

FINANCIAL STATEMENTS

As at 30 June 2000 : Reserve Bank of Australia

BALANCE SHEET As at 30 June 2000

Reserve Bank of Australia and Controlled Entities

	Note	2000 \$M	1999 \$M
ASSETS			
Cash and liquid assets	5, 18	821	587
Domestic government securities	1(d), 17	22 935	21 633
Foreign exchange	1(c), 17	30 228	25 370
Gold	1(b), 17	1 233	1 013
Loans, advances and bills discounted		60	76
Other assets	6	125	129
Property, plant and equipment	7	292	265
Total		55 694	49 073
LIABILITIES			
Deposits	8	15 486	10 383
Profit distribution payable to Commonwealth		1 479	3 676
Other liabilities	9	4 329	4 225
Australian notes on issue	1(i)	25 434	23 552
Capital and Reserves			
Reserves:			
Unrealised Profits Reserve	4	1 489	–
Asset revaluation reserves	4	1 285	1 045
Reserve for Contingencies and General Purposes	4	3 323	3 323
Reserve Bank Reserve Fund	4	2 829	2 829
Capital		40	40
Capital and reserves		8 966	7 237
Total		55 694	49 073

PROFIT AND LOSS APPROPRIATION STATEMENT For year ended 30 June 2000

Reserve Bank of Australia and Controlled Entities

	Note	2000 \$M	1999 \$M
Net Profit	2	2 292	1 326
Net transfers from/(to)			
Unrealised Profits Reserve	4	(1 489)	2 349
Transfer from asset revaluation reserves	4	–	1
Earnings available for distribution		803	3 676
Earnings applied:			
Reserve Bank Reserve Fund	4	–	–
Reserve for Contingencies and General Purposes	4	–	–
Commonwealth of Australia		803	3 676
Total		803	3 676

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 have been amended to incorporate the requirements of Order Number 5 of the Commonwealth Authorities and Companies Orders (Amendment No. 1) 1999. Policy 1.5 of Schedule 2 of this Order provides:-

"The Reserve Bank of Australia must comply with Australian Accounting Standards (including AAS₃₂, entitled Specific Disclosures by Financial Institutions). In the event of a conflict between the requirements of the standards and this Schedule, the Reserve Bank of Australia must comply with the requirements of the standards."

The Reserve Bank of Australia (RBA) has been granted certain exemptions from the requirements of the Orders as detailed in Note 1 (k). 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. 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 and shares in international financial institutions. In other cases, an historical cost basis of accounting is used. Revenue and expenses are brought to account on an accrual basis.

(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, profit and loss account 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 Other Expenses in Note 2.

The RBA accounts for 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 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 loans gold to financial institutions participating in the gold market. All gold loans are secured to 110% of their market value by Australian dollar denominated collateral security. Loans are usually for periods between 3 and 12 months, with very few extending beyond 12 months. 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, Japan and Germany) 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 and has purchased call options.

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 and loss.

Foreign government securities

Foreign government securities comprise coupon and discount securities and repurchase agreements. Coupon securities have bi-annual 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 the profit and loss account. 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 2000 (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 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, foreign currency swaps and call options are off-balance sheet items. The RBA did not trade in any other derivative instruments during 1999/2000.

(d) Domestic government securities The RBA holds Commonwealth Treasury Fixed Coupon Bonds, Treasury Notes, Treasury Capital Indexed Bonds, and Treasury Adjustable Rate Bonds. It also holds Australian dollar-denominated securities issued in Australia by the central borrowing authorities of State and Territory Governments where these are acquired under repurchase agreements. Realised and unrealised gains or losses on domestic government securities are immediately taken to profit and loss.

Commonwealth Treasury Fixed Coupon Bonds are coupon securities; the interest is payable bi-annually 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. Treasury Adjustable Rate Bonds are securities whose coupon rate is periodically reset by reference to movements in the Australian Bank Bill Swap Reference Rate; interest is payable each quarter.

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 domestic marketable securities.

Securities sold but 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 in the profit and loss account.

Securities held but 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 1998, 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 is a general reserve which provides for potential losses arising from fraud and other non-insured losses. The Treasurer determines each year, after consultation with the Board, the amount to be credited to the Reserve Fund.

The Reserve for Contingencies and General Purposes provides cover against risks relating to events which are contingent and non-foreseeable. The major risks in the category arise from movements in market values of the RBA's holding of domestic and foreign securities. 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 domestic government securities are recognised in the profit and loss account. 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) 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.

(i) 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 1999/2000; \$19 million was written off in 1998/99.

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

(k) Exemptions The RBA has been granted exemptions from the following requirements of Order Number 5 of the Commonwealth Authorities and Companies Orders:-

Requirement	Description	Detail of exemption
Policy 15	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 15 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	2000 \$M	1999 \$M
Note 2 NET PROFITS			
<i>Interest revenue</i>			
Overseas investments	1 (c)	1 133	963
Domestic government securities	1 (d)	1 107	1 199
Loans and advances		8	5
Overnight settlement systems		27	19
Gold loans		21	18
		<u>2 296</u>	<u>2 204</u>
<i>Net gains/(losses) on securities</i>			
Overseas investments		(232)	(106)
Domestic government securities		(128)	(276)
Foreign currency	1 (c)	1 141	(108)
		<u>781</u>	<u>(490)</u>
<i>Dividend revenue</i>			
Earnings on shares in Bank for International Settlements	6	3	3
<i>Fees and commissions</i>			
Banking services fees received		17	21
<i>Other revenue</i>			
Reimbursement by Commonwealth for loan management and registry expenses		2	2
Rental of Bank premises		7	7
Sales of note products		55	14
Gain on sale of plant and equipment		–	1
Australian notes on issue write-off	1 (i)	–	19
Other		15	13
		<u>79</u>	<u>56</u>
Total		<u>3 176</u>	<u>1 794</u>
Less:			
<i>Interest expense</i>			
Deposit liabilities		459	181
Repurchase agreements	1 (e)	211	116
		<u>670</u>	<u>297</u>
<i>General administrative expenses</i>			
Staff costs		89	87
Special redundancy/retirement payments	11	10	18
Depreciation of property	7	7	7
Depreciation of plant and equipment	7	8	7
Premises and equipment		26	24
Materials used in note production		25	10
Travel		3	2
Consultants' fees	13	2	1
Other		14	5
		<u>184</u>	<u>161</u>

	Note	2000 \$M	1999 \$M
Note 2 (CONTINUED)			
<i>Other expenses</i>			
Agency business reimbursement		1	1
Subsidiary income tax		5	(2)
Cash distribution expenses		8	1
Other		16	10
		30	10
Total		884	468
Net Profit		2 292	1 326

Note 3 INTEREST REVENUE AND INTEREST EXPENSE

Analysis for the year ended 30 June 2000

	Average Balance \$M	Interest \$M	Average Interest Rate %
Interest revenue			
Overseas investments	28 500	1 133	4.0
Domestic government securities	17 738	1 107	6.2
Loans and advances	201	8	3.8
Overnight settlements	523	27	5.1
Gold loans	1 155	21	1.8
	48 117	2 296	4.8
Interest expense			
Exchange settlement accounts	1 121	55	4.9
Deposits from governments	7 353	394	5.4
Deposits from overseas institutions	236	5	2.0
Overseas repurchase agreements	3 451	158	4.6
Domestic repurchase agreements	1 107	53	4.8
Other deposits	146	5	3.6
	13 414	670	5.0
Analysis for the year ended 30 June 1999			
Interest revenue total	45 975	2 204	4.8
Interest expense total	11 617	297	2.6

	2000 \$M	1999 \$M
Note 4 RESERVES		
Changes in the RBA's various reserves are shown below.		
Unrealised Profits Reserve (Note 1(g))		
Opening balance	–	2 349
Net transfers from (to) Profit and Loss Appropriation	1 489	(2 349)
As at 30 June	1 489	–
Asset revaluation reserves (Note 1(g))		
Gold		
Opening balance	903	1 130
Net revaluation adjustments	222	(227)
As at 30 June	1 125	903
Shares in international financial institutions (Note 6)		
Opening balance	63	77
Net revaluation adjustments	1	(14)
As at 30 June	64	63
Bank properties (Notes 1(f), 7)		
Opening balance	79	80
Net revaluation adjustments	17	–
Transfers to Profit and Loss Appropriation – realised (gains)/losses	–	(1)
As at 30 June	96	79
Total asset revaluation reserves		
Opening balance	1 045	1 287
Net revaluation adjustments	240	(241)
Transfers to Profit and Loss Appropriation – realised (gains)/losses	–	(1)
As at 30 June	1 285	1 045
Reserve for Contingencies and General Purposes (Note 1(g))		
Opening and closing balance	3 323	3 323
Reserve Bank Reserve Fund (Note 1(g))		
Opening and closing balance	2 829	2 829

Note 5 CASH AND LIQUID ASSETS

This includes net amounts of \$690 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 \$478 million was owed to the RBA at 30 June 1999.

	2000 \$M	1999 \$M
Note 6 OTHER ASSETS		
Shareholding in Bank for International Settlements	66	65
Gold coin	16	13
Investment in Securrency	11	11
Other	32	40
As at 30 June	125	129

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 1999/2000 was \$21 530 001; the RBA's investment in Securrency was \$11 183 000 (1999 - \$10 765 000). Securrency Pty Ltd has a 31 December balance date.

	2000 \$M	1999 \$M
Note 7 PROPERTY, PLANT AND EQUIPMENT (Note 1(f))		
Properties		
Opening balance	235	244
Additions less disposals	1	(2)
	236	242
Depreciation prior to revaluation	(7)	(7)
Book valuation prior to revaluation	229	235
Net revaluation adjustments (Note 4)	17	-
As at 30 June	246	235
The triennial revaluation of all Bank properties occurred at 30 June 1998.		
Plant and equipment		
Opening balance	93	103
Additions less disposals	21	(10)
	114	93
Accumulated depreciation	(68)	(63)
As at 30 June	46	30
Total property, plant and equipment	292	265

	2000 \$M	1999 \$M
Note 8 DEPOSITS		
Banks		
Exchange Settlement accounts	1 164	1 909
Non callable deposits	–	5 255
Government & government instrumentalities		
Commonwealth	13 437	2 511
State	343	388
Foreign governments, foreign institutions and international organisations	418	61
Other depositors	124	259
As at 30 June	15 486	10 383

Note 9 OTHER LIABILITIES

Provisions (Note 1(h))

Salaries and wages accrued	–	2
Provision for accrued annual leave	7	7
Provision for long service leave	19	18
Provision for post-employment benefits	51	50
Provision for workers' compensation	1	1
As at 30 June	78	78

Other

Amounts outstanding under repurchase agreements (contract price) (Note 1(e))	4 137	4 104
Interest accrued on deposits	90	18
Other	24	25
As at 30 June	4 251	4 147
Total other liabilities	4 329	4 225

Note 10 CONTINGENT LIABILITIES AND OTHER ITEMS NOT INCLUDED IN THE BALANCE SHEET

Contingencies

The RBA has a contingent liability, amounting to \$67.4 million at 30 June 2000 (\$55.4 million at 30 June 1999), in respect of the uncalled portion of its shares held in the Bank for International Settlements.

In the course of providing banking 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 \$1.2 million at 30 June 2000 (\$2.9 million at 30 June 1999) payable within one year; and commitments of \$0.6 million payable beyond one year (\$1.7 million at 30 June 1999).

The RBA carries its own insurance risks except where administrative costs are estimated to be excessive.

Note 11 **SPECIAL REDUNDANCY/RETIREMENT PAYMENTS**

The RBA's expenses in 1999/2000 include \$10 million paid or payable to, or on behalf of, staff who accepted special redundancy/retirement offers. Corresponding payments in 1998/99 totalled \$18.4 million. Staff leaving the RBA in 1999/2000 under these arrangements numbered 99 (155 in 1998/99).

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 2000	Number 1999
\$110 000 – \$119 999	1	2
\$120 000 – \$129 999		2
\$130 000 – \$139 999	1	6
\$140 000 – \$149 999	1	4
\$150 000 – \$159 999	8	5
\$160 000 – \$169 999	4	
\$170 000 – \$179 999	4	
\$180 000 – \$189 999		1
\$190 000 – \$199 999		2
\$200 000 – \$209 999		5
\$210 000 – \$219 999	8	
\$230 000 – \$239 999	1	1
\$240 000 – \$249 999		3
\$250 000 – \$259 999		1
\$260 000 – \$269 999	5	
\$300 000 – \$309 999		1
\$310 000 – \$319 999	1	
\$450 000 – \$459 999		1
\$470 000 – \$479 999	1	

Total remuneration received or due and receivable by these 35 executives amounted to \$7.073 million (34 executives totalling \$6.316 million in 1998/99). 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 \$0.048 million were made to executives who resigned or retired during 1999/2000 (\$0.941 million in 1998/99); 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 \$165 000 in 1999/2000 (\$160 000 in 1998/99). 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 1999/2000, payments to executive and non-executive board members totalled \$1 016 312 (\$979 786 in 1998/99). 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 2000	Number 1999
\$30 000 – \$39 999	5	5
\$50 000 – \$59 999	1	1
\$300 000 – \$309 999		1
\$310 000 – \$319 999	1	
\$450 000 – \$459 999		1
\$470 000 – \$479 999	1	

The RBA is not empowered to lend to non-executive members of the Board. Loans to the Governor and Deputy Governor are permitted only in terms of section 71 of the *Reserve Bank Act*; at 30 June 2000, there were no such loans (\$77 007 at 30 June 1999).

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, \$68 454 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 (\$41 408 in 1999). The RBA also paid \$101 534 for the services of members of the Payments System Board who are not employees of the RBA (\$94 504 in 1999).

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 are 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 1999/2000.

At 30 June 2000, the OSF had a surplus of assets over accrued benefits of \$224 million (\$185 million at 30 June 1999). The UK Pension Scheme had a surplus equivalent to \$5 million (\$5 million at 30 June 1999). During 1999/2000, the RBA made superannuation contributions of \$3.1 million (\$3.0 million in 1998/99).

Details of the Funds as at 30 June 2000 are as follows:

	2000 \$M	1999 \$M
Reserve Bank Officers' Superannuation Fund		
Accrued benefits	385	398
Net market value of assets	609	583
Surplus	224	185
Vested benefits	398	396
Reserve Bank of Australia UK Pension Scheme		
Accrued benefits	20	19
Net market value of assets	25	24
Surplus	5	5
Vested benefits	20	19
Total Superannuation Funds		
Accrued benefits	405	417
Net market value of assets	634	607
Surplus	229	190
Vested benefits	418	415

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 operates as a central bank, predominantly in one geographical area.

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 domestic government 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. All of 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.

Interest rate risk
As at 30 June 2000

	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		
Assets								
Gold								
Gold loans	1 227	–	425	756	46	–	–	1.5
Gold holdings	6	–	–	–	–	–	6	n/a
Sub-total	1 233							
Foreign exchange								
Securities sold under repurchase agreements	4 066	–	83	64	2 279	1 640	–	5.6
Securities purchased under repurchase agreements	5 964	–	5 964	–	–	–	–	6.5
Deposits and other securities	20 020	149	13 473	1 247	2 506	2 275	370	4.1
Accrued interest foreign exchange	178	–	–	–	–	–	178	n/a
Sub-total	30 228							
Domestic government securities								
Securities sold under repurchase agreements	21	–	21	–	–	–	–	4.5
Securities purchased under repurchase agreements	15 997	–	15 997	–	–	–	–	5.9
Other securities	6 768	–	1 102	1 874	1 419	2 373	–	6.0
Accrued interest domestic government securities	149	–	–	–	–	–	149	n/a
Sub-total	22 935							
Loans, advances and bills discounted	60	42	–	–	–	–	18	3.7
Property, plant & equipment	292	–	–	–	–	–	292	n/a
Cash and liquid assets	821	701	–	–	–	–	120	5.7
Other assets	125	–	–	–	–	–	125	n/a
Total assets	55 694	892	37 065	3 941	6 250	6 288	1 258	5.1
Liabilities								
Australian notes on issue	25 434	–	–	–	–	–	25 434	n/a
Deposits	15 486	15 486	–	–	–	–	–	5.9
Profit distribution	1 479	–	–	–	–	–	1 479	n/a
Other	4 329	–	4 307	–	–	–	22	5.3
Total liabilities	46 728	15 486	4 307	–	–	–	26 935	2.4
Capital and reserves	8 966							
Total balance sheet	55 694							
Off balance sheet items								
Interest rate futures	(149)	–	(379)	–	147	83	–	n/a

Note 17 (CONTINUED)

Interest rate risk

As at 30 June 1999

	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	49 073	194	29 159	5 910	6 631	5 276	1 903	3.8
Total liabilities	41 836	10 193	4 104	–	–	–	27 539	0.9
Capital and reserves	7 237	–	–	–	–	–	–	n/a
Total balance sheet	49 073							
Off balance sheet items	(26)	–	(7)	–	(1)	(18)	–	n/a

Other liabilities includes 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. (In 1999 approximately \$1.8 billion holdings of domestic government securities which appear in the 0 to 3 months category, had a maturity period of 1-5 years.)

Interest rate futures reflect the positions in interest rate contracts traded in 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 all to highly rated counterparties and its credit risk is very low.

As part of an IMF support package during 1997/98, 1998/99 and 1999/2000 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 2000 was the equivalent of \$1.4 billion Australian dollars (\$1.3 billion at 30 June 1999), on which the RBA is earning a yield of 6.15% (4.82% in 1999). The swaps represent 2.6% of the RBA's total assets as at 30 June 2000 (2.6% at 30 June 1999).

Note 17 (CONTINUED)

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

1. **Foreign exchange swaps** – As at 30 June 2000 the RBA was under contract to purchase \$10.1 billion of foreign currency and sell \$27.5 billion of foreign currency. As of that date there was an unrealised net gain of \$279.0 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 their obligations.
2. **Interest rate futures** – As at 30 June 2000 about 0.49% of the RBA's foreign currency reserves (excluding gold) were hedged through interest rate futures contracts. The amount of credit risk on these contracts is approximately \$2.5 million (\$0.1 million at 30 June 1999). As at 30 June 2000 there was an unrealised loss on those contracts of \$0.2 million (\$0.2 million at 30 June 1999).

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 table

Security type	Risk rating of security issuer*	Risk rating of counterparties*	% of total asset portfolio as at 30/6/00	% of total asset portfolio as at 30/6/99
Domestic government securities				
Holdings of Commonwealth Government securities	AAA	n/a	12.4	18.9
Securities sold under repurchase agreements	AAA	AA	0.0	1.4
Securities held under repurchase agreements	AAA	AA	24.4	19.0
	AAA	other	1.5	1.5
	AA	AA	2.7	3.3
	AA	other	0.2	0.1
Foreign investments				
Holdings of securities	AAA	n/a	11.3	21.4
	AA	n/a	11.9	0.0
Securities sold under repurchase agreements	AAA	AA	5.4	4.6
	AAA	other	1.9	2.3
Securities held under repurchase agreements	AAA	AA	6.8	11.2
	AAA	other	3.9	3.8
	n/a	AAA	7.3	1.4
Deposits	n/a	AA	3.1	4.0
	n/a	other	2.7	2.9
	n/a	AAA	0.3	0.2
Gold loans	n/a	AA	1.4	1.3
	n/a	other	0.5	0.6
Other			2.3	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 2000

	2000 Inflow/(outflow) \$M	1999 Inflow/(outflow) \$M
Cash flow from operating activities		
Interest received on investments	2 022	2 040
Interest received on loans, advances, and on net overnight settlements systems	36	24
Loan management reimbursement	2	2
Banking service fees received	17	28
Rents received	7	7
Net payments for and proceeds from sale of investments	(5 344)	(91)
Interest paid on deposit liabilities	(388)	(190)
Staff costs (including redundancy)	(99)	(106)
IMF Maintenance of Value adjustment	–	(15)
Premises, equipment and stores	(26)	(24)
Other	21	20
Net cash provided by operating activities	(3 752)	1 695
Cash flows from investment activities		
Net expenditure on property, plant and equipment	(22)	11
Net cash used in investing activities	(22)	11
Cash flows from financing activities		
Profit payment to Commonwealth	(3 000)	(2 726)
Net movement in deposit liabilities	5 103	(689)
Net movement in loans and advances	16	38
Net movement in notes on issue	1 882	1 920
Other	7	(31)
Net cash provided by financing activities	4 008	(1 488)
Net increase/(decrease) in cash	234	218
Cash at beginning of financial year	587	369
Cash at end of financial year	821	587

Note 18 (CONTINUED)

Reconciliation of cash	30 June 2000	30 June 1999
	\$M	\$M
Cash	131	109
Overnight settlements system	690	478
	821	587
Reconciliation of net cash provided by operating activities to Net Profits in terms of the Reserve Bank Act		
	2000	1999
	\$M	\$M
Net profit	2 292	1 326
Increase in interest payable	72	(10)
Increase in interest receivable	2	–
Net loss/(gain) on overseas investments	232	106
Net loss/(gain) on domestic government securities	128	276
Net loss/(gain) on foreign currency	(1 141)	108
Increase in income accrued on investments	(8)	(6)
Depreciation of property	7	7
Depreciation of plant and equipment	8	7
IMF Maintenance of Value adjustment (including accrual to end June)	–	(15)
Net payments for and proceeds from sale of domestic and foreign investments (5 344) (91)		
Write-off of Australian notes	–	(19)
Other	–	6
Net cash provided by operating activities	(3 752)	1 695

DIRECTORS' STATEMENT

In the opinion of the directors, the financial statements for the year ended 30 June 2000 give a true and fair view of the matters required by Schedule 2 to the Finance Minister's Orders made under the Commonwealth Authorities and Companies Act 1997.



I J Macfarlane

Chairman, Reserve Bank Board

3 August 2000



INDEPENDENT AUDIT REPORT

To the Treasurer

Scope

I have audited the financial statements of the Reserve Bank of Australia (the Bank) for the year ended 30 June 2000. 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 statements comprise:

- Balance Sheet
- Profit and Loss Appropriation Statement
- Notes to and forming part of the financial statements, and
- Directors Statement.

The members of the Bank's 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 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 which is consistent with my understanding of the Bank's and the economic entity's financial position, the results of their operations and their cash flows.

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

Audit Opinion

In my opinion,

- (i) the financial statements have been prepared in accordance with Schedule 2 of the Finance Minister's Orders;
- (ii) the financial statements give a true and fair view, in accordance with applicable Accounting Standards, other mandatory professional reporting requirements and Schedule 2 of the Finance Minister's Orders, of the financial position of the Bank and the economic entity as at 30 June 2000 and the results of their operations and their cash flows for the year then ended.

P. J. Barrett
Auditor-General

Sydney
3 August 2000