

EARNINGS AND DISTRIBUTION

The Reserve Bank Act determines that underlying earnings, which are mainly interest earnings on the RBA's assets, net of interest payments on liabilities and operating costs, plus any gains (or losses) realised from the sale of assets are available to be distributed as a dividend to the Australian Government, the RBA's owner. This is subject to any transfers to augment the Reserve Bank Reserve Fund or to meet other contingencies. Unrealised gains on assets are not available for distribution, but are transferred to a reserve. A longer run treatment of the RBA's profitability and the risks to which it is exposed is contained in the preceeding chapter. The current chapter is confined to a discussion of the results in 2002/03.

In 2002/03, underlying earnings were \$1 238 million, compared with \$1 400 million in 2001/02, and an average of about \$1 600 million in the 1990s. This decline reflects the exceptionally low level of interest rates around the world over the past year or two.

Realised gains on assets amounted to \$1 159 million in 2002/03, compared with \$489 million in 2001/02. The main source of realised gains was the appreciation in value of foreign bonds as interest rates around the world moved to historical lows. Sales of foreign securities resulted in realised gains of \$965 million, compared with \$53 million last year. Realised foreign exchange gains were \$252 million, \$244 million lower than in 2001/02. With the Australian dollar exchange rate appreciating during the year, fewer of the RBA's foreign exchange transactions involved the sale of foreign exchange from its portfolio so fewer gains were realised (the RBA realises gains on foreign exchange transactions

only when it sells foreign currencies from its reserves. When it buys foreign exchange, as it has been doing on balance during the past year, there is no immediate effect on profits; profits will be earned when the foreign exchange is subsequently sold).

Profits earned in 2002/03 and available for distribution amounted to \$2 397 million.

Accounting Profits

As well as calculating "earnings available for distribution", the RBA also calculates accounting profit. This is done according to generally accepted accounting principles, under which all valuation gains or losses – whether realised or unrealised – are brought to the profit and loss account. The fall in interest rates around the world in 2002/03 saw the RBA make substantial valuation gains on its fixed-interest investments, partially offset by valuation losses from the appreciation in the Australian dollar exchange rate. Combined with underlying earnings of \$1 238 million, valuation gains of \$935 million gave an accounting profit of \$2 173 million (compared with \$1 868 million in 2001/02).

Reserves and Dividend

As with other financial institutions, the RBA maintains reserves which are available to absorb losses that might arise in the course of its operations. The major reserve, the Reserve Bank Reserve Fund (RBRF), is available to cover potential losses from a range of risks, including market risk and other events, such as fraud and operational risks, to which most financial institutions are exposed in the course of their activities. The RBRF is funded from transfers from profit and is akin to capital.

The Reserve Bank Act provides for the Treasurer to

Sources of Earnings Available for Distribution
 (\$ million)

	Underlying earnings	Realised gains and losses	Earnings available for distribution
1986/87	1 412	2 035	3 447
1987/88	1 062	464	1 526
1988/89	891	-474*	417
1989/90	1 049	46*	1 095
1990/91	1 322	391	1 713
1991/92	1 516	1 038	2 554
1992/93	1 760	2 803	4 563
1993/94	1 556	-48*	1 508
1994/95	1 649	123	1 772
1995/96	1 784	702*	2 486
1996/97	1 715	1 990	3 705
1997/98	1 750	1 524	3 274
1998/99	1 816	1 860*	3 676
1999/00	1 511	-708	803
2000/01	1 629	1 205	2 834
2001/02	1 400	489	1 889
2002/03	1 238	1 159	2 397

* Includes unrealised losses in excess of previous years' unrealised gains held in reserves

determine, after consultation with the Board, the amount, if any, to be credited to the RBRF from earnings available for distribution. The balance of distributable earnings is payable to the Australian Government after any such transfers. The Treasurer has agreed to transfer to the RBRF an amount of \$133 million from profits for 2002/03. Accordingly, the balance in the RBRF stood at \$6 285 million on 30 June 2003, a level which the Board regards as satisfactory.

After allowing for the transfer to the RBRF, the dividend payable to the Government amounted to \$2 264 million. In recent years, the RBA has usually paid this dividend early in the financial year following that in which it was earned. The exception was in 1998/99, when the Treasurer decided to defer the receipt of some of that year's profits, spreading the dividend over the following two years. The Treasurer has again decided to delay receipt of part of the dividend due from earnings in 2002/03. A sum of \$1 300 million has been paid to the Government

in August 2003, with a further \$964 million to be paid in the 2004/05 year.

The RBA maintains other reserves which are available to absorb losses. Under the Reserve Bank Act, and consistent with international practice for central banks, unrealised gains are not available to be paid to the Australian Government but are transferred to the Unrealised Profits Reserve. Balances in this reserve remain available to absorb future losses that might arise from adverse movements in interest or exchange rates, or they are realised when relevant assets are sold. On 30 June 2003, the balance in the Unrealised Profits Reserve was slightly lower, at \$1 576 million, than it had been a year earlier.

The RBA also maintains asset revaluation reserves, with the value in these reserves reflecting the amount by which the market value of the RBA's holdings of gold and property exceed the price at which they were purchased. The amounts in these reserves stood at \$1 513 million on 30 June 2003, a little lower than a year earlier.

Reserve Bank Payments to Government (\$ million)							
	Earnings available for distribution	Transfers to reserves	Payments to the Australian Government				Total payment
			Balance available from current year's profit	Interim payment from current year's profit	Payment from previous year's profit	Payment delayed from previous year	
1990/91	1 713	210	1 503	400	275	–	675
1991/92	2 554	200	2 354	400	1 103	–	1 503
1992/93	4 563	750	3 813	600	1 954	–	2 554
1993/94	1 508	–	1 508	–	3 213	–	3 213
1994/95	1 772	–	1 772	200	1 508	–	1 708
1995/96	2 486	150	2 336	200	1 572	–	1 772
1996/97	3 705	2 005	1 700	–	2 136	–	2 136
1997/98	3 274	548	2 726	–	1 700	–	1 700
1998/99	3 676	–	3 676	–	2 726	–	2 726
1999/00	803	–	803	–	3 000	–	3 000
2000/01	2 834	–	2 834	–	803	676	1 479
2001/02	1 889	–	1 889	–	2 834	–	2 834
2002/03	2 397	133	2 264	–	1 889	–	1 889
2003/04	–	–	–	–	1 300	–	1 300
2004/05	–	–	–	–	–	964	n/a

The financial statements for 2002/03 are presented in the following pages.