches in maturity and interest rate resets between assets and liabilities, impacting net interest margin. The Reserve Bank holds fixed-rate bonds, which are subject to mark-to-market fair valuation fluctuations as market interest rates change. The Reserve Bank's seigniorage income is exposed to fluctuations in domestic and overseas interest rates.	Interest rate risk is managed by: • hedging exposures where appropriate; • interest rate limits (e.g. duration mismatch); • limit monitoring and reporting; • fixed vs floating rate asset and liability monitoring; and • Value at Risk monitoring and stress testing.
Foreign currency risk *is the risk that the fair value of a financial instrument will fluctuate due to a change in foreign exchange rates.*	The Reserve Bank holds significant foreign currency assets. A portion of these is held as unhedged foreign reserves for the purpose of enabling swift and effective intervention in the market should it be required for monetary policy or financial stability purposes.	The Reserve Bank does not fully hedge its foreign currency risk due to the need to maintain an unhedged position. Foreign currency risk is managed by: • hedging exposures where appropriate; • passive benchmarking; • foreign currency position limits; • target currency portfolio composition weights and deviations; • Value at Risk monitoring and stress testing; and • Management reporting.

Financial risk	Nature of the Reserve Bank's exposure	How this is managed by the Reserve Bank
***Credit risk** is the potential for financial loss arising from an issuer or counterparty defaulting on its obligations.*	The Reserve Bank engages with domestic and foreign counterparties and holds large balances of domestic and foreign currency instruments.	Credit risk is managed by: • counterparty selection and monitoring of credit ratings; • requirements to hold highly rated instruments and collateral and daily margining. Application of haircuts (e.g. for non-tradable, single name securities) to protect against adverse revaluations of collateral.; • counterparty replacement risk and settlement risk limits; • risk monitoring and management reporting; and • standardised agreements for transacting with the Reserve Bank.
***Liquidity risk** is the risk that the Reserve Bank will not have the resources required at a particular time to meet its obligation to settle its financial liabilities. Liquidity risk also includes the risk associated with the Reserve Bank, in extraordinary circumstances, having to sell a financial asset quickly at less than its fair value.* *Note this does not relate to overall New Zealand financial system liquidity risks, which are within the Reserve Bank's remit to manage as part of its financial stability objectives.*	The Reserve Bank has no liquidity risk for New Zealand dollars as the Reserve Bank is able to generate New Zealand dollar liquidity through its market operations. For foreign currency, the Reserve Bank holds a portfolio of foreign reserve assets to ensure it has the capacity to transact in markets for policy objectives.	Liquidity risk is managed by: • holding highly rated, liquid securities; • maturity profile management; and • risk monitoring and management reporting.

Financial risk	Nature of the Reserve Bank's exposure	How this is managed by the Reserve Bank
***Operational risk** is the risk of loss from inadequate or failed internal processes, systems, the actions or inactions of people, or external drivers and events.*	The Reserve Bank employs people and operates and maintains processes and systems to support the operational capability necessary to achieve its strategic and policy objectives. Operational risks may have direct financial implications. For example, asbestos management in the Reserve Bank's office building may lead to remediation and relocation costs.	The Reserve Bank manages operational risk under its Enterprise Risk Management framework, ensuring that: • risks are appropriately identified; • risk tolerance is set and management is accountable for managing risks within this; • resourcing is appropriate; • internal controls are designed and operating effectively; and • internal monitoring and reporting supports effective oversight and governance.

Impact of financial risks on the Reserve Bank's financial position during the 2022/23 financial year

The financial risks that have the most significant impacts on the Reserve Bank's financial position are interest rate and foreign currency risk, necessary by virtue of the monetary policy and financial stability objectives of the Reserve Bank. Our reported financial results reflect changes in interest and foreign currency rates, generally relating to realised amounts for net interest income and largely unrealised revaluations to fair value for changes in interest and exchange rates.

Interest rate risk realised through our net interest income is the difference between the interest income generated from operations and the interest cost of financing this throughout the year. Net interest income increased from $243 million in 2021/22 to $341 million in 2022/23 (largely as a result of increases in interest rates throughout the year domestically, but also overseas, increasing our seigniorage income). Fair value revaluations due to interest rates arise due to forecast future net interest income (or losses) or as a result of market transactions before an instrument's maturity. In 2022/23 there was a net $75 million loss in the fair value of financial assets and financial liabilities, which was predominantly driven by changes in New Zealand and overseas interest rates ($335 million net loss in 2021/22).

The Reserve Bank manages foreign currency reserves in two portfolios: an unhedged portfolio and a hedged portfolio. The unhedged portfolio is exposed to changes in foreign exchange rates and interest rate yields on foreign currency assets. As at 30 June 2023, the open foreign currency position of the unhedged portfolio was $3.4 billion (30 June 2022: $3.4 billion). During the year the NZ dollar weakened against unhedged reserve currencies overall by 2.2 percent, producing a largely unrealised net gain of $70 million from the revaluation of the open foreign currency position (2021/22: $123 million net gain from 4 percent weakening). The hedged portfolio reduces both the foreign exchange and interest rate risk to a negligible amount, as the currency and interest rate exposures of assets and liabilities are offset.

In response to the economic impacts of COVID-19, the Reserve Bank introduced several monetary policy tools to provide monetary stimulus to the New Zealand economy, including the Large Scale Asset Purchase (LSAP) programme ($55.3 billion of total notional bond purchases over the life of the programme) and the Funding for Lending Programme (FLP) facility (with total financing of $19.0 billion over the life of the programme). We also launched the Term Lending Facility (TLF) at a fixed rate of 0.25 percent set in line with the OCR at the time, to support the Government's Business Finance Guarantee Scheme (lending a total of $2.5 billion over the life of the programme).

In February 2022 the MPC agreed to a gradual reduction in the Reserve Bank's LSAP programme bond holdings through a mix of bond maturities and managed sales to New Zealand Debt Management. In accordance with the MPC's decision, the Reserve Bank commenced bond sales at a rate of $5 billion per fiscal year in July 2022.

The LSAP programme was supported by a Crown indemnity, which negates the impacts on the Reserve Bank of any financial risk (largely interest rate risk) from the programme on the Reserve Bank's reported financial performance. The FLP is subject to interest rate risk largely as a result of settlement timing differences between financing income and the funding costs to the Reserve Bank.

The TLF incurs interest rate risk, resulting in a net interest loss, as a result of subsequent increases in the OCR during 2021/22 and 2022/23, which increased the cost of funding the facility compared to the interest income generated.

The table below summarises the impact of these tools and facilities on the Reserve Bank's balance sheet, along with related financial risks. Further information on the Reserve Bank's COVID-19 economic response and monetary policy tools, including the economic benefits of these policies, is available from the Reserve Bank's website.

	Balance sheet as at (NZD billion)			
	30 June 2023	**30 June 2022**	**Financial risk profile**	**Financial risk to the Reserve Bank**
LSAP programme • Purchases ceased July 2021	38.1	51.3	The LSAP programme is indemnified by the Crown	Nil No impact on surplus/ deficit or net assets
FLP • Facility closed to new drawings in December 2022	19.5	12.4	Funding by Reserve Bank and lending to banks are both at the OCR: however, the timing of settlement differs Funding is secured by eligible collateral	Interest rate risk Credit risk Impact on surplus/ deficit through net interest income and fair value revaluations, also impacting net assets
TLF • Facility closed to new drawings in July 2021	1.6	1.9	Funding moves with the OCR: however, the interest rates for lending to banks are fixed at the time of lending Funding is secured by eligible collateral and linked to the counterparty's lending under the Government's Business Finance	Interest rate risk Credit risk Impact on surplus/ deficit and net assets

Additional information on the financial impact of the Reserve Bank's transactions in financial markets using its standard facilities and the additional monetary policy tools is provided in Note 3 'Securities purchased under Agreements to Resell' and Note 4 'Securities – LSAP programme' to the Reserve Bank's 2022/23 consolidated financial statements.

Further information on the Reserve Bank's exposure to interest rate and foreign currency risk, along with related sensitivity analysis, are included in Note 14 'Interest Rate Risk' and Note 13 'Foreign Currency Risk' respectively. The impacts of the AMP tools on the Reserve Bank's financial performance is detailed further in Note 18 'Net Investment Income'.

Managing medium-term financial risks

The Reserve Bank requires sufficient financial resources to manage the financial risks associated with meeting its policy objectives, including financial risks that it might be exposed to in meeting its policy objectives over the medium term. Financial resources may take the form of capital or indemnities.

Review of financial resources

The Reserve Bank completed a Review of Financial Resources following enactment of the RBNZ Act 2021, to ensure its financial resources remain fit for purpose and are sufficient to mitigate the majority of foreseeable financial risks faced by the Reserve Bank over the medium term for the range of activities the Reserve Bank may need to undertake.

The review considered the most significant financial risks modelled under severe but plausible scenarios, including an assessment of which Reserve Bank activities should be supported by financial resources and how the balance sheet may need to evolve over a five-year period to continue to meet the Reserve Bank's policy objectives.

Having sufficient financial resources strengthens the Reserve Bank's operational independence. In practice, like other central banks, the Reserve Bank can continue to operate with low or negative capital due to its ability to create central bank money, provided doing so would not undermine the Reserve Bank's credibility and is considered financially responsible in pursuit of its policy objectives.

The Reserve Bank sets its own minimum level of capital (Target Capital Level or 'TCL') that is deemed sufficient to cover potential financial risks the Reserve Bank intends to hold capital for in pursuit of its statutory objectives. Financial loss modelling is completed and risk limits are set to ensure the Reserve Bank's balance sheet remains resilient under severe but plausible stressed market conditions (based on historical experience) and can continue to support the Reserve Bank in meeting its policy objectives over the medium term. Financial risks are monitored daily against a comprehensive set of limits.

Following the Review, Cabinet agreed in August 2023 to increase the Reserve Bank's financial resources in the form of a $1.3 billion capital injection, and a standing indemnity primarily to support the Reserve Bank's ability to intervene to promote financial stability and market functioning. This is in addition to the standing indemnity and $500 million capital injection received to support a higher level of foreign reserves as set out in the FRCF and agreed to by the Reserve Bank and Minister of Finance in December 2022.

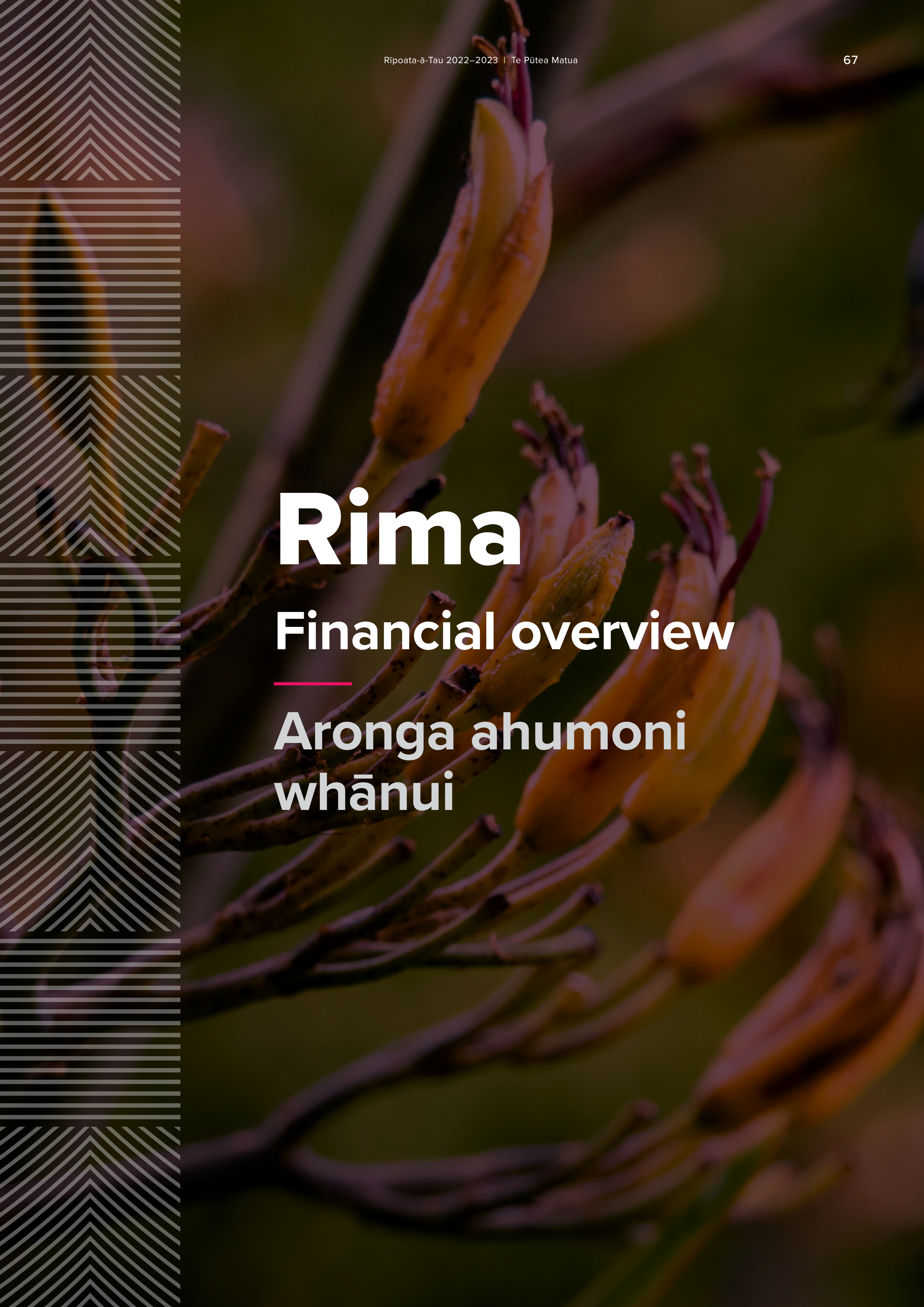
The increased level of financial resources (capital and indemnities) reduces the likelihood that the Reserve Bank would have to operate with low or negative equity in the event of a loss resulting from the Reserve Bank using its balance sheet to meet its policy objectives. Negative equity could occur due to risks materialising beyond those considered reasonable in the severe but plausible scenarios for determining the TCL. For example, losses arising from the need to undertake extraordinary actions (like AMP tools or liquidity facilities) that are not anticipated by the Reserve Bank's financial resourcing (target capital framework or indemnities).

The Reserve Bank may be prepared to accept negative equity or the risk of negative equity in pursuit of its policy objectives. However, this would be subject to prevailing conditions and the policy options in contemplation. In all cases, the Board will ensure that the Reserve Bank is implementing policies in a financially responsible manner – in particular, ensuring that financial risks associated with any monetary or financial stability policies are acceptable, understood and well managed.

Implications for the annual dividend

The Reserve Bank determines a TCL that is a level of capital considered sufficient to cover a prudent range of potential financial losses that may arise in the range of activities the Reserve Bank undertakes, or may need to undertake, across its functions to meet its objectives.

The TCL is reviewed annually and approved by the Board on recommendation from the Reserve Bank's ALCO. The Minister reviews the Reserve Bank's assessment of the TCL when determining the Reserve Bank's annual dividend recommendation. For the 2022/23 dividend assessment, the Reserve Bank recommended a minimum TCL of $4.2 billion. The TCL increase of $1.8 billion from $2.4 billion in 2021/22 reflects the outcome of our Review of Financial Resources. In line with the dividend principles, the Minister of Finance has agreed that the Reserve Bank should not pay a dividend in 2022/23.



Rima

Financial overview

Aronga ahumoni whānui

Financial overview
Aronga ahumoni whānui

This section provides the key highlights of the Reserve Bank's assets, liabilities and financial performance for the year ended 30 June 2023. These highlights are based on the financial statements found on pages 101 to 161.

Financial results

Balance sheet As at 30 June	2023 $m	2022 $m
Cash Balances	8,267	7,972
Investments – Foreign Currency	6,503	5,736
Investments – New Zealand Government Securities	4,087	3,732
Securities Purchased under Agreements to Resell	21,944	14,325
Securities – LSAP Programme	38,103	51,283
Crown Indemnity for LSAP Programme and unsettled receivable	7,654	8,782
Other Assets	2,302	2,082
Assets	**88,860**	93,912
Deposits	72,525	78,273
Term Liabilities	–	1,403
Currency in Circulation	8,920	8,980
Other Liabilities	4,436	2,486
Liabilities	**85,881**	**91,142**
Net assets/equity	**2,979**	**2,770**
Total Liabilities and Net assets/equity	**88,860**	**93,912**

Financial performance For the year ended 30 June	2023 $m	2022 $m
Net interest income	**341**	243
Net Losses from Fair Value Changes	**(75)**	(335)
Net Gains from Foreign Exchange Rate Changes	**70**	123
Dividend Income	**2**	2
Total Net Investment Income	**338**	33
Other Revenue	**23**	21
Total Operating Revenue	**361**	54
Total Operating Expenses	**(159)**	(140)
Surplus/(Deficit) for the year	**202**	(86)

Our balance sheet

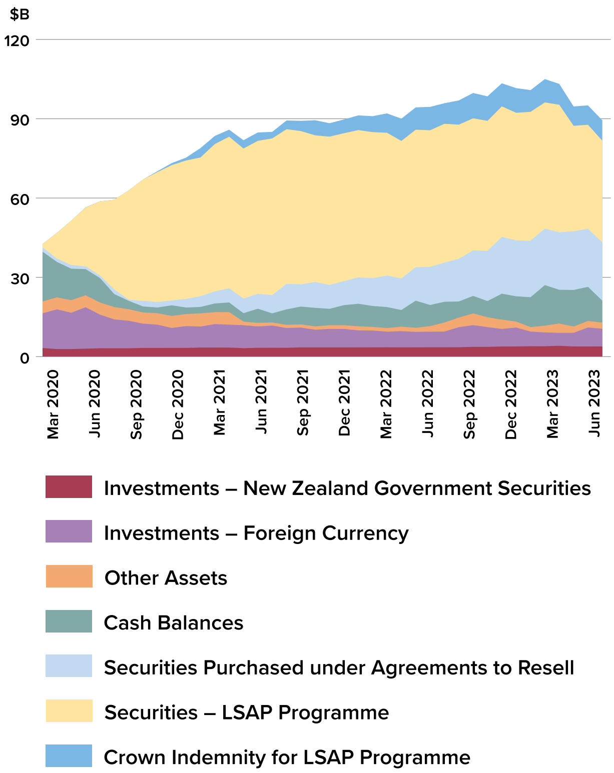
We use our balance sheet to support monetary policy and financial stability for New Zealand, and therefore our financial results are a result of activities that enable our policy objectives. Our Statement of Financial Risk Management governs these operations, and can be found on page 57.

Our response to the economic impacts of COVID-19 in early 2020 shaped our current balance sheet. The Reserve Bank introduced a range of additional monetary policy tools to provide increased stimulus to the New Zealand economy and to support the smooth functioning of New Zealand's financial markets. These additional monetary policy tools, such as LSAP and the FLP, have driven the growth in our balance sheet, with total assets of $88.9 billion as at 30 June 2023 (Figure 11), compared with $42.3 billion at March 2020 (pre-COVID-19). In the past financial year, additional lending from the FLP (which closed in December 2022) has been partially offset by maturities and planned annual LSAP securities sales of $5 billion.

The success of these tools is best assessed on the basis of the risk-adjusted net benefits they have delivered to the New Zealand economy as a whole. The positive impacts of the policies, such as supporting economic activity and employment, increasing tax revenues, lowering the financing costs of government and stabilising financial markets need to be taken into account alongside the Reserve Bank's own financial results. Recent modelling by the IMF[11] suggests that the Reserve Bank's LSAP programme had overall positive effects on the Government's fiscal position – even when accounting for the decrease in Reserve Bank profits. Further information on these facilities and the economic benefits of our monetary policy actions is available on our website[12, 13].

Looking ahead, we are currently expecting to see a continued slowing in domestic demand and a moderation in core inflation and inflation expectations. The extent of this moderation will determine the direction of future monetary policy, and accordingly the size and nature of the tools on our balance sheet.

Figure 11: Total assets from March 2020 to June 2023 ($ billion)



Cash balances

Cash balances are a component of our market functioning (including liquidity) and monetary policy implementation activities and fluctuate with related balance sheet activity, including the timing of settlement of foreign exchange swaps.

11 IMF modelling – Reserve Bank of New Zealand – Te Pūtea Matua (rbnz.govt.nz)

12 Monetary Policy Tools and the RBNZ Balance Sheet – Reserve Bank of New Zealand – Te Pūtea Matua (rbnz.govt.nz)

13 Facilities at a glance – Reserve Bank of New Zealand – Te Pūtea Matua (rbnz.govt.nz)

Foreign currency reserves and intervention capacity

The FRCF was agreed between the Reserve Bank and the Minister of Finance in December 2022. The FRCF sets out the expectations around the management and use of foreign reserves in New Zealand and the respective roles of the Reserve Bank and Minister of Finance. The FRCF includes all foreign currency assets managed by the Reserve Bank, including those used to support monetary policy and financial stability objectives. It also includes foreign assets used for day-to-day domestic liquidity management. Further details on reserves can be found in the Statement of Financial Risk Management on page 57.

At 30 June 2023 our foreign currency intervention capacity was $12.9 billion (2022: $12.1 billion). These portfolios mainly comprise cash, investments – foreign currency and derivatives (within other assets) balances. These assets are highly liquid, of high credit quality, and allocated across six major currencies. Further details can be found on our website[14].

Within this, we maintain an unhedged position on a portion of the foreign reserves portfolio to support timely and effective intervention. This exposes the Reserve Bank to changes in foreign exchange rates and yields on foreign assets. At 30 June 2023, the open foreign exchange position was $3.4 billion (30 June 2022: $3.4 billion).

Investments – New Zealand government securities

The Reserve Bank holds a portfolio of New Zealand government securities as a long-term investment of our capital, their being nominal and inflation-indexed bonds that we intend to hold until maturity. This is part of our normal operations and differs from the traded asset facilities outlined below.

Securities – LSAP programme and Crown indemnity

The LSAP programme reached a total of a nominal $55.3 billion of government and New Zealand Local Government Funding Agency bond purchases for the purpose of monetary policy implementation in late 2021. In February 2022 the MPC agreed to commence the gradual reduction of the Reserve Bank's LSAP bond holdings through managed sales of $5 billion per fiscal year, plus bond maturities, commencing in July 2022. The value of the LSAP programme assets reduced by $13.2 billion during the year, from $51.3 billion to $38.1 billion, as a result of managed sales and maturities. Accordingly, the LSAP programme is expected to be wound down by 2027 (previously 2041). This will reduce the Reserve Bank's balance sheet size over time, and remains an important monetary policy tool.

The Reserve Bank has an indemnity from the Crown for any financial losses arising from the LSAP programme. The Crown indemnity asset balance of $7.7 billion at 30 June 2023 reflects the recovery of expected future programme losses from the Crown. The Crown indemnity balance has decreased by $1.1 billion, from $8.8 billion in the prior year, with indemnity recoveries from the Crown being partially offset by mark-to-market losses on our LSAP bond holdings as a result of higher market bond yields.

See Note 4 to the financial statements on page 120 for further information.

Securities purchased under Agreements to Resell

This balance largely relates to reverse-repurchase agreements under the FLP and the TLF. In December 2020, we introduced the FLP, a new longer-term funding scheme for banks aimed at lowering the cost of borrowing for businesses and households, thereby supporting economic activity. At 30 June 2023, the total amount of nominal lending under the FLP was $19 billion. The FLP Additional Allocation closed in December 2022 with $6.9 billion of drawdowns, in addition to the FLP Initial Allocations drawdown of $12.1 billion.

The TLF, a facility required to support the Government's Business Finance Guarantee Scheme, closed with drawdowns of $2.5 billion in July 2021. As at 30 June 2023, the total reverse-repurchase balance had increased by $7.6 billion to $21.9 billion (2022: $14.3 billion), reflecting banks' drawdowns of the FLP Additional Allocation loans during the first half of the year.

Refer to Note 3 for further details on the movement of the FLP and the TLF balances.

14 Managing foreign reserves – Reserve Bank of New Zealand – Te Pūtea Matua (rbnz.govt.nz)

Deposits

Deposits consist of deposits made by banks and the New Zealand Government with the Reserve Bank, and represent the funding of the Reserve Bank's financial market operations. The accounts are used to settle inter-bank payments, with the total size of banks' settlement account balances influenced by our monetary policy and liquidity management operations. For example, when we purchased bonds from banks through our LSAP programme, the banks deposit the cash proceeds paid for these into their settlement accounts held with the Reserve Bank, thus increasing our deposits balances. As such, when we purchased bonds both our assets and our liabilities grew.

At 30 June 2023, the deposits balance had decreased by 7 percent to $72.5 billion (2022: $78.3 billion) as a result of the changes in our assets as detailed above.

Term liabilities

This refers to a loan from the Treasury that matured on 15 April 2023. Therefore at 30 June 2023 the balance was nil (2022: $1.4 billion).

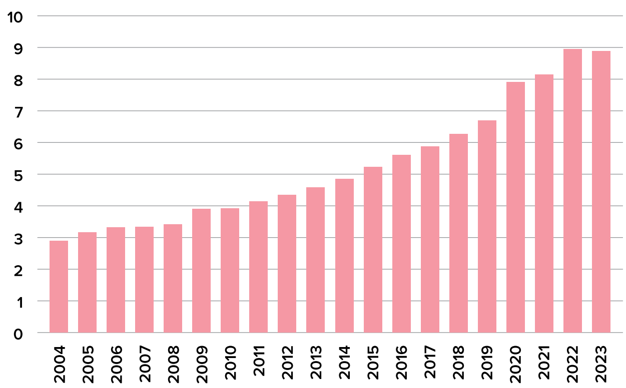
Currency in circulation

We are the sole supplier of NZ dollar banknotes and coins. Currency in circulation is a liability on our balance sheet because we are obligated to buy back NZ banknotes and coins that we have issued into circulation returned to us.

At 30 June 2023 currency in circulation was $8.9 billion, a small decrease from $9.0 billion in the prior year. Since the onset of the COVID-19 pandemic in early 2020, currency in circulation has been influenced by factors such as significant public withdrawals in March 2020, reduced cash services for individual and retail customers and changing payment and shopping preferences.

As the steward of money and payments, we are progressing work to improve the efficiency, resilience and inclusiveness of the money and cash system.

Figure 13: Currency in circulation $billion

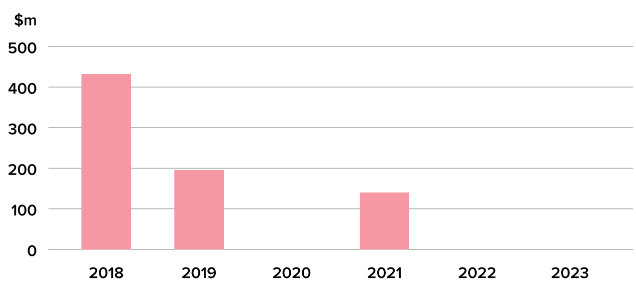


Capital and dividend

In order to meet our policy objectives, the Reserve Bank requires sufficient financial resources to manage the financial risks associated with related balance sheet operations. Further details on the Reserve Bank's capital and dividend principles can be found in the Statement of Financial Risk Management on page 57.

For the year ended 30 June 2023, the Reserve Bank recommended to the Minister of Finance a TCL of $4.2 billion for the purpose of the 2022/23 financial year dividend recommendation, up $1.8 billion from $2.4 billion in 2022. This is in line with work being undertaken on the overall level of financial resources available to the Reserve Bank to manage the financial risks associated with balance sheet operations. In accordance with the dividend principles, we assessed that at 30 June 2023 there was no surplus equity and therefore the Reserve Bank recommended that no dividend be paid. The Minister of Finance has agreed that no dividend will be paid to the Crown for 2022/23.

Figure 12: Dividend payments to the Crown

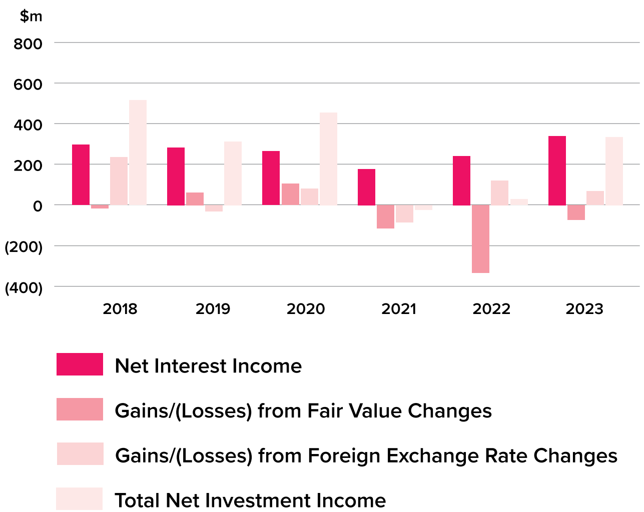


Our financial performance and operation results

Total net investment income

- Net interest income in 2022/23 increased to $341 million, up by $98 million from $243 million in the prior year. This was driven by increases in the OCR, which lifted from 2 percent in 2022 to 5.5 percent at the end of 2022/23, resulting in higher seigniorage[15] income.
- Net losses from fair value changes of $75 million primarily comprised of:
  - $72 million of losses on the FLP, largely due to up-front losses on the $6.7 billion of FLP Additional Allocation issuances due to the timing of settlement;
  - $52 million of losses on unhedged reserves due to increased foreign bond yields; partially offset by
  - gains of $35 million on the TLF and $7 million from the Bank for International Settlements (BIS) fund investment performance.
- Net gains from foreign exchange rate changes of $70 million were primarily driven by a 2.2 percent weakening of the NZD against our unhedged foreign reserves currencies.

Figure 14: Net investment income



Other revenue

Other revenue of $23 million primarily consists of income earned on our ESAS/NZClear operations, together with rental income from leasing part of the Reserve Bank's Wellington building at 2 The Terrace.

Total operating expenses

In 2022/23 operating expenses increased as expected to $159 million, up from $140 million in the prior year, reflecting the ongoing investment in modernising organisational capabilities and the impacts of new legislation. Total operating expenses are $10 million less than the Board-approved budget, principally due to later than planned recruitment in a tight labour market.

During 2022/23 we continued with the planned build-up of organisational capabilities, supported the implementation of the RBNZ Act 2021 and the Deposit Takers Bill, including undertaking further work on progressing our Depositor Compensation Scheme, and continued to build our digital and data capabilities.

Refer to Note 20 of the financial statements for a further breakdown of operating expenses.

15 Seigniorage is the net income the Reserve Bank receives from investing the funds received from trading banks on the sale of banknotes and coins to them (currency in circulation) and has no cost of funding.

Five-year funding agreement operating expenses

Our June 2020 funding agreement with the Government provides funding from 1 July 2020 to 30 June 2025, totalling $640 million over this five-year period. In light of new legislative requirements and required investment, an additional funding request was made to the Minister of Finance for the last two years of the five-year funding agreement, with the Cabinet agreeing to a $79 million uplift in August 2023. This confirmed the Reserve Bank's funding source for the project expenditure, which is outside the five-year funding agreement (e.g. DTA and DCS), plus some additional funding to support various key infrastructure projects and under-resourced key areas.

During 2022/23 the operating costs of the Reserve Bank increased as expected, however, our cumulative funding agreement underspend of $30 million (largely driven by COVID-19 delays in planned organisational growth in 2020/21) persisted. This was due to higher than anticipated staff vacancy rates during 2022/23, meaning operating expenses were $10 million less than budget and thus we did not reduce this five-year funding agreement underspend as anticipated.

Financial agreement operating expenses	2023 $m	2022 $m	2021 $m
Operating expenses	**159**	140	105
Less expenses excluded from the funding agreement	**(26)**	(19)	(11)
Net operating expenses	**133**	121	94
Funding agreement: annual allocation	**133**	122	123
Funding agreement: cumulative allocation	**–**	1	29
Cumulative underspend of funding agreement	**30**	30	29

Ono

How we performed

He pēhea te āhua o ā mātou mahi

- Statement of Responsibility
- Independent auditor’s report
- Statement of Performance
- Consolidated financial statements

Statement of Responsibility

8 September 2023

Statement of Responsibility

Under section 246 of the Reserve Bank of New Zealand Act 2021, we certify that:

1. We have been responsible for the preparation of the annual financial statements and Statement of Performance 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 Reserve Bank's financial reporting.
3. In our opinion, the annual financial statements and statement of performance for the financial year ended 30 June 2023 fairly reflect the financial position and operations of the Reserve Bank.

On behalf of the Board,

Board Chair

Governor

Independent auditor's report

To the readers of the Reserve Bank of New Zealand's consolidated financial statements and performance information for the year ended 30 June 2023

The Auditor-General is the auditor of the Reserve Bank of New Zealand. The Auditor-General has appointed me, Christopher Barber, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the consolidated financial statements (the financial statements) and the performance information of the Reserve Bank of New Zealand on his behalf.

Our opinion

In our opinion

- The financial statements of the Reserve Bank of New Zealand, including its subsidiary (together the 'Reserve Bank') present fairly, in all material respects, the financial position of the Reserve Bank as at 30 June 2023; and its financial performance and cash flows for the year then ended; and comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards.
- The Reserve Bank's performance information for the year ended 30 June 2023 presents fairly, in all material respects, for each class of reportable outputs:
  - its standards of delivery performance achieved as compared with forecast standards included in the statement of performance expectations for the financial year; and
  - its actual revenue and output expenses as compared with the expected revenues and proposed output expenses included in the statement of performance expectations for the financial year; and
  - complies with generally accepted accounting practice in New Zealand.

What we have audited

The Reserve Bank's financial statements comprise:

- the consolidated statement of financial position as at 30 June 2023;
- the consolidated statement of changes in net assets/equity for the year then ended;
- the consolidated statement of financial performance for the year then ended;
- the consolidated statement of comprehensive revenue and expense for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

The Reserve Bank's performance information comprises the statement of performance for the year ended 30 June 2023 (the performance information).

Our audit was completed on 8 September 2023. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors (the Directors) and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Basis for opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Responsibilities of the auditor for the audit of the financial statements and the performance information* section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

Independence

We are independent of the Reserve Bank in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) (PES 1)* issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit we have carried out engagements in the areas of payment systems assurance over the Exchange Settlement Account System (ESAS) and the NZClear system, which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in the Reserve Bank.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements and performance information of the current year. These matters were addressed in the context of our audit of the financial statements and the performance information as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of financial instruments held at fair value As detailed in Note 2, the Reserve Bank had financial assets at fair value totalling $62,151 million and financial liabilities at fair value totalling $4,213 million. There is no quoted market price for financial assets at fair value totalling $19,111 million and financial liabilities at fair value totalling $4,213 million. Where there is no quoted market price the value of the financial instrument is estimated using an appropriate technique, such as a valuation model, using inputs from market data where available. Where significant inputs are observable, the financial instrument is categorised as Level 2 in the fair value hierarchy. Where significant inputs are non-observable, inputs are derived from non-market data, which requires greater judgement. These instruments are categorised as Level 3 in the fair value hierarchy. The determination of the fair value of these financial instruments involves a greater level of judgement and estimation. As detailed in Note 3, the Term Lending Facility (TLF) supports the Government's Business Finance Guarantee Scheme ('BFGS') by allowing access to funding for the banking system at lower interest rates. The fair value of the TLF is based on valuation techniques using observable market inputs, and the Reserve Bank's best estimate of the expected future cash flows based on the scheduled	We have obtained an understanding of the Reserve Bank's controls over the recording and valuation of financial instruments held at fair value, and assessed the design and implementation of the relevant controls. We performed the following audit procedures, amongst others: ● For the TLF, we assessed management's assumptions regarding the expected timing of cash flows, including obtaining confirmation from the Crown of the scheduled maturities of the BFGS loans. We engaged our own in-house valuation experts to value the TLF using independent valuation methods and third party pricing sources, based on the TLF terms and the expected cash flows. ● For the Crown LSAP indemnity for the LSAP Programme, we engaged our own in-house valuation experts to assess the appropriateness of the fair value methodology based on the terms and the expected cash flows of the indemnity, and the valuation methodology of comparable market derivatives. ● For the unlisted equity investment in the Bank for International Settlements ('BIS') and investments in the unitised funds managed by BIS, we agreed BIS's net asset value and the funds' unit price at

Key audit matter	How our audit addressed the key audit matter
maturities of the BFGS loans reported to the Crown. As detailed in Note 4, as part of the Large Scale Asset Purchase (LSAP) Programme the Crown has agreed to indemnify the Reserve Bank in respect of Interest Rate Risk Losses which the Reserve Bank incurs in respect of the New Zealand Government Securities and Local Government Funding Agency Bonds ("LSAP Securities") within the LSAP Programme. Additionally, any Credit Risk Losses on the Local Government Funding Agency Bonds within the LSAP Programme are indemnified. Significant accounting judgements and estimates applied in preparing the Reserve Bank's financial statements have been disclosed in Note 1(c) of the financial statements. Given the size of the balances and the significance of the judgements and estimates involved, this was considered to be a Key Audit Matter for our audit.	balance date to confirmations provided by BIS. ● We assessed the appropriateness of the Reserve Bank's valuation methodology, and considered the reliability of the financial information of each unitised fund and BIS's net asset value (including assessing the most recently available audited financial statements). ● For all other financial instruments measured at fair value, we engaged our in-house valuation experts to test the fair value using independent valuation methods and third party pricing sources. We considered the results of the procedures above satisfactory in forming our opinion on the financial statements as a whole.
First year presentation of Statement of Performance The Reserve Bank of New Zealand Act 2021 (the 'Act') came fully into effect on 1 July 2022, introducing multi-faceted accountability and reporting requirements which include, for the first time: ● Identifying appropriate performance measures that provides meaningful information to the reader regarding how the Reserve Bank performs its functions, and publishing those measures annually in a statement of performance expectations; and ● Reporting annually on how the Reserve Bank actually performed against those performance measures in the statement of performance (SoP). The SoP for the year ended 30 June 2023, which contains the standards of delivery performance against those expectations is prepared in accordance with PBE FRS 48: *Service Performance Reporting* and is included on pages 84 to 98. In developing its performance reporting framework, the Reserve Bank derived their performance measures from the legislative objectives set out in the Act. The Reserve Bank's three main objectives are the economic objectives, the financial stability objective, and the central bank objective.	We have obtained an understanding of the Reserve Bank's performance reporting framework, the performance measures and the process the Reserve Bank followed to determine the measures they believe provide an appropriate and meaningful mix of performance measures. Our audit procedures included the following: ● We considered whether the reported measures covered the main objectives and core functions of the Reserve Bank outlined within the Act; ● We considered whether, based on our professional judgement, the selected measures provided relevant, meaningful and reliable information to the reader in an unbiased manner; ● We obtained an understanding, and considered the appropriateness of the systems and controls implemented by the Reserve Bank, to capture, review and report on the identified measures; and ● We considered whether the SoP included all the measures identified in the statement of performance expectations and whether the disclosures provided in the SoP comply with the requirements of PBE FRS 48: *Service Performance Reporting*.

Key audit matter	How our audit addressed the key audit matter
The Reserve Bank's functions include acting as New Zealand's central bank, including formulating (through the Monetary Policy Committee (MPC)) and implementing monetary policy directed to the economic objectives. The Reserve Bank's cooperation and coordination function supports the achievement of the three legislative objectives. As this is the first year the Reserve Bank has produced a SoP, significant judgement is involved in determining the measures to report on and the level of detail to provide when reporting on those measures in the SoP, it has therefore been included as a Key Audit Matter.	We identified aspects of performance that we considered to be material to readers of the Reserve Bank's SoP and focused our work on these measures. The nature, timing and extent of our audit procedures are impacted by the nature of each performance measure and our assessment of the materiality of that measure. In addition to the procedures specified above, for material measures, we agreed the reported performance to underlying supporting information on a sample basis and, where appropriate, obtained third-party evidence to corroborate the stated performance. We considered the results of the procedures above satisfactory in forming our opinion on the performance information as a whole.

Our audit approach

Overview

Overall Reserve Bank materiality: $29,780,000, which represents approximately 1% of Net Assets/Equity.

We chose Net Assets/Equity as the benchmark because, in our view, it is the benchmark against which the performance of the Reserve Bank is most commonly measured by users, and is a generally accepted benchmark.

Our materiality in the context of the performance information was determined with consideration of both the importance of the performance information to providing a relevant and reliable representation of the Reserve Bank's performance and the level of misstatement of reported results that, based on our professional judgement, are likely to influence users' assessment of the Reserve Bank's performance.

We performed a full scope audit over the financial and performance information of the Reserve Bank.

As reported above, we have two key audit matters, being: Valuation of financial instruments held at fair value and First year presentation of Statement of Performance.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements and performance information. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

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Materiality
The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements and performance information are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of the financial statements and performance information.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements and performance information as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements and performance information as a whole.

How we tailored our group audit scope
We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements and performance information as a whole, taking into account the structure of the Reserve Bank, the accounting processes and controls, and the industry in which the Reserve Bank operates.

Other Information

The Directors are responsible for the other information. The other information comprises information included in the Annual Report, but does not include the financial statements and the performance information, and our auditor’s report thereon. The other information we obtained prior to the date of the auditor’s report comprised the Guide to the Main Functions of the Reserve Bank and the Five Year Historical Financial Information. The remaining other information is expected to be made available to us after the date of the auditor’s report.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on our work, we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the Directors for the financial statements and the performance information

The Directors are responsible on behalf of the Reserve Bank for preparing financial statements and performance information that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Directors are responsible for such internal control as they determine is necessary to enable them to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and performance information, the Directors are responsible on behalf of the Reserve Bank for assessing the Bank’s ability to continue as a going concern. The Directors are also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the Reserve Bank or to cease operations, or there is no realistic alternative but to do so.

The Directors’ responsibilities arise from the Reserve Bank of New Zealand Act 2021.

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements and performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the Reserve Bank's statement of performance expectations for the year ended 30 June 2023.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit 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 Reserve Bank's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- We evaluate the appropriateness of the performance information which reports against the Reserve Bank's statement of performance expectations.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Reserve Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Reserve Bank to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, as well as whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements and the performance information of the entities or business activities within the Reserve Bank to express an opinion on the financial statements and the performance information. We are responsible for the direction, supervision and performance of the Reserve Bank's audit. We remain solely responsible for our audit opinion.

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We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Christopher Barber

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Statement of Performance
Tauākī mō ngā Mahi i Tutuki

This section reports our performance against performance measures as set out in our 2022/23 Statement of Performance Expectations (SPE).

The RBNZ Act 2021 came fully into effect on 1 July 2022. While it continued the existence of the Reserve Bank, the RBNZ Act 2021 introduced a major constitutional overhaul, introducing a multi-faceted and bespoke accountability and reporting framework. Key elements of the new arrangements include a decision-making governance board and the requirement to publish an annual Statement of Performance Expectations, and this Statement of Performance. A significant amount of work has taken place to adopt reporting processes to support the new accountability and reporting framework.

The performance measures in the SPE are grouped in four output classes (see the table below) that are arranged around the Reserve Bank's three legislated objectives (economic, financial stability and central banking) and the Reserve Bank's cooperation and coordination function, that supports achievement of the three legislated objectives. For further background on the four output classes please refer to the SPE.

The Reserve Bank's objectives are multifaceted and interdependent in nature. When we assess our performance, we draw on a mixture of qualitative and quantitative measures. Where appropriate, comparative information has been presented for several measures.

When reporting on our performance, we seek to avoid unintended consequences or signalling confidential interventions. This Statement of Performance does not assess the stability of New Zealand's financial system, current and projected future economic conditions (including inflation and employment), or the resilience of the cash system. For these assessments, please refer to recent Financial Stability Reports or Monetary Policy Statements and other documents available at rbnz.govt.nz.

Output class	Description
1. Monetary policy	Supporting the MPC to formulate monetary policy. Managing our balance sheet to support our economic objectives and the stability of financial markets.
2. Financial stability and prudential regulation and supervision	Protecting and promoting the stability of New Zealand's financial system. We achieve this by: • acting as a prudential regulator of banks, insurers, non-bank deposit takers, and other financial institutions under prudential legislation and the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (AML/CFT Act); and • monitoring the financial system through collecting, analysing and publishing relevant information.
3. Stewardship of money, cash and payments	Issuing and managing banknotes and coins, including monitoring and maintaining their distribution and quality and monitoring the needs of the public for banknotes and coins. Ensuring New Zealand's money, cash and payments system continues to be fit for purpose and builds towards a sustainable future. 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. Achieving trust and confidence in New Zealand's money, cash and payments system so everyone is able to make safe and efficient payments and complete day-to-day financial transactions.
4. Engaging with stakeholders and cooperating with regulatory agencies and other relevant institutions	Co-operating and engaging our stakeholders and providing and facilitating the provision of information relevant to our objectives, by: • maintaining meaningful relationships with our stakeholders; • providing or facilitating the provision of relevant information about our objectives and functions; and • liaising and cooperating with other central banks and relevant international institutions.

Revenue and expenses by output class is detailed in Note 19 to the Financial Statements on page 150.

Output one: Monetary policy

The SPE measures for output one detail how we support the MPC to formulate monetary policy and how we manage our balance sheet to support our economic objectives and the stability of financial markets.

Monetary policy plays an important role in supporting the Government's economic objectives, promotes the economic prosperity and wellbeing of New Zealanders, and contributes to a sustainable and productive economy.

It contributes to public welfare by reducing cyclical variations in employment and economic activity while maintaining price stability over the medium term – creating conditions that promote maximum sustainable employment as stated in the RBNZ Act 2021 and maintains the purchasing power of money into the future.

These conditions are defined in the MPC Remit. The current version requires us to:

- keep future annual inflation between one and three percent over the medium term, with a focus on keeping future inflation near the two percent mid-point; and
- support maximum sustainable employment, considering a broad range of labour market indicators and taking into account that maximum sustainable employment is largely determined by non-monetary factors.

The MPC is the decision-making committee at the Reserve Bank responsible for making monetary policy decisions in Aotearoa New Zealand.

Measure	Target	Actual
SPE 1 We monitor and assess the MPC against the Remit, Charter and Code of Conduct, with a formal review on an annual basis.	Achieved	Achieved

Key indicators

- Continuous monitoring of conduct of MPC meetings and papers supplied to the MPC.
- The Board's formal review and assessment of the MPC's overall performance in formulating monetary policy in accordance with the requirements in the Remit, Charter and Code of Conduct.

Performance assessment

The Board assessed that overall, the MPC operated effectively as a committee, with clear objectives, high quality inputs from Reserve Bank staff, and members who offer diverse perspectives.

The Reserve Bank, acting through the MPC, has the function of formulating monetary policy directed to the economic objectives of price stability and supporting maximum sustainable employment. The MPC is required to meet the operational objectives contained in the Remit and act in accordance with the Charter and Code of Conduct in discharging its responsibilities. As set out in the Remit, the MPC's operational objectives were to (a) keep future inflation between one and three percent over the medium term, with a focus on keeping inflation near the two percent mid-point, and (b) support maximum sustainable employment. The MPC is a statutory committee, distinct from, and accountable to, the Board. The Board's assessment framework includes assessment work throughout the year, as well as a formal review at the end of the year. Details are outlined below.

The Board adopted a formal framework to review and assess the performance of the MPC and its members. Monetary policy decisions require expert technical judgements under conditions of complexity and uncertainty. The Board's assessment framework recognises this.

The MPC made seven OCR decisions during the reporting year. The MPC approved four monetary policy statements, each specifying the approach by which the MPC intended to achieve the operational objectives contained in the Remit with the reasons for adopting that approach.

During the reporting period, inflation was outside the MPC's medium-term target inflation range of one to three percent due to a number of anticipated and unanticipated factors. When evaluating monetary policy, it is not sufficient to look at inflation outcomes alone. Unanticipated events can affect how inflation outcomes evolve over the medium term and central banks cannot, nor are they expected to, have perfect foresight. Secondly, flexible inflation targeting gives central banks discretion regarding the speed at which they aim to return inflation to target, to avoid unnecessary instability in the economy and to support maximum sustainable employment. As a result, it is also important to review if the MPC made use of all relevant information, learned from new information and forecast errors as these come to light, and presented a credible policy strategy to bring inflation back to target while supporting maximum sustainable employment.

The Board is satisfied that a credible pathway exists to return inflation to the target range. Together with the additional assessment outlined below, the Board considers the Achieved rating justified on this basis.

Given the time lag in monetary policy affecting inflation, the Reserve Bank is required under the RBNZ Act 2021 to report on how it formulates and implements monetary policy every five years. In November 2022, the Reserve Bank published its first Review and Assessment of the Formulation and Implementation of Monetary Policy (RAFIMP), assessing monetary policy during the 2017-2022 period. The RAFIMP was compiled by Reserve Bank staff, with input and review from external reviewers and MPC members and was overseen by the Board. The RAFIMP found that the formulation and implementation of monetary policy over 2017 to 2022 was consistent with the objectives set out in the Remit, that the MPC had engaged in agile and nimble decision-making in response to the pandemic, and that monetary policy decisions were consistent with the economic data available at the time. The MPC incorporated the insights and lessons from the RAFIMP into its decision making.

The Board also seeks evidence of decision-making that brings to bear a wide range of perspectives, is based on appropriate, high-quality information and other inputs, and takes into account relevant factors, particularly those in the Remit.

In particular, to assess the adequacy of the discharge by the MPC and its members of their respective responsibilities, on an ongoing basis throughout the year, the Board:

- reviewed background papers prepared for, and the minutes and records of, meetings associated with each of the MPC's decisions;
- reviewed the quarterly monetary policy statements;
- discussed key issues and new insights identified by research covered in the background papers with the Governor and other internal members of the MPC at Board meetings; and
- held regular meetings with the MPC Chair and Board Chair to discuss matters relating to the MPC.

In addition to its ongoing assessment activities, at the end of the year the Board also:

- met with external members of the MPC to establish a more detailed understanding of the operation and functioning of the MPC;
- sighted checklist summaries signed by each member of the MPC affirming compliance with their procedural responsibilities as MPC members; and
- on 27 July 2023, held a formal review session to consider the MPC's performance for the whole year, including taking into account a self-review carried out by MPC members.

Press conferences following each monetary policy statement, and scrutiny by Parliament's Finance and Expenditure Committee, are other ways that the MPC is made accountable for its formulation of monetary policy.

Based on its review, the Board considers that the Reserve Bank, acting through the MPC, achieved the required standards against the Remit, Charter and Code of Conduct. The Board is satisfied that the internal and external members of the MPC provided diverse perspectives that contributed to shaping policy decisions to drive good economic outcomes. The Board found that the monetary policy decisions of the MPC were informed by comprehensive and rich sets of supporting research and analysis, and that the MPC receives high quality information and has sufficient time to consider the issues and engage with expert Reserve Bank staff. Based on signed checklists from each member of the MPC affirming their adherence, and the consistency of the MPC's communications, the Board found that MPC members had adhered to the Remit, Charter and Code of Conduct.

Measure	Target	Actual
SPE 2 We provided the MPC with high quality research, forecasts and analysis to ensure monetary policy decisions are made in a fully informed manner consistent with the MPC's Remit.	Achieved	Achieved

Key indicators

- MPC feedback on the quality of the research, forecasts and analyses in the background papers through internal surveys.

Performance assessment

MPC members advised they were satisfied with the research, forecasts and analyses and were fully informed to make sound monetary policy decisions throughout the year. MPC members also provided feedback on areas where analysis and advice could be further enhanced, which assists the Reserve Bank to continuously improve and adjust services provided to the MPC.

The Review and Assessment of the Formulation and Implementation of Monetary Policy (RAFIMP) report released in November 2022, found that the formulation and implementation of monetary policy over 2017 to 2022 was consistent with the objectives set out in the Remit, that the MPC engaged in agile and nimble decision-making in response to the pandemic, and that monetary policy decisions were consistent with the economic data available at the time.

The RAFIMP also noted some areas for improvement in how the Reserve Bank supports the MPC with research, analysis, and the operation of policy. The Reserve Bank has launched a research and policy development programme to address these recommendations, which will help the Reserve Bank to improve the quality of research, forecasts and analysis provide to the MPC. During the reporting period, the Reserve Bank presented a range of special topics and research, including:

- Business conditions;
- Assessing recent inflation surprises;
- Global inflation developments;
- Developments in real wages;
- The neutral interest rate;
- Monitoring the labour market for inflationary pressures with high-frequency microdata;
- The international dimension of non-tradables inflation
- Have inflation expectations become more sensitive to higher inflation?; and
- The recovery in international tourism over the 2022/23 summer.

Measure	Target	Actual
SPE 3 We are transparent and effective in our communications on monetary policy to media, the public, government and market participants.	Achieved	Achieved

Key indicators

- The media accurately conveyed to the public the key messages of our monetary policy decisions.
- The FEC had the information they needed to effectively examine MPC's decisions.
- The reaction in interest rate markets to new information was in accordance with the MPC's monetary policy strategy and the Reserve Bank's understanding of the economy.

Performance assessment

The Reserve Bank's media engagements supporting Monetary Policy Statements (MPS) gained substantial media coverage. Media focused on the key themes and analysis set out in the MPS. Public engagement and related social media posts effectively reinforced these key messages.

Following the release of each MPS, Reserve Bank officials appeared before the Finance and Expenditure Committee (FEC). The FEC appropriately challenged our economic projections, forecasts, monetary policy strategy and supporting data and evidence. FEC's engagement with officials shows that our publications and communications provided the necessary information for FEC members to effectively examine the MPC's decisions.

The market reaction to the MPS and monetary policy reviews was broadly in line with the MPC's forecasts. Overall, market pricing remained broadly consistent with our projections for the Official Cash Rate (OCR), and market prices generally responded to new economic information in line with our expectations.

Measure	Target	Actual
SPE 4 We conduct operations in financial markets and provide standby facilities to implement monetary policy and ensure that short-term market interest rates are within our Board approved tolerance ranges.	Achieved	Not achieved

Key indicators

- The following traded within the target ranges set by the Board:
  - Overnight interest rates implied from the New Zealand dollar (NZD) foreign exchange (FX) swap market.
  - Tomorrow/next interest rates implied from the NZD FX swap market.
  - Interest rates in the overnight interbank cash market

Performance assessment

The NZD FX swap market traded below the target range for much of the first half of the year, and then traded within the acceptable target range for most of the remainder of the year. The interest rates in the overnight interbank cash market traded within the acceptable target range for the entire year. As a result, our assessment is that this measure's performance target was not achieved.

Volatility of movement in the FX swap market was amplified during the first half of the year as a result of international events, including other central bank policy action, and international political issues causing an increase in global financial markets volatility. This volatility created a negative impact on short term FX swap implied rates, which caused the NZD FX swap market to trade below the target range for much of the first half of the year.

The Reserve Bank announced changes to the standing repurchase facility in late 2022 to address some of the distortions in short term NZD FX swap markets. We have seen some early positive impacts as a result and are continually reviewing our full suite of facilities for effectiveness.

Measure	Target	Actual
SPE 5 Our foreign reserves are effectively managed within the range set by the Minister of Finance to support economic objectives and to ensure markets operate in an orderly fashion.	Achieved[16]	Achieved

Key indicators

- Foreign reserves are within limits specified by the Minister of Finance.
- Foreign intervention capacity is measured through a foreign currency – liquidity (FCL) metric and does not breach specified limits.
- Daily risk report updates on breaches of any risk limits.

16 We maintain foreign intervention capacity within specified limits. Foreign intervention capacity is measured through a Foreign Currency Liquidity metric, and we manage the associated risks within Board approved risk appetite.

Performance assessment

We maintained foreign reserves within the specified limits as prescribed by the Minister of Finance, and FCL was maintained within our own internal risk frameworks. This enabled us to support the economic objectives set by the MPC and ensured markets could operate in an orderly fashion without major disruptions.

The new Foreign Reserves Coordination Framework (FRCF) was formally agreed between the Board and the Minister of Finance, and published in January 2023. The FRCF guides our activities in the management and use of foreign reserves. This became effective from July 2023 once additional financial resources were received from the Crown.

Our new FRCF and elevated level of reserves strengthen our ability to support the foreign exchange market in exceptional circumstances to maintain financial stability and ensure essential transactions can continue to occur.

Measure	Target	Actual
SPE 6 We monitor and manage the level of banking system settlement cash to be within target ranges to facilitate the settlement of day-to-day financial transactions, and provide emergency liquidity assistance in extraordinary circumstances.	Achieved	Achieved

Key indicators

- Sufficient settlement cash level (SLC) to facilitate payment and settlement flows.
- Settlement cash level volatility is within tolerance ranges.
- Low usage of backstop facilities such as the Overnight Reverse Repo Facility to provide emergency liquidity assistance.

Performance assessment

A key measure of our success is the level of settlement cash in the system to facilitate payment and settlement flows, and the usage of our standing facilities. We measure these facilities daily and report usage and risks to our Assets and Liabilities Committee monthly.

We maintained sufficient settlement cash to meet the payment demands and settlement flows of wholesale financial markets throughout the financial year. The level of settlement cash level volatility was also managed within our tolerance ranges.

Usage of the Overnight Reverse Repo Facility[17] was limited, and this was largely due to the elevated level of liquidity in the banking system.

Effective management of the level of settlement cash meant that the payments systems were stable and efficient throughout the year, which in turn enabled all wholesale transactions to settle successfully.

17 An Overnight Reverse Repo Facility provides counterparties with access to liquidity at a penalty rate against collateral for liquidity management and monetary policy purposes.

Output two: Financial stability and prudential regulation and supervision

The SPE measures for output two detail how we protect and promote the stability of New Zealand's financial system by: acting as a prudential regulator of banks, insurers, non-bank deposit takers and other financial institutions under prudential legislation, and the AML/CFT Act; and monitoring the financial system through collecting, analysing and publishing relevant information.

We act in a way that enables and supports a sustainable and productive economy, contributing to economic prosperity and wellbeing. This gives the public confidence in our regulated entities and enables New Zealanders to participate in the New Zealand economy.

We carry out our role by establishing regulatory frameworks, undertaking our supervisory and enforcement resolution roles, and monitoring the financial system. We take into account a number of factors including changes in international standards and best practice, emerging risks or trends, and our engagement with industry.

Measure	Target	Actual
SPE 7 We identify, monitor and assess financial stability risks and promote public awareness and understanding of these risks and our responses.	Achieved	Achieved

Key indicators

- Effective, robust activities undertaken to identify, monitor and assess financial stability risks.
- Accurate media coverage of key messages of our financial stability assessments.
- Substantive engagement with the Finance and Expenditure Committee (FEC). FEC Members have the information they need to effectively examine financial stability risks.

Performance assessment

To identify and assess financial stability risks we:

- monitor key data indicators, such as entity and household resilience, economic and house price metrics based on a wide range of public (including data made available on our website) and non-public data;
- engage with regulated entities, Reserve Bank colleagues, regulatory partners, and other stakeholders to understand trends and risks;
- undertake qualitative and quantitative analysis and research into specific issues; and
- use tools such as stress testing, thematic reviews and analytical models to better understand risks and potential impacts.

The Reserve Bank consistently seeks to improve public awareness of our financial stability risks. Most of the Reserve Bank's work in identifying and managing financial stability risks is published on the Reserve Bank's website, and is widely available, for example through the Financial Stability Reports (FSR), or through bulletin articles. We monitor FSR online accesses to assess public interest.

Stress tests assess the resilience of entities and the system to severe but plausible shocks, and support risk management capability building across industry. As part of our stress testing programme, this year we conducted and published findings of stress tests of bank solvency, bank liquidity, flooding risks to banks' residential mortgage books and the impact of drought and emissions pricing on our largest banks' agricultural loan book. We also progressed work on climate change risks to bank solvency and economic and insurance shocks to life insurance solvency.

Thematic reviews build our understanding of specific risk areas, and support future supervisory prioritisation and policy development. We progressed the joint FMA/Reserve Bank, cross sector governance thematic review of 29 regulated entities, focusing on the foundational practices that enable Boards to effectively govern and provide oversight. This is a multi-year project and findings will be published in September 2023.

Following public engagements and media outreach supporting FSRs issued in November 2022 and May 2023, we assessed that the media effectively conveyed the key messages of our financial stability assessments, such as ongoing resilience of the system, elevated sustainable house prices and bank profitability statistics.

Following the release of each FSR, Reserve Bank officials appeared before the FEC. FEC Members' discussion and questions about the financial stability assessment, global pressures, easing restrictions on loan-to-value ratios (LVRs), interest rate risks, profitability, proportionality, risk exposure in agriculture and commercial property, disclosure of climate related risks, and insurance in the wake of severe weather events demonstrated that the FEC was well supported to effectively examine financial stability risks.

Measure	Target	Actual
SPE 8 We supervise regulated entities and investigate instances of non-compliance with sectoral legislation, policy and standards; take action when required to ensure non-compliance is rectified; and, if appropriate, bring enforcement action against non-compliant entities.	Achieved	Achieved

Key indicators

- Taking a risk-based and proportionate approach to supervision and compliance issues.
- Risks of entity non-viability are identified.
- Compliance referrals are made to the Enforcement team, in accordance with our Enforcement Framework.
- Enforcement action is taken in accordance with our Enforcement Framework and our Enforcement Risk Appetite Statement.

Performance assessment

We undertook a wide range of supervisory and enforcement activities across banks, insurers, financial market infrastructures (FMIs), and non-bank deposit takers (NBDTs), including dealing with licence applications and modifications, conducting on-site inspections, and identifying and investigating instances of non-compliance.

We undertook six AML/CFT on-site inspections and extended the duration of on-sites to ten days for large registered banks.

Generally, we adopted a risk-based approach to supervision and applied the principle of proportionality to supervisory activities to focus our attention and resources on risks that were outside our supervisory risk appetite. We completed seventeen risk assessments of banks and insurers using our new risk assessment framework this year.

We assessed breaches by registered banks to determine whether these breaches were material in nature and should be published on the Reserve Bank's Register of Material Breaches. No material breaches were published on our website during the period.

The Supervision teams held three meetings with Enforcement, and that resulted in the referral of one matter to the Enforcement team for further investigation (at triage stage).

The Enforcement team opened five investigations (all at triage stage) and closed four investigations. Two investigations resulted in media releases – the issue of a statutory warning to BNZ in July 2022, and the closure of an investigation into ANZ in April 2023.

The Enforcement team provided compliance advice on two regulatory perimeter matters and twenty-five restricted-word matters.

Our approach to enforcement protects and promotes financial stability by supporting regulatory discipline, and provides incentives for self-and-market discipline to operate effectively.

Measure	Target	Actual
SPE 9 We develop, adapt and implement prudential regulatory tools, taking action when appropriate to address identified opportunities, risks and gaps.	Achieved	Achieved

Key indicators

- The policy work programme is prioritised to address opportunities, risks and gaps aligned with financial stability outcomes.
- High quality policy material that has been produced in accordance with internal governance processes and is informed by public consultation and, where relevant, international developments.

Performance assessment

The Reserve Bank progressed the review and refresh of prudential legislation and other policy matters within our regulatory frameworks.

Overall, we consider a broad range of factors and apply strong governance in prioritising, developing and maintaining our prudential regulatory rules. Our work makes the financial system more resilient through the setting of strong baseline requirements. Our policies seek to address prudential risks and market failures and promote a financial system that is strong, competitive and inclusive.

Prioritising our policy work enabled us to focus on major legislative reform programmes, and identify other priority policy work. We regularly revisit our policy prioritisation. Factors considered are:

- risks and vulnerabilities;
- our role as kaitiaki of the financial system;
- international best practice;
- our legal obligations and objectives;
- resourcing implications for both the Reserve Bank and industry; and
- the broader work programme of the Council of Financial Regulators (CoFR)[18].

Our approach to policy was informed by developments and practices globally. We engaged internationally through meetings and forums such as the International Association of Deposit Insurers, the Executives' Meeting of East Asia Pacific (EMEAP) Central Banks Working Group on Banking Supervision, the EMEAP Working Group on Payment and Market Infrastructures, and the Trans-Tasman Banking Council. The Reserve Bank also participated in a Crisis Management Group with the FMA, the Australian Prudential Regulation Authority (APRA) and other Australian authorities. The Reserve Bank contributed to the development of a draft resolution plan and coordination principles for use in the event of the failure of a major trans-Tasman banking group.

We ensured the high quality of our policy work by testing our intervention logic and analysis internally with relevant subject matter experts, through our internal governance process, and through public consultation.

During the reporting period we reviewed and refreshed our internal governance structures for the development and quality assurance of policy advice. We revised the Terms of Reference and membership of the Financial Stability Committee (FSC), establishing an FSC advisory group and a new policy rōpu.

18 Our work programme is made publicly available through the Council of Financial Regulators website.

Output three: Stewardship of money, cash and payments

The SPE measures for output three detail the work we do as New Zealand's central bank, including monitoring the needs of the public for bank notes and coins. We seek to ensure New Zealand's money, cash and payments system is fit for purpose and builds towards a sustainable future.

It also covers our work 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.

Our objective is trust and confidence in New Zealand's money, cash and payments system so everyone is able to make safe and efficient payments and complete day-to-day financial transactions.

Measure	Target	Actual
SPE 10 Our payments and settlement systems meet or exceed availability targets on an annual basis and a minimum of 75 percent of our customers rate our service as satisfactory or better in our annual customer survey.	Achieved	Achieved

Key indicators

- ESAS systems availability at 99.95 percent.
- NZClear systems availability at 99.95 percent.
- 75 percent of respondents confirm levels of 'satisfactory' and above in customer satisfaction survey.

Performance assessment

We continued to deliver positive outcomes for the financial system in terms of robust settlement processes and platforms.

ESAS availability was 100 percent throughout the year which exceeded the 99.90 percent target that was agreed with stakeholders and set out in the ESAS Annual Report 2022. It also exceeded the 99.95 percent indicator set out in the SPE. ESAS availability was 100 percent in 2022.

NZClear availability was 99.91 percent throughout the year which, although below the indicator set in the SPE, exceeded the 99.90 percent target that was agreed with stakeholders and set out in the NZClear Annual Report 2022. NZClear availability was 99.90 percent in 2022.

As a result of these availability outcomes, financial institutions were able to achieve real-time gross settlement and operate their exchange settlement and NZClear accounts efficiently.

Availability for ESAS and NZClear is based on the total business hours of operation agreed with ESAS account holders and NZClear participants, less any time during these hours that the system is unavailable for business. This excludes planned or uncontrollable non-availability relating to scheduled outages, force majeure events or external communication network failures.

In our customer satisfaction survey 100 percent of respondents confirmed we met or exceeded expectations, compared to 100 percent in 2022.

Measure	Target	Actual
SPE 11 We monitor and maintain an efficient, resilient and sustainable cash system that meets the public's needs.	Achieved	Not achieved

Key indicators

- Banknote orders are fulfilled within agreed timeframes.
- The rate of detected counterfeits in circulation was within pre-defined tolerances.
- Policy work programme aligned with opportunities and risks to the cash system and the public's needs.

Performance assessment

The ongoing lack of resilience in New Zealand's cash system means that we have assessed the target overall as Not Achieved, even though the narrower key indicators were met for reasons explained below.

We fulfilled all banknote orders from customers within agreed timeframes. The average rate of detected counterfeits in circulation was 9.22 parts per million (PPM)[19] which was within our pre-defined tolerances, but significantly higher than we have seen in recent years (in 2021/22 the figure was 3.64 parts per million). We have stepped up our engagement with large retailers and the cash industry and the public to support identification and handling of fake banknotes.

Cyclone Gabrielle caused extensive damage to payments-enabling infrastructure in some areas of New Zealand. Electronic payment systems such as EFTPOS were unavailable for several days. This disruption highlighted the lack of resilience in New Zealand's cash system and its vulnerability to power, data, and road network outages, exacerbated by banks reducing branch and ATM networks and retreating from offering in-branch cash services for retailers. We provided significant support to the cash industry response to Cyclone Gabrielle, by coordinating between industry, Central Government and local responses to facilitate cash availability in areas affected by the cyclone.

The increased likelihood of extreme weather events resulting from climate change means that the lack of resilience in the cash sector will need to be addressed. In assessing the impact of Cyclone Gabrielle on the cash system, we have monitored and assessed the state of the cash system through engagement with the cash industry, businesses and communities, establishing new data collections, and making progress on developing a monitoring framework. Work is required on cash system redesign, infrastructure and stewardship.

We are working towards an efficient and reliable cash system that supports inclusion and innovation, where cash distribution is resilient, inclusive, efficient, lower carbon and set up to meet the public's needs. In our work we have taken into account the public benefits and the increasing cost, efficiency and security challenges of providing cash.

Measure	Target	Actual
SPE 12 We explore the future of money and payments to ensure they are reliable, efficient and support innovation and inclusion.	Achieved	Achieved

Key indicators

- Our policy work programme on the Future of Money and Payments is up to date with digital innovation and responds appropriately.

Performance assessment

We advanced our Central Bank Digital Currency (CBDC) policy development by investigating how a CBDC could be designed to support a reliable and efficient payments system that supports innovation and inclusion.

We did this by:

- completing proof of concept work with a third party provider to support our CBDC design exploration programme;
- conducting qualitative market research into user needs, attitudes and behaviours to inform the potential development of a CBDC;
- completing five CBDC Forum meetings with key private sector stakeholders, with insights informing our wider work programme;
- progressing work on key policy issues, including privacy, inclusion and innovation; and
- meeting with other central banks, government agencies, community advocacy groups and industry to discuss CBDC work and obtain key insights.

We consulted stakeholders through an Issues Paper on the implications of 'private innovation in money' (including cryptoassets) for the future of money and payments.

We worked closely with CoFR agencies to advance a vision for the New Zealand payments landscape, which will support greater coordination between regulators and agencies. It will also provide the basis for a more strategic approach to responding to issues and opportunities in the payments landscape.

Our work on private innovation in money confirmed the opportunities and risks posed by cryptoassets, stablecoins and other new forms of money. We are building up our ability to monitor risks in this area.

19 This figure may be slightly revised upward due to the normal lag in counterfeit submissions.

Output four: Engaging with stakeholders and cooperating with regulatory agencies and other relevant institutions

The SPE measures for output four demonstrate how we cooperate and engage with our stakeholders and provide information to support the achievement of our objectives. It includes:

- relationships with our stakeholders;
- providing, or facilitating the provision of relevant information about our objectives and functions; and
- liaising and cooperating with other central banks and relevant international institutions.

Our role is primarily one of guardianship – or kaitiakitanga – of New Zealand's financial system. Engaging and collaborating effectively with our stakeholders is vital to our performance and we continually look to develop new ways to keep our stakeholders informed of our work.

We cooperate and coordinate with the other guardians of the financial system through Kaunihera Kaiwhakarite Ahumoni – CoFR – and build strong relationships internationally, including with other central banks and through relevant international institutions. These relationships enable us to support initiatives that provide benefits for the global and regional economies, as well as New Zealand, and to learn from and respond to international standards and practice.

Measure	Target	Actual
SPE 13 We engage with domestic and international stakeholders to support an understanding of our objectives and key decisions and learn and collaborate on longer-term strategic challenges.	Achieved	Achieved

Key indicators

- Stakeholders are engaged and clearly understand our messages and objectives.

Performance assessment

The Reserve Bank's effectiveness requires the support of a consistent, well-targeted communications effort. This effectiveness is particularly demonstrated by the high level of interest shown by Parliament, media and the public in the Reserve Bank's MPS and FSR releases.

After each release of the MPSs and FSRs, we analyse key themes picked up by the media and wider public across our main external channels. This analysis informs our communications strategy, as we aim to be even more effective in conveying the Reserve Bank's key messages to the public.

Overall, we either exceeded or achieved our targets of effectively using a full range of our communication tools to support an understanding of our objectives and key decisions, and to engage stakeholders on longer-term strategic challenges. We are using insights from our Relationship Charter survey and other stakeholder feedback to further enhance communications and engagements with key stakeholders.

We worked with domestic and international stakeholders, holding and attending numerous speaking engagements and connecting with international organisations and central bank counterparts, to communicate and connect on our objectives and key decisions.

The Board ran a programme of outreach with stakeholders throughout the year. As well as meetings and a function held in Wellington, the Board held multiple meetings and a function in Auckland, and a meeting and function in Christchurch. The Board invited more than 440 representatives from the following sectors: Utilities, accountancy, agribusiness, agriculture, arts/entertainment, business, community, education, energy, engineers, farming, food/beverage/hospitality, Government, healthcare, innovation, Iwi/Iwi organisations, local government, transport/logistics, manufacturing/industrial, property, finance/sharebrokers/investment, technology, research, MPs, retail, tourism, automotive, financial inclusion, communications, construction, legal, recruitment and wholesalers.

Below is a summary of our work this year:

- 79 external speaking engagements.
- 16 public webinars/webcasts
- 9.62 percent average engagement rate across social media channels
- 22.4 percent increase in social media followers
- 7 media briefings.

Measure	Target	Actual
SPE 14 We engage effectively with regulated entities and target at least 75 percent of respondents rating us as a minimum of 4 out of 5 or equivalent in our annual relationship charter survey.[20]	Achieved	Achieved

Key indicators

- Results from the Reserve Bank's annual relationship charter survey indicate that at least 75 percent of respondents rate us as a minimum of 4 out of 5 or equivalent.

Performance assessment

The 2023 survey of our performance against the Relationship Charter found:

- Bank stakeholders reported their relationship with the Reserve Bank as generally positive. 90 percent of bank participants rated their relationship with the Reserve Bank highly (4 or 5 out of 5, or equivalent) which is a high score, though slightly lower than the 93 percent in 2022.
- Insurers' overall relationship with the Reserve Bank has strengthened, as 92 percent of insurer participants rated their relationship with the Reserve Bank highly (4 or 5 out of 5, or equivalent). This is a significant increase from 2022 (72 percent).

For the first time in 2023, we sought the views of non-bank deposit takers (NBDTs) about their relationship with the Reserve Bank, and also sought feedback from stakeholders on how they would rate the Reserve Bank's prudential policy consultation processes in terms of openness and allowing sufficient opportunity to provide input.

- 78 percent of NBDT participants rated their relationship with the Reserve Bank highly (4 or 5 out of 5, or equivalent). Results indicated NBDTs were slightly less satisfied with their Reserve Bank relationship than other bank stakeholders, though a 78 percent rating shows a high level of satisfaction in the sector overall.
- On the Reserve Bank's prudential policy consultation processes, 76 percent of stakeholders rated their relationship with the Reserve Bank highly (4 or 5 out of 5, or equivalent). Results indicated that NBDTs experienced challenges, noting that our engagement has largely been through the Deposit Takers Bill process to date. The sector expressed views that their feedback was not taken on board by the Reserve Bank. Going forward there will be further opportunities to improve engagement with the sector around policy consultation as part of the implementation of the RBNZ Act 2021.

Based on the survey results, we have engaged effectively with regulated entities. The overall result of the Relationship Charter survey was that 89 percent of respondents rated us as a minimum of 4 out of 5 or equivalent. This is an increase of 5 percent from 2022's overall result of 84 percent.

Percentage of respondents marking the relationship with the Reserve Bank as 'good' or 'very good'

2020	2021	2022	2023
68%	80%	84%	89%

The survey also identified areas of improvement for the Reserve Bank. They related to effectiveness in communications, and timeframes allowed for regulated entities to provide feedback. As a result, we are aiming to improve how we communicate our views on entity submissions back to entities, and explain how they were reflected through the process.

20 We assess our effectiveness in engaging with regulated entities using the Annual Relationship Charter (the Charter) survey. The Charter commits the Reserve Bank and the financial sector to a mutual understanding of appropriate conduct and culture and is underpinned by the principle of 'te whakatōpū' the combined stewardship of an efficient system for the benefit of all.

Measure	Target	Actual
SPE 15 We take a systemic approach and contribute to a sustainable, inclusive and productive economy through our own activities and effective and coordinated partnerships with stakeholders.	Achieved	Achieved

Key indicators

- Partnerships support awareness, understanding and an aligned approach (within our mandate).
- Systemic approach to strategic challenges contributes to a sustainable, inclusive and productive economy. Effective activities to embed consideration of climate change, Te Ao Māori and financial inclusion.

Performance assessment

We progressed against all of our indicators.

We aim to undertake a credible work programme that enables us to encourage improved financial inclusion and Māori access to capital, and understand and then help mitigate the risks of climate change to the financial system.

We do this through strong relationships with domestic and international stakeholders to inform and contribute to a systemic, long-term approach to these strategic challenges. Key international partners include the Network for Greening the Financial System and the Central Bank Network for Indigenous Inclusion, and other central banks. Examples of domestic engagement included CoFR work on climate and financial inclusion, the Tāwhia Māori Bankers Rōpu and the Toitū Tahua Centre for Sustainable Finance, government agencies, industry, Iwi/Māori, scientists, researchers and community groups.

We contributed to awareness and understanding of risks to the financial system from climate change, and opportunities to support a sustainable, inclusive and productive economy through financial inclusion and Māori access to capital. Examples included an issues paper on Māori access to capital, developing climate-related stress testing and policy development, the Central Banks Indigenous Inclusion Symposium, and work on financial inclusion with CoFR.

To continue embedding a consideration of climate change, Te Ao Māori and financial inclusion, we conducted a baseline assessment to inform our understanding of climate risks, emission reduction targets for some areas. We developed a Te Tiriti Statement and began work on the Reserve Bank's inaugural financial inclusion strategy.

These are complex, systemic issues which require sustained effort over many years, and for which no one institution holds all the levers.

Measure	Target	Actual
SPE 16 We operate in a financially responsible manner by managing our expenditure in line with our funding agreement as approved by the Minister of Finance.	Achieved	Achieved

Key indicators

- Our actual and forecast operating expenditure remains within our funding agreement expenditure allowances.

Performance assessment

We managed our operating expenses in line with our funding agreement, setting and monitoring annual budgets alongside financial forecasting to ensure we retain sufficient optionality to remain within the five year funding agreement.

Guide to the main functions of the Reserve Bank

The core functions of the Reserve Bank, in line with the output classes assessed in our Statement of Performance, are:

Monetary policy

This output details how we support the Monetary Policy Committee (MPC) to formulate monetary policy and how we manage our balance sheet to support our economic objectives and the stability of financial markets.

Financial stability and prudential regulation and supervision

This output is about the work we do to protect and promote the stability of New Zealand's financial system. We achieve this by:

- acting as a prudential regulator of banks, insurers, non-bank deposit takers and other financial institutions under prudential legislation and the Anti-Money Laundering and Countering Financing of Terrorism Act 2009; and
- monitoring the financial system through collecting, analysing and publishing relevant information.

Stewardship of money, cash and payments

This output is about the work we do in issuing and managing banknotes and coins, including monitoring and maintaining their distribution and quality and monitoring the needs of the public for banknotes and coins. This includes the work we do to ensure New Zealand's money, cash and payments system continues to be fit for purpose and builds towards a sustainable future.

It also covers our work 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.

Our objective is trust and confidence in New Zealand's money, cash and payments system so everyone is able to make safe and efficient payments and complete day-to-day financial transactions.

Engaging with stakeholders and cooperating with regulatory agencies and other relevant institutions

This output is about cooperating and engaging with our stakeholders and providing, or facilitating the provision of information relevant to our objectives. It includes:

- maintaining meaningful relationships with our stakeholders;
- providing, or facilitating the provision of relevant information about our objectives and functions; and
- liaising and cooperating with other central banks and relevant international institutions.

Reserve Bank of New Zealand Consolidated Financial Statements

For the year ended 30 June 2023

Consolidated Statement of Financial Position

As at 30 June	Note	2023 $M	2022 $M
Assets			
Cash Balances		8,267	7,972
Investments – Foreign Currency		6,503	5,736
Investments – New Zealand Government Securities		4,087	3,732
Securities Purchased under Agreements to Resell	3	21,944	14,325
Securities – LSAP Programme	4	38,103	51,283
Crown Indemnity for LSAP Programme	4	7,316	8,733
Unsettled Indemnity Receivable from the Crown	4	338	49
Derivative Assets	5	274	271
Other Financial Assets	6	1,854	1,636
Other Assets	7	174	175
Total Assets		**88,860**	**93,912**
Liabilities			
Deposits	8	72,525	78,273
Term Liabilities		–	1,403
Derivative Liabilities	5	1,493	1,327
Securities Sold under Agreements to Repurchase		425	777
Reserve Bank Bills		2,295	200
Currency in Circulation		8,920	8,980
Other Financial Liabilities	9	213	173
Other Liabilities	10	10	9
Total Liabilities		**85,881**	**91,142**
Net Assets / Equity		2,979	2,770
Total Liabilities and Net Assets / Equity		**88,860**	**93,912**

The Statement above is to be read in conjunction with the Notes set out on pages 105 to 161.

Reserve Bank of New Zealand Consolidated Financial Statements

For the Year Ended 30 June 2023

Consolidated Statement of Changes in Net Assets/Equity

For the year ended 30 June	Note	Contributed Capital $M	Equity Investment Revaluation 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 2021		1,600	179	63	–	993	2,835
Deficit for the Year		–	–	–	–	(86)	(86)
Other Comprehensive Revenue and Expense		–	16	4	1	–	21
Transaction with Owners							
Dividend Payable to the New Zealand Government	11	–	–	–	–	–	–
Net Assets / Equity as at 30 June 2022		**1,600**	**195**	**67**	**1**	**907**	**2,770**
Surplus for the Year		–	–	–	–	202	202
Other Comprehensive Revenue and Expense		–	12	(4)	(1)	–	7
Transaction with Owners							
Dividend Payable to the New Zealand Government	11	–	–	–	–	–	–
Net Assets / Equity as at 30 June 2023		**1,600**	**207**	**63**	**–**	**1,109**	**2,979**

The Statement above is to be read in conjunction with the Notes set out on pages 105 to 161.

Reserve Bank of New Zealand Consolidated Financial Statements

For the Year Ended 30 June 2023

Consolidated Statement of Financial Performance

For the year ended 30 June	Note	2023 $M	Unaudited Budget 2023 $M	2022 $M
Interest Income[21]		973		235
Other Interest Income[22]		3,344		809
Interest Expense		(3,976)		(801)
Net Interest Income	18	**341**	**263**	**243**
Net (Losses)/Gains from Fair Value Changes		(75)		(335)
Net Gains/(Losses) from Foreign Exchange Rate Changes		70		123
Dividend Income		2		2
Total Net Investment Income/(Expense)	18	**338**	**263**	**33**
Other Revenue		23	23	21
Total Operating Revenue/(Expense)		**361**	**286**	**54**
Total Operating Expenses	20	(159)	(169)	(140)
Surplus/(Deficit) for the Year		**202**	**117**	**(86)**

Consolidated Statement of Comprehensive Revenue and Expense

For the year ended 30 June	2023 $M	2022 $M
Surplus/(Deficit) for the Year from the Consolidated Statement of Financial Performance	202	(86)
Other Comprehensive Revenue and Expense		
Movement in Equity Investment Revaluation Reserve	12	16
Movement in Property, Currency and Artwork Collections Revaluation Reserve	(4)	4
Movement in Cash Flow Hedge Reserve	(1)	1
Total Other Comprehensive Revenue and Expense for the Year	**7**	**21**
Total Comprehensive Revenue and Expense for the Year	**209**	**(65)**

The Statement above is to be read in conjunction with the Notes set out on pages 105 to 161.

21 Interest Income represents interest income on financial instruments measured at amortised cost.

22 Other Interest Income represents interest income on financial instruments measured at Fair Value through Surplus or Deficit (FVTSD).

Reserve Bank of New Zealand Consolidated Financial Statements

For the Year Ended 30 June 2023

Consolidated Statement of Cash Flows

For the year ended 30 June	Note	2023 $M	2022 $M
Cash Flows From Operating Activities			
Interest and Other Similar Income Received		2,319	1,861
Dividend Received		2	5
Realised Losses on Financial Assets and Liabilities		(47)	(34)
Fees, Commission and Other Revenue Received		25	19
Interest Paid		(3,436)	(659)
Payments to Suppliers and Employees		(152)	(140)
Receipts from the Crown under LSAP Programme Crown Indemnity Agreement		3,162	42
Payments to the Crown under LSAP Programme Crown Indemnity Agreement		–	(178)
Net Operating Cash Flows from Changes in Deposit Balances		(5,755)	8,761
Operating Cash Flows from Purchases of LSAP Securities		–	(754)
Operating Cash Flows from Maturity of LSAP Securities		7,721	250
Operating Cash Flows from Disposal (managed sales) of LSAP Securities		4,081	–
Net Cash Flows from Changes in Other Operating Asset and Liabilities Balances		(6,056)	(6,961)
Net Cash Flows from Operating Activities	22	**1,864**	**2,212**
Cash Flows From Investing Activities			
Disposal of Investment – New Zealand Government Securities		250	–
Purchases of Investment – New Zealand Government Securities		(524)	(147)
Purchases of Property, Plant and Equipment and Intangible Assets		(5)	(12)
Net Cash Flows from Investing Activities		**(279)**	**(159)**
Cash Flows From Financing Activities			
Net (Repatriation)/Issue of Circulating Currency		(60)	805
Repayment of Term Liabilities		(1,400)	–
Dividend Payments to the New Zealand Government		–	(140)
Net Cash Flows from Financing Activities		**(1,460)**	**665**
NET CASH FLOWS		**125**	**2,718**
Foreign Exchange Rate Effect on Cash Balances at the Beginning of the Year		170	(71)
Net Cash Flows From All Activities		**295**	**2,647**
Cash Balances at the Beginning of the Year		7,972	5,325
Cash Balances at the End of the Year		**8,267**	**7,972**

The Statement above is to be read in conjunction with the Notes set out on pages 105 to 161.

For the purposes of the Statement of Cash Flows, cash balances 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 Reserve Bank, or where cash receipts or payments are for items in which turnover is quick, amounts are large and maturities are short.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

1. Statement of Accounting Policies

(a) Reporting Entity and Compliance with PBE Standards

These are the consolidated financial statements of the Reserve Bank of New Zealand, a body corporate under the Reserve Bank of New Zealand Act 2021 (the RBNZ Act 2021). The Reserve Bank of New Zealand Act 1989 (the RBNZ Act 1989) applied up to 30 June 2022, and the RBNZ Act 2021 came into full effect and applied from 1 July 2022. These consolidated financial statements are for the financial year ended 30 June 2023.

These consolidated financial statements have been prepared in accordance with Part 5 and Schedule 1 of the RBNZ Act 2021 and Tier 1 Public Benefit Entity Standards (PBE Standards), issued by the New Zealand Accounting Standards Board (NZASB), and comply with Generally Accepted Accounting Practice (GAAP). Under XRB A1: Application of the Accounting Standards Framework, the Reserve Bank is designated as a Public Sector Public Benefit Entity (PBE) for the purpose of applying GAAP. 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.

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

The Reserve Bank's role as a central bank determines the nature and extent of its activities with respect to financial instruments. The Reserve Bank's four core functions are described on page 100.

On behalf of the Board, the Board Chairman and Governor of the Reserve Bank authorised these financial statements for issue on 8 September 2023.

(b) Basis of Preparation of Financial Statements

Measurement Basis

The consolidated financial statements have been prepared on a going-concern basis. These financial statements have been prepared using the general principles of historical cost accounting, modified by fair value accounting for all derivative contracts, financial assets and liabilities that are held at Fair Value through Surplus or Deficit (FVTSD) or Fair Value through Other Comprehensive Revenue and Expense (FVOCRE), land and buildings, and currency and artwork collections (Note 7).

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

Comparative Financial Information

Certain comparative balances have been reclassified to align with the presentation used in the current reporting period (see Note 19). These changes have no impact on the overall financial performance or financial position for the comparative period.

Basis of Consolidation

These consolidated financial statements have been prepared using the acquisition method. All material inter-company balances and transactions are eliminated. The Reserve Bank's stand-alone financial statements are not produced because the difference between the Reserve Bank and the consolidated group, which also includes the Reserve Bank's controlled entity as detailed in Note 25, 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 Reserve Bank (Note 29).

Functional and Presentation Currency

The Reserve Bank's financial statements are presented in New Zealand dollars, the Reserve 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 that applied on the trade dates of the transactions.

Foreign currency assets and liabilities are translated to New Zealand dollars at the applicable 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 Net Gains/ (Losses) from Foreign Exchange Rate Changes 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 Other Comprehensive Revenue and Expense, such as equity investments classified as financial assets at Fair Value through Other Comprehensive Revenue and Expense (FVOCRE), the related exchange gain or loss is also recognised in Other Comprehensive Revenue and Expense.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

London Interbank Offer Rate (LIBOR)

LIBOR is a longstanding global benchmark for interest rates for financial instruments, many of which are used by New Zealand financial institutions, including the Reserve Bank.

On 30 June 2023 the remaining US LIBOR reference rates, including the key three month benchmark, ceased to be reference rates. Since 31 December 2021, one week and two month USD and all GBP, EUR, CHF and JPY LIBOR settings ceased to be reference rates.

Policy and system changes have been completed to allow a transition away from LIBOR-based valuation inputs and to enable risk-free rate based transactions to be undertaken.

As of 30 June 2023 the RBNZ has a combination of LIBOR-based derivatives that are subject to fallback arrangements from 1 July 2023, as well as new risk-free rate based derivatives. The RBNZ has adhered to both of the International Swap Dealers Association's fallback protocols that automatically cover arrangements for replacement interest rates where those benchmark rates cease to be provided. Refer to Note 12 for further detail on the transition to new risk-free rates.

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 offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Unaudited Budget Figures

The Budget figures for 2023 were published in the Statement of Performance Expectations for 2022-2023. Assumptions used in preparing the Budget were listed on pages 20 to 21 of the Statement of Performance Expectations. The Budget did not include estimates for foreign exchange gains or losses or gains or losses from changes in fair value, or dividends.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

(c) Key Accounting Estimates and Judgements

The preparation of the financial statements requires management to apply estimates, judgements and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income, expenses and other related information. Estimates and judgements are evaluated continually and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Reserve Bank has the following key accounting estimates and judgements. These key accounting estimates and judgements are highlighted in the relevant notes.

- Classification and Measurement of Financial Instruments (Note 2)
- Valuation of Term Lending Facility (TLF) (Note 3)
- Valuation of Crown Indemnity for Large Scale Asset Purchase (LSAP) Programme (Note 4)
- Valuation of the Bank for International Settlements (BIS) Shares (Note 6)
- Valuation of Land and Buildings (Note 7)
- Quantification of Expected Credit Loss (ECL) (Note 15(d))
- Quantification of superannuation and post-retirement obligations (Note 24)

(d) Changes in Accounting Policies and Changes in Accounting Estimates

PBE FRS 48 Service Performance Reporting has been adopted and was effective from 1 July 2022. This requires reporting against the Statement of Performance Expectations.

PBE IPSAS 41 Financial Instruments has been adopted and was effective from 1 July 2022. The requirements in PBE IPSAS 41 in relation to the Reserve Bank's financial instruments substantially aligns to the requirements of 'PBE IFRS 9 Financial Instruments' applied for the year ended 30 June 2022. Accordingly there has been no material impact on the financial statements on adoption of PBE IPSAS 41, with no change to the measurement category or carrying amount of financial instruments.

Standards Issued Not Yet Effective and Not Early Adopted

There are no standards issued not yet effective and not early adopted that impact the Reserve Bank.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

Financial Position Notes

2. Financial Instruments

Accounting Policy

A financial instrument is defined as any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.

Classification and Measurement of Financial Instruments: Financial Assets

The Reserve Bank recognises financial assets from the date on which the Reserve Bank commits to acquire the assets (trade date). Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Reserve Bank has transferred substantially all the risks and rewards of ownership.

On initial recognition, financial assets are classified as either:

- Amortised Cost;
- Fair Value through Other Comprehensive Revenue and Expense (FVOCRE); or
- Fair Value through Surplus or Deficit (FVTSD).

Financial assets are classified under these categories on the basis of both the Reserve Bank's management model for managing the financial asset and the contractual cash flow characteristics of the financial asset.

Amortised Cost

Financial assets can be classified as amortised cost if two criteria are met:

- The financial assets are held within a management model with the objective of holding the assets to collect the contractual cash flows, and
- The contractual terms for the financial assets give rise to cash flows that are solely payments of principal and interest (SPPI).

Amortised cost financial assets are measured in the Statement of Financial Position using the effective interest rate method, with the carrying value adjusted by any Expected Credit Loss (ECL) for each asset. Note 15(d) has further details on the ECL accounting policy.

Interest is included in the Statement of Financial Performance under Interest Income or Interest Expense on an accruals basis using the effective interest rate method. Any movement in the ECL impairment provision for these assets is recognised in the Statement of Financial Performance.

Fair Value through Other Comprehensive Revenue and Expense

Debt financial assets can be classified as FVOCRE if two criteria are met:

- The financial assets are held within a management model with the objective of collecting the contractual cash flows or potentially selling the assets; and
- The contractual terms for the financial assets give rise to cash flows that are SPPI.

The Reserve Bank has no debt financial assets classified as FVOCRE.

Investments in equity instruments are classified as FVOCRE if they are not held for trading. FVOCRE financial assets are measured in the Statement of Financial Position at fair value with unrealised movements in fair value included within the movement in Equity Investment Revaluation Reserve in Other Comprehensive Revenue and Expense. Dividends on equity instruments are recognised in the Statement of Financial Performance when the right to receive payment is established.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

Fair Value through Surplus or Deficit

All other financial assets are classified as FVTSD. These include:

- Derivative financial assets;
- Financial Assets that are held for trading, or that are held within a management model that is managed on a fair value basis; and
- Financial Assets that contain contractual terms that give rise to cash flows that are not solely payments of principal and interest (SPPI).

In addition, the Reserve Bank chooses to classify financial assets as FVTSD if the use of the classification removes or reduces significantly an accounting mismatch. Any such classification is made on the date of initial recognition, and is irrevocable.

FVTSD financial assets are measured in the Statement of Financial Position at fair value. Interest is recorded in Other Interest Income on an accruals basis and all realised and unrealised movements in fair value are included within Net Gains/(Losses) from Fair Value Changes in the Statement of Financial Performance.

Reclassification

Groups of financial assets are reclassified if there is a fundamental change to the way they are managed.

Reclassifications are applied prospectively from the date of change, with no restatement of gains, losses or interest that has been recognised previously. Financial assets that are classified as FVTSD in order to remove or significantly reduce an accounting mismatch cannot be reclassified.

Classification and Measurement of Financial Instruments: Financial Liabilities

The Reserve Bank recognises financial liabilities from the date on which the Reserve Bank commits to issue the liability (trade date). Financial liabilities are derecognised only when the obligation is discharged, cancelled or expired.

On initial recognition, financial liabilities are classified as either:

- Fair Value Through Surplus or Deficit (FVTSD); or
- Amortised Cost.

Fair Value through Surplus or Deficit

Financial liabilities are classified as FVTSD if they are derivative financial liabilities, or are held for trading. In addition, the Reserve Bank chooses to classify financial liabilities as FVTSD if the use of the classification removes or significantly reduces an accounting mismatch. Any such classification is made on the date of initial recognition, and is irrevocable.

FVTSD financial liabilities are measured in the Statement of Financial Position at fair value. The accrual of interest is included within Interest Expense and all realised and unrealised movements in fair value are included within Net Gains/(Losses) from Fair Value Changes.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

Amortised Cost

All other financial liabilities are classified as amortised cost. Amortised cost financial liabilities are measured in the Statement of Financial Position using the effective interest rate method. Interest is included in the Statement of Financial Performance under Interest Expense, or Interest Income where interest is negative, on an accruals basis. Any gains or losses on redemption are recognised in the Statement of Financial Performance.

Liabilities classified as measured at amortised cost include deposits, 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 Reserve Bank that are either in circulation or demonetised are also classified as Financial Liabilities at amortised cost.

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

The Reserve Bank also 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 (Note 27). For collectors' currency issued from 1 July 2004, the Reserve Bank records a liability equal to the face value of that currency (Note 9).

Financial Instruments – Designated as Cash Flow Hedge

Hedge accounting is applied in respect of purchases of foreign currency cash that are effective in hedging the Reserve 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 spot rate plus or minus hedge reserves transferred when they are settled.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in the Cash Flow Hedge Reserve is immediately reclassified to Surplus or Deficit.

Key Accounting Estimates and Judgements

Classification and Measurement of Financial Instruments

Under PBE IPSAS 41, the classification and measurement of financial assets requires judgement in determining the appropriate management models and assessing the contractual cash flow characteristics of financial assets. The determination of the Reserve Bank's management models is considered a significant accounting judgement and has a significant impact on how financial assets are classified and measured.

A management model refers to how an entity manages its financial assets in order to generate cash flows. It is determined at a level that reflects how groups of financial assets are managed rather than at an instrument level. PBE IPSAS 41 identifies three types of management models: 'hold to collect', 'hold to collect and sell' and 'other'. Many entities may only have one management model but it is possible to have more than one.

When assessing the management models, the Reserve Bank considers judgement areas including how performance and risk are managed, evaluated and reported, the reason for the frequency and volume of sales in previous periods and expectations of sales in future periods.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

Classification of Financial Instruments

Financial instruments are classified into various categories and are accounted for as shown in the table below.

Classification Category	Instruments	Valuation Basis in the Statement of Financial Position	Elements Recognised Directly in the Statement of Financial Performance	Elements Recognised Directly in Other Comprehensive Revenue and Expense
Amortised Cost	**Assets** • Cash Balances • Investments – New Zealand Government Securities • Securities Purchased under Agreements to Resell (FLP Initial Allocation) • Cash Collateral • Receivable for Unsettled Sales of Securities • Fee Income Receivable • Dividend Receivable **Liabilities** • Deposits • Currency in Circulation • Other Financial Liabilities	Amortised Cost	• Interest Income • Interest Expense • Gains / (Losses) from Foreign Exchange Rate Changes • Changes in Impairment / Expected Credit Loss	
Fair Value through Surplus or Deficit	**Assets** • Investments – Foreign Currency • Securities Purchased under Agreements to Resell (FLP Additional Allocation, TLF) • Securities – LSAP Programme • Crown Indemnity for LSAP Programme • Derivatives • Bond Market Liquidity Support (BMLS) **Liabilities** • Term Liabilities • Securities Sold under Agreements to Repurchase • Reserve Bank Bills • Derivatives	Fair Value	• Other Interest Income • Interest Expense • Gains/(Losses) from Fair Value Changes • Gains/(Losses) from Foreign Exchange Rate Changes	

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

Classification Category	Instruments	Valuation Basis in the Statement of Financial Position	Elements Recognised Directly in the Statement of Financial Performance	Elements Recognised Directly in Other Comprehensive Revenue and Expense
Financial Assets Measured at Fair Value through Other Comprehensive Revenue and Expense – Equity Investment	• Equity Instruments (Shareholding in the Bank for International Settlements)	Fair Value	• Dividend Income • Realised Gains/ (Losses) from Fair Value and Foreign Exchange Rate Changes • Unrealised Losses Resulting from Impairment of Financial Assets	Unrealised Gains/ (Losses) from Fair Value Changes and Foreign Exchange Rate Changes are included in the Equity Investment Revaluation Reserve
Financial Instruments Designated as Cash Flow Hedge	• Cash Balances	Amortised Cost	• Interest Income • Expenses covered by the Cash Flow Hedge are recorded at spot rates plus or minus hedge reserves transferred when expense payments are settled	Changes in Foreign Currency Translation on Qualifying Cash Flow Hedges are included in the Cash Flow Hedge Reserve until payment is made for the expenses covered by the Cash Flow Hedge

Fair Value of Financial Instruments

Accounting Policy

Fair Value Hierarchy

Financial instruments are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. This hierarchy has three levels:

- Level 1: Unadjusted quoted prices for identical instruments in active markets which represent actual and regularly occurring arm's-length market transactions.
- Level 2: Inputs other than quoted market prices in active markets included in Level 1, which are observable for the assets or liabilities either directly (e.g. prices for similar instruments, prices from inactive markets) or indirectly (e.g. interest rates, credit spreads).
- Level 3: Financial instruments are valued using models where one or more significant inputs are not observable. There were no transfers between levels within the fair value hierarchy during the financial year.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

The following table analyses the financial assets and liabilities by measurement basis and valuation hierarchy.

As at 30 June 2023	Ref	Total $M	Amortised Cost $M	Fair Value $M	Fair Value Level 1 $M	Fair Value Level 2 $M	Fair Value Level 3 $M
Assets							
Cash Balances	(a)	8,267	8,267	–	–	–	–
Investments – Foreign Currency	(b)	6,503	–	6,503	4,779	1,724	–
Investments – New Zealand Government Securities	(c)	4,087	4,087	–	–	–	–
Securities Purchased under Agreements to Resell	(d)	21,944	12,440	9,504	–	9,504	–
Securities – LSAP Programme	(e)	38,103	–	38,103	38,103	–	–
Crown Indemnity for LSAP Programme	(f)	7,316	–	7,316	–	7,316	–
Unsettled Indemnity Receivable from the Crown		338	338	–	–	–	–
Derivative Assets		274	–	274	–	274	–
Other Financial Assets	(g)	1,854	1,403	451	158	–	293
Total Financial Assets		**88,686**	**26,535**	**62,151**	**43,040**	**18,818**	**293**
Liabilities							
Deposits		72,525	72,525	–	–	–	–
Term Liabilities	(e)	–	–	–	–	–	–
Derivative Liabilities		1,493	–	1,493	–	1,493	–
Securities Sold under Agreements to Repurchase		425	–	425	–	425	–
Reserve Bank Bills	(e)	2,295	–	2,295	–	2,295	–
Currency in Circulation		8,920	8,920	–	–	–	–
Other Financial Liabilities		213	213	–	–	–	–
Total Financial Liabilities		**85,871**	**81,658**	**4,213**	**–**	**4,213**	**–**

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

As at 30 June 2022	Ref	Total $M	Amortised Cost $M	Fair Value $M	Fair Value Level 1 $M	Fair Value Level 2 $M	Fair Value Level 3 $M
Assets							
Cash Balances	(a)	7,972	7,972	–	–	–	–
Investments – Foreign Currency	(b)	5,736	–	5,736	5,162	574	–
Investments – New Zealand Government Securities	(c)	3,732	3,732	–	–	–	–
Securities Purchased under Agreements to Resell	(d)	14,325	12,160	2,165	–	2,165	–
Securities – LSAP Programme	(e)	51,283	–	51,283	51,283	–	–
Crown Indemnity for LSAP Programme	(f)	8,733	–	8,733	–	8,733	–
Unsettled Indemnity Receivable from the Crown		49	49	–	–	–	–
Derivative Assets		271	–	271	–	271	–
Other Financial Assets	(g)	1,636	1,168	468	187	–	281
Total Financial Assets		**93,737**	**25,081**	**68,656**	**56,632**	**11,743**	**281**
Liabilities							
Deposits		78,273	78,273	–	–	–	–
Term Liabilities	(e)	1,403	–	1,403	–	1,403	–
Derivative Liabilities		1,327	–	1,327	–	1,327	–
Securities Sold under Agreements to Repurchase		777	–	777	–	777	–
Reserve Bank Bills	(e)	200	–	200	–	200	–
Currency in Circulation		8,980	8,980	–	–	–	–
Other Financial Liabilities		173	173	–	–	–	–
Total Financial Liabilities		**91,133**	**87,426**	**3,707**	**–**	**3,707**	**–**

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

Additional Required Information on Financial Instruments

(a) The carrying amount as at balance date of financial instruments designated as Cash Flow Hedges was $1 million (2022: $9 million). This balance was included in the Cash Balances and relates to the Reserve Bank's hedging for budgeted foreign currency payments.

(b) The Level 2 financial instruments included within Investment – Foreign Currency includes unitised funds managed by the Bank for International Settlements ('BIS') totalling $579 million as at 30 June 2023 (2022: $574 million). The fair value of the unitised funds is based on the unit price established by the BIS. Level 2 financial instruments included within Investment – Foreign Currency also includes BIS deposits totalling $1,145 million as at 30 June 2023 (2022: nil).

(c) Investments – New Zealand Government Securities are accounted for at amortised cost. The fair value of New Zealand Government securities held at amortised cost as at 30 June 2023 is $3,767 million (2022: $3,568 million), $320 million less than the carrying value (2022: $164 million less than the carrying value). The fair value is determined based on quoted market prices (Level 1 of the valuation hierarchy).

(d) FLP (Initial Allocation) is accounted for at amortised cost. The fair value of FLP (Initial Allocation) held at amortised cost as at 30 June 2023 is $12,369 million (2022: $12,107 million), $71 million less than the carrying value (2022: $53 million less than the carrying value). The fair value is determined based on observable inputs (Level 2 of the valuation hierarchy). FLP Additional Allocation is accounted for at fair value (Note 3).

(e) Financial Instruments that were designated upon initial recognition as Fair Value Through Surplus or Deficit (FVTSD) include Securities – LSAP Programme, Term liabilities and Reserve Bank Bills.

(f) The fair value of the indemnity from the Crown for the LSAP Programme is detailed in Note 4.

(g) Where inputs are non-observable, the financial instrument is categorised as level 3 in the fair value hierarchy. The Reserve Bank held an unlisted equity investment (shareholding) in the BIS with a fair value of $293 million as at 30 June 2023 (2022: $281 million) where there are significant non-observable inputs into the valuation as detailed in Note 6.

The following table reconciles the opening and closing balances of the BIS shares, a Level 3 financial instrument.

	2023 $M	2022 $M
Opening Balance at the Beginning of the Year	281	265
Change in Fair Value	14	18
Less Distribution to Owners	(2)	(2)
Net Changes Recorded through Other Comprehensive Revenue and Expense	12	16
Closing Balance at the End of the Year	**293**	**281**

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

3. Securities Purchased under Agreements to Resell

Accounting Policy

Where the Reserve Bank purchases securities under agreements to resell (reverse-repurchase agreements), the securities are not reported in the Statement of Financial Position. The Reserve Bank does not enjoy the risks and rewards attached to ownership of those securities. Accordingly, the Reserve Bank records the consideration receivable from the agreements to resell the securities as an asset. Details of collateral held are included in Note 15 (c).

At initial recognition all reverse-repurchase agreements are recognised at fair value. Subsequently, the consideration receivable under an agreement to resell is recorded at fair value, except for the Funding for Lending Programme Initial Allocation (as explained in the paragraph below). Movements in the fair value of reverse-repurchase agreements are reported in the Statement of Financial Performance within Net Gains/(Losses) from Fair Value Changes. Note 2 provides further details of the accounting policy.

Funding for Lending Programme (FLP)

Reverse-repurchase agreements under FLP (Initial Allocation) are accounted for at amortised cost less any provision for expected credit losses.

Reverse-repurchase agreements under FLP (Additional Allocation) are accounted for at fair value. The contractual provision in the FLP Additional Allocation allowing a facility fee to be charged which is contingent on a decline in the volume of lending means that fair value must be used to account for FLP Additional Allocation assets.

Concessionary Loans for Term Lending Facility

Reverse-repurchase agreements under the TLF are deemed to be concessionary loans under PBE IPSAS 41 at initial recognition, when the fixed interest rate for the term of the loan, the Official Cash Rate (OCR) prevailing at the time is less than the market rate for other high quality fixed interest securities of similar duration. The present value of the difference between the fixed rate of interest and the assessed market rate is expensed upon initial recognition, then amortised back as interest income over the remaining life of the loan (a reclassification of fair value changes).

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

Key Accounting Estimates and Judgements

Term Lending Facility Valuation

The TLF is carried at fair value. These assets comprise reverse-repurchase agreements for a term of one year. The counterparty is entitled to renew each reverse-repurchase agreement for a further term of one year at each anniversary (up to a total term of five years) providing the counterparty continues to maintain its volume of lending to customers under the Government's Business Finance Guarantee Scheme (BFGS). In determining the market value of the TLF, one of the key judgements made by the Reserve Bank includes the expected future renewals. In forming this judgement the Reserve Bank assesses data regarding scheduled maturities of the BFGS loans made by the Reserve Bank's counterparties to their customers as well as the incentive to renew loans at concessionary rates.

This valuation is sensitive to input assumptions, including the assumption that the counterparty will renew 100% of their entitlement based on the underlying BFGS loan maturity profile. A 10% reduction in the outstanding principal of reverse-repurchase agreement renewals over the maximum term of the facility (relating to the loans under BFGS) would increase the fair value (i.e. reduce the fair value losses) by $4 million (2022: $9 million).

	2023 $M	2022 $M
Funding for Lending Programme (Initial Allocation)	12,440	12,160
Funding for Lending Programme (Additional Allocation)	7,091	224
Term Lending Facility	1,611	1,941
Securities Purchased under Agreement to Resell – Foreign Currency	803	–
	21,945	**14,325**

Funding for Lending Programme (FLP)

On 11 November 2020, the Reserve Bank announced that additional economic stimulus would be provided through the FLP. The FLP is designed to lower market interest rates by the Reserve Bank extending funding to financial institutions for three years at the OCR. The borrowing rate will adjust over the term of the transaction with the OCR, with payment of the full amount being due upon maturity. The FLP makes funds available to eligible financial institutions using reverse-repurchase agreements. The Reserve Bank funds these through settlement cash, paying interest daily.

Access to FLP funding was available over a two-year period from 7 December 2020 to 6 December 2022. A participant may access funding up to the value of its Funding Allocation (comprising an Initial Allocation and an Additional Allocation). The Initial Allocation was available from 7 December 2020 to 6 June 2022 with total notional drawdowns of $12,085 million (2022: $12,085 million) from a facility up to $18,348 million.

The Additional Allocation, based on the participant's eligible lending growth, was available over the full two-year period from 7 December 2020 to 6 December 2022. Under the Additional Allocation, in addition to being charged interest on FLP funding provided at the OCR, participants may also be charged a facility fee if the volume of their eligible lending decreases. At 30 June 2023 total nominal drawdowns from the Additional Allocation totalled $6,936 million (2022: $225 million). The remaining facility available for drawdowns is nil (2022: $8,945 million).

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

Movements in the carrying value of the FLP are as follows:

	2023 $M	2022 $M
Opening Balance at the Beginning of the Year	12,384	3,059
Nominal value of new loans granted	6,711	9,254
Nominal value of repayments	(200)	–
Accrued interest movements	708	73
Fair value movements: Additional Allocation	(72)	(2)
Closing Balance at the End of the Year	**19,531**	**12,384**

Term Lending Facility (TLF)

On 2 April 2020, the Reserve Bank announced the introduction of the TLF, a new longer-term funding scheme for the banking system, in support of the BFGS to help promote lending to businesses.

The TLF complements the Government's BFGS by ensuring access to funding for participating banks at lower interest rates. The duration of the TLF was initially set to three years, but then increased to five years to match changes to the Government's BFGS. Banks who have made eligible loans under the BFGS can access this facility up to a maximum amount available for each institution. The policy's intention is for banks to pass on the lower funding costs to their customers via the BFGS.

The effective interest rate implied by the sale and repurchase prices under the reverse-repurchase agreements is the OCR at the time the agreement was entered into. The TLF was available to be drawn down until 28 July 2021. At 30 June 2023 the nominal value of the TLF totalled $1,833 million (2022: $2,198 million).

Movements in the carrying value of the TLF are as follows:

	2023 $M	2022 $M
Opening Balance at the Beginning of the Year	1,941	1,813
Nominal value of new loans granted	–	596
Nominal value of loans rolled off upon renewal	(365)	(289)
Fair value adjustment on initial recognition	–	(30)
Subsequent fair value adjustments	35	(149)
Closing Balance at the End of the Year	**1,611**	**1,941**

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

4. Securities – LSAP Programme

Accounting Policy

The Reserve Bank purchased New Zealand Government Bonds, New Zealand Government Inflation-indexed Bonds and Local Government Funding Agency (LGFA) Bonds in the secondary market (LSAP Securities) under the LSAP programme. LSAP securities are accounted for on a fair value basis with interest recognised using the effective interest rate method.

The Reserve Bank's LSAP programme is indemnified by the Crown. The Crown has agreed to indemnify the Reserve Bank in respect of interest rate risk losses which the Reserve Bank incurs in respect of the indemnified LSAP securities, as well as credit risk losses on the indemnified LGFA Bonds. In turn, the Reserve Bank must return realised net interest rate risk gains to the Crown. As such, the LSAP programme has no impact on the (Deficit)/Surplus of the Reserve Bank.

The indemnity from the Crown is accounted for as a derivative under PBE IPSAS 41 as it contains contractual obligations and rights in regard to the transfer of cash at a future date, and consequently meets the definition of a financial instrument. The indemnity is accounted for at its fair value. Each month the Reserve Bank pays to (or receives from) the Crown the excess of interest income from LSAP securities over the cost of funding the programme plus realised losses from managed sales. The Reserve Bank records as a liability or asset, as the case may be, unsettled payments to or from the Crown for realised net returns.

Key Accounting Estimates and Judgements

Valuation of Crown LSAP Indemnity for LSAP Programme

The indemnity is a bespoke financial arrangement and there are no other like transactions from which the Reserve Bank can readily imply a fair value. In arriving at a methodology for assessing fair value of the indemnity, the Reserve Bank has considered commercial valuation concepts. In the Reserve Bank's judgement, the best estimate of fair value of the indemnity arrangement has been determined as the difference between the market value of the LSAP securities and their amortised cost.

In determining the fair value of the indemnity, the Reserve Bank has assessed the credit risk of the Crown and no adjustment has been deemed necessary in the valuation.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

The LSAP programme is reflected in the financial statements of the Reserve Bank as follows:

	2023 $M	2022 $M
Statement of Financial Performance		
Other Interest Income		
New Zealand Government Securities within LSAP Programme	527	549
LGFA Securities	12	13
Total Other Interest Income	**539**	**562**
Expenses		
Interest Expense Incurred on Funding LSAP Programme	(2,203)	(499)
Net Interest Expense Claimed/(Income Returned) under the Crown LSAP Indemnity	1,664	(63)
Total Expense incurred	**(539)**	**(562)**
Total Net Income from LSAP Programme	–	–
Net Gains/(Losses) from Fair Value Changes on LSAP Securities		
New Zealand Government Securities within LSAP Programme	(379)	(5,487)
LGFA Securities	8	(120)
Net Gains/(Losses) from Fair Value Changes on LSAP Securities	**(371)**	**(5,607)**
Fair Value Gains from Revaluation of the Crown LSAP Indemnity	371	5,607
Total Net Gains/(Losses) from Fair Value Changes on LSAP Programme	**–**	**–**
Statement of Financial Position		
New Zealand Government Securities within LSAP Programme	37,128	50,036
LGFA Securities	975	1,247
Total Securities – LSAP Programme	**38,103**	**51,283**
Crown LSAP Indemnity for LSAP Programme	7,316	8,733
Unsettled Indemnity Receivable from the Crown	338	49
Total Assets LSAP Programme	**45,757**	**60,065**

The Reserve Bank utilises its balance sheet to achieve its monetary policy and financial stability objectives (refer to Note 11 for further detail). LSAP was introduced in March 2020 in order to provide increased stimulus to the New Zealand economy and to support the smooth functioning of New Zealand's financial markets, and was indemnified by the Crown. On 23 February 2022 the Monetary Policy Committee agreed to commence the gradual reduction of the Reserve Bank's bond holding under the LSAP programme through both bond maturities and managed sales at a rate of $5 billion (nominal value) per fiscal year, commencing in July 2022.

Net Interest Expense Claimed/(Income Returned) under the Crown LSAP Indemnity represents the net indemnity flows for the difference between the fixed interest income on LSAP securities held and the floating-rate funding cost of purchasing and holding those securities. In addition, the Reserve Bank receives reimbursement of fair value losses realised upon managed sales with the Treasury.

From October 2021 the OCR started increasing from 0.25% up to 2.00% by 30 June 2022, then has continued to increase with subsequent OCR announcements throughout the year, to 5.50% at 30 June 2023. The increase in market interest rates has driven the recognition of further fair value losses on LSAP securities. The indemnity has decreased in value, largely driven by realised losses on managed sales of LSAP securities with the Treasury during the year.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

Movements in the carrying value of Securities – LSAP Programme is as follows:

	2023 $M	2022 $M
Opening Balance at the Beginning of the Year	51,283	57,496
Purchases	–	687
Maturities	(7,721)	(250)
Disposals (managed sales) at fair value	(4,081)	–
Other movements in fair value recognised through net interest income[23]	(1,007)	(1,043)
Fair value movements	(371)	(5,607)
Closing Balance at the End of the Year	**38,103**	**51,283**

23 Represents amortisation of purchase premium (or discount) paid over the life of the security to achieve the effective interest rate on the programme, plus any movements in accrued interest.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

5. Derivatives

Accounting Policy

Derivatives are initially recognised in the Statement of Financial Position at fair value on the date derivative contracts are entered into and are subsequently re-measured at their fair value. Fair values are obtained from valuation techniques that use models where all significant inputs are observable. 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 within Net Gains/(Losses) from Fair Value Changes.

The Reserve Bank's derivative transactions and balances relate to interest rate futures and swaps, cross-currency basis swaps and foreign exchange swaps. The notional amount of a derivative is the agreed principal amount on which a currency or interest rate swap or interest rate futures contract is based.

The following table shows the fair value and notional amount of derivatives, excluding the Crown Indemnity for the LSAP programme (Note 4).

	Fair Value 2023 $M	Notional Amount 2023 $M	Fair Value 2022 $M	Notional Amount 2022 $M
Interest Rate Futures and Swaps				
Interest Rate Futures and Swaps Assets	45	1,184	32	1,668
Interest Rate Futures and Swaps Liabilities	–	–	(1)	229
Net Interest Rate Futures and Swaps Position	**45**	**1,184**	**31**	**1,897**
Cross-Currency Basis Swaps				
Cross-Currency Basis Swaps Assets	117	2,626	101	1,076
Cross-Currency Basis Swaps Liabilities	(1,457)	12,971	(1,298)	12,712
Net Cross-Currency Basis Swaps Position	**(1,340)**	**15,597**	**(1,197)**	**13,788**
Foreign Exchange Swaps				
Foreign Exchange Swaps Assets	112	3,980	138	9,754
Foreign Exchange Swaps Liabilities	(36)	4,773	(28)	3,017
Net Foreign Exchange Swaps Position	**76**	**8,753**	**110**	**12,771**
Total Derivative Assets	**274**	**7,790**	**271**	**12,498**
Total Derivative Liabilities	**(1,493)**	**17,744**	**(1,327)**	**15,958**

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

6. Other Financial Assets

Accounting Policy

Bond Market Liquidity Support (BMLS)

Securities held in the BMLS portfolio are recorded in the Reserve Bank's financial statements at fair value.

Shareholding in the Bank for International Settlements (BIS)

The Reserve Bank's investment in shares issued by the BIS is valued at FVOCRE under PBE IPSAS 41 with valuation gains and losses transferred directly to the Equity Investment Revaluation Reserve. The investment has been valued at fair value using significant unobservable inputs (Level 3). See Note 2 for Financial Instruments Accounting Policy.

An uncalled portion of this shareholding is disclosed as a contingent liability in Note 27. Dividends are recognised as Dividend Income in the Consolidated Statement of Financial Performance when declared.

Unsettled Sales of Securities

The Reserve Bank adopts trade date accounting where agreements have been entered into for the sale of an asset but the sale is not settled at balance date, whereby the Reserve Bank recognises the amount to be received for the asset. The reported value of unsettled sales is considered to be approximately their fair value due to the very short period between balance date and the settlement date.

Key Accounting Estimates and Judgements

Shareholding in the Bank for International Settlements (BIS)

The Reserve Bank is holding shares in the BIS for investment purposes. Ownership of BIS shares is limited to central banks, and new shares can be acquired only following an invitation to subscribe extended by the BIS Board of Directors. The shares are non-transferable unless prior written consent is obtained from the BIS. These shares are intended to be held for an indefinite period and are not held for trading. The Reserve Bank has irrevocably elected at initial recognition to recognise these shares as FVOCRE.

As at 30 June 2023 the Reserve Bank owned 3,211 shares (2022: 3,211 shares) issued by the BIS. This represents approximately 0.6% (2022: 0.6%) 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 valuation of the BIS shareholding is based on our proportionate share of BIS's net asset value, which is not quoted in an active market and therefore classified as a Level 3 financial instrument (Note 2).

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

	2023 $M	2022 $M
Cash Collateral	1,383	1,153
Bond Market Liquidity Support – New Zealand Government Securities	57	79
Bond Market Liquidity Support – LGFA Securities	101	108
Shareholding in the BIS	293	281
Receivable for Unsettled Sales of Securities	18	13
Fee Income Receivable	2	2
	1,854	**1,636**

Bond Market Liquidity Support

On 19 March 2020, the Reserve Bank commenced the BMLS facility to promote and support the functioning of key securities markets during periods of market instability. The BMLS facility involves the Reserve Bank purchasing or selling securities, principally New Zealand Government Securities and LGFA Bonds. The Reserve Bank's presence in the markets and its willingness to transact enhances market liquidity and reduces bid-offer spreads that would otherwise prevail.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

7. Other Assets

Accounting Policy

Property, Plant and Equipment

Land and Buildings

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.

Currency and Artwork Collections

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

Additions are held at cost until subsequent revaluations. The currency and artwork collections were revalued by an independent expert in May 2021.

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 Reserve 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. Intangible assets are stated at cost less accumulated amortisation and impairment losses. Costs include all direct expenses incurred to acquire and bring to use the specific software. Costs incurred enhancing an existing software program 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 eight years). Costs associated with maintaining computer software are recognised as expenses when incurred.

The Reserve Bank has customised a number of software systems which entail access to software as a service (SaaS). All costs incurred customising SaaS are expensed.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

Impairment of Property, Plant and Equipment and Intangible Assets

Property, plant and equipment and intangible assets 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 its recoverable service amount. The total impairment loss is recognised through Surplus/(Deficit). The reversal of an impairment loss is recognised through Surplus/(Deficit).

Inventories

Inventories of currency on hand are recognised 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 Reserve Bank, this cost is measured at replacement cost and is recorded by crediting currency-issued expenses within operating expenses in the Statement of Financial Performance 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 cost is recorded within currency-issued expenses. Currency issuance cost is determined on a first-in, first-out basis.

Banknote design and development costs are classified as inventory, and are expensed over the estimated units of notes produced over the expected life of the relevant banknote series.

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

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

Key Accounting Estimates and Judgements

The fair value of the Reserve Bank's land and buildings is assessed by an independent registered property valuer annually at balance date. Estimated fair value is arrived at by the valuer, based on a number of assumptions, principally with respect to market rental rates and market capitalisation rates. There is considerable uncertainty and judgement involved regarding the scope and cost of asbestos management required at our 2 The Terrace, Wellington office building which gives rise to potential significant variability in estimates of market value depending on assumptions adopted.

The most recent valuation of land and buildings, dated 30 June 2023, was prepared by 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 Reserve Bank's building was 7.5% per annum (2022: 7% per annum). The aggregate market value of land and buildings was $47 million (2022: $52 million). The original cost of the land and buildings was $10 million.

	2023 $M	2022 $M
Property, Plant and Equipment	77	83
Intangible Assets	21	24
Inventory	71	63
Prepayments	3	2
Other	2	3
	174	**175**

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

8. Deposits

	2023 $M	2022 $M
Settlement Institution Deposits	45,374	44,888
New Zealand Government Deposits (CSA)	21,602	33,149
Central Bank Deposits	5,440	93
International Monetary Fund Deposits	17	10
Cash Collateral	92	133
	72,525	**78,273**

Settlement Institution Deposits

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

New Zealand Government Deposits

The Reserve Bank provides the Crown Settlement Account (CSA) for the Government. This account serves as the Crown's central 'disbursement account', although one of the registered banks provides transactional banking services for the Government. The Government's balances with this bank are 'cleared' to the CSA at the Reserve Bank each day. The Reserve Bank pays interest on the overnight balance in the CSA to the Government.

Central Bank Deposits and International Monetary Fund Deposits

The Reserve Bank provides New Zealand dollar transactional banking services for other central banks and the International Monetary Fund (IMF). Balances in Central Bank Deposit accounts are repayable on demand and interest is paid on the overnight balance. The IMF does not accept remuneration on cash balances.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

9. Other Financial Liabilities

Accounting Policy

Unsettled Purchase of Securities

The Reserve Bank adopts trade date accounting where agreements have been entered into for the purchase of an asset but the purchase is not settled at balance date. The Reserve Bank recognises both the asset purchased and the liability for the amount to be paid for the asset. The reported value of unsettled purchases is considered to be approximately its fair value due to the very short period between balance date and the settlement date.

Demonetised Currency

The Reserve Bank has the sole right to issue bank notes and coins in New Zealand and has a liability for the face value of currency in circulation.

The Bank may call in any bank notes or coins it has issued. When bank notes or coins are called in they cease to become legal tender and classified as demonetised currency.

The Bank continues to be liable to pay any demonetised bank note or coin on presentation to the Bank. Demonetised currency is treated as a contingent liability (Note 27) except for a provision retained in the statement of Financial Position to cover expected redemptions.

	2023 $M	2022 $M
Accounts Payable	11	7
Payable for Unsettled Purchase of Securities	121	85
Demonetised Currency	81	81
	213	**173**

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

10. Other Liabilities

Accounting Policy

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.

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.

Retirement Gratuity

Retirement gratuities and post-retirement benefits apply to staff members who joined the Reserve Bank before 1 October 1991. These gratuities and benefits are recognised in Staff Entitlements 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 New Zealand Government Securities with terms that match as closely as possible to 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 the Reserve Bank's defined benefit superannuation scheme 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 Securities 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.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

	Note	2023 $M	2022 $M
Dividend Payable to the New Zealand Government	11	–	–
Staff Entitlements		7	6
Superannuation Liability	24	–	–
Other		3	3
		10	**9**

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

In order to meet its policy objectives, the Reserve Bank requires sufficient financial resources to manage the financial risks associated with related balance sheet operations. Financial resources may take the form of capital or indemnities from the Crown. The Reserve Bank is not subject to any regulatory capital requirements unless it is subject to a direction from the Minister of Finance (via section 208 of the RBNZ Act 2021) to require a minimum level of capital. The Minister of Finance has made no direction to the Reserve Bank under section 208. For further details refer to our Statement of Financial Risk Management.

A review of the Reserve Bank's capital framework commenced in 2022 to ensure the Reserve Bank's financial resources remain fit for purpose and sufficient to mitigate the foreseeable financial risks faced by the Reserve Bank for the range of activities the Reserve Bank may need to undertake. The review considered the most significant financial risks and assessed which Reserve Bank activities should be supported by financial resources (including capital and indemnities) and how the Reserve Bank's balance sheet may need to evolve over a five-year period to continue to meet its policy objectives.

The Reserve Bank assesses and determines the level of capital considered sufficient to cover a prudent range of potential financial losses that may arise in the range of activities the Reserve Bank undertakes, or may need to undertake, to meet its objectives. The Reserve Bank considers historical experience and severe but plausible scenarios to determine the Target Capital Level (TCL). The TCL is reviewed annually, approved by the Board and reviewed by the Minister of Finance when considering the Reserve Bank's annual dividend recommendation. As a result of the financial resources review, the Reserve Bank has recommended to the Minister of Finance a TCL of $4.2 billion for the purpose of the 2022/23 financial year dividend recommendation, an increase of $1.8 billion from $2.4 billion in 2022. The two key changes which influenced the increase in TCL in 2022/23 were:

- The Foreign Reserves Management and Coordination Framework (FRCF) agreed between the Reserve Bank and the Minister of Finance in December 2022 outlined how the Reserve Bank manages its foreign reserves in order to meet its policy objectives of monetary policy implementation, financial stability and liquidity management in the financial system. In July 2023 the Minister of Finance provided a capital injection of $500 million and agreed to a Crown indemnity to manage the financial risks associated with the FRCF.
- In August 2023 Cabinet agreed to increase the Reserve Bank's financial resources in the form of a $1.3 billion capital injection. In September 2023, the Reserve Bank and the Minister of Finance agreed to a $5.0 billion standing indemnity for domestic policy tools, primarily to support financial stability interventions.

Refer to Note 30 for further detail.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

Dividend

Under section 213 of the RBNZ Act 2021, the Reserve Bank is required to recommend to the Minister of Finance the amount of dividend in respect of each financial year ended 30 June. The Reserve Bank must determine the dividend recommendation in accordance with the dividend principles set out in the Statement of Financial Risk Management. These principles are:

- The Reserve 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 Reserve Bank until they are realised in New Zealand dollars. However, the Reserve Bank may recommend the distribution of unrealised gains where the Reserve Bank believes that the probability of the gain being realised is high.

At 30 June 2023 the Reserve Bank held no realised surplus equity and recommended no dividend be paid. The Minister of Finance has agreed no dividend be paid to the Crown for 2022/23. No dividend was paid in 2021/22.

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 target capital to arrive at the recommended dividend.

Net Assets/Equity comprises:

	Total Net Assets/Equity 2023 $M	Unrealised Gains 2023 $M	Net Assets/Equity Excluding Unrealised Gains 2023 $M	Total Net Assets/Equity 2022 $M	Unrealised Gains 2022 $M	Net Assets/Equity Excluding Unrealised Gains 2022 $M
Accumulated Comprehensive Revenue and Expense						
Realised Gains before Provision for Dividend	1,102	–	1,102	920	–	920
Changes in the Fair Value of Financial Instruments Not Yet Realised	(167)	–	(167)	(127)	–	(127)
Foreign Exchange (Losses)/Gains Not Yet Realised in New Zealand Dollars	174	174	–	114	114	–
Total Accumulated Comprehensive Revenue and Expense before Provision for Dividend and Excluding Revaluation Reserves	**1,109**	**174**	**935**	**907**	**114**	**793**
Equity Investment Revaluation Reserve	207	207	–	195	195	–
Property, Currency and Artwork Collections Revaluation Reserve	63	63	–	67	67	–
Cash Flow Hedge Reserve	–	–	–	1	1	–
Total Accumulated Comprehensive Revenue and Expense and Revaluation Reserves before Provision for Dividend	**1,379**	**444**	**935**	**1,170**	**377**	**793**
Capital Contributed by the New Zealand Government	1,600	–	1,600	1,600	–	1,600
	2,979	**444**	**2,535**	**2,770**	**377**	**2,393**
Less Provision for Dividend	–	–	–	–	–	–
Total Net Assets/Equity after Provision for Dividend	**2,979**	**444**	**2,535**	**2,770**	**377**	**2,393**

After recommending no dividend be paid, Net Assets/Equity Excluding Unrealised Gains was $2,535 million (2022: $2,393 million) against target capital of $4,200 million (2022: $2,400 million).

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

12. Risk Management

The Reserve Bank has a wide mandate that spans monetary policy, financial stability, cash operations and financial markets infrastructure. As a consequence of fulfilling our mandate, we are exposed to a broad range of risks. These risks arise from the Reserve Bank's mandated responsibilities and day-to-day operational activities.

The Reserve Bank manages its risks by articulating its tolerance for risks through its Risk Appetite Statements, implementing a framework of controls and making risk aware decisions to ensure that the Reserve Bank does not take risks beyond its tolerance. The Reserve Bank has an enterprise risk management framework to ensure that risks are identified, assessed and managed in line with the Reserve Bank's tolerance for risk. The implementation of sound risk management in the Reserve Bank is overseen by the Enterprise Risk Management Committee.

Under the RBNZ Act 2021, the Board has a governance role in the Reserve Bank's performance of risk management. The Risk and Compliance Directorate is responsible for the systematic enterprise-wide risk management approach to identify and assess key risks and mitigations in the context of the Reserve Bank's objectives.

The Reserve Bank is exposed to financial risks that reflect its mandated responsibilities to manage liquidity in the financial system, facilitate the smooth functioning of the payment and settlement systems, and to manage foreign reserve assets. Under the RBNZ Act 2021, the Assets and Liabilities Committee recommends the internal investment mandates to the Governor for approval and the Financial Markets Directorate is responsible for managing foreign reserves, the implementation of monetary policy and managing liquidity in the New Zealand banking system. The majority of the Reserve Bank's financial risks arise from these activities, which involve foreign currency risk, interest rate risk, credit risk and liquidity risk (see Notes 13 to 16 for further details of these risks).

Under the RBNZ Act 2021, the Reserve Bank is required to prepare and keep up to date a Statement of Financial Risk Management which reports on the Board's approach to complying with its duty to ensure that the Reserve Bank operates in a financially responsible manner. The Reserve Bank's Statement of Financial Risk Management was introduced from 1 July 2022.

Interest Rate Benchmark (IBOR) Reform

The Reserve Bank has been working on managing risks from the transition to new risk-free rates. Publication of the overnight and 12-month US dollar LIBOR settings ceased immediately after 30 June 2023, while the 1-month, 3-month and 6-month settings will become non-representative from that date. The key risk for the Reserve Bank is operational risk in regard to the transition of trades held at 30 June 2023 that will be required to transition within 3 months of that date, that is, by their first rate-reset date following 30 June 2023. For further details see Note 1.

The value of LIBOR based financial instruments are as follows:

- USD LIBOR-based basis swaps: As at 30 June 2023, basis swaps were comprised of LIBOR-based trades with notional values of NZD $7,246 million (2022: NZD $7,246 million) that are due to fall back post 30 June 2023. At 30 June 2022, additional LIBOR-based basis swaps with notional values of $1,025 million were held. These matured prior to 30 June 2023.
- USD LIBOR-based interest rate swaps: As at 30 June 2023, interest rate swaps with notional values of USD $725 million (NZD $1,184 million) are due to fall back post 30 June 2023 (2022: USD $725 million NZD $1,162 million).

A total of 114 LIBOR-based trades were in place as at 30 June 2023 which are due to transition to an alternative benchmark post 30 June 2023 (2022: 139 trades). 25 LIBOR-based trades matured during the year.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

13. 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. The Reserve Bank's foreign currency risk arises from:

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

The Reserve Bank is exposed to currency risk primarily by holding some of its reserves on an unhedged basis. The Reserve Bank has discretion within limits set by the Board to vary the size of the reserves held on an unhedged basis. The net foreign exchange exposure is $3,441 million (2022: $3,387 million). An appreciation in the New Zealand dollar would therefore result in valuation losses, while a depreciation would lead to a valuation gain as outlined in the sensitivity below.

Investments in BIS Shares are recorded in SDR (Special Drawing Rights). In the table below the total value of the shares of $293 million (2022: $281 million) is allocated to the underlying currencies based on their weightings as SDR is not a traded currency. BIS unitised funds of $579 million (2022: $574 million) have been allocated to their respective functional currencies.

The Reserve Bank's net exposure to major currencies, in New Zealand dollar terms, was:

	2023 $M	2022 $M
Euro	1,015	959
United States Dollar	845	886
Australian Dollar	488	470
British Pound	349	338
Canadian Dollar	328	325
Chinese Renminbi	222	227
Japanese Yen	194	182
Total Net Foreign Exchange Position	**3,441**	**3,387**

Sensitivity to Foreign Currency Risk

The table below shows the effect on the Reserve Bank's surplus and equity of a movement of +/− 10% in the New Zealand dollar.

	2023 $M			2022 $M		
	Affecting Comprehensive Revenue and Expense	Reported in the Statement of Financial Performance	Gain/(Loss) Reported Directly in Net Assets/Equity	Affecting Comprehensive Revenue and Expense	Reported in the Statement of Financial Performance	Gain/(Loss) Reported Directly in Net Assets/Equity
10% appreciation in the New Zealand Dollar	(313)	(286)	(27)	(308)	(282)	(26)
10% depreciation in the New Zealand Dollar	382	350	32	376	345	31

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

14. 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. The Reserve Bank holds an open foreign currency position, effectively financing a portion of its foreign currency assets using New Zealand dollar funding. This exposes the Reserve 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 Reserve Bank utilises risk limits to cap the amount of interest rate risk exposure.

Sensitivity to Interest Rate Risk

The table below shows the effect on the Reserve Bank's Surplus/(Deficit) of a movement of +/– 1% change in interest rates for all interest bearing financial instruments held at fair value.

This analysis is net of the impact of the Crown Indemnity as the Crown protects the Reserve Bank from the risk of interest rate movement on the indemnified LSAP securities (Note 4). In the absence of the Crown Indemnity, the fair value of LSAP securities would increase by $1,758 million if interest rates fall by 1% across the entire yield curve (2022: $2,860 million) and fair value would decrease by $1,641 million if interest rates rise by 1% across the entire yield curve (2022: $2,608 million).

	Gain / (Loss) Reported in the Statement of Financial Performance 2023 $M	Gain / (Loss) Reported in the Statement of Financial Performance 2022 $M
A Rise of 1% in the Local Currency Yield Curve	(147)	(75)
A Fall of 1% in the Local Currency Yield Curve	150	72
A Rise of 1% in the Yield Curve for All Foreign Currencies	(44)	(38)
A Fall of 1% in the Yield Curve for All Foreign Currencies	50	45

Interest earning assets and interest bearing liabilities held at amortised cost

The weighted average duration of the Reserve Bank's holding of Investments – New Zealand Government Securities (accounted for at amortised cost) as at 30 June 2023 is 7.6 years (2022: 7.7 years). Interest rate risk on Investments – New Zealand Government Securities recorded at amortised cost is not dynamically managed and it is intended that these securities be held to maturity.

While an increase in market interest rates for Investments – New Zealand Government Securities recorded at amortised cost will not impact the reported value, fair value would increase by $295 million (2022: $282 million) if interest rates fall by 1% across the entire yield curve, and fair value would decrease by $261 million (2022: $250 million) if interest rates rise across the entire yield curve by 1%.

The following table on page 137 shows the periods in which the Reserve Bank's assets and liabilities will mature or reprice. It includes the interest rate risk management impact of the Crown Indemnity for the LSAP programme. The indemnity reimburses the Reserve Bank for the net funding costs of the LSAP programme, whilst also indemnifying the future interest rate risk of the assets in that programme.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

	2023 $M							
	Total	Non-Interest Sensitive	Overnight	3 Months or Less	Between 3 and 12 Months	Between 1 and 2 Years	Between 2 and 5 Years	More Than 5 Years
Assets								
Cash Balances	8,267	–	8,267	–	–	–	–	–
Investments – Foreign Currency	6,503	–	–	2,100	539	2,026	1,251	587
Investments – New Zealand Government Securities[24]	4,087	–	–	1,248	150	252	554	1,883
Securities Purchased under Agreements to Resell	21,944	–	19,534	1,347	1,063	–	–	–
Securities – LSAP Programme	38,103	–	–	2,035	5,137	6,304	8,382	16,245
Crown Indemnity for LSAP Programme	7,316	–	45,419	(2,035)	(5,137)	(6,304)	(8,382)	(16,245)
Unsettled Indemnity Receivable from the Crown	338	–	–	338	–	–	–	–
Other Financial Assets[25]	2,128	340	18	1,610	21	58	20	61
Other Assets	174	174	–	–	–	–	–	–
Total Assets	**88,860**	**514**	**73,238**	**6,643**	**1,773**	**2,336**	**1,825**	**2,531**
Liabilities and Equity								
Deposits	72,525	–	72,433	92	–	–	–	–
Securities Sold under Agreements to Repurchase	425	–	–	425	–	–	–	–
Reserve Bank Bills	2,295	–	–	2,295	–	–	–	–
Currency in Circulation	8,920	8,920	–	–	–	–	–	–
Other Financial Liabilities[25]	1,706	91	121	1,494	–	–	–	–
Other Liabilities	10	10	–	–	–	–	–	–
Net Asset/ Equity	2,979	2,979	–	–	–	–	–	–
Total Liabilities and Equity	**88,860**	**12,000**	**72,554**	**4,306**	**–**	**–**	**–**	**–**
Interest Rate Sensitivity Gap excluding Interest Rate Swaps[26]	**–**	**(11,486)**	**684**	**2,337**	**1,773**	**2,336**	**1,825**	**2,531**
Interest Rate Swaps	–	–	–	931	(278)	(653)	–	–
Total Interest Rate Sensitivity Gap	**–**	**(11,486)**	**684**	**3,268**	**1,495**	**1,683**	**1,825**	**2,531**
Interest Rate Sensitivity Gap by Currency								
New Zealand Dollar	(3,441)	(11,823)	(7,588)	11,909	1,234	310	573	1,944
United States Dollar	845	167	3,814	(4,494)	(8)	537	440	389
Euro	1,015	90	2,605	(2,410)	173	274	283	–
Japanese Yen	194	24	1,842	(1,756)	–	–	84	–
British Pound	349	24	7	–	–	134	176	8
Australian Dollar	488	–	3	19	86	195	185	–
Canadian Dollar	328	–	1	–	10	233	84	–
Chinese Renminbi	222	32	–	–	–	–	–	190
	–	**(11,486)**	**684**	**3,268**	**1,495**	**1,683**	**1,825**	**2,531**

24 New Zealand Government Inflation-indexed Bonds, with a carrying value of $3,282 million, are included in the '3 months or less' category. These bonds have an earnings rate that is linked to the Consumer Price Index and are reset each quarter.

25 Derivative Assets are included in Other Financial Assets. Derivative Liabilities are included in Other Financial Liabilities.

26 Unrealised gains/losses from fair value changes for Interest Rate Swaps are included in Other Financial Assets and Other Financial Liabilities. Notional Principal amounts for Interest Rate Swaps are included in the Total Interest Rate Sensitivity Gap.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

2022 $M	Total	Non-Interest Sensitive	Overnight	3 Months or Less	Between 3 and 12 Months	Between 1 and 2 Years	Between 2 and 5 Years	More Than 5 Years
Assets								
Cash Balances	7,972	–	7,972	–	–	–	–	–
Investments – Foreign Currency	5,736	–	–	389	1,545	1,837	1,965	–
Investments – New Zealand Government Securities[27]	3,732	–	–	1,164	256	151	657	1,504
Securities Purchased under Agreements to Resell	14,325	–	12,384	–	18	9	1,914	–
Securities – LSAP Programme	51,283	–	–	2,655	7,937	5,077	14,371	21,243
Crown Indemnity for LSAP Programme	8,733	–	60,016	(2,655)	(7,937)	(5,077)	(14,371)	(21,243)
Unsettled Indemnity Receivable from the Crown	49	–	–	49	–	–	–	–
Other Financial Assets[28]	1,907	315	12	1,390	28	19	79	64
Other Assets	175	175	–	–	–	–	–	–
Total Assets	**93,912**	**490**	**80,384**	**2,992**	**1,847**	**2,016**	**4,615**	**1,568**
Liabilities and Equity								
Deposits	78,273	104	78,036	133	–	–	–	–
Term Liabilities	1,403	–	–	1,403	–	–	–	–
Securities Sold under Agreements to Repurchase	777	–	–	777	–	–	–	–
Reserve Bank Bills	200	–	–	200	–	–	–	–
Currency in Circulation	8,980	8,980	–	–	–	–	–	–
Other Financial Liabilities[28]	1,500	172	1	1,327	–	–	–	–
Other Liabilities	9	9	–	–	–	–	–	–
Net Asset/ Equity	2,770	2,770	–	–	–	–	–	–
Total Liabilities and Equity	**93,912**	**12,035**	**78,037**	**3,840**	**–**	**–**	**–**	**–**
Interest Rate Sensitivity Gap excluding Interest Rate Swaps[29]	**–**	**(11,545)**	**2,347**	**(848)**	**1,847**	**2,016**	**4,615**	**1,568**
Interest Rate Swaps	**–**	**–**	**–**	**1,725**	**(563)**	**(521)**	**(641)**	**–**
Total Interest Rate Sensitivity Gap	**–**	**(11,545)**	**2,347**	**877**	**1,284**	**1,495**	**3,974**	**1,568**
Interest Rate Sensitivity Gap by Currency								
New Zealand Dollar	(3,387)	(11,850)	(5,638)	9,406	300	177	2,650	1,568
United States Dollar	886	142	3,252	(4,243)	712	440	583	–
Euro	959	86	2,989	(2,698)	81	287	214	–
Japanese Yen	182	23	1,711	(1,640)	–	61	27	–
British Pound	338	23	11	–	23	173	108	–
Australian Dollar	470	–	6	52	156	–	256	–
Canadian Dollar	325	–	16	–	12	161	136	–
Chinese Renminbi	227	31	–	–	–	196	–	–
	–	**(11,545)**	**2,347**	**877**	**1,284**	**1,495**	**3,974**	**1,568**

27 New Zealand Government Inflation-indexed Bonds, with a carrying value of $3,819 million, are included in the '3 months or less' category. These bonds have an earnings rate that is linked to the Consumer Price Index and are reset each quarter.

28 Derivative Assets are included in Other Financial Assets. Derivative Liabilities are included in Other Financial Liabilities.

29 Unrealised gains/losses from fair value changes for Interest Rate Swaps are included in Other Financial Assets and Other Financial Liabilities. Notional Principal amounts for Interest Rate Swaps are included in the Total Interest Rate Sensitivity Gap.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

15. Credit Risk

Credit risk is the potential for financial loss arising from an issuer or counterparty defaulting on its obligations. The Reserve Bank manages its credit risk by holding securities issued by highly-rated governments, government-guaranteed agencies and supranational organisations. The Reserve Bank also holds high-quality collateral and requires over-collateralisation for reverse-repurchase agreements (Note 3).

The Reserve Bank's maximum exposure to credit risk for each class of recognised financial asset is the carrying amount of those assets as indicated in the Statement of Financial Position. Credit risk is mitigated when the Reserve Bank receives collateral, as disclosed in Note 15(c).

(a) Concentrations of Credit Exposure

The following table presents the Reserve Bank's financial assets based on end-of-year concentrations of credit exposure, classified by the country in which the issuer is resident.

Country in which Issuer is Resident:	Total 2023 $M	Sovereign 2023 $M	Financial Institutions 2023 $M	Total 2022 $M	Sovereign 2022 $M	Financial Institutions 2022 $M
New Zealand	71,632	49,025	22,607	78,702	62,629	16,073
United States	7,275	6,771	504	6,797	6,391	406
Netherlands	2,604	2,604	–	2,990	2,990	–
Japan	1,925	1,925	–	1,798	1,798	–
Supranational[30]	1,726	581	1,145	577	577	–
Canada	791	744	47	385	326	59
Australia	757	488	269	701	471	230
Germany	729	729	–	842	842	–
United Kingdom	491	325	166	469	315	154
France	348	267	81	87	–	87
Other Non-European	113	–	113	108	–	108
Switzerland	2	–	2	–	–	–
Total Financial Assets[31]	**88,393**	**63,459**	**24,934**	**93,456**	**76,339**	**17,117**

30 Supranational includes BIS unitised funds and other financial assets held with the BIS.

31 Excludes BIS share investments of $293 million at 30 June 2023 (2022: $281 million) as this is an equity investment (Note 6).

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

(b) Credit Exposure by Credit Rating

The following table indicates the concentration of credit risk in the Reserve Bank's investment portfolios including all financial assets (Note 2) at 30 June 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. Where a New Zealand entity has not been rated by Standard & Poor's, the Fitch rating has been used.

	2023 $M					
Credit Rating Country in which Issuer is Resident:	Total	AAA	AA+/−	A+/−	BBB+/−	N/R
New Zealand	71,632	50,317	20,895	–	417	3
United States	7,275	–	6,777	498	–	–
Netherlands	2,604	2,604	–	–	–	–
Japan	1,925	–	–	1,925	–	–
Supranational[32]	1,726	–	–	–	–	1,726
Canada	791	744	31	16	–	–
Australia	757	488	269	–	–	–
Germany	729	729	–	–	–	–
United Kingdom	491	–	325	166	–	–
France	348	–	267	81	–	–
Other Non-European	113	–	113	–	–	–
Switzerland	2	–	–	2	–	–
Total Financial Assets[33]	**88,393**	**54,882**	**28,677**	**2,688**	**417**	**1,729**

	2022 $M					
Credit Rating Country in which Issuer is Resident:	Total	AAA	AA+/−	A+/−	BBB+/−	N/R
New Zealand	78,702	55,508	22,906	–	286	2
United States	6,797	–	6,426	371	–	–
Netherlands	2,990	2,990	–	–	–	–
Japan	1,798	–	–	1,798	–	–
Supranational[32]	577	–	–	–	–	577
Canada	385	326	50	9	–	–
Australia	701	471	230	–	–	–
Germany	842	842	–	–	–	–
United Kingdom	469	–	315	154	–	–
France	87	–	–	87	–	–
Other Non-European	108	–	108	–	–	–
Total Financial Assets[33]	**93,456**	**60,137**	**30,035**	**2,419**	**286**	**579**

32 Supranational includes BIS unitised funds and other financial assets held with the BIS.

33 Excludes BIS share investments of $293 million at 30 June 2023 (2022: $281 million) as this is an equity investment (Note 6).

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

(c) Collateral Management

Securities Purchased under Agreements to Resell – Reverse-repurchase Agreements (Note 3)

As outlined in Note 3, where the Reserve Bank purchases securities under agreements to resell (reverse-repurchase agreements), the Reserve Bank reports the amount receivable from these agreements in the Statement of Financial Position at fair value.

Securities Sold under Agreements to Repurchase – Repurchase Agreements

Where the Reserve Bank sells securities it owns under agreements to repurchase (repurchase agreements), the securities continue to be included as assets in the Reserve Bank's Statement of Financial Position, and the Reserve Bank records as liabilities the consideration payable under the repurchase agreements. The consideration payable under the agreement to repurchase is recorded at Fair Value. Movements in the fair value of securities sold under agreements to repurchase are reported in the Statement of Financial Performance within Net Gains/(Losses) from Fair Value Changes.

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

Securities Lending Programme

The Reserve Bank lends securities to approved counterparties under the Securities Lending Programme, and receives collateral in the form of either cash or securities. The transfer of the securities to counterparties is only reflected as a reduction to the securities held in the Statement of Financial Position if the risks and rewards of ownership are also transferred. As at 30 June 2023 there were no securities transferred (2022: nil).

Collateral advanced by the borrower in the form of readily marketable securities (non-cash) is held in escrow by a third-party agent.

Recourse to those securities is only available in the event of default by the borrower and, as such, the non-cash collateral is not recognised in the Statement of Financial Position. Collateral provided by the borrower in the form of cash is recognised in the Statement of Financial Position as an asset, along with a corresponding liability to repay the cash collateral to the borrower. The Reserve Bank records revenue from securities lending as it accrues.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

The Reserve Bank mitigates credit risk by requiring counterparties to provide high quality collateral. The Reserve Bank receives collateral for most derivative contracts and reverse-repurchase agreements. Collateral usually takes the form of cash, government securities or highly rated residential mortgage-backed 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 is requested from or excess collateral returned to the counterparty as required.

Non-cash collateral received and posted is only recognised in the Statement of Financial Position if the risks and rewards of ownership are also transferred.

	2023 $M	2022 $M
Reverse-Repurchases		
Securities Purchased under Agreements to Resell	21,944	14,325
Fair Value of Collateral Received	27,189	17,910
Repurchases		
Securities Sold under Agreements to Repurchase	425	777
Fair Value of Collateral Posted	414	760
Derivatives		
Assets		
Carrying Amount of Derivative Assets	274	271
Fair Value of Cash Collateral Posted	1,382	1,153
Liabilities		
Carrying Amount of Derivative Liabilities	1,493	1,327
Fair Value of Securities Received	3	4
Fair Value of Cash Collateral Received	92	133
Securities Lending Programme		
Fair Value of Securities Lent	489	611
Fair Value of Securities Received	499	625

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

(d) Expected Credit Loss Measurement

Accounting Policy

Impairment of Financial Assets

The Reserve Bank assesses impairment of financial assets that are classified as either FVOCRE or amortised cost, and also for loan commitments. Impairment is assessed from the date of initial recognition using a three-stage model.

- Stage 1 applies to financial assets for which there has not been a significant increase in credit risk since initial recognition. The Expected Credit Loss (ECL) impairment provision is calculated from default events possible within the next 12 months.
- Stage 2 applies to financial assets for which there has been a significant increase in credit risk since initial recognition. The ECL impairment provision is calculated based on expected credit losses on a lifetime basis.
- Stage 3 applies to financial assets that are considered to be credit-impaired. As for Stage 2, the ECL impairment provision is calculated taking into account the expected credit losses on a lifetime basis, but with the effective interest rate on the financial asset recalculated based on the amortised cost (including the ECL). This adjustment would change the future recognition of interest income from the financial asset.

The key inputs into the measurement of the ECL impairment provision are:

- The probability of default (PD), which represents the estimated likelihood of a borrower defaulting on its financial obligation over a specific time period. PDs are estimated using external data, along with judgement;
- Loss-given-default (LGD) is the proportion of an exposure that is lost as a result of a counterparty default. LGD estimates are informed by external data; and
- Exposure at default (EAD) is the magnitude of the exposures in the event of a default and is determined based on the future expected cash flows discounted at the effective interest rate.

Any ECL impairment provision is presented in the Statement of Financial Position as follows:

- For financial assets measured at amortised cost, as a deduction from the gross carrying amount of the asset.
- For loan commitments, as a provision within Other Financial Liabilities.

Determining Significant Increase in Credit Risk

Under PBE IPSAS 41, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Reserve Bank will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Reserve Bank's historical experience, expert credit assessment and forward looking information.

Credit-impaired

A financial asset is deemed credit-impaired when one or more events with a detrimental impact on its estimated future cash flows have occurred. Such events could include but are not limited to (1) significant financial difficulty of the counterparty; (2) a breach of contract, such as default or past-due event; and (3) the likelihood that the counterparty will enter bankruptcy or other financial reorganisation.

Default

The Reserve Bank will consider a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Reserve Bank in full, without recourse by the Reserve Bank such as realising collateral (if held).

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

Key Accounting Estimates and Judgements

Expected Credit Loss (ECL)

Estimating ECLs involves judgement. The Reserve Bank assesses its financial assets carried at amortised cost, mainly its reverse-repurchase agreements and Investments – New Zealand Government Securities measured at amortised cost, for any deterioration in credit quality which could result in losses being recorded. Significant judgements required for measuring ECL include the following:

- determining criteria for assessing whether a financial asset is considered to have low credit risk;
- determining criteria for assessing what constitutes a significant increase in credit risk; and
- determining appropriate data inputs for PDs, LGDs and EADs.

The Reserve Bank's assessment is performed on an individual exposure basis and takes account of the counterparties with which balances are held. The Reserve Bank has applied the methodology described above to assess the provision for ECLs required in respect of all assets that are accounted for at amortised cost. All of the Reserve Bank's financial assets subject to impairment assessments are Stage 1 and are considered to have low credit risk. There were no transfers of financial instruments between stages during the reporting period.

The Reserve Bank did not record any ECLs on these financial instruments carried at amortised cost as at 30 June 2023 (2022: nil) because the amount was deemed not to be material. The Reserve Bank held no past due or impaired assets at 30 June 2023 or 30 June 2022.

16. Liquidity Risk

Liquidity risk is the risk that the Reserve Bank will not have the resources required at a particular time to meet its obligation to settle its financial liabilities. Liquidity risk also includes the risk associated with the Reserve Bank, in extraordinary circumstances, having to sell a financial asset quickly at less than its fair value.

The objectives of the Reserve 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 Reserve 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.

As New Zealand's central bank, the Reserve Bank is able to create New Zealand dollar liquidity through its daily market operations. Therefore the Reserve Bank is not required to maintain liquid assets to meet its New Zealand dollar obligations.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

17. Cash Flows by Remaining Contractual Maturities

The table below sets out the maturity profile of the Reserve 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. 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 below includes projected contractual cash flows from New Zealand Government Inflation-indexed Bonds of $4,569 million (2022: $5,782 million). These bonds have an average earnings rate that includes both a set quarterly coupon rate of interest and a further component that is linked to the quarterly change in the Consumer Price Index. The projected contractual cash flows for these bonds includes projected inflation adjustments to coupons and cash flows upon maturity for all periods until the maturity date of those bonds.

Key assumptions include:

- Deposits are on demand and therefore have no contractual interest expense;
- Contractual receipts from fixed interest securities are equal to the coupon payments to be received from holding those securities until maturity. This differs from interest income to be reported in the Statement of Financial Performance, which takes into account the amortisation of any premium paid or discount received at the time the securities were purchased; and
- The table below assumes that payments will be made to the Crown under the Crown LSAP Indemnity for the LSAP programme. Those payments are assumed to equal the projected income using the effective interest rate on assets included in that programme. No deduction has been made for interest paid on Deposits funding the LSAP programme because, as noted above, Deposits are on-demand and have no contractual interest expense.

Financial liabilities payable on demand includes currency in circulation. However, historical experience has shown that these balances provide a stable source of long-term funding for the Reserve Bank.

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

The table below excludes financial assets that have no fixed maturity dates, being the BIS unitised funds, which had an aggregate carrying value at 30 June 2023 of $579 million (2022: $574 million). These financial assets are included within "Investments – Foreign Currency" on the Consolidated Statement of Financial Position. Also excluded from the table are shares in the BIS, which had a value at 30 June 2023 of $293 million (2022: $281 million) and are included in Note 6. The table excludes the Reserve Bank's contractual cash flows for off-balance sheet commitments that are disclosed in Note 23.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

	Total 2023 $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
Financial Assets							
Cash Balances	8,267	8,267	–	–	–	–	–
Investments – Foreign Currency	6,258	–	1,865	699	2,340	1,344	10
Investments – New Zealand Government Securities	5,535	–	8	249	356	1,155	3,767
Securities Purchased under Agreements to Resell	23,915	–	814	3,108	10,482	9,511	–
Securities – LSAP Programme[34]	47,649	–	12	6,400	7,578	11,687	21,972
Unsettled Indemnity Receivable from the Crown	338	–	338	–	–	–	–
Other Financial Assets	1,591	1,382	18	25	64	27	75
Cash Flow from Financial Assets (excluding Derivatives)	**93,553**	**9,649**	**3,055**	**10,481**	**20,820**	**23,724**	**25,824**
Financial Liabilities							
Deposits	72,525	72,525	–	–	–	–	–
Securities Sold under Agreements to Repurchase	425	–	425	–	–	–	–
Reserve Bank Bills	2,300	–	2,300	–	–	–	–
Currency in Circulation	8,920	8,920	–	–	–	–	–
Other Financial Liabilities	213	213	–	–	–	–	–
Cash Flow from Financial Liabilities (excluding Derivatives)	**84,383**	**81,658**	**2,725**	**–**	**–**	**–**	**–**
Net Local Currency Derivative (including Crown Indemnity for LSAP Programme)	11,806	–	(3,328)	1,704	3,920	5,189	4,321
Net Foreign Currency Derivatives	(14,975)	–	3,306	(2,108)	(4,560)	(6,243)	(5,370)
Total Net Gap in Contractual Maturities	**6,001**	**(72,009)**	**308**	**10,077**	**20,180**	**22,670**	**24,775**

34 Excludes announced intentions to sell $5 billion per year as this is not committed.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

	Total 2022 $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
Financial Assets							
Cash Balances	7,975	7,975	–	–	–	–	–
Investments – Foreign Currency	5,368	–	403	1,376	1,550	2,039	–
Investments – New Zealand Government Securities	4,957	–	7	341	236	1,202	3,171
Securities Purchased under Agreements to Resell	15,703	–	34	26	3,335	12,308	–
Securities – LSAP Programme[35]	64,151	–	16	9,307	6,528	18,118	30,182
Unsettled Indemnity Receivable from the Crown	49	–	49	–	–	–	–
Other Financial Assets	1,388	1,153	13	31	25	90	76
Cash Flow from Financial Assets (excluding Derivatives)	**99,591**	**9,128**	**522**	**11,081**	**11,674**	**33,757**	**33,429**
Financial Liabilities							
Deposits	78,273	78,273	–	–	–	–	–
Unsettled Indemnity Payable to the Crown	–	–	–	–	–	–	–
Term Liabilities	1,440	–	5	1,435	–	–	–
Securities Sold under Agreements to Repurchase	777	–	777	–	–	–	–
Reserve Bank Bills	200	–	200	–	–	–	–
Currency in Circulation	8,980	8,980	–	–	–	–	–
Other Financial Liabilities	173	171	2	–	–	–	–
Cash Flow from Financial Liabilities (excluding Derivatives)	**89,843**	**87,424**	**984**	**1,435**	**–**	**–**	**–**
Net Local Currency Derivative (including Crown Indemnity for LSAP Programme)	7,572	–	(2,680)	606	2,226	5,189	2,231
Net Foreign Currency Derivatives	(12,143)	–	2,619	(987)	(2,661)	(6,687)	(4,427)
Total Net Gap in Contractual Maturities	**5,177**	**(78,296)**	**(523)**	**9,265**	**11,239**	**32,259**	**31,233**

35 Excludes announced intentions to sell $5 billion per year as this is not committed.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

Financial Performance Notes

18. Net Investment Income

Net Investment Income includes:

	2023 $M	Unaudited Budget 2023 $M	2022 $M
Interest Income from Financial Assets Measured at Amortised Cost			
Cash Balances	246		8
Investments – New Zealand Government Securities	187		152
Securities Purchased under Agreements to Resell (FLP Initial Allocation)	490		72
Cash Collateral	50		3
Total Interest Income	**973**		**235**
Other Interest Income from Financial Assets Measured at Fair Value through Surplus or (Deficit)			
Investments – Foreign Currency	106		57
Securities – LSAP Programme	539		562
Crown Indemnity for LSAP Programme	1,664		–
Derivatives	773		160
Securities Purchased under Agreements to Resell (TLF and FLP Additional Allocation)	248		27
Other	14		3
	3,344		**809**
Total Interest Income and Other Interest Income	**4,317**		**1,044**
Interest Expense from Financial Assets Measured at Amortised Cost			
Interest on Cash Balances (Euro and Japanese Yen)	–		(14)
			(14)
Interest Expense from Financial Assets Measured at Fair Value through Surplus or (Deficit)			
Crown Indemnity for LSAP Programme	–		(63)
Interest on Investments (Euro and Japanese Yen)	–		(9)
			(72)
Interest Expense from Financial Liabilities Measured at Amortised Cost			
Settlement Institution Deposits	(2,104)		(368)
New Zealand Government Deposits (CSA)	(1,041)		(260)
Central Bank Deposits	(106)		–
	(3,251)		**(628)**
Interest Expense from Financial Liabilities Measured at Fair Value through Surplus or (Deficit)			
Term Liabilities	(39)		(8)
Securities Sold under Agreements to Repurchase	(24)		(1)
Derivatives	(581)		(74)
Reserve Bank Bills	(80)		(2)
Other	(1)		(2)
	(725)		**(87)**
Total Interest Expense	**(3,976)**		**(801)**
Net Interest Income	**341**	**263**	**243**

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

	2023 $M	Unaudited Budget 2023 $M	2022 $M
Net (Losses)/Gains from Fair Value Changes			
Changes in Fair Value of the Crown LSAP Indemnity	371		5,607
Changes in Fair Value of LSAP Securities	(371)		(5,607)
Derivative Financial Instruments Measured at Fair Value through Surplus or (Deficit)	30		74
Financial Assets Measured at Fair Value through Surplus or (Deficit)	(104)		(407)
Financial Liabilities Measured at Fair Value through Surplus or (Deficit)	(1)		(1)
Fair value adjustment on initial recognition of the TLF	–		(1)
Total Net (Losses)/Gains from Fair Value Changes	**(75)**		**(335)**
Net Gains/(Losses) from Foreign Exchange Rate Changes			
Derivative Financial Instruments Measured at Fair Value through Surplus or (Deficit)	(295)		193
Financial Assets Measured at Fair Value through Surplus or (Deficit)	169		467
Financial Assets Measured at Amortised Cost	196		(537)
Net Gains/(Losses) from Foreign Exchange Rate Changes	**70**		**123**
Dividend Income from Investments in Equity Instruments Measured at Fair Value through Other Comprehensive Revenue and Expense	**2**		**2**
Total Net Investment Income	**338**	**263**	**33**

Interest Income from the New Zealand Government (including entities controlled by the New Zealand Government) excluding the LSAP Programme comprised 5% (2022: 32%) of interest received.

The total net investment income was favourable to budget largely due to increased net interest income due to higher than budgeted interest rates. Foreign exchange gains resulting from the weakening of the New Zealand dollar were more than offset by fair value losses on fixed interest investments.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

19. Revenue and Expenses by Function

Accounting Policy

Fee Revenue

Fee revenue earned from the provision of services is recognised and is included in Other Revenue in the Statement of Financial Performance on an accruals basis as the services are provided, and largely relates to income received from ESAS, NZClear and property sub-rental.

Revenue and Expenses Allocated to Functions

Revenue and expenses are allocated by reference to the functions the Reserve Bank performs. The Guide to the Main Functions of the Reserve Bank on page 100 describes the scope and key activities of each function, in line with the output classes assessed in our Statement of Performance. Each function receives revenue and incurs expenses relating directly to the assets and liabilities used by that function.

Revenue is allocated as closely as possible to reflect its source. Revenue on investments is allocated directly to functions, whereas centrally-held fungible funding is allocated to functions through internal funds transfer pricing. The benefit of centrally-held interest-free equity funding is then attributed to functions as a second-stage allocation based on the estimated required equity for each function.

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. Functional revenue and expenses are net of internal funding cost allocations and internal charges between functions.

The following tables set out operating revenue and operating expenses for each of the Reserve Bank's main functions. As required under the RBNZ Act 2021, from 1 July 2022 both actuals and budgets are presented.

2023 $M	Monetary Policy	Financial stability and prudential regulation and supervision	Stewardship of money, cash and payments	Engaging with stakeholders and cooperating with regulatory agencies and other relevant institutions	Total
Actual					
Operating Revenue	(29)	–	390	–	361
Operating Expenses	46	50	48	15	159
Surplus/(Deficit)	**(75)**	**(50)**	**342**	**(15)**	**202**
Budget					
Operating Revenue	106[36]	1	178[36]	1	286
Operating Expenses	48	50	53	18	169
Surplus/(Deficit)	**58**	**(49)**	**125**	**(17)**	**117**

36 Operating revenue budget of $157 million which relates to seigniorage income has been reclassified from that presented in the Statement of Performance Expectations for 2022-2023, from Monetary Policy to Stewardship of money, cash and payments function to better represent the nature of this revenue.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

Monetary Policy operating revenue includes other net investment income and is unfavourable to budget due to higher than budgeted floating-rate funding costs on fixed-rate investments. Foreign exchange and fair value movements are budgeted at nil, however these broadly offset for the year.

Stewardship of money, cash and payments operating revenue largely relates to seigniorage, which is the net income the Reserve Bank receives from investing the funds received from trading banks on the sale of banknotes and coins to them (currency in circulation) and has no cost of funding. Seigniorage is favourable to budget due to higher than budgeted interest rates.

2022 $M	Monetary Policy[37]	Financial stability and prudential regulation and supervision[37]	Stewardship of money, cash and payments[37]	Engaging with stakeholders and cooperating with regulatory agencies and other relevant institutions[37]	Total
Actual					
Operating Revenue	(41)	1	94	N/A	54
Operating Expenses	46	50	44	N/A	140
Surplus/(Deficit)	**(87)**	**(49)**	**50**	**N/A**	**(86)**

37 The 2022 functions have been reclassified to align with 2023 output classes as included within the Statement of Performance. Monetary Policy Formulation and Financial Markets have been reclassified to Monetary Policy. Currency operations and Payments and Settlement services have been reclassified to be Stewardship of money, cash and payments. Engaging with stakeholders and cooperating with regulatory agencies and other relevant institutions is a new function with no comparable actual balances reported in 2022. As this is the first year the Reserve Bank has been required to present a Statement of Performance no budgets are presented for 2022 by output class.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

20. Operating Expenses

	2023 $M	Unaudited Budget 2023 $M	2022 $M
Staff Expenses	80	86	66
Net Currency-issued Expenses	5	7	8
Asset Management Expenses	13	16	12
Other Operating Expenses	61	60	55
Total Operating Expenses Excluding Actuarial (Gain)/Loss on Defined Benefit Superannuation Scheme	**159**	**169**	**141**
Actuarial (Gain)/Loss on Defined Benefit Superannuation Scheme	–	–	(1)
Total Operating Expenses	**159**	**169**	**140**

Total operating expenses are $10 million less than budget principally due to later than planned recruitment, together with lower issuances of bank notes than budgeted and lower asset management costs.

The table below outlines key expenditure items which are required to be disclosed as per PBE IPSAS 1 – Presentation of Financial Reports and the RBNZ Act 2021.

	2023 $M	2022 $M
Staff Expenses include		
Severance and Redundancy Expenses	–	1
Asset Management Expenses include		
Depreciation of Property, Plant and Equipment	6	6
Amortisation of Intangible Assets	4	3
Other Operating Expenses include		
Rental and Lease Expenses	1	1
Bad Debt Expenses	–	–
Expenses Excluded from the Funding Agreement		
Expenses excluded from the Funding Agreement	26	19

Staff Expenses

Where staff expenses are capitalised as part of the cost of capital projects, those expenses are not recorded within operating expenses in the Consolidated Statement of Financial Performance, but are recorded within Other Assets in the Consolidated Statement of Financial Position (Note 7). For 2023, no staff expenses (2022: $1 million) have been capitalised as part of the costs of these capital projects. The full costs of these capital projects will be amortised over their useful lives. Seven individuals were paid severance or redundancy during the year at a cost of $0.4 million (2022: 11 individuals at a cost of $0.9 million).

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

Expenditure excluded from the Funding Agreement

Expenses incurred by the Reserve Bank which are excluded from the funding agreement include: Actuarial (gains)/losses, NZClear and ESAS expenses, property management, litigation, security custodian expenses and bank and broking fees. Certain incremental costs of implementing the Deposit Takers Act (DTA) and Depositor Compensation Scheme (DCS) have been excluded, with confirmation of the funding source confirmed post balance date (refer to Note 30 for further detail).

Key Management Personnel

From 1 July 2022 Key Management Personnel includes the Board of Directors and the Executive Leadership Team. Previously the Board of Directors were not considered to be Key Management Personnel as the Board Members were not responsible for decision making by the Reserve Bank under the RBNZ Act 1989.

Under the new RBNZ Act 2021 (effective from 1 July 2022) the Reserve Bank Board of Directors is the governing body of the Reserve Bank, with the authority to exercise the powers and perform the functions of the Reserve Bank. Therefore from 1 July 2022 the Reserve Bank Board is considered Key Management Personnel as defined in the PBE IPSAS 20 Related Party Disclosures.

The Executive Leadership Team is led by the Governor and are jointly responsible for progressing the vision and for all strategic, financial, legal, operational and reputational matters.

Part way through 2022 the Executive Leadership Team increased from seven to ten, with 2023 being the first full year with an Executive Leadership Team of ten.

For the year ended 30 June, aggregate remuneration paid to Key Management Personnel comprised:

	2023 $000	2023 Number of Members	2022 $000	2022 Number of Members
Board of Directors	662	7	–[38]	–[38]
Executive Leadership Team	5,169	10	4,298	10
Total	**5,831**		**4,298**	

Remuneration for the Executive Leadership Team includes salaries, superannuation contributions, short-term benefits and other payments. All remuneration received by the Governor is included in the Executive Leadership Team remuneration as he does not receive directors' fees.

Key management personnel did not receive any remuneration or compensation from the Reserve Bank other than in their capacity as key management personnel (2022: nil).

The Reserve Bank did not provide any compensation at non-arm's length terms to close family members of key management personnel during the year (2022: nil).

38 The 2022 Board of Directors was an advisory Board and was therefore not considered key management personnel. The advisory Board consisted of 6 members.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

Other Notes

21. Auditor's Remuneration

	2023 $000	2022 $000
Statutory Audit	797	570
Payment Systems Assurance	302	162
Fees for Prior Period Payment Systems Assurance paid in Current Year	42	56
LSAP Elimination for the Financial Statements of the Government	–	19
	1,141	**807**

The Statutory Audit expense comprises the agreed upon fee for the audit of the annual financial statements of the Reserve Bank. The increase in the fee in 2023 largely relates to the increasing complexity of the Reserve Bank's operations, including new requirements under the Reserve Bank of New Zealand Act 2021 and the requirement to report a Statement of Performance for the first time for the year ended 30 June 2023.

The Payment Systems Assurance expense comprises the initial agreed upon fees paid for assurance engagements of the NZClear system and ESAS. Fees for increased scope and additional work in relation to the prior period paid in the current period have been classified separately above.

The LSAP elimination for the Financial Statements of the Government expense comprises fees for specified procedures over the LSAP programme for consolidated reporting purposes, and is incurred by the Treasury for the year ended June 2023.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

22. Reconciliation of Net Cash Flows from Operating Activities with (Deficit)/Surplus for the Year

	2023 $000	2022 $000
(Deficit)/Surplus for the Year	**202**	**(86)**
Add/(Subtract) Items Included in Surplus Relating to Cash Flows from Changes in Operating Asset and Liability Balances and Investing and Financing Activities		
Foreign Exchange Rate Changes – Losses/(Gains)[39]	(70)	(123)
Fair Value Changes – Losses/(Gains)	28	308
Add/(Subtract) Non-cash Items		
Depreciation and Amortisation	10	9
Amortisation of Premium/Discount on Financial Instruments	806	964
Realised Losses From Disposal (managed sales) of LSAP Securities	1,787	–
Net Movement in Repatriated Currency Revenue and Expense	(1)	1
	2,560	**1,159**
Movements in Other Working Capital Items		
Decrease/(Increase) in Current Assets		
Movement in Accounts Receivable	–	(8)
Movement in Inventories	(7)	(2)
Movement in Unsettled Indemnity	(289)	–
Movement in Interest Receivable	(603)	(84)
	(899)	**(94)**
(Decrease)/Increase in Current Liabilities		
Movement in Unsettled Indemnity	–	(71)
Movement in Interest Payable	10	8
	10	**(63)**
Net Movements in Other Working Capital Items	**(889)**	**(157)**
Operating Cash Flows from Revenue and Expenses	1,873	916
Cash Flows from Changes in Other Operating Asset and Liability Balances	(9)	1,296
Net Cash Flows from Operating Activities	**1,864**	**2,212**

39 Foreign Exchange Rate Changes – 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 page 104.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

23. Statement of Commitments

(a) Provision of Funding to the New Zealand Financial System

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

Under the FLP, drawdown of the Initial Allocation closed on 6 June 2022. The Reserve Bank committed to make up to $9 billion available to banks under the FLP Additional Allocation, which was available for drawdown until 6 December 2022. As at 30 June 2023, $19.0 billion (2022: $12.3 billion) of nominal lending has been advanced for both the Initial and Additional Allocation (refer to Note 3 for more details).

(b) Reciprocal Funding Arrangements with Foreign Central Banks

On 22 August 2020 the People's Bank of China (PBOC) and the Reserve 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 line provides for the PBOC and the Reserve Bank to enter foreign exchange swap transactions that have a total value at any point of up to RMB 25 billion with the terms of the foreign exchange swaps to be agreed at the time the swaps are entered into. No drawings were made under this arrangement in the year ended 30 June 2023 (2022: nil).

The Reserve Bank also has a reciprocal arrangement with the Hong Kong Monetary Authority, which allows either party to enter into repurchase agreements with the other to raise up to USD 250 million, secured by United States Government Securities. The swap line has been in place since 1997 and is committed until 31 March 2024. No drawings were made under this arrangement in the year ended 30 June 2023 (2022: nil).

(c) Commitments to the New Zealand Government

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

The IMF updated the New Arrangements to Borrow and the Bilateral Borrowing Agreements from 1 January 2022. The two standby loan facilities entered into by the Government are:

- to provide loans to the IMF up to SDR 680 million if the IMF makes a call on the New Zealand Government in respect of the Government's commitment under the IMF's 'New Arrangements to Borrow' facility; and
- to provide loans to the IMF of up to USD 431 million if the IMF makes a call on the New Zealand Government in respect of the Government's commitment under the IMF's '2016 Bilateral Borrowing Agreements' facility.

During the year ended 30 June 2023, no funds were made available to the Government under these arrangements (2022: nil).

The Reserve Bank provides an overdraft facility to the New Zealand Government in respect of the Crown Settlement Account (CSA). The Crown pays and receives interest on overdrawn and positive balances at OCR. The overdraft facility is $5 billion and undrawn at balance date (2022: $5 billion undrawn).

The New Zealand Government and the Reserve Bank have entered into an indemnity arrangement in respect of the LSAP Programme. Refer to Note 4 for further details.

(d) Commitments for Capital Expenditure and Purchase of Inventories

At reporting date the Reserve Bank had no commitments for capital expenditure and the purchase of inventories (2022: $6 million).

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

24. Superannuation Commitments

Key Accounting Estimates and Judgements

Superannuation and Post-retirement Obligations

The Reserve Bank has obligations under a defined benefit and a defined contribution superannuation scheme. 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.

The Reserve Bank's superannuation fund, the Reserve Bank of New Zealand Staff Superannuation and Provident Fund (the "Fund"), is a defined benefit and defined contribution superannuation fund to provide retirement benefits to the employees of the Reserve Bank. Contributions, as specified in the rules of the respective schemes, are made by the Reserve Bank as required. Membership of the defined contribution division of the Fund has been closed since 2000. Membership of the defined benefit division of the Fund has been closed since 1991. The Fund's membership is now predominantly comprised of members receiving a pension from the Fund.

Defined Benefit Scheme

As at 30 June	2023 $M	2022 $M
Superannuation Asset/Liability		
Present Value of Wholly or Partly Funded Obligations	(23)	(25)
Fair Value of Scheme Assets	26	26
Present Value of Net Asset/(Obligation)	**3**	**1**
Net Asset/(Liability) Recognised in the Statement of Financial Position	**–**	**–**

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 scheme. The value of net assets of the defined benefit superannuation scheme not recognised as an asset of the Reserve Bank was $3 million (2022: $1 million).

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

	2023 %	2022 %
Discount Rate at the Beginning of the Year	3.34	2.96
Expected Rate of Return on Scheme Assets at the Beginning of the Year	3.34	2.96
Future Salary Increases	3.00	3.00
Other Material Actuarial Assumptions: Pension Increases	3.87	4.02

The Reserve Bank's net Superannuation Asset/Liability in respect of the defined benefit scheme is determined by applying public sector accounting standard PBE IPSAS 39 Employee Benefits. In preparing the Fund's financial statements the Trustees of the Fund apply accounting standard NZ IAS 26 Accounting and Reporting by Retirement Benefit Plans and other "For Profit" accounting standards. PBE IPSAS 39 and NZ IAS 26 include different accounting requirements and allow the adoption of different assumptions and methodologies for determining the relevant obligations for financial reporting purposes.

Accordingly, the Reserve Bank's defined benefit liability and related assumptions will be different from the corresponding obligations and assumptions reported in the Fund's financial statements.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

Actuarial Valuations

Statutory actuarial valuations of the schemes are undertaken every three years, with the latest statutory valuation being undertaken as at 31 March 2021. 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 schemes' financial position at 31 March updated for 30 June for any material changes. Contributions by the Reserve Bank to the defined benefit scheme are at a rate, reviewed triennially, sufficient to keep the scheme solvent, based on actuarial assessments.

25. Controlled Entity

The Reserve 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 29.

26. Related Parties

In the normal course of its operations the Reserve 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;
- indemnity payments and receipts as part of the LSAP programme[40]; and
- purchases and disposals of New Zealand Government Securities

40 Receipts and payments with the Crown relating to the indemnity are in accordance with the terms of the Crown LSAP Indemnity as outlined in Note 4.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

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

Year Ended 30 June	2023 $M	2022 $M
Receipts from and Payments to Entities Controlled by the New Zealand Government		
Revenue Recognised from Entities Controlled by the New Zealand Government		
Interest Income	779	709
Rental Revenue	3	3
LSAP Indemnity Receipts from the Crown	3,451	42
Receipts of a Capital Nature from Entities Controlled by the New Zealand Government		
Receipt of Proceeds on Maturity of New Zealand Government Securities: Amortised Cost	250	–
Receipt of Proceeds on Maturity of New Zealand Government Securities: Fair Value through Surplus or Deficit	8,935	–
Receipt of Proceeds from Disposals (managed sales) of LSAP Securities	4,081	–
Receipt on Maturity of Securities Purchased under Agreements to Resell	26	14
Payments of Expenses to Entities Controlled by the New Zealand Government		
Interest Expense	1,125	278
LSAP Indemnity Payments to the Crown	–	178
Payments of a Capital Nature to Entities Controlled by the New Zealand Government		
Net Decrease/(Increase) in Deposits	12,015	5,089
Payment for Purchase of New Zealand Government Securities: Amortised Cost	524	147
Payment for Maturity of Term Liability	1,400	–
Payment of Dividend to the New Zealand Government	–	140
Payment for Securities Purchased under Agreements to Resell	285	635
Balances with Entities Controlled by the New Zealand Government		
Assets that Comprise Claims on Entities Controlled by the New Zealand Government		
Investments – New Zealand Government Securities	4,087	3,732
Securities Purchased under Agreements to Resell	1,503	1,190
Securities – LSAP Programme	37,128	50,036
Crown Indemnity for LSAP Programme	7,316	8,733
Unsettled Indemnity Receivable from the Crown	338	49
Bond Market Liquidity Support – New Zealand Government Securities	57	79
Liabilities that Comprise Claims by Entities Controlled by the New Zealand Government		
Deposits	22,501	34,516
Term Liabilities	–	1,403
Dividend Payable	–	–
Unsettled Indemnity Payable to the Crown	–	–

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

27. Contingent Liabilities

Superannuation Fund

Pursuant to a Trust Deed dated 30 November 2016 as amended by deeds of amendment dated 12 June 2018, 7 March 2019, 17 December 2020 and 25 June 2021, the Reserve Bank has a contingent liability to maintain the actuarial soundness of the Reserve Bank of New Zealand Staff Superannuation and Provident Fund (Note 24).

The Fund's Trust Deed provides for the defined benefit scheme division of the Fund to be wound up in the event that the Reserve Bank is wound up or by resolution of the Reserve Bank's directors. In the event that the Fund is wound up, the Reserve Bank is responsible to make good any shortfall. With the changing dynamics of the Fund's membership, the Reserve Bank is currently working with the Trustees and the Government Superannuation Fund (GSF) on an option to consider winding up the Fund and transfer remaining pensions to the GSF. Should this option proceed and there be a funding shortfall in the Fund at that time, the Reserve Bank is expected to incur an additional cost to cover this amount. Importantly, should a transfer proceed, beneficiaries will retain their full entitlements.

Demonetised Currency

The Reserve Bank has a contingent liability for currency in circulation that has been demonetised but not returned to the Reserve Bank, but only to the extent that the Reserve Bank has not recognised an actual liability as described in Note 9. The face value of demonetised currency issued before 1 July 2004 that is not recognised as a liability is $23 million (2022: $23 million).

The Reserve Bank has a contingent liability for collectors' currency. The face value of collectors' currency issued before 1 July 2004 that is not recognised as a liability is $10 million (2022: $10 million).

BIS Shareholding

As at 30 June 2023, the Reserve Bank had a contingent liability of $26 million (SDR 12 million) (2022: $26 million [SDR 12 million]) in respect of uncalled and unpaid capital attached to its shareholding in the BIS (Note 6).

Building Asbestos Management

As outlined in Note 7, the valuation of the Reserve Bank building at 2 The Terrace incorporates certain risks associated with asbestos management. In addition, the Reserve Bank will need to incur costs associated with relocation should remediation take place. The timing and costs associated with remediation and relocation are uncertain at this time.

28. Income Tax

Section CW38 of the Income Tax Act 2007 exempts the Reserve Bank from income tax. Accordingly, no provisions are raised for current or deferred income taxes. The Reserve Bank incurs and meets liabilities for goods and services tax, fringe benefit tax and other withholding tax.

Notes to be read as part of the consolidated financial statements

For the Year Ended 30 June 2023

29. Custodial Activities

The Reserve 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.

NZCSD is a wholly owned New Zealand-incorporated subsidiary of the Reserve Bank (Note 25) that is incorporated solely to act as a custodian trustee, pursuant to a Deed of Appointment between the Reserve Bank and NZCSD. The Reserve 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 Reserve Bank and held through NZCSD, the Reserve 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 2023 was $413.6 billion (2022: $388.6 billion). This comprised fixed interest securities with a face value of $348.6 billion (2022: $331.3 billion) and equities with a market value of $65.0 billion (2022: $57.3 billion). This included fixed interest securities held for the Reserve Bank of $70.6 billion (2022: $74.4 billion).

Under the NZClear System Rules, the Reserve 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.

30. Post-reporting-date Events

Financial Resources

As outlined Note 11, during the year the Reserve Bank reviewed its foreign reserves and other financial resources to determine the level of capital (or indemnities) considered sufficient to cover a prudent range of potential financial losses that may arise in severe but plausible scenarios in order to meet its monetary policy, financial stability and liquidity management objectives.

In May 2023 the Minister of Finance agreed to a capital injection of $500 million to manage the financial risks associated with the Foreign Reserves Co-ordination Framework, which was received in July 2023. In July 2023, the Crown provided an indemnity in relation to foreign reserves losses for the purpose of monetary policy or financial stability interventions.

In August 2023 Cabinet agreed to increase the Reserve Bank's financial resources in the form of a $1.3 billion capital injection. In September 2023 the Reserve Bank and the Minister of Finance agreed to a $5.0 billion standing indemnity for domestic policy tools, primarily to support financial stability interventions.

Funding

In August 2023 the Minister of Finance agreed to a variation to the Reserve Bank's Funding Agreement to provide additional funding required by the Reserve Bank to implement the new regulatory and supervisory regime under the recently enacted Deposit Takers Act 2023, and the Depositor Compensation Scheme (see also Note 20). It also provides some further investment in the Reserve Bank's critical infrastructure and projects and to support under-resourced key areas.

Five-year Historical Financial Information

Five-year Financial Position

As at 30 June	Audited 2023 $M	Audited 2022 $M	Audited 2021 $M	Audited 2020 $M	Audited 2019 $M
Assets					
Cash Balances	8,267	7,972	5,325	9,838	13,579
Investments – Foreign Currency	6,503	5,736	7,946	15,661	7,811
Investments – New Zealand Government Securities	4,087	3,732	3,529	3,168	3,255
Securities Purchased under Agreements to Resell	21,944	14,325	5,550	897	744
Securities – LSAP Programme	38,103	51,283	57,496	21,989	–
Crown Indemnity for LSAP programme	7,316	8,733	3,126	57	–
Other Assets	2,640	2,131	1,317	4,490	1,308
Total Assets	**88,860**	**93,912**	**84,289**	**56,100**	**26,697**
Liabilities and Equity					
Deposits	72,525	78,273	69,509	41,603	13,478
Term Liabilities	–	1,403	1,397	1,582	1,595
Currency in Circulation	8,920	8,980	8,175	7,941	6,732
Other Liabilities	4,436	2,486	2,373	1,865	2,256
Net Assets / Equity	2,979	2,770	2,835	3,109	2,636
Total Liabilities and Net Assets / Equity	**88,860**	**93,912**	**84,289**	**56,100**	**26,697**

For the Year Ended 30 June	Audited 2023 $M	Audited 2022 $M	Audited 2021 $M	Audited 2020 $M	Audited 2019 $M
Operating Revenue					
Net Investment Income	338	33	(22)	457	317
Other Revenue	23	21	20	19	12
Total Operating Revenue	**361**	**54**	**(2)**	**476**	**329**
Operating Expenses					
Staff Expenses	80	66	54	46	37
Net Currency-issued Expenses	5	8	4	14	10
Asset Management Expenses	13	12	12	9	12
Other Operating Expenses	61	55	42	33	24
Total Operating Expenses Excluding Actuarial Loss / (Gain) on Defined Benefit Superannuation Scheme	**159**	**141**	**112**	**102**	**83**
Actuarial (Gain) / Loss on Defined Benefit Superannuation Scheme	–	(1)	(7)	3	3
Total Operating Expenses	**159**	**140**	**105**	**105**	**86**
Surplus/(Deficit) for the Year	**202**	**(86)**	**(107)**	**371**	**243**

Five-year Outcomes under the Funding Agreement

For the Year Ended 30 June	Unaudited 2023 $M	Unaudited 2022 $M	Unaudited 2021 $M	Unaudited 2020 $M	Unaudited 2019 $M
Actual Net Expenses under the Funding Agreement	133	121	94	83	71
Net Expenditure Specified under the Funding Agreement	133	122	123	63	61
Funding Agreement Under / (Over) Expenditure	**–**	**1**	**29**	**(20)**	**(10)**

Cumulative Five-year Outcomes under the Funding Agreement

For the Year Ended 30 June	Unaudited 2023 $M	Unaudited 2022 $M	Unaudited 2021 $M	Unaudited 2020 $M	Unaudited 2019 $M
Cumulative Actual Net Expenses under the Funding Agreement	348	215	94	327	244
Cumulative Net Expenditure Specified under the Funding Agreement	378	245	123	324	261
Cumulative Funding Agreement Under / (Over) Expenditure					
2016-2020 Funding Agreement	–	–	–	(2)	17
2021-2025 Funding Agreement	30	30	29	–	–

Five-year Dividends to the New Zealand Government for the Year

For the Year Ended 30 June	Audited 2023 $M	Audited 2022 $M	Audited 2021 $M	Audited 2020 $M	Audited 2019 $M
Dividends to the New Zealand Government For the Year	–	–	140	–	195

Glossary
Kuputaka

ALCO	**The Assets and Liabilities Committee** ALCO is a management-level committee of nine members with relevant expertise across a range of Reserve Bank functions to support strong oversight of financial risks.
AML / CFT	**Anti-Money Laundering and Countering 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 that firms comply with obligations designed to help deter and detect money laundering and terrorism financing.
BFGS	**Business Finance Guarantee Scheme** A Government based scheme designed to help small and medium businesses access credit for cash flow, capital assets and projects related to, responding to or recovering from the impacts of COVID-19.
BIS	**Bank for International Settlements** An international financial institution owned by central banks that fosters international monetary policy and financial cooperation and serves as a bank for central banks.
BMLS	**Bond Market Liquidity Support** A programme set up to provide liquidity and to promote and support the functioning of the New Zealand Government Bond and Local Government Funding Agency markets during periods of market instability.
CBDC	**Central Bank Digital Currency** A potential digital form of central bank money.
CoFR	**Council of Financial Regulators** The Council of Financial Regulators – Kaunihera Kaiwhakarite Ahumoni – contributes to maximising New Zealand's sustainable, economic wellbeing through effective and responsive regulation of the financial system in New Zealand.
CPI	**Consumers Price Index** The All Groups Consumers Price Index published by Stats NZ. The CPI measures the rates of price changes of goods and services purchased by New Zealand households.
DCS	**Depositor Compensation Scheme**
DTA	**Deposit Takers Act 2023**
eKYC	**electronic Know Your Customer** Refers to the process of obtaining and verifying the identity of customers, before and during the time they have a business relationship with a reporting entity. The term 'KYC' also refers to practices which assess and monitor customer risk.
ESAS	**Exchange Settlement Account System** Deposit accounts provided by the Reserve Bank to qualifying entities allowing them to settle payments with each other.
FCL	**Foreign Currency Liquidity**
FEC	**Finance and Expenditure Committee** Parliamentary select committees are small groups of MPs that examine Parliamentary business in detail. This select committee looks at business related to economic and fiscal policy, taxation, revenue, banking and finance, superannuation, insurance, Government expenditure and financial performance, and public audit.

FLP	**Funding for Lending Programme** A facility, providing eligible financial sector entities with long-term funding at a low cost (OCR), secured against high-quality collateral.
FMI	**Financial Market Infrastructures** Financial Market Infrastructures, such as payment and settlement systems, provide trading, clearing, settlement and reporting services transactions undertaken within the financial system.
FMI Act	**Financial Market Infrastructures Act 2021**
Financial Policy Remit	**Financial Policy Remit** The Financial Policy Remit is issued by the Minister of Finance. It specifies or provides for matters the Minister considers are desirable for the Reserve Bank to have regard to in relation to our financial stability objective, the objectives or purposes of our prudential legislation, and acting as a prudential regulator and supervisor.
FRCF	**Foreign Reserve Management and Coordination Framework** The FRCF sets out the expectations around the management and use of foreign reserves in New Zealand and the respective roles of the Reserve Bank and Minister of Finance.
FSOC	**Financial Stability Oversight Committee**
FSR	**Financial Stability Report** A six-monthly report prepared by the Reserve Bank assessing the soundness and efficiency of the New Zealand financial system and the effectiveness of the Reserve Bank's regulation of the system.
GPG	**Gender Pay Gap**
Huarewa	**Our internal transformation programme**
IPSA	**Insurance (Prudential Supervision) Act 2010**
Kaitiakitanga	**Guardianship** A term used for the concept of guardianship.
LGFA	**Local Government Funding Agency** A council-controlled organisation that specialises in financing the New Zealand local government sector, to provide more efficient funding costs and diversified funding sources for New Zealand local authorities.
LIBOR	**London Interbank Offered Rate** An interest rate benchmark used in financial markets which is being phased out.
LSAP programme	**Large Scale Asset Purchase programme** A programme set up in March 2020 to purchase nominal and inflation-indexed New Zealand Government Bonds and Local Government Funding Agency bonds to lower term interest rates and to support market functioning in response to the market impacts of COVID-19.
LVR	**Loan-to-value-ratio** A LVR measures the size of a loan relative to the collateral (e.g. property) over which a bank holds a mortgage or other security. The Reserve Bank's LVR rules limit the number of mortgage loans with high LVRs that banks can approve.

MPC	**Monetary Policy Committee** The decision-making committee at the Reserve Bank responsible for making monetary policy decisions in Aotearoa New Zealand.
MPR	**Monetary Policy Review**
MPS	**Monetary Policy Statement** A quarterly assessment, accompanying an Official Cash Rate review, of: how the Reserve Bank proposes to achieve its monetary policy target; 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.
NBDT	**Non-bank deposit takers** Finance companies, building societies and credit unions, which take deposits from the investing public and which are licensed under the Non-bank Deposit Takers Act 2013.
New Zealand Government Bonds	Fixed term debt securities issued by the New Zealand Government denominated in New Zealand dollars with a fixed interest coupon paid semi-annually.
NGFS	**Network for Greening the Financial System**
NZClear	A real-time settlement system providing the financial markets with clearing and settlement services for high-value debt securities and equities.
OCR	**Official Cash Rate** The interest rate set by the Reserve Bank to meet the inflation target specified in the Remit for the Monetary Policy Committee.
PC&CC	**People, Culture and Change Committee**
RAFIMP	**Review and Assessment of the Formulation and Implementation of Monetary Policy** RAFIMP is a review of how monetary policy decisions have been made in the 5 years from 2017 to 2022 and how those decisions were brought into effect.
SCL	**Settlement cash level** SCL is the total amount of settlement cash held by banks in ESAS.
SCV	**Single Customer View** SCV requirements refer to the relevant standards that the Reserve Bank is currently developing under the DTA to facilitate it to fulfill the functions under the DCS.
SDR	**Special Drawing Right** A 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.
SFRM	**Statement of Financial Risk Management** The Reserve Bank is required to prepare and keep up to date a Statement of Financial Risk Management (SFRM) in accordance with sections 250 and 251 of the RBNZ Act 2021. The first SFRM was approved by the Board with effect from 1 July 2022.
SPE	**Statement of Performance Expectations** The Statement of Performance Expectations sets out the Reserve Bank's annual performance expectations and provides a base against which actual performance can be assessed.

SoP	**Statement of Performance** The Statement of Performance reports the Reserve Bank's performance against the performance measures as set out in the Statement of Performance Expectations (SPE).
Tāne Mahuta	We have adopted the legend of Tāne Mahuta to explain the interconnected parts of the financial system and our role as kaitiaki. Māori oral traditions tell us that Tāne Mahuta dug his shoulders into Papatuanuku (earth mother) and used his legs to push against Ranginui (sky father), separating them and letting the light into the world. With that light, Tāne Mahuta, guardian of the forest and birds, enabled life to thrive. • Ngā Pūtake/roots represent our legislation and balance sheet • Te Tariwai/vascular system represents the payment and settlement systems • Te Toto/sap represents money, cash and foreign reserves • Ngā Pekanga/branches and leaves represent the regulated entities – banks, insurers and NBDTs • Kaitiakitanga/guardianship reflects our role as guardians of New Zealand's financial system
TCL	**Target Capital Level** The Reserve Bank sets its own minimum level of capital (Target Capital Level or 'TCL') that is deemed sufficient to cover potential financial risks the Reserve Bank intends to hold capital for in pursuit of its statutory objectives.
Te Moni Anamata	**Future of Money** The work programme considering the future of money.
Te Pūtea Matua	**Reserve Bank of New Zealand**
Te Waka Hourua	**Te Ao Māori strategy** As New Zealand's central bank, we are the kaitiaki (guardian) of Aotearoa's economy and financial system. Through our Te Ao Māori (Māori world) strategy, we are building relationships with tangata whenua to influence the long-term economic wellbeing of Aotearoa.
TLF	**Term Lending Facility** A funding facility established in support of the Government's Business Finance Guarantee Scheme to help promote medium-term low cost lending to business in response to the market impacts of COVID-19.
Toitū te Ōhanga, Toitū te Oranga	We enable economic wellbeing and prosperity for all New Zealanders.
Matangirua ki Matangireia	Our vision – Great Team, Best Central Bank, expressed as a te ao Māori concept. Matangirua is the call made by a captain on a sailing vessel for everyone to paddle and unfurl the sail at the same time. Being a 'Great Team' is about inclusive leadership in a healthy organisation, with a culture that enables our people to be unified by our purpose, thrive and work collectively in a sustainable way. Matangireia is the place in the sky where Tāne Mahuta climbed to bring back the three baskets of knowledge. To become the 'Best Central Bank' we must scale new heights, reaching for the sky in pursuit of our purpose. Achieving this will mean our policies and services are future focused, enabled by data and technology and underpinned by connected and trusted operations.

Reserve Bank of New Zealand
Te Pūtea Matua

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