Financial Statements

For the year ended 30 June 2015

Statement of Assurance

In the opinion of each of the Governor, as the accountable authority of the Reserve Bank, and the Assistant Governor (Corporate Services) of the Reserve Bank, the financial statements for the year ended 30 June 2015 present fairly the Reserve Bank's financial position, financial performance and cash flows, comply with the accounting standards and any other requirements prescribed by the rules made under section 42 of the *Public Governance, Performance and Accountability Act 2013* and have been prepared from properly maintained financial records. These financial statements have been approved by a resolution of the Reserve Bank Board on 4 August 2015.

Glenn Stevens
Governor and Chair, Reserve Bank Board

Frank Campbell
Assistant Governor (Corporate Services)

2 September 2015

Statement of Financial Position – as at 30 June 2015

Reserve Bank of Australia and Controlled Entity

	Note	2015 $M	2014 $M
Assets			
Cash and cash equivalents	6	438	273
Australian dollar investments	1(b), 15	86,294	72,886
Foreign exchange	1(b), 15	65,241	63,807
Gold	1(c), 15	3,915	3,584
Property, plant and equipment	1(d), 8, 16	549	523
Loans, advances and other assets	7	476	412
Total Assets		156,913	141,485
Liabilities			
Deposits	1(b), 9	60,486	53,574
Distribution payable to the Commonwealth	1(g), 3	2,501	1,235
Australian notes on issue	1(b), 15	65,481	60,778
Other liabilities	10	4,576	7,588
Total Liabilities		133,044	123,175
Net Assets		23,869	18,310
Capital and Reserves			
Reserves:			
Unrealised profits reserve	1(f), 5	6,590	3,156
Asset revaluation reserves	1(f), 5	4,376	3,978
Superannuation reserve	1(f), 5	134	(23)
Reserve Bank Reserve Fund	1(f), 5	12,729	11,159
Capital	1(f), 5	40	40
Total Capital and Reserves		23,869	18,310

The above statement should be read in conjunction with the accompanying notes.

Statement of Comprehensive Income – for the year ended 30 June 2015

Reserve Bank of Australia and Controlled Entity

	Note	2015 $M	2014 $M
Revenue			
Interest revenue	2	2,165	1,834
Net gains on securities and foreign exchange	2	6,056	150
Dividend revenue	2	4	3
Fees and commissions	2	306	86
Commonwealth grant	2	–	8,800
Other income	2	79	118
Total Revenue		8,610	10,991
Expenses			
Interest expense	2	1,245	1,086
General administrative expenses	2	368	405
Other expenses	2	109	108
Total Expenses		1,722	1,599
Net Profit		6,888	9,392
Other Comprehensive Income			
Items that may be reclassified to profit or loss			
Gains/(losses) on:			
Gold	5	331	284
Shares in international and other institutions	5	52	(20)
		383	264
Items that will not be reclassified to profit or loss			
Gains/(losses) on:			
Property, plant and equipment	5	15	12
Superannuation	5	157	155
		172	167
Total Other Comprehensive Income		555	431
Total Comprehensive Income		7,443	9,823

The above statement should be read in conjunction with the accompanying notes.

Statement of Distribution – for the year ended 30 June 2015

Reserve Bank of Australia and Controlled Entity

	Note	2015 $M	2014 $M
Net Profit		6,888	9,392
Transfer from/(to) unrealised profits reserve	5	(3,434)	640
Transfer from asset revaluation reserves	5	–	3
Earnings available for distribution		3,454	10,035
Distributed as follows:			
Transfer to Reserve Bank Reserve Fund	5	1,570	8,800
Payable to the Commonwealth	3	1,884	1,235
		3,454	10,035

The above statement should be read in conjunction with the accompanying notes.

Statement of Changes in Capital and Reserves – for the year ended 30 June 2015

Reserve Bank of Australia and Controlled Entity

	Note	Unrealised profits reserve $M	Asset revaluation reserves $M	Superannuation reserve $M	Earnings available for distribution $M	Reserve Bank Reserve Fund $M	Capital $M	Total capital and reserves $M
Balance as at 30 June 2013		**3,796**	**3,705**	**(178)**	**–**	**2,359**	**40**	**9,722**
Net Profit/(Loss)	1(g), 2	(640)			10,032			9,392
Gains/(losses) on:								
Gold	1(c), 5		284					284
Shares in international and other institutions	1(b), 5		(20)					(20)
Property, plant and equipment	1(d), 5		12					12
Superannuation	1(i), 5			155				155
Other comprehensive income			276	155				431
Total comprehensive income for 2013/14								**9,823**
Transfer from asset revaluation reserves	1(f), 3		(3)		3			–
Transfer to Reserve Bank Reserve Fund	1(f), 3				(8,800)	8,800		–
Transfer to distribution payable to the Commonwealth	1(g), 3				(1,235)			(1,235)
Balance as at 30 June 2014		**3,156**	**3,978**	**(23)**	**–**	**11,159**	**40**	**18,310**
Net Profit/(Loss)	1(g), 2	3,434			3,454			6,888
Gains/(losses) on:								
Gold	1(c), 5		331					331
Shares in international and other institutions	1(b), 5		52					52
Property, plant and equipment	1(d), 5		15					15
Superannuation	1(i), 5			157				157
Other comprehensive income			398	157				555
Total comprehensive income for 2014/15								**7,443**
Transfer from asset revaluation reserves	1(f), 3		–		–			–
Transfer to Reserve Bank Reserve Fund	1(f), 3				(1,570)	1,570		–
Transfer to distribution payable to the Commonwealth	1(g), 3				(1,884)			(1,884)
Balance as at 30 June 2015		**6,590**	**4,376**	**134**	**–**	**12,729**	**40**	**23,869**

The above statement should be read in conjunction with the accompanying notes.

Cash Flow Statement – for the year ended 30 June 2015

Reserve Bank of Australia and Controlled Entity

This statement meets the requirements of AASB 107 – *Statement of Cash Flows* and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*. For the purposes of this statement, cash includes the notes and coin held at the RBA and overnight settlement balances due from other banks.

	Note	2015 Inflow/ (outflow) $M	2014 Inflow/ (outflow) $M
Cash flows from operating activities			
Interest received on investments		2,168	1,719
Interest received on loans, advances, and on net overnight settlements balances		8	13
Banking service fees received		96	81
Banking service fees paid		(76)	(61)
CLF fees received		242	–
Dividends received		3	–
Rents received		9	10
Commonwealth government grant received	1(j)	–	8,800
Net payments for investments		(12,243)	(40,686)
Cash collateral received/(pledged)		545	382
Interest paid on deposit liabilities		(1,188)	(964)
Interest paid on currency note holdings of banks		(71)	(62)
Staff costs (including redundancy)		(228)	(215)
Premises and equipment		(47)	(45)
Other		(17)	(19)
Net cash used in operating activities	6	(10,799)	(31,047)
Cash flows from investment activities			
Proceeds from the sale of Securency		8	7
Net expenditure on property, plant and equipment		(42)	(50)
Net cash used in investment activities		(34)	(43)
Cash flows from financing activities			
Distribution to the Commonwealth		(618)	–
Net movement in deposit liabilities		6,912	27,391
Net movement in loans and advances		1	–
Net movement in notes on issue		4,703	3,835
Net cash provided by financing activities		10,998	31,226
Net increase/(decrease) in cash		165	136
Cash at beginning of financial year		273	137
Cash at end of financial year	6	438	273

The above statement should be read in conjunction with the accompanying notes.

Notes to and Forming Part of the Financial Statements – for the year ended 30 June 2015

Reserve Bank of Australia and Controlled Entity

Note

Note 1 – Accounting Policies

The Reserve Bank of Australia (RBA) reports its consolidated financial statements in accordance with the *Reserve Bank Act 1959* and the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). The PGPA Act has applied since 1 July 2014, when it replaced the *Commonwealth Authorities and Companies Act 1997* (CAC Act). The requirements of the PGPA Act do not materially change these financial statements from previous disclosures. These financial statements for the year ended 30 June 2015 have been prepared under Australian Accounting Standards (AAS), other accounting standards and accounting interpretations issued by the Australian Accounting Standards Board, in accordance with the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR), which is issued pursuant to the PGPA Act. In preparing these financial statements, the RBA has not 'early adopted' new accounting standards or amendments to current standards that apply from 1 July 2015. The RBA is exempt from one requirement of the FRR, as detailed in Note 1(n).

These financial statements and accompanying notes are a general purpose financial report prepared in accordance with relevant AAS. Specific elections of accounting treatment under AAS are noted appropriately. All amounts are expressed in Australian dollars, the functional and presentational currency of the RBA, unless another currency is indicated. The RBA is classified as a for-profit public sector entity for purposes of financial disclosure. Fair values are used to measure the RBA's major assets, including Australian dollar and foreign marketable securities, gold and foreign currency, and property, plant and equipment. Revenue and expenses are brought to account on an accruals basis. All revenues, expenses and profits of the RBA are from ordinary activities.

These financial statements were approved by a resolution of the Reserve Bank Board on 4 August 2015 in accordance with the Reserve Bank Act.

(a) Consolidation and joint venture

The financial statements show information for the economic entity only; this reflects the consolidated results for the parent entity, the Reserve Bank of Australia, and its wholly owned subsidiary, Note Printing Australia Limited (NPA). The results of the parent entity do not differ materially from the economic entity and have therefore not been separately disclosed.

Note Printing Australia Limited

NPA was incorporated as a wholly owned subsidiary of the RBA on 1 July 1998, with an initial capital of $20.0 million. The RBA provided NPA with additional capital of $15.0 million in July 2008 and a further $25.0 million in July 2009. NPA's total assets, liabilities and equity as at 30 June 2015 were $144.2 million, $19.2 million and $125.0 million respectively ($143.4 million, $22.0 million and $121.4 million as at 30 June 2014).

The assets, liabilities and results of NPA have been consolidated with the accounts of the parent entity in accordance with AASB 10 – *Consolidated Financial Statements*. All internal transactions and balances have been eliminated on consolidation. These transactions include items relating to the purchase of Australian banknotes, lease of premises and the provision of general administrative services.

Innovia Security Pty Ltd (formerly Securency International Pty Ltd)

In February 2013, the RBA completed the sale of its 50 per cent interest in Securency International Pty Ltd (Securency). The sale of the RBA's shares was made to a related entity of Innovia Films, a UK-based film manufacturer, which prior to the sale owned the other half share of Securency. Under the terms of the sale agreement, additional payments arising from the sale may be made to the RBA in future periods, including if

Innovia Security exceeds certain earnings benchmarks. In 2014/15, an amount of $7.7 million was received under these arrangements and recognised in the Statement of Comprehensive Income ($7.3 million was received in 2013/14). These receipts are shown within the Gain on sale of Securency in Note 2. As the possibility of further additional payments is uncertain at the reporting date, they are not recognised in the financial statements.

Legal issues

Charges were laid against NPA and Securency and against former employees of these companies in the period between 2011 and 2013. These charges related to allegations that these employees and the companies had conspired to provide, or offered to provide, benefits to foreign public officials that were not legitimately due. The RBA has accounted for these matters in accordance with the relevant accounting standards. Specific information about these charges and the associated costs has not been disclosed in the notes to the accounts as these legal matters remain before the courts.

(b) Financial instruments

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. The RBA's financial instruments include its Australian dollar securities, foreign government securities, repurchase agreements, deposits with the Bank for International Settlements (BIS) and other central banks, interest rate futures, foreign currency swap contracts, holdings in the Asian Bond Fund (ABF), gold loans, cash and cash equivalents, notes on issue, deposit liabilities and a shareholding in the BIS. The RBA accounts for its financial instruments in accordance with AASB 139 – *Financial Instruments: Recognition and Measurement* and reports these instruments under AASB 7 – *Financial Instruments: Disclosure*s and AASB 13 – *Fair Value Measurement*.

The RBA brings its securities transactions and foreign exchange transactions to account on a trade date basis; that is, it recognises the effects of purchases and sales of securities in the financial statements on the date these transactions are arranged (not when they are settled). Deposits and repurchase agreements are brought to account on settlement date.

Financial assets

Australian dollar securities

The RBA holds Australian Government Securities and securities issued by the central borrowing authorities of state and territory governments. These holdings include fixed coupon, inflation indexed and discount securities. It also holds under reverse repurchase agreements: bank bills, certificates of deposit and debt securities of authorised deposit-taking institutions licensed in Australia; Australian dollar denominated securities issued by foreign governments, foreign government agencies that have an explicit government guarantee (or equivalent support) and by certain highly rated supranational organisations; and eligible Australian dollar domestic residential and commercial mortgage-backed securities, asset-backed commercial paper and corporate securities.

Australian dollar securities, except those held under reverse repurchase agreements, are classified under AASB 139 as 'at fair value through profit or loss', as they are held for the purpose of conducting monetary policy and may be sold or lent, typically for short terms, under repurchase agreements. In accordance with this standard, the securities are valued at market bid prices on balance date; realised and unrealised gains or losses are taken to profit. Only realised gains and losses are available for distribution in accordance with the Reserve Bank Act (Note 1(g)). Interest earned on these securities is accrued over the term of the security and included as revenue in the Statement of Comprehensive Income.

Interest on fixed coupon securities is received biannually at the coupon rate and the principal is received at maturity. Inflation indexed bonds are coupon securities with the nominal value of the security indexed in line with movements in the Consumer Price Index each quarter until maturity; interest is paid quarterly. Interest earned on discount securities is the difference between the purchase cost and the face value of the security; this is accrued over the term the securities are held. The face value is received at maturity.

Repurchase agreements and reverse repurchase agreements

In carrying out operations to manage domestic liquidity and foreign reserves, the RBA enters into repurchase agreements and reverse repurchase agreements in Australian dollar and foreign currency securities. A repurchase agreement involves the sale of securities with an undertaking to repurchase them on an agreed future date at an agreed price. A reverse repurchase agreement initially involves the purchase of securities, with this transaction being reversed in the second leg. A reverse repurchase agreement provides the RBA's counterparties with cash for the term of the agreement and is treated as an asset as the RBA records a cash receivable. Repurchase agreements result in cash being paid to the RBA and are treated as a liability, reflecting the obligation to repay cash. The accounting treatment of this financial liability is discussed further below.

Securities purchased and contracted for sale under reverse repurchase agreements are classified under AASB 139 as 'loans and receivables' and valued at amortised cost, the equivalent of fair value. The difference between the purchase and sale price is accrued over the term of the agreement and recognised as interest revenue.

RBA open repurchase agreements were introduced in November 2013 to assist eligible financial institutions manage their liquidity after normal business hours following the introduction of same-day settlement of Direct Entry payments. An RBA open repurchase agreement is an Australian dollar reverse repurchase agreement contracted without an agreed maturity date. The RBA accrues interest revenue daily on open repurchase agreements at the target cash rate.

Foreign exchange

Foreign exchange holdings are invested mainly in securities issued by the governments of the United States, Germany, France, the Netherlands, Canada, Japan, China and the United Kingdom, and in deposits with the BIS and other central banks. The RBA transacts in interest rate futures and foreign currency swaps.

Foreign exchange translation

Assets and liabilities denominated in foreign currency are converted to Australian dollar equivalents at the relevant market exchange rate ruling on balance date in accordance with AASB 121 – *The Effects of Changes in Foreign Exchange Rates*. Realised and unrealised gains or losses on foreign currency are taken to profit, but only realised gains and losses are available for distribution in accordance with the Reserve Bank Act (Note 1(g)). Interest revenue and expenses and revaluation gains and losses on foreign currency assets and liabilities are converted to Australian dollars using the relevant market exchange rate on the date they are accrued or recognised.

Foreign government securities

Foreign government securities include coupon and discount securities. Coupon securities have biannual or annual interest payments depending on the currency and type of security; the principal is received at maturity. Interest earned on discount securities is the difference between the purchase cost and the face value of the security; this is accrued over the term the securities are held. The face value is received at maturity. Foreign securities, except those held under reverse repurchase agreements, are classified under AASB 139 as 'at fair value through profit or loss', as they are available to be traded in managing the portfolio of foreign exchange reserves. In accordance with this standard, these securities are valued at market bid prices on balance date. Realised and unrealised gains or losses are taken to profit; only realised gains and losses are available for distribution in accordance with the Reserve Bank Act (Note 1(g)). Interest earned on securities is accrued as revenue in the Statement of Comprehensive Income.

Foreign deposits

Some foreign currency reserves are invested in deposits with the BIS and other central banks, while small working balances are also maintained with a small number of commercial banks. Deposits are classified as 'loans and receivables' under AASB 139 and recorded at face value, which is equivalent to their amortised cost using the effective interest method. Interest is accrued over the term of deposits and is received periodically or at maturity. Interest accrued but not received is included in Accrued interest (Note 15).

Foreign currency swaps

The RBA uses foreign currency swaps with market counterparties both to assist daily domestic liquidity management and in managing foreign reserve assets. A foreign currency swap is the simultaneous purchase and sale of one currency against another currency for specified maturities. The cash flows are the same as borrowing one currency for a certain period and lending another currency for the same period. The pricing of the swap therefore reflects the interest rates applicable to these money market transactions. Interest rates are implicit in the swap contract but interest itself is not paid or received.

Interest rate futures

The RBA uses interest rate futures contracts on overseas exchanges to manage interest rate risk on its portfolio of foreign securities. An interest rate futures contract is a contract to buy or sell a specific amount of securities for a specific price on a specific future date.

Interest rate futures positions are classified under AASB 139 as 'at fair value through profit or loss'. Futures positions are marked to market on balance date at the relevant market price and valuation gains and losses are taken to profit. Only realised gains and losses are available for distribution in accordance with the Reserve Bank Act (Note 1(g)).

Asian Bond Fund

The RBA invests in a number of non-Japan Asian debt markets through participation in the EMEAP Asian Bond Fund Initiative. The RBA has modest holdings in the US dollar-denominated fund, ABF1, and the local currency-denominated fund, ABF2. The two funds are classified under AASB 139 as 'at fair value through profit or loss'. The funds are marked to market on balance date at the relevant unit price of the fund and valuation gains and losses are taken to profit. Only realised gains and losses are available for distribution in accordance with the Reserve Bank Act (Note 1(g)).

Bank for International Settlements

Under AASB 139, the RBA's shareholding in the BIS is classified as 'available for sale' for accounting purposes. The shareholding is valued at fair value and revaluation gains and losses are transferred directly to the revaluation reserve for shares in international and other institutions (Note 5). When declared, dividends are recognised as revenue in the Statement of Comprehensive Income.

Financial liabilities

Deposit liabilities

Deposits are classified as financial liabilities under AASB 139. Deposits include deposits at call and term deposits. Deposit balances are shown at their amortised cost, which is equivalent to their face value. Interest is accrued over the term of deposits and is paid periodically or at maturity. Interest accrued but not paid is included in Other Liabilities (Note 10). Details of deposits are included in Note 9.

Australian notes on issue

Notes on issue are recorded at face value. Prior to 2005/06, the RBA periodically reduced its liability for note series that had ceased to be issued – to reflect the likelihood that the remaining notes on issue from these series would not be presented for redemption – and the gains were included in net profit. If the written-down notes are subsequently presented, the RBA charges an expense against profits. In 2014/15, notes with a face value of $162,170 which had previously been written down were presented to the RBA and expensed ($214,034 in 2013/14).

The RBA pays interest on working balances of banknotes held by banks under cash distribution arrangements. Details of the interest expense are included in Note 4.

Costs related to the production of banknotes are included in General administrative expenses in Note 2.

Repurchase agreements

Securities sold and contracted for repurchase under repurchase agreements are classified under AASB 139 as 'at fair value through profit or loss', as these securities are held for trading, and reported on the balance sheet within the relevant investment portfolio. The counterpart obligation to repurchase the securities is reported in Other Liabilities (Note 10) at amortised cost; the difference between the sale and purchase price is accrued over the term of the agreement and recognised as interest expense.

(c) Gold

Gold holdings (including gold on loan to other institutions) are valued at the Australian dollar equivalent of the 3 pm fix in the London gold market on balance date. Revaluation gains and losses on gold are transferred to the gold revaluation reserve. The RBA lends gold to institutions participating in the gold market. As outlined in Note 1(b), gold loans are a financial instrument and the RBA accounts for them in accordance with AASB 139 and reports them under AASB 7.

(d) Property, plant and equipment

The RBA accounts for its property, plant and equipment at fair value in accordance with AASB 116 – *Property, Plant and Equipment* and AASB 13. Valuation gains (losses) are generally transferred to (from) the relevant revaluation reserve. Any part of a valuation loss that exceeds the balance in the relevant asset revaluation reserve is expensed. Subsequent valuation gains which offset losses that were previously treated as an expense are recognised as revenue in the Statement of Comprehensive Income.

Property

The RBA's Australian properties are formally valued by an independent valuer annually; overseas properties are independently valued on a triennial basis. The most recent independent valuation of overseas properties was at 30 June 2013. The RBA's properties are recognised in accordance with AASB 116 at fair value, which reflects the price that would be received from an orderly sale between market participants at the reporting date, having regard also to the highest and best use of an asset as required by AASB 13. Reflecting its specialised nature, the RBA's Business Resumption Site is valued at depreciated replacement cost. Annual depreciation is calculated on a straight line basis using fair values and assessments of the remaining useful life of the relevant asset, as determined by the independent valuer.

Plant and equipment

Plant and equipment is valued by an independent valuer on a triennial basis. The most recent independent valuation was at 30 June 2014. Between revaluations, plant and equipment is carried at the most recent valuation less any subsequent depreciation. Annual depreciation is calculated on a straight line basis using fair values and the RBA's assessment of the remaining useful life of individual assets.

Depreciation rates for each class of depreciable assets are based on the following range of useful lives:

	Years
Buildings	20–50
Fit-out and furniture	5–10
Computer hardware	3–5
Office equipment	4–5
Motor vehicles	5
Plant	4–20

The RBA's assets are assessed for impairment at the end of each financial year. If indications of impairment are evident, the asset's recoverable amount is estimated and an impairment adjustment is made if the asset's recoverable amount is less than its carrying amount.

Details of annual net expenditure, revaluation adjustments and depreciation of buildings and plant and equipment are included in Note 8.

(e) Computer software

Computer software that is internally developed or purchased is accounted for in accordance with AASB 138 – *Intangible Assets*. Intangibles are recognised at cost less accumulated amortisation and impairment adjustments (if any), details of which are included in Note 7.

Amortisation of computer software is calculated on a straight line basis using the estimated useful life of the relevant asset, which is usually for a period between three and five years. The useful life of core banking software may be up to 15 years, reflecting the period over which future economic benefits are expected to be realised from this asset. Amortisation of computer software is disclosed in Note 2.

(f) Capital and Reserves

The capital of the Reserve Bank is established by the Reserve Bank Act.

The Reserve Bank Reserve Fund (RBRF) is also established by the Reserve Bank Act and is regarded essentially as capital. The RBRF is a permanent reserve maintained by the RBA to provide for events which are contingent and not foreseeable, including to cover losses from exceptionally large falls in the market value of the RBA's holdings of Australian dollar and foreign currency securities that cannot be absorbed by its other resources. The RBRF also provides for other risks such as fraud and operational risk. In accordance with the Reserve Bank Act, this reserve is funded only by transfers from earnings available for distribution.

The Reserve Bank Board assesses the adequacy of the balance of the RBRF each year. In line with section 30 of the Reserve Bank Act, the Treasurer, after consulting the Board, determines any amounts to be placed to the credit of the RBRF from earnings available for distribution (refer Note 1(g)). Accordingly, the Treasurer, after consulting the Board, has determined that a sum of $1,570 million is to be transferred from the 2014/15 net profit to the RBRF. The balance of the RBRF currently stands at a level that the Board regards as appropriate for the risks the Bank holds on its balance sheet.

The RBA also holds a number of other reserves which form part of its equity.

Unrealised gains and losses on foreign exchange, foreign securities and Australian dollar securities are recognised in net profit. Such gains or losses are not available for distribution and are transferred to the unrealised profits reserve, where they remain available to absorb future unrealised losses or become available for distribution if gains are realised when assets are sold or mature.

The balance of the Superannuation reserve represents accumulated re-measurement gains and losses on the RBA's defined benefit superannuation obligations (refer Note 1 (i)). These unrealised gains and losses are included in Other Comprehensive Income in accordance with AASB 119 – *Employee Benefits*.

Balances of asset revaluation reserves reflect differences between the fair value of relevant assets, mainly non-traded assets, and their cost. These assets are: gold; property, plant and equipment; and shares in international and other institutions. These unrealised gains are transferred directly to the relevant reserves and are included in Other Comprehensive Income. The unrealised gains on these assets are not distributable unless an asset is sold and these gains are realised. The RBA sold a residential property in 2013/14 and recognised a gain of $4.0 million, of which $2.6 million represented gains from earlier periods held in the asset revaluation reserve; the balance of this gain, a sum of $1.4 million, was recognised in net profit in 2013/14.

(g) Profits

Profits of the RBA are dealt with in the following terms by section 30 of the Reserve Bank Act:

(1) Subject to subsection (2), the net profits of the Bank in each year shall be dealt with as follows:

(aa) such amount as the Treasurer, after consultation with the Reserve Bank Board, determines is to be set aside for contingencies; and

(a) such amount as the Treasurer, after consultation with the Reserve Bank Board, determines shall be placed to the credit of the Reserve Bank Reserve Fund; and

(b) the remainder shall be paid to the Commonwealth.

(2) If the net profit of the Bank for a year is calculated on a basis that requires the inclusion of unrealised gains on assets during the year, the amount to which subsection (1) applies is to be worked out as follows:

(a) deduct from the net profit an amount equal to the total of all amounts of unrealised gains included in the net profit; and

(b) if an asset in respect of which unrealised gains were included in the net profit for a previous year or years is realised during the year – add to the amount remaining after applying paragraph (a) the total amount of those unrealised gains.

(h) Provisions

The RBA maintains provisions for accrued annual leave and long service leave, including associated payroll tax, and post-employment benefits in the form of health insurance and housing assistance, and the associated fringe benefits tax; these provisions are made on a present value basis consistent with AASB 119. The RBA also makes provision for future workers compensation claims for incidents, if any, which have occurred before balance date.

(i) Superannuation funds

The RBA includes in its Statement of Financial Position an asset or liability representing the position of its defined benefit superannuation funds measured in accordance with AASB 119. Movements in the superannuation asset or liability are reflected in the Statement of Comprehensive Income. Re-measurement gains and losses are transferred to the Superannuation reserve. Details of the superannuation funds and superannuation expenses are included in Note 14.

(j) Commonwealth grant

On 23 October 2013, the Australian Government announced it would make a grant of $8,800 million to strengthen the financial position of the RBA, and enhance its capacity to conduct its monetary policy and foreign exchange operations. The grant was paid to the RBA on 7 May 2014.

The grant was recognised as revenue in the Statement of Comprehensive Income.

(k) Committed Liquidity Facility

From 1 January 2015, the RBA has provided a Committed Liquidity Facility (CLF) to eligible authorised deposit-taking institutions. Fees received from providing the CLF are recognised as fee income in the Statement of Comprehensive Income. Additional information on the CLF is provided in Note 11.

(l) Rounding

Amounts in the financial statements are rounded to the nearest million dollars unless otherwise stated.

(m) Application of new or revised Australian accounting standards

A number of new and revised Australian accounting standards will apply to the RBA's financial statements in future reporting periods. The RBA's assessment of the main effects of these standards on its financial statements is set out below.

AASB 9 – Financial Instruments

A revised version of the pending AASB 9 was issued in December 2014. The new standard, which will be applicable for annual reporting periods beginning on or after 1 January 2018, contains revised requirements for the classification, measurement and de-recognition of financial assets and liabilities. It will replace the corresponding requirements currently in AASB 139. Application of the new standard is not expected to have a material impact on the RBA's financial statements.

AASB 15 – Revenue from Contracts with Customers

AASB 15 contains requirements for the recognition, measurement, classification and disclosure of revenue arising from contracts with customers. It will replace corresponding requirements currently contained in AASB 118 – *Revenue* and AASB 111 – *Construction Contract*s. The RBA is assessing the impact of the new standard, which will be applicable for annual reporting periods beginning on or after 1 January 2018.

(n) Exemption from FRR

As a for-profit Commonwealth entity for reporting purposes, the RBA is exempt from subsection 25(2) of the FRR, which requires entities that report under this Rule to discount employee benefit obligations with reference to the yield on Australian government bonds. In accordance with AASB 119, the RBA, accordingly, is required to use the market yield on high-quality corporate bonds to discount these obligations.

Note 2 – Net Profits

	Note	2015 $M	2014 $M
Interest revenue			
Foreign investments	1(b), 4	148	153
Australian dollar investments	1(b), 4	2,006	1,667
Overnight settlements	4	7	13
Cash collateral provided	4	3	1
Loans, advances and other	4	1	–
		2,165	1,834
Net gains/(losses) on securities and foreign exchange			
Foreign investments	1(b)	40	94
Australian dollar securities	1(b)	(130)	(90)
Foreign currency	1(b)	6,146	146
		6,056	150
Dividend revenue			
Investment in Bank for International Settlements	1(b)	4	3
Fees and commissions			
Banking services fee income		98	86
Committed Liquidity Facility fee income	1(k)	208	–
		306	86
Commonwealth grant revenue	1(j)	–	8,800
Other income			
Rental of Bank premises		10	10
Sales of note and security products		41	78
Gain on sale of Securency		8	7
Other		20	23
		79	118
Total		8,610	10,991
Less:			
Interest expense			
Deposit liabilities	1(b), 4	1,174	1,010
Banknote holdings of banks	1(b), 4	63	72
Cash collateral received	4	8	2
Repurchase agreements	1(b), 4	–	2
		1,245	1,086
General administrative expenses			
Staff costs		186	189
Superannuation costs	1(i), 14	54	60
Special redundancy/retirement payments		2	1
Depreciation of property	1(d), 8	8	9
Depreciation of plant and equipment	1(d), 8	24	21
Amortisation of computer software	1(e), 7	4	3
Premises and equipment		47	45
Materials used in note and security products		28	61
Travel		3	3
Consultants' fees, legal fees and payments to contractors		3	4
Other		9	9
		368	405

Note 2 – Net Profits (continued)

	Note	2015 $M	2014 $M
Other expenses			
Banking service fee expenses		79	67
Subsidiary income tax		1	2
Banknote distribution expenses		4	4
Other		25	35
		109	108
Total		1,722	1,599
Net Profit		6,888	9,392

Staff costs in 2014/15 include a valuation gain of $9.0 million associated with the decline in the balance of the provision for post-employment benefits, mostly for post-employment health insurance (in 2013/14 there was an expense of $4.4 million) (refer Note 10). This post-retirement benefit ceased to be available for new staff appointed after 30 June 2013. The decrease in this provision in 2014/15 reflects an increase in the discount rate.

The RBA incurred aggregate research and development expenditure of $1.1 million in 2014/15 ($1.1 million in 2013/14); this is included in Other expenses.

Note 3 – Distribution Payable to the Commonwealth

Section 30 of the Reserve Bank Act requires that the net profits of the RBA, less amounts set aside for contingencies or placed to the credit of the RBRF as determined by the Treasurer after consulting the Reserve Bank Board, shall be paid to the Commonwealth (see Note 1(g)). Also under section 30, unrealised profits from foreign exchange, foreign securities and Australian dollar securities are not available for distribution. Instead they are transferred to the unrealised profits reserve, where they remain available to absorb future valuation losses or are realised when relevant assets are sold or mature. Unrealised losses are, in the first instance, absorbed within the unrealised profits reserve and are offset against unrealised profits accumulated from previous years. For purposes of distribution, if such losses exceed the balance in this reserve, the amount by which they do so is initially charged against other components of income, with any remaining loss absorbed by the RBRF.

In 2014/15, the RBA recorded a net profit of $6,888 million. Unrealised gains of $3,434 million were transferred to the unrealised profits reserve. Earnings available for distribution therefore amounted to $3,454 million in 2014/15.

After consulting the Board, the Treasurer determined that a sum of $1,570 million was to be placed from distributable earnings in 2014/15 to the credit of the RBRF. Accordingly, a sum of $1,884 million is payable as a dividend to the Commonwealth from earnings available for distribution. The Treasurer has determined that an amount of $1,560 million be paid to the Commonwealth in September 2015, consisting of $942 million from 2014/15 earnings and a sum of $618 million deferred from 2013/14 earnings. The balance of 2014/15 earnings of $942 million will be paid early in 2016/17. A dividend of $618 million was distributed in August 2014 from earnings in 2013/14.

Note 3 – Distribution Payable to the Commonwealth (continued)

	Note	2015 $M	2014 $M
Opening balance		1,235	–
Distribution to the Commonwealth		(618)	–
Transfer from Statement of Distribution		1,884	1,235
As at 30 June		2,501	1,235

Note 4 – Interest Revenue and Interest Expense

Analysis for the year ended 30 June 2015.

	Average balance $M	Interest $M	Average annual interest rate %
Interest revenue			
Foreign investments	59,054	148	0.3
Australian dollar investments	75,487	2,006	2.7
Overnight settlements	346	7	2.1
Cash collateral provided	231	3	2.3
Gold loans	46	–	0.3
Loans, advances and other	30	1	2.0
	135,194	2,165	1.6
Interest expense			
Exchange Settlement balances	21,614	506	2.3
Deposits from governments	27,774	655	2.4
Deposits from overseas institutions	1,192	13	1.1
Banknote holdings of banks	2,991	63	2.1
Foreign repurchase agreements	2,358	(2)	(0.1)
Australian dollar repurchase agreements	76	2	2.4
Cash collateral received	416	8	2.3
Other deposits	18	–	0.8
	56,439	1,245	2.2
Analysis for the year ended 30 June 2014			
Interest revenue total	111,469	1,834	1.6
Interest expense total	46,780	1,086	2.3

Interest revenue for 2014/15 includes $1,625 million calculated using the effective interest method for financial assets not at fair value through profit or loss ($1,259 million in 2013/14). Interest expense for 2014/15 includes $1,245 million calculated using the effective interest method for financial liabilities not at fair value through profit or loss ($1,086 million in 2013/14).

Note 5 – Capital and Reserves

Changes in the RBA's Capital and Reserves (Note 1(f)) are shown below.

	Note	2015 $M	2014 $M
Asset revaluation reserves			
Gold	1(c)		
Opening balance		3,457	3,173
Net revaluation adjustments		331	284
Transfers (to)/from Statement of Distribution		–	–
As at 30 June		3,788	3,457
Shares in international and other institutions	1(b), 7		
Opening balance		304	324
Net revaluation adjustments		52	(20)
Transfers (to)/from Statement of Distribution		–	–
As at 30 June		356	304
Property, plant and equipment	1(d), 8		
Opening balance		217	208
Net revaluation adjustments		15	12
Transfers (to)/from Statement of Distribution		–	(3)
As at 30 June		232	217
Total asset revaluation reserves	1(f)		
Opening balance		3,978	3,705
Net revaluation adjustments		398	276
Transfers (to)/from Statement of Distribution		–	(3)
As at 30 June		4,376	3,978
Superannuation reserve	1(f)		
Opening balance		(23)	(178)
Net revaluation adjustments		157	155
As at 30 June		134	(23)
Unrealised profits reserve	1(f)		
Opening balance		3,156	3,796
Net transfers (to)/from Statement of Distribution		3,434	(640)
As at 30 June		6,590	3,156
Reserve Bank Reserve Fund	1(f)		
Opening balance		11,159	2,359
Transfers (to)/from Statement of Distribution		1,570	8,800
As at 30 June		12,729	11,159
Capital	1(f)		
Opening and closing balance		40	40

Note 6 – Cash and Cash Equivalents

This includes net amounts of $405 million owed to the RBA for overnight clearances of financial transactions through the payments system; an amount of $256 million was owed to the RBA at 30 June 2014. Other cash and cash equivalents include NPA's bank deposits.

Cash and cash equivalents exclude Australian and foreign short-term investments held to implement monetary policy or as part of Australia's foreign reserve assets. These investments are disclosed as Australian dollar investments and foreign exchange, respectively; further detail is disclosed in Note 15.

	2015 $M	2014 $M
Cash	33	17
Overnight settlements	405	256
As at 30 June	438	273

Reconciliation of net cash used in operating activities to Net Profits	Note	2015 $M	2014 $M
Net Profit		6,888	9,392
Increase/(decrease) in interest payable		(6)	48
Net loss/(gain) on overseas investments	2	(40)	(94)
Net loss/(gain) on Australian dollar securities	2	130	90
Net loss/(gain) on foreign currency	2	(6,146)	(146)
Decrease/(increase) in income accrued on investments		11	(100)
Cash collateral received/(pledged)		545	382
Depreciation of property	8	8	9
Depreciation of plant and equipment	8	24	21
Amortisation of computer software	7	4	3
Net payments for investments		(12,243)	(40,686)
Other		26	34
Net cash used in operating activities		(10,799)	(31,047)

Note 7 – Loans, Advances and Other Assets

	Note	2015 $M	2014 $M
Shareholding in Bank for International Settlements	1(b)	399	348
Computer software	1(e)	34	18
Officers' Home Advances		3	4
Other		40	42
As at 30 June		476	412

At 30 June 2015, the gross book value of the RBA's computer software amounted to $53.2 million and the accumulated amortisation on these assets was $18.9 million ($33.2 million and $15.1 million, respectively, at 30 June 2014). During 2014/15, there were $20.0 million in net additions to computer software ($10.8 million in 2013/14) and $4.0 million in amortisation expense ($3.5 million in 2013/14). The RBA had contractual commitments of $11.7 million as at 30 June 2015 for the acquisition of computer software ($1.9 million at 30 June 2014). Other assets include receivables of $21.6 million as at 30 June 2015 ($30.1 million at 30 June 2014), none of which are impaired.

Note 8 – Property, Plant and Equipment

	Land $M	Buildings $M	Plant and Equipment $M	Total $M
Gross Book Value as at 30 June 2014	129	232	182	543
Accumulated depreciation	–	–	(20)	(20)
Net Book Value	129	232	162	523
Additions	–	14	30	44
Depreciation expense	–	(8)	(24)	(32)
Net revaluation increment/(decrement)	1	14	–	15
Disposals	–	–	(1)	(1)
Net additions to net book value	1	20	5	26
Gross Book Value as at 30 June 2015	130	253	207	590
Accumulated depreciation	–	(1)	(40)	(41)
Net Book Value	130	252	167	549

The net book value of the RBA's property, plant and equipment includes $39.7 million of work in progress ($27.5 million at 30 June 2014).

As at 30 June 2015, the RBA had contractual commitments of $81.2 million to acquire plant and equipment ($8.4 million at 30 June 2014); contractual commitments of $59.6 million are due within one year ($6.5 million at 30 June 2014). Included within these contractual commitments is an amount of $55.0 million which relates to the construction of the new National Banknote Site in Craigieburn ($40.3 million of which is due within one year).

Note 9 – Deposits

	2015 $M	2014 $M
Exchange Settlement balances	23,360	22,379
Australian Government	36,294	30,304
State governments	59	–
Foreign governments, foreign institutions and international organisations	758	872
Other depositors	15	19
As at 30 June	60,486	53,574

Note 10 – Other Liabilities

	Note	2015 $M	2014 $M
Provisions	1(h)		
Provision for accrued annual leave		17	17
Provision for long service leave		39	40
Provision for post-employment benefits		92	101
Other		1	–
		149	158
Other			
Securities sold under agreements to repurchase	1(b)	1,780	5,244
Payable for unsettled purchases of securities		1,556	1,693
Interest accrued on deposits		59	65
Superannuation liability	1(i), 14	64	197
Other		968	231
		4,427	7,430
Total Other Liabilities as at 30 June		4,576	7,588

The provision for workers compensation at 30 June 2015 was $416,000 ($237,000 at 30 June 2014).

During 2014/15, annual leave of $11.9 million was accrued by staff, while $11.5 million of accrued leave was used. Staff accrued and used long service leave of $4.1 million and $2.8 million respectively in 2014/15.

The RBA's provision for its post-employment benefits was $9.0 million lower in 2014/15, largely due to an increase in the discount rate. Benefits of $4.3 million were paid out of the provision for post-employment benefits in 2014/15. The balance of the provision for post-employment benefits will change if assumptions about the length of staff service, the longevity of retired staff, future movements in medical costs or the discount rate vary.

At 30 June 2015, $12.1 million of the provision for accrued annual leave was expected to be taken within 12 months ($11.4 million at 30 June 2014); $4.1 million of the provision for long service leave was expected to be taken within 12 months ($4.2 million at 30 June 2014); and $4.5 million of the provision for post-employment benefits was expected to be paid out within 12 months ($4.5 million at 30 June 2014).

The RBA's provisions for annual leave, long service leave and post-employment benefits at 30 June 2015 have been calculated by applying the yield on high-quality Australian dollar-denominated corporate bonds to discount the estimated future liabilities to their present value. The yield on Australian government bonds was applied in 2013/14. This change in discount rate is in accordance with AASB 119, which requires the use of corporate bond yields if the disclosing entity judges this market to be sufficiently deep. Consistent with practice of other corporate reporting entities, the Bank has concluded for disclosure purposes that this market is sufficiently deep to provide a reliable discount rate for future cash flows. As the yield on corporate bonds is higher than that on Australian government bonds of equivalent maturity, this change has reduced the value of the RBA's provisions, resulting in a reduction of $24.7 million in the expense charged to profit.

Note 11 – Contingent Assets and Liabilities

Bank for International Settlements

The RBA has a contingent liability, amounting to $65.8 million at 30 June 2015 ($59.0 million at 30 June 2014), for the uncalled portion of its shares held in the BIS.

Performance Guarantees

In the course of providing services to its customers, the RBA provides performance guarantees to third parties in relation to customer activities. Such exposure is not material and has not given rise to losses in the past.

Insurance

The RBA carries its own insurance risks except where external insurance cover is considered to be more cost-effective or required by legislation.

NPA and Securency

As outlined in Note 1, the RBA has accounted for the costs, and potential costs, to the consolidated entity associated with the charges laid against NPA, Securency and several former employees of these companies during 2011 and the charges against former employees laid in 2013. In light of the uncertainties, it is not possible to make reliable estimates of all of the potential costs associated with the charges, or potential claims in connection with them, at the date of preparing these accounts.

Regarding the sale of Securency in 2013, the RBA provided the owner of Innovia Security with a number of indemnities for the period during which the company had been jointly owned by the RBA and Innovia Films. It is not possible to reliably estimate the potential financial effect of these indemnities. The RBA, however, does not consider it probable at this time that it will have to make payments in terms of these indemnities. Accordingly, they are treated as contingent liabilities in accordance with AASB 137 – *Provisions, Contingent Liabilities and Contingent Assets*.

In addition, an amount covering 50 per cent of certain potential liabilities of Innovia Security relating to events prior to the sale has been placed in escrow. The RBA will receive the balance, if any, after relevant claims have been paid, settled or lapse. At this time it is not possible to estimate the likelihood of the RBA receiving any payments from the amounts that remain in escrow and they are treated as a contingent asset, in accordance with AASB 137.

Committed Liquidity Facility

From 1 January 2015, the RBA has provided a Committed Liquidity Facility (CLF) to eligible authorised deposit-taking institutions (ADIs) as part of Australia's implementation of the Basel III liquidity standards. The CLF provides ADIs with a contractual commitment to funding under repurchase agreements with the RBA, subject to certain conditions. It was established to ensure that ADIs are able to meet their liquidity requirements under Basel III. The CLF is made available to ADIs in Australia because the supply of High Quality Liquid Assets (HQLA) is lower in Australia than is typical in other major countries; in other countries, these liquidity requirements are usually met by banks holding HQLAs on their balance sheet. The RBA administers the CLF, although the Australian Prudential Regulation Authority (APRA) determines which institutions have access to the facility and the amount of the CLF available to individual ADIs.

Any drawdown on this commitment is contingent on several conditions being satisfied, including: APRA not objecting to the drawdown; and the ADI having positive net worth in the opinion of the RBA. Accordingly, the potential funding under the CLF is disclosed as a contingent liability; repurchase agreements associated with providing such funding are disclosed as a contingent asset.

The aggregate undrawn commitment of the CLF at 30 June 2015 totalled about $255 billion for 13 ADIs.

Note 12 – Key Management Personnel

The key management personnel of the Reserve Bank are the Governor and Deputy Governor, non-executive members of the Reserve Bank Board, non-executive members of the Payments System Board and the Assistant Governors, who are the senior staff responsible for planning, directing and controlling the activities of the Bank. No new positions were added to this group in 2014/15. During the financial year, a total of 22 individuals occupied these positions for all or part of the year, the same as in the previous year.

The Reserve Bank Board determines the remuneration for the position of the Governor and Deputy Governor on a recommendation of the Board's Remuneration Committee, comprising three non-executive directors, and in terms of arrangements governed by the Remuneration Tribunal. Fees for non-executive members of the Reserve Bank Board, the Payments System Board and the Reserve Bank Board Audit Committee are determined by the Remuneration Tribunal. The Governor, in consultation with the Board Remuneration Committee, determines the remuneration of Assistant Governors and other staff. For staff generally, remuneration aims to be market competitive and designed to attract and retain appropriately skilled people. Remuneration levels for employees are externally benchmarked.

In May 2014, the Remuneration Tribunal determined that no adjustment would be made at that time to the remuneration of offices in its jurisdiction, including those of the Governor and Deputy Governor. Accordingly, remuneration of these positions was unchanged in 2014/15. Total remuneration for the position of Governor was $1,010,436 (including salary of $862,256) and for the Deputy Governor was $755,980 (including salary of $593,782).

The RBA discloses remuneration of directors and management in terms of both AAS and the FRR; these disclosures are set out below.

Disclosures under AAS

Under AAS, disclosure of remuneration of key management personnel is based on AASB 124 – *Related Party Disclosures*, as shown in Table A below. The figures are disclosed on an accruals basis and show the full cost to the consolidated entity; they include all leave and fringe benefits tax charges.

Table A: Remuneration of Key Management Personnel

	2015 $	2014 $
Short-term employee benefits	5,457,650	5,375,433
Post-employment benefits	1,026,138	1,010,678
Other long-term benefits	(65,074)	52,929
Share-based payments	–	–
Termination benefits	–	–
Total compensation	6,418,714	6,439,040

Short-term benefits include cash salary and, where relevant for executives, lump sum payments, motor vehicle benefits, car parking and health benefits and the fringe benefits tax paid or payable on these benefits. Post-employment benefits include superannuation benefits and, in the case of staff, health benefits. Other long-term benefits include long service leave and annual leave as well as the cost of (or gain on) revaluing previously accrued leave entitlements in accordance with AASB 119 (refer Note 10).

There were no loans during 2014/15 and 2013/14 by the RBA to any key management personnel.

There were no related party transactions with Board members or executives. Transactions with director-related entities which occurred in the normal course of the RBA's operations were incidental and conducted on terms no more favourable than similar transactions with other employees or customers; any vendor relationships with such entities were at arm's length and complied with the Bank's procurement policy.

Disclosure under FRR

The disclosures on senior management remuneration required under section 27 of the FRR are shown in Table B below. Aggregates in Table B are similar to those in Table A and correspond to the same group of 22 individuals with responsibility for planning, directing and controlling the activities of the RBA. The figures in Table B exclude valuation changes in accumulated annual and long service leave entitlements, consistent with the requirements of the FRR.

Table B: Remuneration of Senior Management[(a)]

	2015 $	2014 $
Short-term employee benefits		
Salary	4,383,444	4,348,568
Performance-related payments	57,105	62,015
Other[(b)]	236,392	234,374
Directors' fees	780,709	730,476
Total short-term employee benefits	5,457,650	5,375,433
Post-employment benefits		
Superannuation	996,003	981,976
Other[(c)]	30,135	28,702
Total post-employment benefits	1,026,138	1,010,678
Other long-term benefits[(d)]		
Annual leave	(16,130)	7,112
Long service leave	66,133	85,534
Total other long-term benefits	50,003	92,646
Termination benefits	–	–
Total employment benefits	6,533,791	6,478,757

(a) This table is based on remuneration of the 22 people who comprise key management personnel. It is prepared on an accruals basis.
(b) Other short-term employee benefits include car parking and health benefits and, for relevant executives, motor vehicle and related benefits.
(c) Other post-employment benefits include health benefits.
(d) Other long-term benefits include the net accrual of annual and long service leave in the relevant year but not the cost of revaluing leave entitlements previously accrued (as in Table A above).

Note 13 – Auditor's Remuneration

	2015 $	2014 $
Fees paid or payable to the statutory auditor (Australian National Audit Office) for audit services	411,600	412,272

KPMG has been contracted by the Australian National Audit Office (ANAO) to provide audit services in relation to the external audit of the RBA. This includes audit services for the RBA's subsidiary NPA and the Reserve Bank of Australia Officers' Superannuation Fund.

During 2014/15, KPMG earned additional fees of $143,085 for non-audit services that were separately contracted by the RBA ($538,827 in 2013/14). These fees are mainly included in Other expenses in Note 2.

Note 14 – Superannuation Funds

Overview

Based on independent actuarial estimates, the RBA defined benefit superannuation fund (the OSF) was in surplus at 30 June 2015. This actuarial analysis is based on the full actuarial valuation prepared as at 30 June 2014, and is consistent with AAS 25 – *Financial Reporting by Superannuation Plans*. As required by relevant legislation, the next actuarial review of the fund as at 30 June 2017 will be undertaken early in 2017/18.

For financial statement purposes, disclosures on superannuation follow AASB 119. Disclosures under AASB 119 are based on the assumption of future liabilities being discounted at the yield on high-quality Australian dollar corporate bonds. This places a higher present value on those liabilities than the funding assessment under AAS 25, which discounts them at the assumed return on fund assets. In terms of AASB 119, the RBA currently carries a liability for defined benefit superannuation.

Structure of funds

The RBA has two superannuation funds: the Reserve Bank of Australia Officers' Superannuation Fund (OSF) and the Reserve Bank of Australia UK Pension Scheme. Current and future benefits of these schemes are funded by member and RBA contributions and the existing assets of these schemes. The RBA's superannuation expenses for these schemes are included in net profits and shown in Note 2. Administration and other operational costs, and any recoupment of costs from the funds, are also included in Note 2. There were no other related party transactions between the RBA and the funds during 2014/15.

The OSF is a hybrid fund licensed by APRA, with a mix of defined benefit members, defined contribution members and pensioners. Defined benefit members receive a defined benefit in accordance with the Fund's Trust Deed. All members have unitised accumulation balances, which comprise employer contributions and members' personal contributions plus earnings on these contributions. The OSF is classified as a single-employer plan in terms of AASB 119. Defined benefit membership in the OSF was closed to new RBA staff from 1 August 2014. From that date, new staff have been offered defined contribution superannuation.

The UK Pension Scheme is a closed defined benefit scheme subject to relevant UK regulation.

Funding valuation – AAS 25

Full independent actuarial valuations of the OSF and UK Pension Scheme are conducted every three years. The most recent funding valuation of the OSF was at 30 June 2014. The latest valuation of the UK Pension Scheme was at 30 June 2013. At these valuations, the actuaries concluded that, on the basis of accrued benefits, both funds were in surplus and in a satisfactory financial position.

The funding valuation of the OSF in 2014 was based on the Attained Age Funding method, consistent with AAS 25. Accrued benefits were determined as the value of the future benefits payable to members (allowing for future salary increases), discounted by the expected rate of return on assets held to fund these benefits. At the time of this review, the surplus of the OSF was $110.3 million, as the assets of the OSF of $1,149.0 million exceeded the accrued benefits of $1,038.7 million. The OSF surplus measured on this basis as at 30 June 2015 amounted to $141.5 million (assets of $1,238.1 million less accrued benefits of $1,096.6 million).

The RBA maintained its contribution rate to the OSF defined benefit at 18.3 per cent of salaries in 2014/15. This is consistent with the actuary's recommendations at the 2014 triennial review.

The latest triennial funding valuation for the UK Pension Scheme was prepared as at 30 June 2013 and was also based on the Attained Age Funding method. On this basis, the UK Pension Scheme recorded a small deficit at 30 June 2015 (assets of $26.4 million compared with accrued benefits of $26.5 million), compared with a surplus of $0.1 million at 30 June 2014 (assets of $21.5 million compared with accrued benefits of $21.4 million). The Trustees of this scheme will keep its funding position under review.

Accounting valuation – AASB 119

For financial statement purposes, the financial positions of the OSF and UK Pension Scheme are valued in accordance with AASB 119. Information on these valuations and their impact on the financial statements are provided in a detailed reconciliation at the end of this Note.

The RBA's projected defined benefit superannuation obligation has been discounted to its present value by applying the yield on high-quality Australian dollar corporate bonds at 30 June 2015. The yield on Australian government bonds was applied in the previous year. The use of corporate bonds is in accordance with AASB 119 (refer to Note 10). As yields on corporate bonds are higher than those on Australian government bonds of equivalent maturity, this change has reduced by $241.7 million the value of the RBA's defined benefit obligation at 30 June 2015. This amount is reflected in the Bank's other comprehensive income; there is no effect on net profit in the current financial year.

AASB 119 requires disclosures of significant actuarial assumptions, a maturity analysis of the defined benefit obligation and key risk exposures. Unless otherwise stated, information is provided only for the OSF, as the UK Pension Scheme is not material.

Actuarial assumptions

The principal actuarial assumptions for the AASB 119 valuation of the OSF are:

	2015 Per cent	2014 Per cent
Discount rate (gross of tax)	4.9	4.6
Future salary growth[(a)]	3.0	3.0
Future pension growth[(a)]	3.0	3.0

(a) Includes a short-term assumption of 2.50 per cent for the first five years of the projections.

Maturity Analysis

The weighted-average duration of the defined benefit obligation for the OSF is 18 years (18 years at 30 June 2014). The expected maturity profile for defined benefit obligations of the OSF is as follows:

	2015 Per cent	2014 Per cent
Maturity profile		
Less than 5 years	19	19
Between 5–10 years	16	16
Between 10–20 years	26	26
Between 20–30 years	18	18
Over 30 years	21	21
Total	100	100

Risk exposures

The RBA is exposed to risk from its sponsorship of the OSF defined benefit plan. Key risks include investment, interest rate, longevity, salary and pension risks.

Investment risk is the risk that plan assets will not generate returns at the expected level.

Interest rate risk is the exposure of the defined benefit obligations to adverse movements in interest rates. A decrease in interest rates will increase the present value of these obligations. This may, however, be partially offset by an increase in value of the interest-bearing securities held by the OSF.

Longevity risk is the risk that OSF members live longer than actuarial estimates of life expectancy.

Salary risk is the risk that higher than assumed salary rises increase the cost of providing a salary-related pension.

Pension risk is the risk that pensions increase at a faster rate than assumed and increases the cost of providing pensions.

The OSF's member and accounting services were outsourced in 2013/14. Appropriate practices and procedures have been adopted to manage the associated risks.

The table below shows the estimated change in the defined benefit obligation resulting from movements in key actuarial assumptions. These estimates change each assumption individually, holding other factors constant; they do not incorporate any correlations among factors.

	2015 $M	2014 $M
Change in the defined benefit obligation from an increase of 0.25 percentage point in:		
Discount rate (gross of tax)	(50)	(53)
Future salary growth	13	13
Future pension growth	38	40
Change in the defined benefit obligation from a decrease of 0.25 percentage point in:		
Discount rate (gross of tax)	54	57
Future salary growth	(13)	(13)
Future pension growth	(36)	(38)
Change in the defined benefit obligation from an increase in life expectancy of 1 year	38	42

Asset Distribution

The distribution of the OSF's assets at 30 June is provided in the table below. This distribution relates to the option used by the OSF to fund members' defined benefits.

	Per cent of fund assets	
	2015	2014
Cash and short-term securities	5.2	7.0
Fixed interest and indexed securities	14.1	14.0
Domestic equities	36.1	40.2
Foreign equities	17.9	11.6
Property	14.0	10.5
Private equity and infrastructure	12.7	16.7
Total	100.0	100.0

AASB 119 Reconciliation

A detailed reconciliation of the AASB 119 valuation of the two superannuation funds is shown in the table below. In the case of the OSF, these details relate only to the defined benefit component of the fund as the RBA faces no actuarial risk on defined contribution accumulation balances. Excluding defined contribution balances has no effect on the measurement of the financial position of the OSF. At 30 June 2015, accumulation balances in the OSF totalled $265.0 million ($236.8 million as at 30 June 2014).

	OSF		UK Scheme		Total	
	2015 $M	2014 $M	2015 $M	2014 $M	2015 $M	2014 $M
Opening balances:						
Net market value of assets	906	830	22	20	927	850
Accrued benefits	(1,103)	(1,151)	(19)	(15)	(1,123)	(1,166)
Surplus/(deficit)	(197)	(321)	2	4	(195)	(317)
Effect of asset cap	–	–	(2)	(4)	(2)	(4)
Opening superannuation asset/(liability)	(197)	(321)	–	–	(197)	(321)
Change in net market value of assets	61	76	5	2	66	78
Change in accrued benefits	72	48	(3)	(4)	69	44
Change in asset cap	–	–	(2)	2	(2)	2
Change in superannuation asset/(liability)	133	124	–	–	133	124
Closing balances:						
Net market value of assets	967	906	26	22	993	927
Accrued benefits	(1,031)	(1,103)	(22)	(19)	(1,053)	(1,123)
Surplus/(deficit)	(64)	(197)	4	2	(60)	(195)
Effect of asset cap	–	–	(4)	(2)	(4)	(2)
Closing superannuation asset/(liability)	(64)	(197)	–	–	(63)	(197)
Interest income	41	39	1	1	42	39
Benefit payments	(43)	(37)	(1)	(1)	(44)	(38)
Return on plan assets	38	51	2	–	40	51
Contributions from RBA to defined benefit schemes	25	23	–	–	25	24
Exchange rate gains/(losses)	–	–	3	2	3	2
Change in net market value of assets	61	76	5	2	66	78

The components of this table may not add due to rounding.

Note 14 – Superannuation Funds (continued)

	OSF		UK Scheme		Total	
	2015 $M	2014 $M	2015 $M	2014 $M	2015 $M	2014 $M
Current service cost	(40)	(41)	–	–	(40)	(41)
Interest cost	(50)	(52)	(1)	(1)	(51)	(53)
Benefit payments	43	37	1	1	44	38
Gains/(losses) from change in demographic assumptions	–	–	–	–	–	–
Gains/(losses) from change in financial assumptions	88	59	(1)	(1)	87	58
Gains/(losses) from change in other assumptions	31	46	–	(1)	31	45
Exchange rate gains/(losses)	–	–	(2)	(2)	(2)	(2)
Change in accrued benefits	72	48	(3)	(4)	69	44
Current service cost	40	41	–	–	40	41
Net Interest expense/(income)	9	14	–	–	9	14
Productivity and superannuation guarantee contributions	5	5	–	–	5	5
Superannuation expense/(income) included in profit or loss	54	60	–	–	53	60
Actuarial re-measurement loss/(gain)	(157)	(155)	–	–	(157)	(156)
Superannuation expense/(income) included in Statement of Comprehensive Income	(103)	(96)	–	–	(103)	(95)

The components of this table may not add due to rounding.

Note 15 – Financial Instruments and Risk

As the central bank in Australia, the RBA is responsible for implementing monetary policy and managing Australia's foreign reserve assets. Consequently, the RBA holds a range of financial assets, including Australian dollar securities, foreign government securities, repurchase agreements, deposits with the BIS and other central banks, interest rate futures contracts, foreign currency swaps, gold loans, cash and cash equivalents. The RBA also holds shares in the BIS. As to financial liabilities, the RBA issues Australia's banknotes and takes deposits from its customers, mainly the Australian Government, and eligible financial institutions, including other central banks. Accordingly, the main financial claims on the RBA are banknotes on issue and deposit liabilities. The RBA also provides banking services to its customers and operates Australia's high-value payments and interbank settlement systems. These payments and settlements occur through accounts held on the RBA's balance sheet.

AASB 7 requires disclosure of information relating to financial instruments; their significance and performance; terms and conditions; fair values; risk exposures and risk management.

Financial Risk

The RBA is exposed to a range of financial risks that reflect its policy and operational responsibilities. These risks include market risk, credit risk and liquidity risk. The chapters in the Annual Report on 'Operations in Financial Markets' and 'Risk Management' provide additional information on the RBA's management of these financial risks.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises: foreign exchange risk; interest rate risk; and other price risk.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or cash flows of the RBA's foreign currency assets and liabilities will fluctuate because of movements in exchange rates. An appreciation in the exchange rate results in valuation losses, while a depreciation leads to valuation gains. The overall level of foreign currency exposure is determined by policy considerations. The RBA's net foreign currency exposure as at 30 June 2015 was $50.1 billion ($42.3 billion as at 30 June 2014). Within the overall exposure and to a limited extent, foreign currency risk can be mitigated by holding assets across a diversified portfolio of currencies. The RBA holds foreign reserves in six currencies – the US dollar, the euro, the Canadian dollar, the Japanese yen, the Chinese renminbi and the UK pound sterling.

The RBA also undertakes foreign currency swaps to assist its daily domestic liquidity management and in managing foreign reserve assets. These instruments carry no foreign exchange risk since the RBA agrees the exchange rates at which both legs of the transaction are settled at the time the swap is undertaken.

Concentration of foreign exchange

During 2014/15, the RBA began purchasing UK pound sterling and increased its holding of renminbi and US dollars by reducing the proportion of euros held in its reserves. The RBA's net holdings of foreign exchange (excluding its holding of Special Drawing Rights) were distributed as follows as at 30 June:

	Per cent of foreign exchange	
	2015	**2014**
US dollar	55	52
Euro	25	35
Canadian dollar	5	5
Japanese yen	5	5
Chinese renminbi	5	3
UK pound sterling	5	–
Total foreign exchange	100	100

Sensitivity to foreign exchange risk

The sensitivity of the RBA's profit and equity to a movement of +/–10 per cent in the value of the Australian dollar exchange rate as at 30 June is shown below. These figures are generally reflective of the RBA's exposure over the financial year.

	2015 $M	2014 $M
Change in profit/equity due to a 10 per cent appreciation in the reserves-weighted value of the A$	(4,547)	(3,849)
Change in profit/equity due to a 10 per cent depreciation in the reserves-weighted value of the A$	5,557	4,704

Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of financial instruments will fluctuate because of movements in market interest rates. The RBA's balance sheet is exposed to interest rate risk because most of its assets are financial assets that have a fixed income stream, such as Australian dollar and foreign currency securities. The price of such securities increases when market interest rates decline, while it falls if market rates rise. Interest rate risk increases with the maturity of a security and, accordingly, interest rate risk on foreign assets is controlled through limits on the duration of the portfolio. Interest rate risk on Australian dollar assets is relatively low as the bulk of the portfolio is held under short-term reverse repurchase agreements.

Sensitivity to interest rate risk

The figures below show the effect on the RBA's profit and equity of a movement of +/–1 percentage point in interest rates, given the level, composition and modified duration of the RBA's foreign currency and Australian dollar securities as at 30 June.

	2015 $M	2014 $M
Change in profit/equity due to movements of +/–1 percentage point across yield curves:		
Foreign currency securities	–/+300	–/+365
Australian dollar securities	–/+156	–/+131

Other price risk

The RBA holds shares in the BIS. The RBA's membership of the BIS is mainly to maintain and develop strong relationships with other central banks, which is to Australia's advantage. Shares in the BIS are owned exclusively by its member central banks and monetary authorities. For accounting purposes, the RBA treats the BIS shares as 'available for sale' and the fair value of these shares is estimated as a discount to the BIS' net asset value. Accordingly, these shares are revalued to reflect movements in the net asset value of the BIS and in the Australian dollar. The price risk faced on the BIS shares is incidental to the policy reasons for holding them and is immaterial compared with other market risks faced by the RBA. For this reason, this asset is not included as part of the RBA's net foreign currency exposure outlined above.

Credit risk

Credit risk is the potential for financial loss arising from an issuer or counterparty defaulting on its obligations to: repay principal; make interest payments due on an asset; or settle a transaction. For the RBA, credit risk arises from exposure to the issuers of securities that it holds and counterparties which are yet to settle transactions. The RBA's credit exposure is managed within a highly risk-averse framework. In particular, credit risk is controlled by: holding securities issued by a limited number of highly rated governments, government-guaranteed agencies and supranational organisations; and holding high-quality collateral against reverse repurchase agreements.

Cash invested under reverse repurchase agreements in overseas markets is secured by collateral in the form of government securities or securities issued by US agencies; the RBA takes and maintains collateral to the value of 102 per cent of the cash invested. Cash invested under Australian dollar reverse repurchase agreements is secured by securities issued by Australian governments, banks and various corporate and asset-backed securities (see Note 1(b)). The RBA holds collateral equivalent to the amount invested plus a margin according to the risk profile of the collateral held. If the current value of collateral falls by more than a predetermined amount, the counterparty is required to provide additional collateral to restore this margin; the thresholds are specified in the legal agreements which govern these transactions. The management of collateral and cash associated with tri-party repurchase agreements is conducted through a third party, in this case the Australian Securities Exchange. The terms and requirements of tri-party repurchase agreements are broadly consistent with bilateral agreements and the RBA manages the risk of holding them in a similar way.

The RBA does not sell or re-pledge securities held as collateral under reverse repurchase agreements.

The RBA's maximum exposure to credit risk for each class of recognised financial assets, other than derivatives, is the carrying amount of those assets as indicated in the balance sheet.

The RBA's maximum credit risk exposure in relation to derivative financial instruments is:

1. ***Foreign exchange swaps*** – As at 30 June 2015, the RBA was under contract to purchase $17.2 billion of foreign currency ($5.5 billion at 30 June 2014) and sell $28.8 billion of foreign currency ($20.0 billion at 30 June 2014). As of that date there was a net unrealised gain of $218 million on these swap positions included in net profit ($42 million unrealised gain at 30 June 2014).

   The RBA has a credit exposure from foreign exchange swaps because of the risk that a counterparty might fail to deliver the second leg of a swap which would have to be replaced in the market, potentially at a loss if the exchange rate had moved from the level at which the second leg of the swap was to be completed. To manage credit risk on swaps, the RBA exchanges collateral with counterparties under credit support annexes (CSAs), which cover the potential cost of replacing the swap position in the market if a counterparty fails to deliver. The RBA's CSAs specify that only Australian dollar cash is eligible as collateral. Under CSAs, either party to the agreement may be obliged to deliver collateral with interest paid or received on a monthly basis. At 30 June 2015, cash collateral received was $673 million ($129 million at 30 June 2014), while cash collateral provided was nil (nil at 30 June 2014).

2. ***Interest rate futures*** – As at 30 June 2015, the amount of credit risk on margin accounts associated with interest rate futures contracts held by the RBA was approximately $0.5 million ($0.6 million at 30 June 2014). As at 30 June 2015 there was an unrealised loss brought to account on those contracts of $0.2 million ($0.2 million unrealised loss at 30 June 2014).

The RBA held no past due or impaired assets at 30 June 2015 or 30 June 2014.

Collateral pledged

At 30 June 2015, the carrying amount of securities sold and contracted for purchase under repurchase agreements was $1,781 million ($5,243 million at 30 June 2014). Terms and conditions of repurchase agreements are consistent with those for reverse repurchase agreements disclosed above.

Concentration of credit risk

As noted, the RBA operates to minimise its credit risk exposure through comprehensive risk management policy guidelines. The following table indicates the concentration of credit risk in the RBA's investment portfolio. This disclosure has been updated to align with the Bank's current internal credit framework, which utilises an average of the credit ratings of the three major ratings agencies. The prior period figures have been presented accordingly.

	Risk rating of security/issuer[a]	Risk rating of counterparties[a]	Per cent of investments	
			2015	2014
Australian dollar securities				
Holdings of Australian Government Securities	Aaa	na	3.8	3.3
Holdings of semi-government securities	Aaa	na	0.6	0.8
	Aa	na	2.0	1.8
Securities purchased under reverse repurchase agreements	Aaa	Aa	27.4	23.5
	Aaa	A	7.3	6.6
	Aaa	Other[b]	1.6	2.8
	Aa	Aa	6.8	7.3
	Aa	A	3.1	3.5
	Aa	Baa	0.2	0.0
	Aa	B	0.1	0.0
	Aa	Other[b]	0.3	0.6
	A	Aa	1.2	0.8
	A	A	0.6	0.4
	A	Other[b]	0.0	0.1
	Baa	Aa	0.0	0.1
Foreign investments				
Holdings of securities	Aaa	na	14.7	18.0
	Aa	na	3.9	16.7
	A	na	18.0	0.0
Securities sold under repurchase agreements	Aaa	Aa	0.9	0.0
	Aaa	A	0.2	3.7
Securities purchased under reverse repurchase agreements	Aaa	Aa	1.1	0.1
	Aaa	A	0.5	4.7
	Aaa	Baa	0.2	0.0
	Aa	A	0.1	0.4
	A	A	0.8	0.0
Deposits	na	Aaa	0.5	1.2
Other	Aaa	A	0.0	0.1
	A	A	0.4	0.0
	Other[b]	Aa	0.1	0.0
	Other[b]	A	0.1	0.0
Other			3.5	3.5
			100.0	100.0

(a) Average of the credit ratings of the three major rating agencies, where available.
(b) This category includes counterparties which are not rated.

Liquidity risk

Liquidity risk is the risk that the RBA will not have the resources required at a particular time to meet its obligations to settle its financial liabilities. As the ultimate source of liquidity in Australian dollars, the RBA can create liquidity in unlimited amounts in Australian dollars at any time. A small component of the RBA's liabilities is in foreign currencies, namely foreign repurchase agreements.

Liquidity risk is also associated with financial assets to the extent that the RBA may, in extraordinary circumstances, be forced to sell a financial asset at a price less than its fair value. The RBA manages this risk by holding a diversified portfolio of highly liquid Australian dollar and foreign currency assets.

The maturity analysis table that follows is based on the RBA's contracted portfolio as reported in the RBA's Statement of Financial Position. All financial instruments are shown at their remaining term to maturity, which is equivalent to the repricing period. Other liabilities include amounts outstanding under repurchase agreements. Foreign currency swaps reflect the gross settlement amount of the RBA's outstanding foreign currency swap positions.

Maturity Analysis – as at 30 June 2015

	Balance sheet total $M	Contracted maturity $M					No specified maturity $M	Weighted average effective rate %
		On demand	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Assets								
Cash and cash equivalents	438	32	405	–	–	–	1	1.75
Australian dollar investments								
Securities sold under repurchase agreements	–	–	–	–	–	–	–	na
Securities purchased under repurchase agreements	76,183	–	52,800	1,969	–	–	21,414	2.02
Other securities	9,930	–	1,404	6,318	899	1,309	–	2.15
Accrued interest	181	–	137	44	–	–	–	na
	86,294							
Foreign exchange								
Balances with central banks	832	116	716	–	–	–	–	0.13
Securities sold under repurchase agreements	1,780	–	544	1,118	118	–	–	0.02
Securities purchased under repurchase agreements	4,090	–	4,090	–	–	–	–	0.11
Other securities	58,467	–	33,609	12,037	5,832	495	6,494	0.16
Deposits	1	–	1	–	–	–	–	(0.03)
Cash collateral pledged	–	–	–	–	–	–	–	na
Accrued interest	71	–	42	29	–	–	–	na
	65,241							
Gold								
Gold loans	49	–	–	49	–	–	–	0.25
Gold holdings	3,866	–	–	–	–	–	3,866	na
	3,915							
Property, plant & equipment	549	–	–	–	–	–	549	na
Loans and advances	3	–	–	–	–	3	–	2.76
Other assets	473	–	23	3	–	–	447	na
Total assets	156,913	148	93,771	21,567	6,849	1,807	32,771	1.18
Liabilities								
Deposits	60,486	26,236	34,250	–	–	–	–	1.98
Distribution payable to the Commonwealth	2,501	–	1,559	–	942	–	–	na
Cash collateral received	673	–	673	–	–	–	–	2.00
Other liabilities	3,903	–	3,687	–	–	–	216	(0.02)
Australian notes on issue	65,481	–	–	–	–	–	65,481	0.07
Total liabilities	133,044	26,236	40,169	–	942	–	65,697	0.94
Capital and reserves	23,869							
Total balance sheet	156,913							
Swaps								
Australian dollars								
Contractual outflow	(40)	–	(40)	–	–	–	–	
Contractual inflow	11,676	–	11,676	–	–	–	–	
	11,636	–	11,636	–	–	–	–	
Foreign currency								
Contractual outflow	(28,846)	–	(28,846)	–	–	–	–	
Contractual inflow	17,210	–	17,210	–	–	–	–	
	(11,636)	–	(11,636)	–	–	–	–	

Maturity Analysis – as at 30 June 2014

	Balance sheet total $M	Contracted maturity $M					No specified maturity $M	Weighted average effective rate %
		On demand	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Assets								
Cash and cash equivalents	273	16	256	–	–	–	1	2.25
Australian dollar investments								
Securities sold under repurchase agreements	–	–	–	–	–	–	–	na
Securities purchased under repurchase agreements	64,394	–	42,587	1,206	–	–	20,601	2.50
Other securities	8,298	–	1,030	5,118	903	1,247	–	2.69
Accrued interest	194	–	131	63	–	–	–	na
	72,886							
Foreign exchange								
Balances with central banks	622	32	590	–	–	–	–	0.07
Securities sold under repurchase agreements	5,241	–	2,820	1,532	776	113	–	0.15
Securities purchased under repurchase agreements	7,421	–	7,421	–	–	–	–	0.12
Other securities	49,388	–	26,483	10,536	6,248	955	5,166	0.22
Deposits	1,067	2	1,064	–	–	–	1	0.02
Cash collateral pledged	–	–	–	–	–	–	–	na
Accrued interest	68	–	36	32	–	–	–	na
	63,807							
Gold								
Gold loans	45	–	–	45	–	–	–	0.40
Gold holdings	3,539	–	–	–	–	–	3,539	na
	3,584							
Property, plant & equipment	523	–	–	–	–	–	523	na
Loans and advances	4	–	–	–	–	4	–	2.92
Other assets	408	–	32	–	–	–	376	na
Total assets	141,485	50	82,450	18,532	7,927	2,319	30,207	1.39
Liabilities								
Deposits	53,574	26,474	27,100	–	–	–	–	2.43
Distribution payable to the Commonwealth	1,235	–	618	–	617	–	–	na
Cash collateral received	129	–	129	–	–	–	–	2.50
Other liabilities	7,459	–	7,101	–	–	–	358	(0.09)
Australian notes on issue	60,778	–	–	–	–	–	60,778	0.13
Total liabilities	123,175	26,474	34,948	–	617	–	61,136	1.12
Capital and reserves	18,310							
Total balance sheet	141,485							
Swaps								
Australian dollars								
Contractual outflow	(14)	–	(14)	–	–	–	–	
Contractual inflow	14,556	–	14,556	–	–	–	–	
	14,542	–	14,542	–	–	–	–	
Foreign currency								
Contractual outflow	(20,026)	–	(20,026)	–	–	–	–	
Contractual inflow	5,484	–	5,484	–	–	–	–	
	(14,542)	–	(14,542)	–	–	–	–	

Note 16 – Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date. This is determined by the quoted market price, if one is available. The RBA's financial assets measured at fair value include its holdings of Australian dollar securities, foreign government securities, interest rate futures, foreign currency swap contracts and its shareholding in the BIS. Non-financial assets carried on the balance sheet at fair value include the RBA's property, plant and equipment. Other than derivatives, there are no financial liabilities measured at fair value. The RBA's repurchase agreements, BIS deposits, cash and cash equivalents, payables, receivables, notes on issue and deposit liabilities are carried on the balance sheet at face value, which is equivalent to their amortised cost using the effective interest method; this approximates fair value.

AASB 7 requires the fair value of financial assets and liabilities to be disclosed according to their accounting classification under AASB 139.

	2015 $M	2014 $M
Financial assets accounted for under AASB 139		
At fair value through profit or loss	69,530	62,855
Loans and receivables	82,521	74,189
Available for sale	401	348
Assets accounted for under other standards	4,461	4,093
Total assets as at 30 June	156,913	141,485
Financial liabilities accounted for under AASB 139		
At fair value through profit or loss	198	45
Not at fair value through profit or loss	132,594	122,771
Liabilities accounted for under other standards	252	359
Total liabilities as at 30 June	133,044	123,175

AASB 13 requires financial and non-financial assets and liabilities measured at fair value to be disclosed according to their position in the fair value hierarchy. This hierarchy has three levels: valuation for Level 1 assets is based on quoted prices in active markets for identical assets; those for Level 2 assets is based on quoted prices or other observable market data not included in Level 1; Level 3 valuations include inputs other than observable market data. The following table presents the RBA's assets and liabilities measured and recognised at fair value and their classification within the fair value hierarchy at 30 June 2015. There were no transfers between levels within the fair value hierarchy during the financial year.

	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
As at 30 June 2015				
Financial assets				
At fair value through profit or loss				
Australian dollar securities	9,379	617	–	9,996
Foreign government securities	54,535	4,582	–	59,117
Foreign currency swaps	50	367	–	417
Available for sale				
Shares in international financial institutions	–	–	401	401
	63,964	5,566	401	69,931
Non-financial assets				
Land and buildings	–	–	382	382
Plant and equipment	–	–	167	167
	–	–	549	549
Financial liabilities				
At fair value through profit or loss				
Foreign currency swaps	–	198	–	198
	–	198	–	198
As at 30 June 2014				
Financial assets				
At fair value through profit or loss				
Australian dollar securities	7,284	1,097	–	8,381
Foreign government securities	52,823	1,564	–	54,387
Foreign currency swaps	7	80	–	87
Available for sale				
Shares in international financial institutions	–	–	348	348
	60,114	2,741	348	63,203
Non-financial assets				
Land and buildings	–	–	361	361
Plant and equipment	–	–	162	162
	–	–	523	523
Financial liabilities				
At fair value through profit or loss				
Foreign currency swaps	1	44	–	45
	1	44	–	45

The fair value of Level 2 financial instruments is determined by reference to observable inputs from active markets or prices from markets not considered active. Australian dollar-denominated discount securities and some foreign currency swaps are priced with reference to an active market yield or rate, but with an adjustment applied to reflect maturity dates. Prices for some Australian dollar and foreign currency denominated securities are derived from markets that are not considered active.

The RBA's shareholding in the BIS is valued using the net asset value, as published in annual financial statements of the BIS, less a discount of 30 per cent. The discount applied is based on a Hague Arbitral Tribunal decision on compensation paid to former private shareholders, and subsequent transactions involving the re-allocation of BIS shares. This financial asset is classified as a Level 3 financial instrument.

Level 3 non-financial assets include the RBA's property, plant and equipment, reflecting the use of market inputs that cannot be directly observed in their valuation.

The following table presents the changes in Level 3 assets during 2014/15 for recurring fair value measurements of financial and non-financial assets.

	Financial Assets	Non-financial Assets	
	Shareholding in international and other institutions $M	Land and buildings $M	Plant and equipment $M
Opening Balance as at 1 July 2013	367	349	142
Transfers	–	–	–
Additions	–	13	41
Disposals	–	(4)	(1)
Depreciation	–	(9)	(21)
Gains or losses recognised in Net Profit	–	1	–
Gains or losses recognised in Other Comprehensive Income	(19)	11	1
Closing Balance as at 30 June 2014	348	361	162
Transfers	–	–	–
Additions	1	14	30
Disposals	–	–	(1)
Depreciation	–	(8)	(24)
Gains or losses recognised in Net Profit	–	–	–
Gains or losses recognised in Other Comprehensive Income	52	15	–
Closing Balance as at 30 June 2015	401	382	167

The following table provides information about the significant inputs that cannot directly be observed used in Level 3 fair value measurements; the table also shows the sensitivity of fair value measurements to changes in these inputs.

	Valuation Technique	Unobservable Inputs	Range of Inputs		Fair Value Movement Due to Change in Unobservable Input:	
			2015	2014	Increase	Decrease
BIS Shares	Net asset value	Discount rate	30.0%	30.0%	Decrease	Increase
Land and Buildings	Income capitalisation and Discounted cash flow methods	Net market income	\$86 to \$543/m²	\$86 to \$546/m²	Increase	Decrease
		Discount rate	8.0% to 10.0%	8.3% to 10.0%	Decrease	Increase
		Terminal yield	6.8% to 13.0%	6.9% to 13.0%	Decrease	Increase
		Capitalisation rate	6.6% to 12.0%	6.8% to 12.0%	Decrease	Increase
	Depreciated replacement cost	Depreciation rate	2.0%	2.0%	Decrease	Increase
Plant and Equipment	Depreciated replacement cost	Indexation rate	0.2% to 5.3%	0.2% to 5.3%	Increase	Decrease
		Depreciation rate	4.8% to 25.0%	4.8% to 25.0%	Decrease	Increase

Note 17 – Subsequent Events

There are no events subsequent to 30 June 2015 to be disclosed.

Auditor-General for Australia

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Treasurer

I have audited the accompanying annual financial statements of the Reserve Bank of Australia for the year ended 30 June 2015, which comprise:

- Statement of Assurance;
- Statement of Financial Position;
- Statement of Comprehensive Income;
- Statement of Distribution;
- Statement of Changes in Capital and Reserves;
- Cash Flow Statement; and
- Notes to and Forming Part of the Financial Statements, including a Summary of Accounting Policies.

The financial statements have been prepared for the consolidated entity comprising the Reserve Bank of Australia and its controlled entity, being the only entity controlled by the Reserve Bank at the year's end or from time-to-time during the year.

Accountable Authority's Responsibility for the Financial Statements

The Governor of the Reserve Bank of Australia is responsible under the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards and the rules made under that Act. The Governor is also responsible for such internal control as is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Accountable Authority of the entity, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

In conducting my audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

Opinion

In my opinion, the financial statements of the Reserve Bank of Australia:

(a) comply with Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and

(b) present fairly the financial position of the Reserve Bank of Australia as at 30 June 2015 and its financial performance and cash flows for the year then ended.

Australian National Audit Office

Grant Hehir
Auditor-General

Canberra
2 September 2015