



# FINANCIAL STATEMENTS

AS AT 30 JUNE 2002

**STATEMENT OF FINANCIAL POSITION** As at 30 June 2002

Reserve Bank of Australia and Controlled Entities

	Note	2002 \$M	2001 \$M
<b>ASSETS</b>			
Cash and liquid assets	5, 18	606	680
Australian dollar securities	1(d), 17	21 987	19 814
Foreign exchange	1(c), 17	35 650	35 786
Gold	1(b), 17	1 459	1 381
Property, plant and equipment	1(f), 7	277	280
Loans, advances and other	6	149	172
<b>Total Assets</b>		<b>60 128</b>	<b>58 113</b>
<b>LIABILITIES</b>			
Deposits	8	13 992	16 864
Distribution payable to Commonwealth	1(h)	1 889	2 834
Other	9	2 807	1 816
Australian notes on issue	1(j)	31 930	27 168
<b>Total Liabilities</b>		<b>50 618</b>	<b>48 682</b>
<b>Net Assets</b>		<b>9 510</b>	<b>9 431</b>
<b>Capital and Reserves</b>			
Reserves:			
Unrealised Profits Reserve	1(g), 4	1 798	1 809
Asset revaluation reserves	1(g), 4	1 520	1 430
Reserve Bank Reserve Fund	1(g), 4	6 152	6 152
Capital	4	40	40
<b>Total Capital and Reserves</b>		<b>9 510</b>	<b>9 431</b>

**STATEMENT OF FINANCIAL PERFORMANCE** For year ended 30 June 2002

Reserve Bank of Australia and Controlled Entities

	Note	2002 \$M	2001 \$M
<b>REVENUES</b>			
Interest revenue	2	2 196	2 685
Net gains on securities	2	468	1 520
Dividend revenue	2	4	3
Fees and commissions	2	20	18
Other revenue	2	39	46
Total revenue		2 727	4 272
<b>EXPENSES</b>			
Interest expense	2	684	955
General administrative expenses	2	149	147
Other expenses	2	26	21
Total expenses		859	1 123
<b>Net Profit</b>		1 868	3 149
Net revaluation adjustments in asset revaluation reserves	1(g), 4	100	150
Net profit plus net revaluation adjustments in asset revaluation reserves		1 968	3 299

**STATEMENT OF DISTRIBUTION** For year ended 30 June 2002

Reserve Bank of Australia and Controlled Entities

	Note	2002 \$M	2001 \$M
<b>Net Profit</b>		1 868	3 149
Transfer from/(to) unrealised profits reserve	4	11	(320)
Transfer from asset revaluation reserves	4	10	5
Earnings available for distribution		1 889	2 834
<b>Distributed as follows:</b>			
Payable to the Commonwealth of Australia		1 889	2 834

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS** 30 June 2002

Reserve Bank of Australia and Controlled Entities

**Note 1 SUMMARY OF ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with the Reserve Bank Act and the Commonwealth Authorities and Companies Act.

The form and content of the financial statements incorporate the requirements of the Commonwealth Authorities and Companies (Financial Statements 2001-2002) Orders. These orders provide that the financial statements of agencies and authorities must comply with accounting standards and accounting interpretations issued by the Australian Accounting Standards Board. In particular, as the Reserve Bank of Australia (RBA) is a financial institution, the financial statements have been prepared using AAS32 – *Specific Disclosures by Financial Institutions*.

The RBA has been granted certain exemptions from the requirements of the Orders as detailed in Note 1 (l). These exemptions relate to matters of disclosure and presentation which are of a minor nature and are adequately dealt with in these financial statements.

The statements are a general purpose financial report prepared in accordance with Australian Accounting Standards. Compliance with revised accounting standards has resulted in a small number of comparative amounts being represented and reclassified to ensure comparability with the current reporting period. Unless otherwise stated, the accounting policies and practices followed in these statements are consistent with those followed in the previous year.

All amounts are expressed in Australian dollars unless another currency is indicated. Current market values are used for the RBA's major assets, including domestic and foreign marketable securities, gold and foreign currency, as well as for premises. In other cases, an historical cost basis of accounting is used. Revenue and expenses are brought to account on an accrual basis. All revenues, expenses and profits are from ordinary activities of the RBA.

**(a) Consolidation and associated company** 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. The results of the parent entity do not differ materially from the economic entity and have therefore not been separately disclosed other than in Note 14, Related party and other disclosures. Note Printing Australia Limited was incorporated as a wholly owned subsidiary of the RBA on 1 July 1998, with an initial capital of \$20 000 000.

The assets, liabilities and results of Note Printing Australia Limited have been consolidated with the parent entity accounts in accordance with AAS24 – *Consolidated Financial Reports*. All internal transactions and balances have been eliminated on consolidation. Note Printing Australia Limited is subject to income tax; its income tax expense is included in the statement of financial performance.

The RBA accounts for its investment in Securrency Pty Ltd in accordance with AAS14 – *Accounting for Investments in Associates*. The carrying amount of the RBA’s investment in Securrency Pty Ltd is reviewed annually to ensure that it is not in excess of its recoverable amount. The RBA’s investment in Securrency Pty Ltd is included in Note 6.

**(b) Gold** Gold holdings (including gold on loan to other institutions) are valued at the Australian dollar equivalent of the 3pm fix in the London gold market on the last business day of June. The RBA lends gold to financial institutions participating in the gold market. Gold loans are secured to 110 per cent of their market value by Australian dollar denominated collateral security. Interest on gold loans is accounted for on a standard accrual basis.

**(c) Foreign exchange** Foreign exchange holdings are invested mainly in securities (issued by the governments of the United States, Germany, France and Japan) and bank deposits (with major OECD foreign commercial banks, central banks and international agencies). The RBA engages in interest rate futures and foreign currency swaps.

Assets and liabilities denominated in foreign currency are converted to Australian dollar equivalents at exchange rates ruling on the last business day of June. Realised and unrealised gains or losses on foreign currency are immediately taken to profit, but only realised gains are available for distribution.

#### **Foreign government securities**

Foreign government securities comprise coupon and discount securities and repurchase agreements. Coupon securities have biannual or annual interest payments depending on the currency and type of security. Interest earned on discount securities is the difference between the actual purchase cost and the face value of the security. The face value is received at maturity. Interest earned on securities is accrued over the term of the security.

Marketable securities, other than those contracted for sale under repurchase agreements, are reported at market values on the last business day of June; realised and unrealised gains and losses arising from changes in market valuations during the year are taken to profit. Earnings on foreign currency investments are converted to Australian dollars using the exchange rate of the date they are received.

#### **Foreign currency swaps**

The RBA uses foreign currency swaps to assist daily domestic liquidity management or to smooth the impact of other foreign currency transactions on Official Reserve Assets. A 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 set period, and lending another currency for the same period. The pricing of the swap must therefore reflect 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.

Foreign exchange holdings contracted for sale beyond 30 June 2002 (including those under swap contracts) have been valued at market exchange rates (refer Note 17).

**Interest rate futures**

The RBA uses interest rate futures contracts on overseas exchanges to hedge risks 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 and foreign currency swaps are off-balance sheet items. The RBA did not trade in any other derivative instruments during 2001/02.

**(d) Australian dollar securities** The RBA holds Commonwealth Treasury Fixed Coupon Bonds, Treasury Notes and Treasury Capital Indexed Bonds. It also holds Australian dollar denominated securities, issued by the central borrowing authorities of State and Territory Governments and certain highly-rated supranational organisations, where these are acquired under repurchase agreements. Realised and unrealised gains or losses on Australian dollar securities are immediately taken to profit, but only realised gains are available for distribution.

Commonwealth Treasury Fixed Coupon Bonds are coupon securities; the interest is payable biannually at the coupon rate. Commonwealth Treasury Notes are discount securities; the interest earned is the difference between the purchase price and the face value on redemption. Treasury Capital 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.

Securities are valued at market prices on the last business day of June except when contracted for sale under repurchase agreements.

**(e) Repurchase agreements** In the course of its financial market operations, the RBA engages in repurchase agreements involving foreign and Australian dollar marketable securities.

Securities sold and contracted for purchase under repurchase agreements are reported on the balance sheet within the relevant investment portfolio and are valued at market prices; the counterpart obligation to repurchase is included in "Other liabilities". The difference between the sale and purchase price is recognised as interest expense over the term of the agreement.

Securities purchased and contracted for sale under repurchase agreements are reported within the relevant investment portfolio at contract amount. The difference between the purchase and sale price is recognised as interest income over the term of the agreement.

**(f) Property, plant and equipment** A formal valuation of all RBA properties is conducted on a triennial basis. The most recent valuation was at 30 June 2001, when Australian properties were valued by officers of the Australian Valuation Office and overseas properties were valued by local independent valuers. The valuations have been incorporated in the accounts.

Valuations on Australian properties are updated annually for developments in the property markets where the RBA's assets are held. Annual depreciation is based on market values and assessments of useful remaining life.

Plant and equipment are recorded at cost less depreciation, which is calculated at rates appropriate to the estimated useful life of the relevant assets. Depreciation rates are reviewed annually, and adjusted where necessary to reflect the most recent assessments of the useful life of assets.

In the opinion of the Board, values of plant and equipment in the financial statements do not exceed recoverable values.

Details of annual net expenditure, revaluation adjustments and depreciation of these assets are included in Note 7.

**(g) Reserves** Reserves are maintained to cover the broad range of risks to which the RBA is exposed. The Reserve Bank Reserve Fund (RBRF) is a general reserve which provides for events which are contingent and non-foreseeable, mainly those which arise from movements in market values of the RBA's holdings of Australian dollar and foreign securities; the RBRF also provides for potential losses from fraud and other non-insured losses. Amounts set aside for this reserve are determined by the Treasurer after consultation with the Board.

Asset revaluation reserves reflect the impact of changes in the market values of a number of the RBA's assets (gold, premises, and shares in international financial institutions).

Unrealised gains on foreign exchange and Australian dollar securities are recognised in profit from ordinary activities. Until such gains are realised, they are not available for distribution to the Commonwealth of Australia; in the interim, the amounts are retained in the Unrealised Profits Reserve.

**(h) Profits** Profits of the Bank are dealt with in terms of Section 30 of the Reserve Bank Act as follows:

- (1) Subject to (2) (below), the net profits of the Bank in each year shall be dealt with as follows:
  - (a) such amount as the Treasurer, after consultation with the Reserve Bank Board, determines to be set aside for contingencies; and
  - (b) 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
  - (c) 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.



**(i) Provisions** The RBA maintains provisions for accrued annual leave, calculated on salaries prevailing at balance date and including associated payroll tax. The RBA also maintains provisions for long service leave and post-employment benefits, in the form of health insurance and housing assistance, and associated fringe benefits tax; these provisions are made on a present value basis in accordance with AAS 30. In addition, the RBA makes provision for future workers' compensation claims in respect of incidents which have occurred before balance date, based on an independent actuarial assessment.

**(j) Australian notes on issue** The RBA assesses regularly the value of notes still outstanding at least five years after the note issue ceased which are judged to have been destroyed and therefore unavailable for presentation. No amount was written off Australian notes on issue in 2001/02, or in 2000/01.

In 2001/02, the RBA began to pay interest on working balances of currency notes held by banks under revised cash distribution arrangements. Interest is paid on balances up to a certain limit.

**(k) Rounding** Amounts in the financial statements are rounded to the nearest million dollars unless otherwise stated.

**(l) Exemptions** The RBA has been granted exemptions from the following requirements of the Commonwealth Authorities and Companies (Financial Statements 2001-2002) Orders:-

<b>Requirement</b>	<b>Description</b>	<b>Detail of exemption</b>
Policy 16	Analysis of property, plant and equipment	Information is included in Note 7 of these financial statements. These disclosures are more relevant than the dissections required by Policy 16 of the Orders.
Appendix A	Forms of Financial Statements	Details of revenues and expenses are disclosed in Note 2. The cash flow statement is provided in Note 18.

	Note	2002 \$M	2001 \$M
<b>Note 2 NET PROFITS</b>			
<i>Interest revenue</i>			
Overseas investments	1 (c)	1 186	1 480
Australian dollar securities	1 (d)	957	1 147
Overnight settlements		30	39
Gold loans	1 (b)	22	17
Loans, advances and other		1	2
		<u>2 196</u>	<u>2 685</u>
<i>Net gains/(losses) on securities</i>			
Overseas investments	1 (c)	207	485
Australian dollar securities	1 (d)	(99)	(96)
Foreign currency	1 (c)	360	1 131
		<u>468</u>	<u>1 520</u>
<i>Dividend revenue</i>			
Earnings on shares in Bank for International Settlements		4	3
<i>Fees and commissions</i>			
Banking services fees received		20	18
<i>Other revenue</i>			
Reimbursement by Commonwealth for loan management and registry expenses		1	1
Rental of Bank premises		5	9
Sales of note products		19	22
Other		14	14
		<u>39</u>	<u>46</u>
<b>Total</b>		<u>2 727</u>	<u>4 272</u>
<b>Less:</b>			
<i>Interest expense</i>			
Deposit liabilities		454	702
Currency note holdings of banks	1 (j)	78	
Repurchase agreements	1 (e)	152	253
		<u>684</u>	<u>955</u>
<i>General administrative expenses</i>			
Staff costs		86	83
Special redundancy/retirement payments	11	4	3
Depreciation of property	7	7	7
Depreciation of plant and equipment		8	9
Premises and equipment		25	25
Materials used in note production		8	10

	Note	2002 \$M	2001 \$M
<b>Note 2 CONTINUED</b>			
Travel		3	3
Consultants' fees	13	2	2
Other		6	5
		149	147
Other expenses			
Agency business reimbursement		3	1
Subsidiary income tax		—	1
Cash distribution expenses		4	4
Other		19	15
		26	21
<b>Total</b>		859	1 123
<b>Net Profit</b>		1 868	3 149

**Note 3 INTEREST REVENUE AND INTEREST EXPENSE**

Analysis for the year ended 30 June 2002

	Average Balance \$M	Interest \$M	Average Annual Interest Rate %
<b>Interest revenue</b>			
Overseas investments	37 944	1 186	3.1
Australian dollar securities	17 695	957	5.4
Loans, advances and other	45	1	3.1
Overnight settlements	704	30	4.2
Gold loans	1 412	22	1.5
	57 800	2 196	3.8
<b>Interest expense</b>			
Exchange Settlement accounts	870	37	4.3
Deposits from governments	8 945	410	4.6
Deposits from overseas institutions	307	2	0.6
Overseas repurchase agreements	4 944	101	2.0
Domestic repurchase agreements	1 175	51	4.4
Currency note holdings of banks	2 004	78	4.4
Other deposits	112	5	4.0
	18 357	684	3.7
<b>Analysis for the year ended 30 June 2001</b>			
Interest revenue total	55 325	2 685	4.9
Interest expense total	18 025	955	5.3

	2002 \$M	2001 \$M
<b>Note 4 RESERVES</b>		
Changes in the RBA's various reserves are shown below.		
<b>Asset revaluation reserves (Note 1(g))</b>		
<b>Gold</b>		
Opening balance	1 260	1 125
Net revaluation adjustments	79	135
As at 30 June	1 339	1 260
<b>Shares in international financial institutions (Note 6)</b>		
Opening balance	68	64
Net revaluation adjustments	6	4
As at 30 June	74	68
<b>Bank properties (Notes 1(f), 7)</b>		
Opening balance	102	96
Net revaluation adjustments	15	11
Transfers (to)/from Statement of Distribution	(10)	(5)
As at 30 June	107	102
<b>Total asset revaluation reserves</b>		
Opening balance	1 430	1 285
Net revaluation adjustments	100	150
Transfers (to)/from Statement of Distribution	(10)	(5)
As at 30 June	1 520	1 430
<b>Unrealised profits reserve (Note 1(g))</b>		
Opening balance	1 809	1 489
Net transfers (to)/from Statement of Distribution	(11)	320
As at 30 June	1 798	1 809
<b>Reserve for Contingencies and General Purposes</b>		
Opening balance	–	3 323
Transfer to Reserve Bank Reserve Fund	–	(3 323)
Closing balance	–	–
<b>Reserve Bank Reserve Fund (Note 1(g))</b>		
Opening balance	6 152	2 829
Transfer from Reserve for Contingencies and General Purposes	–	3 323
Closing balance	6 152	6 152
<b>Capital</b>		
Opening and closing balance	40	40
<b>Total capital and reserves</b>		
Opening balance	9 431	8 966
Net profit plus net revaluation adjustments in asset revaluation reserves	1 968	3 299
Distribution payable to Commonwealth of Australia	(1 889)	(2 834)
Closing balance	9 510	9 431

Prior to 30 June 2001, the Reserve Bank maintained a Reserve for Contingencies and General Purposes (RCGP) which provided for events which were contingent and non-foreseeable, mainly those arising from movements in the market value of the RBA's holdings of securities. On 30 June 2001, balances in this reserve were transferred to the RBRF and the RCGP was closed.

**Note 5 CASH AND LIQUID ASSETS**

This includes net amounts of \$586 million owed to the RBA for overnight clearances of financial transactions through the clearing houses, Austraclear and Reserve Bank Information and Transfer System (RITS); an amount of \$565 million was owed to the RBA at 30 June 2001.

	2002 \$M	2001 \$M
<b>Note 6 LOANS, ADVANCES AND OTHER ASSETS</b>		
Shareholding in Bank for International Settlements	76	70
Officers' Home Advances	27	35
Gold coin	19	18
Investment in Securrency	5	9
Other	22	40
As at 30 June	149	172

The Reserve Bank of Australia has a 50 per cent share in Securrency Pty Ltd, which is incorporated in Victoria Australia, and whose principal activity is the marketing and manufacture of polymer substrate. The capital of Securrency in 2001/02 was \$21 530 001; the carrying value of the RBA's investment in Securrency was \$5 001 000 (\$8 649 000 at 30 June 2001). Securrency Pty Ltd has a 31 December balance date.

	2002 \$M	2001 \$M
<b>Note 7 PROPERTY, PLANT AND EQUIPMENT (Note 1(f))</b>		
<b>Properties</b>		
Opening balance	237	246
Additions	5	–
Disposals	(23)	(13)
	219	233
Depreciation prior to revaluation	(7)	(7)
Book valuation prior to revaluation	212	226
Net revaluation adjustments (Note 4)	15	11
As at 30 June	227	237
The triennial independent revaluation of all Bank properties occurred at 30 June 2001 (Note 1(f)).		
<b>Plant and equipment</b>		
Opening balance	118	114
Additions	17	6
Disposals	(11)	(2)
	124	118
Accumulated depreciation	(74)	(75)
As at 30 June	50	43
Total property, plant and equipment	277	280

	2002 \$M	2001 \$M
<b>Note 8 DEPOSITS</b>		
Banks		
Exchange Settlement accounts	1 091	839
Government & government instrumentalities		
Commonwealth	12 387	14 947
State	256	455
Foreign governments, foreign institutions and international organisations	146	506
Other depositors	112	117
As at 30 June	13 992	16 864
<b>Note 9 OTHER LIABILITIES</b>		
<b>Provisions</b> (Note 1 (i))		
Provision for accrued annual leave	8	7
Provision for long service leave	20	19
Provision for post-employment benefits	47	53
Provision for workers' compensation	1	1
As at 30 June	76	80
<b>Other</b>		
Amounts outstanding under repurchase agreements (contract price) (Note 1 (e))	2 671	1 654
Interest accrued on deposits	34	64
Other	26	18
As at 30 June	2 731	1 736
Total other liabilities	2 807	1 816

#### **Note 10 CONTINGENT LIABILITIES AND OTHER ITEMS NOT INCLUDED IN STATEMENT OF FINANCIAL POSITION**

##### **Contingencies**

The RBA has a contingent liability, amounting to \$79.0 million at 30 June 2002 (\$74.7 million at 30 June 2001), in respect of the uncalled portion of its shares held in the Bank for International Settlements.

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.

##### **Other items**

The RBA has commitments of \$11.8 million at 30 June 2002 (\$2.3 million at 30 June 2001) payable within one year; and no commitments payable beyond one year.

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

**Note 11 SPECIAL REDUNDANCY/RETIREMENT PAYMENTS**

The RBA's expenses in 2001/02 include \$4 million paid or payable to, or on behalf of, staff who accepted special redundancy/retirement offers. Corresponding payments in 2000/01 totalled \$3 million. Staff leaving the RBA in 2001/02 under these arrangements numbered 31 (46 in 2000/01).

**Note 12 REMUNERATION OF EXECUTIVES**

The number of executives whose remuneration packages, measured in terms of costs to the RBA, fell within the following bands was:

Remuneration band	Number 2002	Number 2001
\$100 000 – \$109 999	4	1
\$110 000 – \$119 999		6
\$120 000 – \$129 999	8	7
\$130 000 – \$139 999	14	15
\$140 000 – \$149 999	13	11
\$150 000 – \$159 999	7	4
\$160 000 – \$169 999	4	4
\$170 000 – \$179 999	4	4
\$180 000 – \$189 999	3	7
\$190 000 – \$199 999	5	
\$200 000 – \$209 999	1	1
\$210 000 – \$219 999	1	
\$220 000 – \$229 999		2
\$230 000 – \$239 999		5
\$240 000 – \$249 999	6	1
\$250 000 – \$259 999	1	1
\$260 000 – \$269 999	1	
\$290 000 – \$299 999		4
\$300 000 – \$309 999	4	
\$320 000 – \$329 999		1
\$340 000 – \$349 999	1	
\$480 000 – \$489 999		1
\$490 000 – \$499 999	1	

Total remuneration received or due and receivable by these 78 executives amounted to \$13.668 million (75 executives totalling \$12.913 million in 2000/01). Remuneration includes cash salary, the RBA's contribution to superannuation, housing assistance, motor vehicles, car parking and health insurance and the fringe benefits tax paid or payable on these benefits. Remuneration excludes amounts paid to executives posted outside Australia for the whole or part of the financial year. Remuneration includes amounts paid to executives who are also members of the Bank Board (refer Note 14).

Termination payments of \$1.055 million were made to executives who left the Bank during 2001/02 (\$1.113 million in 2000/01); these payments are not reflected in the above table.

**Note 13 REMUNERATION OF AUDITOR**

Fees paid or payable to the statutory auditor (Auditor-General of the Commonwealth of Australia) for audit services totalled \$179 000 in 2001/02 (\$165 000 in 2000/01). They are included in "Consultants' fees" in Note 2, which also covers legal fees and payments made to specialists for "review and advice" services.

**Note 14 RELATED PARTY AND OTHER DISCLOSURES**

The Remuneration Tribunal determines the remuneration appropriate to the RBA's non-executive Board members. In 2001/02, payments to executive and non-executive Board members totalled \$1 241 410 (\$1 022 388 in 2000/01). Remuneration includes amounts paid to members of the Bank Board who are also executives (refer Note 12).

The number of directors whose remuneration packages, measured in terms of costs to the RBA, fell within the following bands was:

Remuneration band	Number 2002	Number 2001
\$1 – \$9 999		1
\$10 000 – \$19 999		1
\$20 000 – \$29 999		1
\$30 000 – \$39 999	4	2
\$40 000 – \$49 999	1	1
\$60 000 – \$69 999	1	1
\$160 000 – \$169 999	1	
\$320 000 – \$329 999		1
\$340 000 – \$349 999	1	
\$480 000 – \$489 999		1
\$490 000 – \$499 999	1	

At 30 June 2002 and 30 June 2001 there were no loans by the RBA to the Governor, Deputy Governor or non-executive members of the Board.

There were no other related-party transactions with Board members; transactions with director-related entities which occurred in the normal course of the RBA's operations were conducted on terms no more favourable than similar transactions with other employees or customers.

In addition, \$101 787 was paid for the services of non-executive members of the Board of Note Printing Australia Limited who are not employees of the RBA or members of the Bank Board (\$78 500 in 2000/01). The RBA also paid \$147 252 for the services of members of the Payments System Board who are not employees of the RBA (\$145 317 in 2000/01).



**Note 15 SUPERANNUATION FUNDS**

Two superannuation funds are operated pursuant to the Reserve Bank Act: the Reserve Bank of Australia Officers' Superannuation Fund (OSF) and the Reserve Bank of Australia UK Pension Scheme. A small part of the assets of the OSF is held by the RBA as nominee for the trustees of the OSF; such assets are not included in these statements. Payment of the funds' current and future benefits is funded by member and Bank contributions and the funds' existing asset bases. The RBA's contributions to the OSF in accordance with the Reserve Bank (Officers' Superannuation) Rules, and to the UK Pension Scheme in accordance with the UK Trust Deed, are included in staff costs in Note 2. Administration and other operational costs (eg salaries, overheads, legal costs and valuation fees) incurred by the RBA for superannuation arrangements are also included in Note 2. There were no other related-party transactions between the RBA and the funds during 2001/02.

At 30 June 2002, the OSF had a surplus of assets over accrued benefits of \$183 million (\$228 million at 30 June 2001). The UK Pension Scheme had a surplus equivalent to \$5 million (\$5 million at 30 June 2001). During 2001/02, the RBA made superannuation contributions of \$2.3 million (\$2.2 million in 2000/01).

Details of the Funds as at 30 June 2002 are as follows:

	2002 \$M	2001 \$M
<b>Reserve Bank of Australia Officers' Superannuation Fund</b>		
Accrued benefits	426	388
Net market value of assets	609	616
Surplus	183	228
Vested benefits	435	401
<b>Reserve Bank of Australia UK Pension Scheme</b>		
Accrued benefits	20	21
Net market value of assets	25	26
Surplus	5	5
Vested benefits	18	20
<b>Total Superannuation Funds</b>		
Accrued benefits	446	409
Net market value of assets	634	642
Surplus	188	233
Vested benefits	453	421

Accrued benefits refer to the present value of future benefits payable to current fund members, taking into account assumed future salary increases. Vested benefits are the benefits payable if all current members were to terminate their fund membership at balance date.

**Note 16 SEGMENT REPORTING**

The RBA's primary function as a Central Bank is the implementation of monetary policy in one geographical area – Australia. Over 95 per cent of the RBA's assets (and a similar proportion of revenues) are managed for that purpose by the Financial Markets Group. Additional information on the make-up of the RBA's financial assets is provided in Note 17.

**Note 17 FINANCIAL INSTRUMENTS**

Australian Accounting Standard AAS33 – *Presentation & Disclosure of Financial Instruments* requires disclosure of information relating to: both recognised and unrecognised financial instruments; their significance and performance; accounting policy terms & conditions; net fair values and risk information.

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 identifiable financial instruments for the RBA are its Australian dollar securities, its foreign government securities, bank deposits, interest rate futures, foreign currency swap contracts, gold loans, notes on issue and deposit liabilities.

**Net fair value** is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction, and is usually determined by the quoted market price net of transaction costs. The RBA's recognised financial instruments are carried at current market value which approximates net fair value.

**Financial risk** of financial instruments embodies price risk (currency risk and interest rate risk); credit risk; liquidity risk and cash flow risk. AAS33 requires disclosure on interest rate risk and credit risk.

The interest rate risk and credit risk tables are based on the RBA's settled portfolio as reported in the RBA's balance sheet.

**Interest rate risk**

**Interest rate risk** is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The following table shows the RBA's balance sheet restated in compliance with AAS33.

**Note 17** CONTINUED**Interest rate risk** As at 30 June 2002

	Balance sheet total \$M	Floating interest rate \$M	Repricing Period \$M				Not bearing interest \$M	Weighted average rate %
			0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
<b>Assets</b>								
<b>Gold</b>								
Gold loans	1 421	-	90	539	778	-	14	1.5
Gold holdings	38	-	-	-	-	-	38	n/a
<b>Sub-total</b>	<b>1 459</b>							
<b>Foreign exchange</b>								
Securities sold under repurchase agreements	1 607	-	-	-	811	796	-	1.4
Securities purchased under repurchase agreements	7 974	-	7 974	-	-	-	-	2.0
Deposits and other securities	25 791	791	8 446	2 563	7 034	6 712	245	3.3
Accrued interest – foreign exchange	278	-	-	-	-	-	278	n/a
<b>Sub-total</b>	<b>35 650</b>							
<b>Australian dollar securities</b>								
Securities sold under repurchase agreements	1 064	-	-	-	251	813	-	4.2
Securities purchased under repurchase agreements	17 654	-	17 654	-	-	-	-	4.7
Other securities	3 185	-	-	1 080	1 220	885	-	5.5
Accrued interest – Australian dollar securities	84	-	-	-	-	-	84	n/a
<b>Sub-total</b>	<b>21 987</b>							
Property, plant & equipment	277	-	-	-	-	-	277	n/a
Cash and liquid assets	606	602	-	-	-	-	4	4.7
Loans, advances and other	149	27	-	-	-	-	122	3.3
<b>Total assets</b>	<b>60 128</b>	<b>1 420</b>	<b>34 164</b>	<b>4 182</b>	<b>10 094</b>	<b>9 206</b>	<b>1 062</b>	<b>3.5</b>
<b>Liabilities</b>								
Australian notes on issue	31 930	2 550	-	-	-	-	29 380	4.8
Deposits	13 992	3 592	10 400	-	-	-	-	4.8
Distribution payable to Commonwealth	1 889	-	-	-	-	-	1 889	n/a
Other	2 807	-	2 671	-	-	-	136	2.5
<b>Total liabilities</b>	<b>50 618</b>	<b>6 142</b>	<b>13 071</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>31 405</b>	<b>1.4</b>
Capital and reserves	9 510							
<b>Total balance sheet</b>	<b>60 128</b>							
<b>Off balance sheet items</b>								
Interest rate futures	38	-	-	-	-	38	-	n/a

**Note 17** CONTINUED**Interest rate risk** As at 30 June 2001

	Balance sheet total \$M	Floating interest rate \$M	Repricing Period \$M				Not bearing interest \$M	Weighted average rate %
			0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Total assets	58 113	1 003	32 637	5 032	8 688	9 592	1 161	3.8
Total liabilities	48 682	3 464	15 054	-	-	-	30 164	1.9
Capital and reserves	9 431							
Total balance sheet	58 113							
Off balance sheet items	(287)	-	-	-	-	(287)	-	n/a

Other liabilities include amounts outstanding under sale repurchase agreements.

All recognised financial instruments are shown at net fair value.

Off-balance sheet items are shown at nominal market value (difference from net fair value is negligible).

All financial instruments are shown at their repricing period which is equivalent to the remaining term to maturity.

Interest rate futures reflect the positions in interest rate contracts traded on foreign futures exchanges to manage interest rate risk on Official Reserve Assets.

**Credit risk**

**Credit risk** in relation to a financial instrument is the risk that a customer, bank or other counterparty will not meet its obligations (or be permitted to meet them) in accordance with agreed terms.

The RBA's maximum exposure to credit risk in relation to each class of recognised financial assets, other than derivatives (off-balance sheet items), is the carrying amount of those assets as indicated in the balance sheet. The RBA's exposures are to highly rated counterparties and its credit risk is very low.

As part of an IMF support package during 1997/98, 1998/99, 1999/2000, 2000/01 and 2001/02, the RBA undertook a series of foreign currency swaps with the Bank of Thailand. The RBA provided United States dollars, receiving Thai baht in exchange. The amount outstanding on the swaps at 30 June 2002 was the equivalent of \$606 million Australian dollars (\$1.4 billion at 30 June 2001), on which the RBA is earning a yield of 2.0 per cent (4.4 per cent in 2000/01). The swaps represent 1.0 per cent of the RBA's total assets as at 30 June 2002 (2.4 per cent at 30 June 2001).

The RBA's maximum credit risk exposure in relation to off-balance sheet items is:

1. **Foreign exchange swaps** – As at 30 June 2002 the RBA was under contract to purchase \$15.5 billion of foreign currency and sell \$43.7 billion of foreign currency. As of that date there was an unrealised net gain included in net profit of \$320 million on these swap positions. The credit risk exposure of these contracts is the cost of re-establishing the contract in the market in the event of the failure of the counterparty to fulfil its obligations.
2. **Interest rate futures** – As at 30 June 2002 the amount of credit risk on interest rate futures contracts was approximately \$0.9 million (\$3.6 million at 30 June 2001). As at 30 June 2002 there was an unrealised loss brought to account on those contracts of \$42 000 (\$0.3 million unrealised loss at 30 June 2001).

### Concentration of credit risk

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. See Note 1(c) Foreign Exchange.

#### Credit Risk

	Risk rating of security issuer*	Risk rating of counterparties*	% of total asset portfolio as at 30 June 2002	% of total asset portfolio as at 30 June 2001
<b>Australian dollar securities</b>				
Holdings of Commonwealth Government securities	AAA	n/a	5.4	5.7
Securities sold under repurchase agreements	AAA	AA	1.7	2.8
	AAA	other	0.1	0.0
Securities held under repurchase agreements	AAA	AA	25.9	24.0
	AAA	other	1.2	0.4
	AA	AA	1.9	0.9
	AA	other	0.3	0.3
<b>Foreign investments</b>				
Holdings of securities	AAA	n/a	29.8	25.6
	AA	n/a	5.4	16.8
Securities sold under repurchase agreements	AAA	AA	1.2	0.0
	AAA	other	1.5	0.0
Securities held under repurchase agreements	AAA	AA	9.7	5.4
	AAA	other	3.6	3.6
Deposits	n/a	AAA	1.2	0.3
	n/a	AA	6.0	7.4
	n/a	other	1.0	2.4
<b>Gold loans</b>	n/a	AAA	0.2	0.3
	n/a	AA	1.6	1.5
	n/a	other	0.5	0.5
Other			1.8	2.1
			100%	100%

\* Standard & Poor's equivalent ratings

**Note 18 CASH FLOW STATEMENT**

The following cash flow statement appears as a matter of record to meet the requirements of AAS 28; in the RBA's view, it does not shed any additional light on the RBA's financial results. For the purpose of this statement, cash includes the notes and coin held at the Reserve Bank and overnight settlements system account balances with other banks.

**STATEMENT OF CASH FLOWS** For the financial year ended 30 June 2002

	2002 Inflow/(outflow) \$M	2001 Inflow/(outflow) \$M
<b>Cash flows from operating activities</b>		
Interest received on investments	2 056	2 274
Interest received on loans, advances, and on net overnight settlements systems	32	41
Loan management reimbursement	1	1
Banking service fees received	21	19
Rents received	5	9
Net payments for and proceeds from sale of investments	(622)	(3 299)
Interest paid on deposit liabilities	(484)	(728)
Interest paid on currency note holdings of banks	(78)	
Staff costs (including redundancy)	(94)	(84)
Premises and equipment	(25)	(25)
Other	9	15
Net cash provided by operating activities	821	(1 777)
<b>Cash flows from investment activities</b>		
Net expenditure on property, plant and equipment	12	9
Net cash used in investing activities	12	9
<b>Cash flows from financing activities</b>		
Profit payment to Commonwealth	(2 834)	(1 479)
Net movement in deposit liabilities	(2 872)	1 379
Net movement in loans and advances	8	7
Net movement in notes on issue	4 762	1 733
Other	29	(13)
Net cash provided by financing activities	(907)	1 627
Net increase/(decrease) in cash	(74)	(141)
Cash at beginning of financial year	680	821
Cash at end of financial year	606	680

**Note 18** CONTINUED

Reconciliation of cash	30 June 2002 \$M	30 June 2001 \$M
Cash	20	115
Overnight settlements system	586	565
	606	680

Reconciliation of net cash provided by operating activities to Net Profits in terms of the Reserve Bank Act	2002 \$M	2001 \$M
Net Profit	1 868	3 149
Increase/(decrease) in interest payable	(30)	(26)
Net loss/(gain) on overseas investments	(207)	(485)
Net loss/(gain) on Australian dollar securities	99	96
Net loss/(gain) on foreign currency	(360)	(1 131)
Decrease/(increase) in income accrued on investments	65	(100)
Depreciation of property	7	7
Depreciation of plant and equipment	8	9
Net payments for and proceeds from sale of investments	(622)	(3 299)
Other	(7)	3
Net cash provided by operating activities	821	(1 777)

**DIRECTORS' STATEMENT**

In the opinion of the directors, the financial statements for the year ended 30 June 2002 give a true and fair view of the matters required by the Commonwealth Authorities and Companies (Financial Statements 2001-2002) Orders made under the Commonwealth Authorities and Companies Act 1997.



**IJ Macfarlane**

Chairman, Reserve Bank Board

9 August 2002





## INDEPENDENT AUDIT REPORT

To the Treasurer

### Scope

I have audited the financial statements of the Reserve Bank of Australia for the year ended 30 June 2002. The financial statements include the consolidated financial statements of the economic entity comprising the Reserve Bank of Australia and the entities it controlled at the year's end or from time to time during the year. The financial statements comprise:

- Statement of Financial Position;
- Statement of Financial Performance;
- Statement of Distribution;
- Notes to and forming part of the Financial Statements, and
- Directors Statement.

The members of the Board are responsible for the preparation and presentation of the financial statements and the information they contain. I have conducted an independent audit of the financial statements in order to express an opinion on them to you.


The audit has been conducted in accordance with Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards, to provide reasonable assurance as to whether the financial statements are free of material misstatement. Audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with Australian Accounting Standards, other mandatory professional reporting requirements and statutory requirements in Australia so as to present a view of the entity which is consistent with my understanding of its financial position, the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

### Audit Opinion

In my opinion,

- the financial statements have been prepared in accordance with Schedule 1 of the Commonwealth Authorities and Companies (Financial Statements 2001-2002) Orders; and
- the financial statements give a true and fair view, in accordance with applicable Accounting Standards, other mandatory professional reporting requirements and Schedule 1 of the Commonwealth Authorities and Companies (Financial Statements 2001-2002) Orders, of the financial position of the Reserve Bank of Australia as at 30 June 2002 and the results of its operations and its cash flows for the year then ended.

  
 P.J. Barrett  
 Auditor-General

Sydney  
9 August 2002