Financial Statements

For the year ended 30 June 2011

Directors' Statement

In the opinion of the directors, the financial statements for the year ended 30 June 2011 give a true and fair view of the matters required by the Finance Minister's Orders 2010–2011 made under the *Commonwealth Authorities and Companies Act 1997*. These statements have been prepared from properly maintained financial records and are signed in accordance with a resolution of the directors.

Glenn Stevens
Chairman, Reserve Bank Board
25 August 2011

Frank Campbell
Assistant Governor (Corporate Services)

Balance Sheet – As at 30 June 2011

Reserve Bank of Australia and Controlled Entities

	Note	2011 $M	2010 $M
Assets			
Cash and cash equivalents	6	1 209	852
Australian dollar securities	1(b), 15	31 834	36 972
Foreign exchange	1(b), 15	37 727	43 096
Gold	1(c), 15	3 599	3 747
Property, plant and equipment	1(d), 8	454	449
Loans, advances and other	7	490	536
Total Assets		75 313	85 652
Liabilities			
Deposits	1(b), 9	17 504	20 987
Distribution payable to Australian Government	1(f), 3	–	750
Other	10	2 411	4 762
Australian notes on issue	1(b), 15	50 059	48 759
Total Liabilities		69 974	75 258
Net Assets		5 339	10 394
Capital and Reserves			
Reserves:			
Unrealised profits reserves	1(e), 5	61	84
Asset revaluation reserves	1(e), 5	3 921	4 087
Reserve Bank Reserve Fund	1(e), 5	1 317	6 183
Capital	1(e)	40	40
Total Capital and Reserves		5 339	10 394

These Financial Statements should be read in conjunction with the accompanying notes.

Statement of Comprehensive Income – For the year ended 30 June 2011

Reserve Bank of Australia and Controlled Entities

	Note	2011 $M	2010 $M
Income			
Interest revenue	2	1 930	1 994
Dividend revenue	2	4	11
Fees and commissions	2	20	20
Other revenue	2	98	69
Total Income		2 052	2 094
Expenses			
Interest expense	2	798	918
Net losses on securities and foreign exchange	2	5 786	3 782
General administrative expenses	2	303	282
Other expenses	2	54	40
Total Expenses		6 941	5 022
Net Profit		(4 889)	(2 928)
Other Comprehensive Income			
Gains/(losses) on:			
Gold	5	(147)	790
Shares in international and other institutions	5	(26)	10
Properties, plant and equipment	5	7	(21)
Total Other Comprehensive Income		(166)	779
Total Comprehensive Income		(5 055)	(2 149)

These Financial Statements should be read in conjunction with the accompanying notes.

Statement of Distribution – For the year ended 30 June 2011

Reserve Bank of Australia and Controlled Entities

	Note	2011 $M	2010 $M
Net Profit		(4 889)	(2 928)
Distributed as follows:			
Unrealised gains transferred to/(from) Unrealised profits reserves	5	(23)	(2 248)
Transfer to/(from) Reserve Bank Reserve Fund	5	(4 866)	(680)
Payable to the Australian Government	3	–	–
		(4 889)	(2 928)

These Financial Statements should be read in conjunction with the accompanying notes.

Statement of Changes in Capital and Reserves – For the year ended 30 June 2011

Reserve Bank of Australia and Controlled Entities

	Note	Asset Revaluation Reserves $M	Unrealised Profits Reserves $M	Reserve Bank Reserve Fund $M	Capital $M	Earnings Available for Distribution $M	Total Capital and Reserves $M
Balance as at 30 June 2009		3 308	2 332	6 863	40	–	12 543
Plus:							
Net Profit	2	–	(2 248)	(680)		–	(2 928)
Gains/(losses) on:							
Gold	5	790					790
Shares in international and other institutions	5	10					10
Properties, plant and equipment	5	(21)					(21)
Other comprehensive income		779					779
Total comprehensive income for 2009/10							(2 149)
Less:							
Transfer to the distribution payable to Australian Government	3	–	–	–		–	–
Balance as at 30 June 2010		4 087	84	6 183	40	–	10 394
Plus:							
Net Profit	2	–	(23)	(4 866)		–	(4 889)
Gains/(losses) on:							
Gold	5	(147)					(147)
Shares in international and other institutions	5	(26)					(26)
Properties, plant and equipment	5	7					7
Other comprehensive income		(166)					(166)
Total comprehensive income for 2010/11							(5 055)
Less:							
Transfer to the distribution payable to Australian Government	3	–	–	–		–	–
Balance as at 30 June 2011		3 921	61	1 317	40	–	5 339

These Financial Statements should be read in conjunction with the accompanying notes.

Cash Flow Statement – For the year ended 30 June 2011

Reserve Bank of Australia and Controlled Entities

This statement meets the requirements of AASB 107 – *Cash Flow Statements* and the Finance Minister's Orders 2010–2011. In the RBA's view, due to the nature of central banking activities, this statement does not shed 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 balances due from other banks.

	2011 Inflow/ (outflow) $M	2010 Inflow/ (outflow) $M
Cash flows from operating activities		
Interest received on investments	1 975	2 498
Interest received on loans, advances, and on net overnight settlements balances	42	27
Loan management reimbursement	1	1
Banking service fees received	20	20
Dividends received	4	11
Rents received	8	9
Net payments for and proceeds from investments	2 244	16 548
Interest paid on deposit liabilities	(629)	(808)
Interest paid on currency note holdings of banks	(133)	(104)
Staff costs (including redundancy)	(174)	(155)
Property, plant and equipment	(39)	(37)
Other	(10)	(26)
Net cash provided by operating activities	3 309	17 984
Cash flows from investment activities		
Net expenditure on property, plant and equipment	(25)	(56)
Net cash used in investment activities	(25)	(56)
Cash flows from financing activities		
Profit payment to Australian Government	(750)	(5 227)
Net movement in deposit liabilities	(3 483)	(13 279)
Net movement in loans and advances	1	1
Net movement in notes on issue	1 300	672
Other	5	(15)
Net cash used in financing activities	(2 927)	(17 848)
Net increase/(decrease) in cash	357	80
Cash at beginning of financial year	852	772
Cash at end of financial year	1 209	852

These Financial Statements should be read in conjunction with the accompanying notes.

Cash Flow Statement – For the year ended 30 June 2011 (continued)

Reserve Bank of Australia and Controlled Entities

Reconciliation of Cash	**Note**	**2011 $M**	**2010 $M**
Cash		22	8
Overnight settlements systems	6	1 187	844
		1 209	852

Reconciliation of net cash provided by operating activities to Net Profits in terms of the *Reserve Bank Act 1959*	**Note**	**2011 $M**	**2010 $M**
Net Profit		(4 889)	(2 928)
Increase/(decrease) in interest payable		13	(7)
Net loss/(gain) on overseas investments	2	94	(416)
Net loss/(gain) on Australian dollar securities	2	26	(75)
Net loss/(gain) on foreign currency	2	5 666	4 273
Decrease/(increase) in income accrued on investments		(25)	544
Depreciation of property	8	8	9
Depreciation of plant and equipment	8	18	17
Net payments for and proceeds from investments		2 399	16 559
Other		(1)	8
Net cash provided by operating activities		3 309	17 984

These Financial Statements should be read in conjunction with the accompanying notes.

Notes to and Forming Part of the Financial Statements – 30 June 2011

Reserve Bank of Australia and Controlled Entities

Note 1 – Accounting Policies

The Reserve Bank of Australia (RBA) reports its financial statements in accordance with the *Reserve Bank Act 1959* and the *Commonwealth Authorities and Companies Act 1997 (CAC Act)*. These financial statements for the year ended 30 June 2011 have been prepared under Australian equivalents to International Financial Reporting Standards (AIFRS), other accounting standards and accounting interpretations issued by the Australian Accounting Standards Board, in accordance with the Finance Minister's Orders (FMOs) 2010–2011, which are issued pursuant to the *CAC Act 1997*. These financial statements comply fully with International Financial Reporting Standards. The RBA has not sought any exemptions from the requirements of the FMOs in 2010/11. In preparing these financial statements, the RBA has not 'early adopted' new accounting standards or amendments to current standards that will apply from 1 July 2011.

These financial statements and attached notes are a general purpose financial report prepared in accordance with relevant AIFRS. Elections as to the accounting treatment under AIFRS made by the Bank are noted appropriately. All amounts are expressed in Australian dollars 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 for the RBA's major assets, including domestic and foreign marketable securities, gold and foreign currency, as well as for properties, 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 and authorised for issue by a resolution of the Board of the Reserve Bank of Australia on 2 August 2011.

(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

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 of capital in July 2009. NPA's total assets, liabilities and capital as at 30 June 2011 were $143.3 million, $28.0 million and $115.3 million respectively ($129.9 million, $20.2 million and $109.7 million as at 30 June 2010).

The assets, liabilities and results of NPA have been consolidated with the parent entity accounts in accordance with AASB 127 – *Consolidated and Separate Financial Statements*. All internal transactions and balances have been eliminated on consolidation.

Securency

The Reserve Bank of Australia has a 50 per cent share in Securency International Pty Ltd, a joint venture with Innovia Films. Securency International Pty Ltd markets and manufactures the polymer substrate on which Australia's bank notes are printed. The RBA equity accounts for its investment in Securency International Pty Ltd in accordance with AASB 131 – *Interests in Joint Ventures* as the RBA and its partner have joint control of the company. The RBA's investment in Securency International Pty Ltd is included in Note 7.

In November 2010, the RBA announced it was pursuing a joint sale with Innovia Films of its half share in Securency International Pty Ltd. Macquarie Capital Advisers has been appointed as the adviser to the two owners. Accordingly, the investment in Securency has been reclassified as held for sale.

(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 are its Australian dollar securities, foreign government securities, repurchase agreements, deposits with the Bank for International Settlements, foreign currency working accounts, interest rate futures, foreign currency swap contracts, gold loans, cash and cash equivalents, notes on issue, deposit liabilities and its shareholding in the Bank for International Settlements. 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: Disclosures.*

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 these securities in the Statement of Comprehensive Income and the Balance Sheet on the date these transactions are arranged (not when the transactions are settled). Bank deposits and repurchase agreements are brought to account on settlement date.

Financial Assets

Australian dollar securities

The RBA holds Commonwealth 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 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 selected Australian dollar domestic residential and commercial mortgage-backed securities, asset-backed commercial paper and corporate securities.

Domestic securities, except those held under buy repurchase agreements, are classified under AASB 139 as 'at fair value through profit or loss', as they are held for purposes 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 1959* (Note 1(f)). Interest earned on the 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 of the securities. The face value is received at maturity.

Foreign exchange

Foreign exchange holdings are invested mainly in securities issued by the governments of the United States, Germany, France, the Netherlands, Canada and Japan and deposits with the Bank for International Settlements. 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 the relevant market bid or offer 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 1959* (Note 1(f)). 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, in accordance with AASB 121.

Foreign government securities

Foreign government securities comprise coupon and discount securities. Coupon securities have biannual or annual interest payments depending on the currency and type of security; the principal of these securities 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 of the securities. The face value is received at maturity. Foreign securities, except those held under buy repurchase agreements, are classified under AASB 139 as 'at fair value through profit or loss', as they are held for trading in the course of managing the portfolio of foreign exchange reserves. 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 1959* (Note 1(f)). Interest earned on securities is accrued over the term of the security as revenue in the Statement of Comprehensive Income.

Foreign deposits

The RBA invests part of its foreign currency reserves in deposits with the Bank for International Settlements; in previous years it also held deposits with highly rated commercial banks. The Bank also maintains working accounts in foreign currencies. Deposits are classified as 'loans and receivables' under AASB 139 and recorded at their 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).

Buy repurchase agreements

In the course of its financial market operations, the RBA engages in repurchase agreements involving foreign and Australian dollar marketable securities. Securities purchased and contracted for sale under buy repurchase agreements are classified under AASB 139 as 'loans and receivables' and valued at amortised cost. The difference between the purchase and sale price is accrued over the term of the agreement and recognised as interest revenue. (See page 80 for the treatment of sell repurchase agreements.)

Foreign currency swaps

The RBA uses foreign currency swaps with market counterparties to assist daily domestic liquidity management and to manage balance sheet holdings. 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 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 2011 (including those under swap contracts) have been valued at market exchange rates (Note 15).

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'. In accordance with this standard, futures positions are marked to market on balance date at the relevant bid or offer price and valuation gains and losses taken to profit. Only realised gains and losses are available for distribution in accordance with the *Reserve Bank Act 1959* (Note 1(f)).

Bank for International Settlements

Under AASB 139 the RBA's shareholding in the Bank for International Settlements (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). The fair value is estimated on the basis of BIS' net asset value, less a discount of 30 per cent. When declared, dividends are recognised as revenue in the Statement of Comprehensive Income.

Financial Liabilities

Deposit liabilities

Deposits include deposits at call and term deposits. Deposits are classified as financial liabilities under AASB 139. 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 adjusted 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 accounting profits. If the written down notes are subsequently presented, the RBA charges an expense against profits. In 2010/11, notes with a face value of $227 643 which had previously been written down were presented to the RBA and expensed ($234 211 in 2009/10).

The RBA pays interest on working balances of currency notes held by banks under cash distribution arrangements. Interest is paid on balances up to certain limits.

Sell repurchase agreements

Securities sold and contracted for purchase under sell repurchase agreements are classified under AASB 139 as 'at fair value through profit or loss', as they 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 financial 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 these loans under AASB 7.

(d) Property, plant and equipment

The RBA accounts for its property, plant and equipment in accordance with AASB 116 – *Property, Plant and Equipment*. Valuation gains (and losses) are generally transferred to (from) the relevant revaluation reserve. Valuation losses which exceed the balance in the relevant asset revaluation reserve are expensed. Subsequent valuation gains are included in income, to the extent that the gains offset prior losses treated as an expense.

Property

Formal valuations of all the RBA's Australian properties are conducted annually; overseas properties are formally valued on a triennial basis. Australian properties are valued by an independent valuer; overseas properties are valued by local independent valuers. The most recent independent valuation of overseas properties was at 30 June 2010. In accordance with AASB 116, properties are recognised at fair value, which reflects observable prices and is based on the assumption that assets would be exchanged between knowledgeable, willing parties at arm's length. Reflecting the specialised nature of the respective assets, the value of the Craigieburn property has been determined on the basis of vacant possession, while the RBA's Business Resumption Site in outer metropolitan Sydney is valued at depreciated replacement cost. The latest valuations have been incorporated in the accounts. Annual depreciation is based on fair values and assessments of the useful remaining life of the relevant asset, determined by the independent valuer.

Plant and equipment

Plant and equipment is valued by independent valuers on a triennial basis. The most recent independent valuation was on 30 June 2011; these valuations have been incorporated in the accounts. Between revaluations, plant and equipment is carried at the most recent valuation less any subsequent depreciation. Annual depreciation is based on fair values and the RBA's assessments of the useful remaining life of individual assets. Computer software and other intangible assets are accounted for in accordance with AASB 138 – *Intangible Assets*. Intangibles are recognised at cost less accumulated amortisation, which is calculated on the basis of the estimated useful life of the relevant assets. Amortisation expense for intangibles is included in Other Expenses in Note 2.

The range of useful lives used for each class of newly-purchased assets is:

	Years
Buildings	20–50
Fitout and furniture	5–13
Computer equipment	
– hardware	3–5
– software	3–5
Office equipment	4–5
Motor vehicles	5
Plant	4–20

Details of annual net expenditure, revaluation adjustments and depreciation of buildings, and plant and equipment are included in Note 8; details of computer software and other intangibles are included in Note 7.

(e) Capital and Reserves

The capital of the Reserve Bank is established by the *Reserve Bank Act 1959*.

The Reserve Bank Reserve Fund (RBRF) is also established by the *Reserve Bank Act 1959* and is, in all respects, essentially capital. It is a general reserve maintained by the RBA to provide for events which are contingent and non-foreseeable, including to cover losses from exceptionally large falls in the market value of its holdings of domestic and foreign securities that cannot be absorbed by its other resources. The RBRF also provides for other risks to which the RBA is exposed, including fraud and operational risk. This reserve has been funded over the years 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 1959*, the Treasurer, after consultation with the Board, determines any amounts to be credited to the RBRF from earnings available for distribution (refer Note 1(f)). As accounting losses in 2009/10 and 2010/11 have reduced this reserve, the Board will seek to restore its balance to a level that it regards as satisfactory over time.

The Bank 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 profit from ordinary activities. However, until such gains or losses are realised, they are not available for distribution to the Australian Government; such unrealised gains are reflected in the Reserve for Unrealised Profits on Investments. Unrealised losses that exceed the balance held in the Unrealised Profits Reserve are initially charged against other sources of income, consistent with the *Reserve Bank Act 1959* and accounting practice. No balance was available in the Unrealised Profits Reserve for investments to absorb unrealised losses in 2010/11, since this reserve had been fully depleted the previous year.

Unrealised gains and losses on the asset which represents the staff superannuation funds are also recognised in the Statement of Comprehensive Income in accordance with the 'corridor' approach under AASB 119 – *Employee Benefits*. These amounts are reflected in the Reserve for Unrealised Profits on Superannuation (refer Note 1(h)). A sum of $23 million representing an unrealised loss on the RBA's superannuation asset was absorbed by this reserve in 2010/11. Apart from this, the accounting loss of $4 889 million in 2010/11 was absorbed in the RBRF, consistent with the purpose of the RBRF.

Balances of asset revaluation reserves reflect differences between the fair value of a number of the RBA's assets, mainly non-traded assets (gold; property, plant and equipment; and shares in international and other institutions), and their cost. These unrealised gains are transferred directly to the relevant reserve and are not included in accounting profits. The unrealised gains on these assets are not distributable until the gains are realised through the sale of the relevant asset.

The 'Earnings and Distribution' chapter in this Annual Report provides additional information on the RBA's capital and reserves.

(f) Profits

Profits of the RBA are dealt with in the following terms by section 30 of the *Reserve Bank Act 1959:*

(1) Subject to subsection (2), 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 is 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.

In 2010/11, the RBA's net profit was negative, as in the previous year. As no unrealised gains from earlier years were retained in the Unrealised Profits Reserve at 30 June 2011, the Board has resolved that the loss will be absorbed by a transfer from the RBRF as discussed above. Accordingly, the RBRF will be reduced by an amount of $4 866 million. No dividend will be payable to the Australian Government in 2011/12 from earnings in 2010/11.

(g) Provisions

The RBA maintains provisions for accrued annual leave in accordance with AASB 119 – *Employee Benefits,* based on expected salaries when leave is anticipated to be taken 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 consistent with AASB 119. In addition, the RBA makes provision for future workers' compensation claims in respect of incidents which have occurred before balance date.

(h) Superannuation funds

The RBA includes in its balance sheet an asset representing the position of its defined benefit superannuation funds. Actuarial gains and losses are included in the asset in accordance with the 'corridor' approach under AASB 119 – *Employee Benefits*. The counterpart to the superannuation asset is the Reserve for Unrealised Profits on Superannuation. Actuarial gains and losses in excess of 10 per cent of the greater of the funds' assets or its defined benefit obligations are charged or credited to income in subsequent years over the expected average remaining working life of members. Details of the superannuation funds and superannuation expenses are included in Note 14.

(i) Rounding

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

(j) New Accounting Standards

A number of new accounting standards and amendments to current standards may be applied from 1 July 2011. The main changes relevant to the RBA relate to: AASB 2009-5 – *Further Amendments to Australian Accounting Standards arising from the Annual Improvement Project*; AASB 9 – *Financial Instruments*; and Revised AASB 124 – *Related Party Disclosures*. These changes are not expected to have a material effect on the RBA's financial statements or the notes to the accounts.

Note 2 – Net Profits

	Note	2011 $M	2010 $M
Interest revenue			
Overseas investments	1(b), 4	391	452
Australian dollar securities	1(b), 4	1 497	1 515
Overnight settlements	4	41	26
Gold loans	1(c), 4	–	–
Loans, advances and other	4	1	1
		1 930	1 994
Dividend revenue			
Earnings on shares in Bank for International Settlements	1(b)	4	11
Fees and commissions			
Banking services fees received		20	20
Other revenue			
Reimbursement by Australian Government for loan management and registry expenses		1	1
Rental of Bank premises		9	9
Sales of note and security products		63	35
Other		25	24
		98	69
Total		2 052	2 094
Less:			
Interest expense			
Deposit liabilities	1(b), 4	643	801
Currency note holdings of banks	1(b), 4	133	104
Repurchase agreements	1(b), 4	22	13
		798	918
Net losses on securities and foreign exchange			
Overseas investments	1(b)	94	(416)
Australian dollar securities	1(b)	26	(75)
Foreign currency	1(b)	5 666	4 273
		5 786	3 782
General administrative expenses			
Staff costs		141	148
Superannuation costs	1(h), 14	45	33
Special redundancy/retirement payments		2	2
Depreciation of property	1(d), 8	8	9
Depreciation of plant and equipment	1(d), 8	18	17
Premises and equipment	1(d)	39	37
Materials used in note and security products		36	23
Travel		3	3
Consultants' fees, legal fees and payments to contractors		5	2
Other		6	8
		303	282

Note 2 – Net Profits (Continued)

	Note	2011 $M	2010 $M
Other expenses			
Agency business reimbursement		3	3
Subsidiary income tax		2	2
Cash distribution expenses		5	6
Other		44	29
		54	40
Total		6 941	5 022
Net Profit		(4 889)	(2 928)

Staff costs in 2010/11 include income of $4.6 million associated with the decrease in the balance of the provision for post-employment benefits (in 2009/10 there was an expense of $10.5 million) (refer Note 10). Post-employment health care costs of $4.5 million are included in Staff costs ($10.3 million in 2009/10).

The RBA's aggregate research and development expenditure recognised as an expense in 2010/11 was $0.6 million ($0.7 million in 2009/10); this is included in Other Expenses.

Note 3 – Distribution Payable to Australian Government

Section 30 of the *Reserve Bank Act 1959* requires that the net profits of the Reserve Bank of Australia, less amounts set aside for contingencies or placed to the credit of the RBRF as determined by the Treasurer after consultation with the Board, shall be paid to the Australian Government (see Note 1(f)). Also under section 30, unrealised profits are not available for distribution and are transferred to the Unrealised Profits Reserve where they remain available to absorb future valuation losses or are realised when relevant assets are sold. Unrealised losses are, in the first instance, absorbed within the Unrealised Profits Reserve; if such losses exceed the balance in this reserve, the amount by which the losses exceed this balance are initially charged against other sources of income and then taken to the RBRF.

In 2010/11, the Bank recorded an accounting loss of $4 889 million. As no unrealised gains from earlier years were retained in the unrealised profits reserve for Investments, the Board resolved to transfer $4 866 million from the RBRF to offset the accounting loss. No dividend will be payable from earnings in 2010/11. Similarly, no dividend was payable from earnings in 2009/10, as the accounting loss for that year was absorbed by a transfer of $2 248 million from the Unrealised Profits Reserve and a transfer of $680 million from the RBRF. A sum of $750 million, which had been deferred from the dividend payable in 2009, was distributed to the Australian Government as intended in August 2010.

	2011 $M	2010 $M
Opening balance	750	5 977
Distribution to Australian Government	(750)	(5 227)
Transfer from Statement of Distribution	–	–
As at 30 June	–	750

Note 4 – Interest Revenue and Interest Expense

Analysis for the year ended 30 June 2011

	Average balance $M	Interest $M	Average annual interest rate %
Interest revenue			
Overseas investments	40 168	391	1.0
Australian dollar securities	30 471	1 497	4.9
Overnight settlements	934	41	4.4
Gold loans	60	–	0.2
Loans, advances and other	17	1	4.2
	71 650	1 930	2.7
Interest expense			
Banks' Exchange Settlement balances	1 424	63	4.4
Deposits from governments	12 119	559	4.6
Deposits from overseas institutions	539	19	3.5
Currency note holdings of banks	2 827	133	4.7
Overseas repurchase agreements	3 602	5	0.2
Domestic repurchase agreements	355	17	4.6
Other deposits	50	2	3.7
	20 916	798	3.8
Analysis for the year ended 30 June 2010			
Interest revenue total	83 576	1 994	2.4
Interest expense total	29 407	918	3.1

Interest revenue for 2010/11 includes $1 214 million calculated using the effective interest method for financial assets not at fair value through profit and loss ($1 317 million in 2009/10). Interest expense for 2010/11 includes $798 million calculated using the effective interest method for financial liabilities not at fair value through profit and loss ($918 million in 2009/10).

Note 5 – Capital and Reserves

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

	2011 $M	2010 $M
Asset revaluation reserves		
Gold (Note 1(c))		
Opening balance	3 620	2 830
Net revaluation adjustments	(147)	790
As at 30 June	3 473	3 620
Shares in international and other institutions (Notes 1(b), 7)		
Opening balance	285	275
Net revaluation adjustments	(26)	10
As at 30 June	259	285
Bank properties, plant and equipment (Notes 1(d), 8)		
Opening balance	182	203
Net revaluation adjustments	7	(21)
As at 30 June	189	182
Total asset revaluation reserves (Note 1(e))		
Opening balance	4 087	3 308
Net revaluation adjustments	(166)	779
As at 30 June	3 921	4 087
Unrealised profits reserves		
Reserve for unrealised profits on investments (Note 1(e))		
Opening balance	–	2 237
Net transfers (to)/from Statement of Distribution	–	(2 237)
As at 30 June	–	–
Reserve for unrealised profits on superannuation (Note 1(h))		
Opening balance	84	95
Net transfers (to)/from Statement of Distribution	(23)	(11)
As at 30 June	61	84
Total unrealised profits reserves		
Opening balance	84	2 332
Net transfers (to)/from Statement of Distribution	(23)	(2 248)
As at 30 June	61	84
Reserve Bank Reserve Fund (Note 1(e))		
Opening balance	6 183	6 863
Transfers (to)/from Statement of Distribution	(4 866)	(680)
As at 30 June	1 317	6 183
Capital		
Opening and closing balance	40	40

Note 6 – Cash and Cash Equivalents

This includes net amounts of $1 187 million owed to the RBA for overnight clearances of financial transactions through the clearing houses; an amount of $844 million was owed to the RBA at 30 June 2010. Other cash and cash equivalents includes NPA's bank deposits.

Note 7 – Loans, Advances and Other Assets

	Note	2011 $M	2010 $M
Shareholding in Bank for International Settlements	1(b)	302	328
Superannuation asset	1(h),14	61	84
Officers' Home Advances		6	7
Investment in Securency	1(a)	54	49
Computer software and intangibles	1(d)	14	12
Other		53	56
As at 30 June		490	536

The Reserve Bank of Australia holds a share of 50 per cent in Securency International Pty Ltd (formerly Securency Pty Ltd), which is incorporated in Victoria, Australia, and whose principal activity is the marketing and manufacture of polymer substrate. The Bank jointly controls Securency with a joint-venture partner. The capital of Securency International (Securency) as at 30 June 2011 was $36.5 million. The carrying value of the RBA's investment in Securency as at 30 June 2011 was $53.9 million ($49.4 million at 30 June 2010). Securency has a 31 December balance date.

The RBA's share of Securency's profit before income tax in 2010/11 was $9.5 million ($9.5 million in 2009/10); its share of Securency's income tax expense in 2010/11 was $3.4 million ($2.7 million in 2009/10); and its share of the movement in Securency's reserves was –$0.8 million (–$0.5 million in 2009/10). Securency's current and non-current assets as at 30 June 2011 were $97.4 million and $74.2 million respectively ($69.4 million and $95.2 million as at 30 June 2010). Current and non-current liabilities on 30 June 2011 were $40.7 million and $19.1 million ($39.3 million and $24.0 million on 30 June 2010). Securency's revenue and expenses for 2010/11 were $154.0 million and $135.0 million ($137.5 million and $118.4 million in 2009/10). The RBA provides facilities to Securency under operating leases.

In 2005/06, the RBA provided a finance lease to Securency for $5.6 million in relation to the construction of a new building on the Bank's land at Craigieburn. The finance lease was fully drawn down during 2006/07. The lease was provided on commercial terms and at arm's length; it has a term of 10 years. The balance of the lease receivable as at 30 June 2011 was $2.9 million ($3.4 million as at 30 June 2010).

The RBA has announced that it has begun a process to pursue a joint sale with its partner, Innovia Films, to divest its interest in Securency International Pty Ltd (see Note 1(a)).

During 2010/11, the RBA acquired $4.8 million of computer software and intangibles ($1.0 million in 2009/10) and amortised $2.2 million ($1.8 million in 2009/10). At 30 June 2011 the gross book value of the RBA's computer software and intangibles amounted to $23.2 million and accumulated amortisation on these assets was $9.6 million ($20.4 million and $8.6 million respectively at 30 June 2010). The RBA had contractual commitments of $0.6 million as at 30 June 2011 for the acquisition of computer software and intangibles (no contractual commitments at 30 June 2010).

As at 30 June 2011, other assets included receivables of $33.3 million, all of which are current (at 30 June 2010 other assets included receivables of $29.5 million, all of which were current).

Note 8 – Property, Plant and Equipment

	Land $M	Buildings $M	Plant and Equipment $M	Total $M
Gross Book Value as at 30 June 2010	117	210	158	485
Accumulated depreciation	–	–	(36)	(36)
Net Book Value	117	210	122	449
Additions	–	8	18	26
Depreciation expense	–	(8)	(18)	(26)
Net revaluation increment/(decrement)	15	(11)	2	6
Disposals	–	–	(1)	(1)
Net additions to net book value	15	(11)	1	5
Gross Book Value as at 30 June 2011	132	199	138	469
Accumulated depreciation	–	–	(15)	(15)
Net Book Value	132	199	123	454

The net book value of buildings as at 30 June 2011 includes expenditure of $1.0 million on work in progress which has been capitalised in the carrying amount of these assets ($3.5 million as at 30 June 2010). Additions include expenditure of $8.4 million on work in progress that was capitalised during 2010/11 ($11.4 million in 2009/10).

As at 30 June 2011, the RBA had contractual commitments of $3.3 million to acquire buildings, plant and equipment ($2.5 million at 30 June 2010); contractual commitments of $3.3 million are due within 1 year ($2.5 million in 2009/10).

Note 9 – Deposits

	2011 $M	2010 $M
Banks' Exchange Settlement balances	2 413	3 584
Australian Government	14 247	16 663
State Governments	2	2
Foreign Governments, foreign institutions and international organisations	779	724
Other depositors	63	14
As at 30 June	17 504	20 987

Note 10 – Other Liabilities

	2011 $M	2010 $M
Provisions (Note 1(g))		
Provision for accrued annual leave	15	14
Provision for long service leave	31	30
Provision for post-employment benefits	83	89
Provision for workers' compensation	–	–
	129	133
Other		
Amounts outstanding under repurchase agreements (contract price) (Note 1(b))	1 666	4 167
Interest accrued on deposits	37	23
Other	579	439
	2 282	4 629
As at 30 June	2 411	4 762

The provision for workers' compensation at 30 June 2011 was $323 000 ($375 000 at 30 June 2010).

During 2010/11, annual leave of $8.9 million was accrued by staff, while $7.3 million of accrued leave was used. Staff accrued and used long service leave of $3.4 million and $2.5 million, respectively, in 2010/11.

The RBA provided an additional $0.3 million for post-retirement benefits in 2010/11; an increase in the discount rate decreased the provision by $4.0 million, while benefits of $0.9 million were paid out of the provision. The balance of the provision for post-employment benefits will change if assumptions regarding the length of staff service, the longevity of retired staff, future movements in medical costs or the discount rate vary.

At 30 June 2011, $6.8 million of the provision for accrued annual leave was due within 12 months ($6.7 million at 30 June 2010); $3.0 million of the provision for long service was due within 12 months ($2.9 million at 30 June 2010); and $2.7 million of the provision for post-employment benefits was due within 12 months ($1.9 million at 30 June 2010).

Note 11 – Contingent Liabilities and Other Items Not Included in the Balance Sheet

The RBA has a contingent liability, amounting to $53.5 million at 30 June 2011 ($62.3 million at 30 June 2010), 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.

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

As outlined in Note 16, the Bank has made certain provisions in relation to the charges laid against NPA and Securency on 1 July 2011 and against Securency on 10 August 2011. However, in light of uncertainties associated with these allegations it is not possible to make a reliable estimate of all of the potential costs associated with this matter as at the date of preparing these accounts.

Note 12 – Key Management Personnel

The key management personnel of the Reserve Bank are members of the Reserve Bank Board, members of the Payments System Board, and senior staff who have responsibility for planning, directing and controlling the activities of the Bank. This group comprised 23 in total in 2010/11, compared with 20 in 2009/10. The group includes the Governor and Deputy Governor, nine non-executive members of the Reserve Bank Board, five non-executive members of the Payments System Board and seven Assistant Governors. No new positions were added to the group of key management personnel in 2010/11. The increase of three in the number in this group reflected two members of the Board completing their terms and being replaced and turnover among the Bank's Assistant Governors. Consequently, four non-executive members of the RBA Board, and two Assistant Governors occupied their respective positions for only part of the year.

Fees of non-executive members of the Reserve Bank Board and the Payments System Board are determined by the Remuneration Tribunal. The terms and conditions on which the Governor and Deputy Governor held office in 2010/11 were determined by the Reserve Bank Board, in accordance with section 24A of the *Reserve Bank Act 1959*. As has become practice, the Board's Remuneration Committee (comprising three non-executive directors) reviewed these terms and conditions and, consistent with the Act, made a recommendation to the Board. The Governor and Deputy Governor did not participate in these deliberations. The 2010 review of remuneration for the Governor and Deputy Governor resulted in an increase in annual salary of 4 per cent; the increase in total remuneration was 3.2 per cent for the Governor and 2.5 per cent for the Deputy Governor.

The Governor, in consultation with the Remuneration Committee, determines the remuneration of Assistant Governors. For staff generally, remuneration is market competitive and designed to attract and retain appropriately skilled people. Remuneration levels for employees are externally benchmarked. Consistent with section 67 of the *Reserve Bank Act 1959*, the level of remuneration is not tied with Australian Public Service classification bands.

The RBA discloses remuneration of key management personnel under AIFRS on the basis of AASB 124 – *Related Party Disclosures*. The disclosures are on an accruals basis and cost to the Bank, including, in addition to compensation and benefits, all leave and all fringe benefit tax charges. The aggregate remuneration of the RBA's key management personnel on this basis was:

	2011 $	2010 $
Short-term employee benefits	4 930 190	4 757 156
Post-employment benefits	931 105	899 960
Other long-term benefits	219 587	240 286
Share based payments	–	–
Termination benefits	–	–
Total Compensation	6 080 882	5 897 402

Short-term benefits include cash salary and, where relevant for executives, annual leave, motor vehicle benefits, car parking, 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. Members of the RBA's staff may salary sacrifice in exchange for certain benefits.

As at 30 June 2011 and 30 June 2010 there were no loans by the RBA to 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 conducted on terms no more favourable than similar transactions with other employees or customers; such transactions were incidental and for small amounts. As the Board of NPA comprised executives of the RBA in 2010/11 and 2009/10, no directors' fees were paid in these years.

The information contained in the following table shows details of the salary and total remuneration of directors and management. The figures on which the table is based comply with AASB 124, the usual commercial standard. Total remuneration is cash salary plus the other components of remuneration in accordance with disclosures under AASB 124, as defined in the table on the previous page.

Remuneration of Key Management Personnel

	2011			2010		
Salary Band $	**Number**	**Salary** $	**Total Remuneration** $	**Number**	**Salary** $	**Total Remuneration** $
0 – 99 999*	14	49 953	54 448	12	53 815	58 659
150 000 – 249 999	2	201 411	306 804			
350 000 – 449 999	3	421 027	567 882	6	415 253	576 552
450 000 – 549 999	2	457 743	629 729			
550 000 – 649 999	1	629 963	822 221	1	607 663	802 202
750 000 – 849 999	1	834 186	1 083 017	1	804 657	1 049 296
	23			20		

*The averages of salary and total remuneration for individuals in this salary band are calculated by excluding the ex officio members of the Reserve Bank Board and Payments System Board as these members receive no fees as members of these boards.

Average figures are shown for salary and total remuneration in remuneration bands in which there is more than one individual.

Note 13 – Remuneration of Auditor

Fees paid or payable to the statutory auditor (Auditor-General of the Commonwealth of Australia) for audit services (excluding GST) totalled $396 100 in 2010/11 ($435 000 in 2009/10); this includes audit services in relation to the RBA's subsidiary Note Printing Australia Limited. These fees are included in Consultants' Fees, Legal Fees and Payments to Contractors in Note 2.

Note 14 – Superannuation Funds

Two superannuation funds are operated pursuant to the *Reserve Bank Act 1959*: 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 the RBA's financial statements. Payment of these superannuation funds' current and future benefits is funded by member and RBA contributions and the funds' existing asset bases. The RBA's superannuation expenses in relation to the OSF and the UK Pension Scheme are included in accounting profits and shown in Note 2. Administration and other operational costs (e.g. 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 2010/11.

The OSF is a hybrid fund. Most members receive a Bank-funded defined benefit in accordance with the rules of the fund; other member benefits include unitised defined contribution accumulation balances, which comprise the RBA's productivity and superannuation guarantee contributions and members' personal contributions, plus earnings on these contributions. The OSF is classified as a single-employer plan for the purposes of AASB 119 – *Employee Benefits*. The UK Pension Scheme is a defined benefit scheme.

Funding Valuation

Full independent actuarial valuations of the OSF and UK Pension Scheme are conducted every three years to determine funding for these schemes. The most recent funding valuation of the OSF was at 30 June 2008 and for the UK Pension Scheme at 30 June 2010. At the most recent valuations, the actuaries indicated that, on the basis of accrued benefits, both funds were in surplus and that the funds were in a satisfactory financial position. The next triennial funding valuation for the OSF for 30 June 2011 will be undertaken early in 2011/12.

The OSF triennial funding valuation as at 30 June 2008 was based on the Attained Age Funding method, consistent with the accounting standard for superannuation funds, AAS 25 – *Financial Reporting by Superannuation Plans*. Under this standard, the accrued benefits of the OSF were determined as the value of the future benefits payable to members (allowing for future salary increases), discounted using the expected rate of return on the assets held to fund these benefits. At the time of the triennial review, the surplus of the OSF on this measure was $175 million, as the assets of the OSF of $897 million exceeded the accrued benefits of $722 million. The main financial assumptions in the triennial valuation were that the annual post-tax rate of return on assets for benefits of active members was 7.0 per cent, that for assets for current pensions was 7.5 per cent (pre-tax), with annual salary increases of 4.0 per cent and annual pension increases of 3.5 per cent. Subsequent to the triennial review, the OSF surplus measured on the basis of AAS 25 as at 30 June 2011 amounted to $39 million (assets of $730 million less accrued benefits of $691 million).

Consistent with the Actuary's funding recommendation, the RBA maintained its contribution rate to the OSF at 18.3 per cent of salaries in 2010/11.

The triennial funding valuation for the UK Pension Scheme was based on the Attained Age method. The surplus of the UK Pension Scheme as at 30 June 2011, measured in accordance with AAS 25, was $1.2 million (assets of $16.4 million compared with accrued benefits of $15.2 million).

Accounting Valuation

For financial statement purposes, the financial positions of the superannuation schemes are valued in accordance with AASB 119. Under AASB 119, accrued benefits are determined by discounting future benefits payable to current fund members at the yield on government bonds of similar maturity on the reporting date. The approach under AASB 119, in contrast with the results of the actuaries' triennial valuations noted above, does not take into account that the assets held by the superannuation schemes to fund future benefits have generally earned a higher rate of return on average than government bonds.

The principal actuarial assumptions for the AASB 119 valuation used in the case of the OSF were a discount rate of 5.38 per cent (5.27 per cent in 2009/10), future salary increases of 3.5 per cent (3.5 per cent in 2009/10), future pension increases of 3.5 per cent (3.5 per cent in 2009/10) and an assumed return on plan assets of 8.5 per cent (8.5 per cent in 2009/10). The actual return on plan assets of the OSF for 2010/11 was 8.1 per cent (10.6 per cent in 2009/10). The assumptions used for the UK Pension Scheme were a discount rate of 5.4 per cent (5.3 per cent in 2009/10), future salary increases of 5.65 per cent (5.25 per cent in 2009/10), future pension increases of 3.65 per cent (3.25 per cent in 2009/10) and an assumed return on plan assets of 4.1 per cent (4.4 per cent in 2009/10). The actual return on plan assets of the UK Pension Scheme for 2010/11 was 10.0 per cent (6.1 per cent in 2009/10). The expected overall rates of return are based on the actuaries' models of returns for major asset classes and reflect the historic rates of return and volatility for each class and correlations across asset classes.

Details of the funds are as shown on the following pages. In the case of the OSF, these details relate only to the defined benefit component of the fund; defined contribution accumulation balances, on which the Bank has no actuarial risk, are excluded. This has no effect on the measurement of the surpluses in the OSF. At 30 June 2011 accumulation balances in the OSF totalled $165.4 million ($150.5 million as at 30 June 2010).

Asset Distribution as at 30 June

	% of fund assets			
	OSF		UK Pension Scheme	
	2011	2010	2011	2010
Cash and short-term securities	6.3	4.5	1.6	–
Fixed interest securities	7.2	7.0	–	–
Indexed securities	1.5	2.2	91.9	94.3
Domestic shares	42.7	40.2	6.5	5.7
Foreign shares	3.8	4.1	–	–
Property				
Direct	4.3	4.6	–	–
Indirect	15.9	16.6	–	–
Private equity and alternative investments	18.3	20.8	–	–
Total	100	100	100	100

Note 14 – Superannuation Funds (Continued)

	OSF		UK Scheme		Total	
	2011 $M	2010 $M	2011 $M	2010 $M	2011 $M	2010 $M
Opening balances:						
Net market value of assets	691	652	18	20	710	672
Accrued benefits	(928)	(829)	(14)	(14)	(942)	(843)
Surplus/(deficit)	(236)	(177)	4	7	(232)	(170)
Effect of asset cap	–	–	(3)	(3)	(3)	(3)
Actuarial (gains)/losses not included in balance sheet under Corridor	320	272	(3)	(4)	317	268
Exchange rate (gains)/losses	–	–	1	–	1	–
Opening superannuation asset	84	95	–	–	83	95
Change in net market value of assets	39	39	(2)	(2)	37	37
Change in accrued benefits	(49)	(99)	1	–	(48)	(99)
Change in asset cap	–	–	–	–	–	–
Change in actuarial (gains)/losses not included in balance sheet under Corridor	(12)	48	–	1	(12)	49
Exchange rate (gains)/losses	–	–	1	1	1	1
Total change in superannuation asset	(22)	(12)	–	–	(22)	(12)
Closing balances:						
Net market value of assets	730	691	17	18	747	710
Accrued benefits	(976)	(928)	(13)	(14)	(989)	(942)
Surplus/(deficit)	(246)	(236)	4	4	(242)	(232)
Effect of asset cap	–	–	(3)	(3)	(3)	(3)
Actuarial (gains)/losses not included in balance sheet under Corridor	307	320	(3)	(3)	304	317
Exchange rate (gains)/losses	–	–	2	1	2	1
Closing superannuation asset	61	84	–	–	61	83
Actuarially assumed return on plan assets	54	52	1	1	55	53
Benefit payments	(33)	(31)	(1)	(1)	(34)	(32)
Actuarial gains/(losses) on assets	1	2	1	1	2	3
Contributions from RBA to defined benefit schemes	20	19	–	–	20	19
Contributions tax	(3)	(3)	–	–	(3)	(3)
Exchange rate gains/(losses)	–	–	(3)	(3)	(3)	(3)
Change in net market value of assets	39	39	(2)	(2)	37	37

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

Note 14 – Superannuation Funds (Continued)

	OSF		UK Scheme		Total	
	2011 $M	2010 $M	2011 $M	2010 $M	2011 $M	2010 $M
Current service cost	(33)	(27)	–	–	(33)	(27)
Interest cost	(43)	(39)	(1)	(1)	(44)	(40)
Benefit payments	33	31	1	1	34	31
Contributions tax	3	3	–	–	3	3
Experience adjustments on benefits	(31)	3	–	–	(31)	3
Effects of changes in benefit actuarial assumptions	22	(69)	(1)	(2)	21	(71)
Exchange rate gains/(losses)	–	–	2	2	2	2
Change in accrued benefits	(49)	(99)	1	–	(48)	(99)
Actuarial (gains)/losses on assets	(1)	(2)	(1)	(1)	(3)	(3)
Experience adjustments on benefits	31	(3)	–	–	31	(3)
Effects of changes in benefit actuarial assumptions	(22)	69	1	2	(21)	71
Amortisation of actuarial gains/(losses)	(20)	(16)	–	–	(19)	(16)
Change in actuarial losses not included in balance sheet under Corridor	(12)	48	–	1	(12)	49
Superannuation expense/(income) included in Statement of Comprehensive Income						
Current service cost	33	27	–	–	33	27
Interest cost	44	39	1	1	44	40
Assumed return on plan assets	(54)	(52)	(1)	(1)	(55)	(53)
Amortisation of actuarial (gains)/losses under Corridor	20	16	–	–	19	16
Effect of asset cap	–	–	–	–	–	–
Productivity and superannuation guarantee contributions	4	4	–	–	4	4
Total superannuation expense/(income)	46	35	–	–	46	35

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

The position of the funds and experience adjustments on plan assets and accrued benefits (under AASB 119) as at 30 June for the current reporting period and previous four reporting periods are:

	2011 $M	2010 $M	2009 $M	2008 $M	2007 $M
OSF					
Closing balances:					
Net market value of assets	730	691	652	755	796
Accrued benefits	(976)	(928)	(829)	(679)	(631)
Surplus/(deficit)	(246)	(236)	(177)	76	165
Experience adjustments on assets	1	2	(150)	(90)	95
Experience adjustments on benefits	(31)	(3)	(54)	(20)	7
UK Scheme					
Closing balances:					
Net market value of assets	17	18	20	22	23
Accrued benefits	(13)	(14)	(14)	(16)	(17)
Surplus	4	4	7	6	5
Experience adjustments on assets	1	1	(1)	2	–
Experience adjustments on benefits	–	–	–	–	–

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

Note 15 – Financial Instruments and Risk

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

AASB 7 – *Financial Instruments: Disclosures* 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 reflecting its policy and operational responsibilities. These risks include market risk, credit risk and liquidity risk. The chapters in the Annual Report on the Reserve Bank's '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 foreign currency assets and liabilities will fluctuate because of movements in exchange rates. Foreign exchange risk arises from the RBA's foreign currency assets, which are held to support its operations in the foreign exchange market. The value of these assets, measured in Australian dollars, varies with movements in the value of the Australian dollar exchange rate against the currencies in which the assets are invested. 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 and cannot otherwise be managed to reduce foreign exchange risk. The RBA's net foreign currency exposure as at 30 June 2011 was $35.8 billion ($41.8 billion as at 30 June 2010). Within the overall exposure and to a limited extent, foreign currency risk can be reduced by holding assets across a diversified portfolio of currencies. The RBA holds foreign reserves in four currencies – the US dollar, the euro, the Canadian dollar and the yen – because the markets for these currencies are typically liquid and suitable for investing foreign exchange reserves. Canadian dollars were introduced following a review of the RBA's benchmark for the portfolio in July 2010; the RBA switched 5 percentage points of the portfolio into Canadian dollars from Japanese Yen (which had had a weight of 10 per cent); weights of the other currencies were unchanged (see 'Concentration of foreign exchange' below).

The RBA also undertakes foreign currency swaps to assist its daily domestic market operations. These instruments carry no foreign exchange risk since the exchange rates at which both legs of the transaction are settled are agreed at the time the swap is undertaken.

Concentration of foreign exchange

The RBA's net holdings of foreign exchange (excluding its holding of Special Drawing Rights) were distributed as follows as at 30 June:

	% of foreign exchange	
	2011	**2010**
US dollar	45	45
Euro	45	45
Canadian dollars	5	–
Japanese yen	5	10
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.

	2011 $M	2010 $M
Change in profit/equity due to a 10 per cent appreciation in the reserves-weighted value of the A$	–3 258	–3 804
Change in profit/equity due to a 10 per cent depreciation in the reserves-weighted value of the A$	3 982	4 650

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 considerable interest rate risk because most of its assets are financial assets, such as domestic and foreign securities, which have a fixed income stream. The price of such securities increases when market interest rates decline, while the price of a security will fall if market rates rise. Interest rate risk increases with the maturity of a security because the associated income stream is fixed for a longer period.

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. The valuation effects shown are generally reflective of the RBA's exposure over the financial year.

	2011 $M	2010 $M
Change in profit/equity due to movements of +/–1 percentage point across yield curves:		
Foreign currency securities	–/+456	–/+568
Australian dollar securities	–/+169	–/+158

A rise in interest rates would be associated with a valuation loss; a fall in interest rates would be associated with a valuation gain.

Other price risk

The RBA holds shares as a member of the Bank for International Settlements. This membership is mainly to maintain and develop strong relationships with other central banks which are 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 BIS shares as 'available for sale' and the fair value of these shares is estimated on the basis of the BIS' net asset value, less a discount of 30 per cent. 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 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 exposure 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 the 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; banks with which it deposits funds; and counterparties which are yet to settle transactions. The RBA's credit exposure is low compared with that of most commercial financial institutions, as it manages such risks within a highly risk-averse framework. In particular, credit risk is managed by: holding securities issued by a limited number of highly rated governments, government-guaranteed agencies and supranational organisations; holding government-guaranteed issues of certain commercial banks; and holding collateral only of low credit risk against buy repurchase agreements and gold loans.

Cash invested under 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 domestic buy repurchase agreements is secured by securities issued by Australian governments, Australian banks and various corporate and asset-backed securities (see Note 1(b)). The RBA holds collateral to a value of between 102 and 110 per cent of the amount invested according to the risk profile of the collateral held. If the current value of collateral offered by a counterparty to a repo transaction falls by more than a pre-determined 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. Gold loans are secured by Australian dollar securities to 110 per cent of the market value of the gold loaned.

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

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 maximum credit risk exposure in relation to off-balance sheet items is:

1. *Foreign exchange swaps* – As at 30 June 2011, the RBA was under contract to purchase $0.2 billion of foreign currency ($4.9 billion at 30 June 2010) and sell $0.3 billion of foreign currency ($1.9 billion at 30 June 2010). As of that date there was a net unrealised gain of $4 million on these swap positions included in net profit ($26 million unrealised gain at 30 June 2010). The exposure of these contracts to credit risk is the cost of re-establishing the contract in the market if a counterparty fails to fulfill its obligations.
2. *Interest rate futures* – As at 30 June 2011, the amount of credit risk on interest rate futures contracts was approximately $1.4 million ($1.4 million at 30 June 2010). As at 30 June 2011 there was an unrealised loss brought to account on those contracts of $0.6 million ($0.5 million unrealised loss at 30 June 2010).

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.

The RBA held no past due or impaired assets at 30 June 2011 or 30 June 2010.

	Risk rating of security/issuer[1]	Risk rating of counterparties[1]	% of total assets	
			2011	2010
Australian Dollar Securities				
Holdings – Commonwealth Government securities	AAA	n/a	0.6	0.9
Holdings – Semi Government securities	AAA	n/a	4.3	3.8
	AA	n/a	5.9	1.0
Securities sold under repurchase agreements	AAA	AA	0.2	0.1
	AAA	A	0.2	0.2
	AA	AA	0.1	–
Securities held under repurchase agreements	AAA	AA	11.9	9.8
	AAA	A	7.4	10.0
	AAA	BBB	0.1	1.2
	AAA	Other[3]	0.3	0.8
	AA	AA	6.1	9.7
	AA	A	2.6	2.0
	AA	BBB	–	0.1
	AA	Other[3]	0.1	0.1
	A	AA	1.8	2.3
	A	A	0.5	0.1
	A	BBB	0.1	–
	Other[2]	AA	–	0.9
Foreign Investments				
Holdings of securities	AAA	n/a	29.9	29.2
	AA	n/a	1.5	4.7
	A	n/a	0.5	0.5
Securities sold under repurchase agreements	AAA	AA	0.9	3.6
	AAA	A	0.8	0.9
	AA	A	–	0.1
Securities held under repurchase agreements	AAA	AAA	0.4	–
	AAA	AA	8.3	6.8
	AAA	A	5.5	2.8
	AA	AA	–	0.1
	AA	A	0.5	0.1
Deposits	n/a	AAA	1.7	0.4
	n/a	AA	–	1.2
Gold Loans	n/a	AAA	0.1	0.2
Other			7.7	6.4
			100	100

1 Standard & Poor's equivalent ratings.
2 This category includes Asset Backed Commercial Paper (ABCP), which does not have a long-term credit rating.
3 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 has the powers and operational wherewithal to 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 sale 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 which is less than its fair value. The RBA manages this risk by holding a diversified portfolio of highly liquid domestic and foreign assets.

The maturity analysis table (over page) is based on the RBA's contracted portfolio as reported in the RBA's balance sheet. All financial instruments are shown at their remaining term to maturity, which is equivalent to the repricing period. Other liabilities include amounts outstanding under sale 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 2011

	Balance sheet total $M	Contracted maturity $M					No Specified Maturity $M	Weighted average coupon rate %	Weighted average effective rate %
		On Demand	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years			
Assets									
Gold									
Gold loans	46	–	–	46	–	–	–	0.30	0.30
Gold holdings	3 553	–	–	–	–	–	3 553	n/a	n/a
	3 599								
Foreign exchange									
Balances with central banks	305	7	298	–	–	–	–	0.12	0.12
Securities sold under repurchase agreements	1 234	–	–	186	467	581	–	2.14	2.14
Securities purchased under repurchase agreements	10 797	–	10 797	–	–	–	–	0.45	0.45
Other securities	24 011	–	3 275	7 653	5 275	2 824	4 984	1.60	1.22
Deposits with BIS	1 261	2	1 258	–	–	–	1	0.06	0.06
Accrued interest	119	–	67	50	2	–	–	n/a	n/a
	37 727								
Australian dollar securities									
Securities sold under repurchase agreements	404	–	41	–	156	207	–	6.55	5.29
Securities purchased under repurchase agreements	23 203	–	23 078	125	–	–	–	4.82	4.82
Other securities	8 111	–	3 247	1 721	1 961	1 182	–	5.47	4.99
Accrued interest	116	–	78	38	–	–	–	n/a	n/a
	31 834								
Property, plant & equipment	454	–	–	–	–	–	454	n/a	n/a
Cash and cash equivalents	1 209	–	1 187	–	–	–	22	4.50	4.50
Loans and advances	6	–	–	–	–	6	–	3.91	3.91
Other	484	–	33	–	–	–	451	n/a	n/a
Total assets	75 313	9	43 359	9 819	7 861	4 800	9 465	2.79	2.61
Liabilities									
Australian notes on issue	50 059	–	–	–	–	–	50 059	0.23	0.23
Deposits	17 504	6 854	10 650	–	–	–	–	4.53	4.53
Distribution payable to Australian Government	–	–	–	–	–	–	–	n/a	n/a
Other	2 411	–	2 273	–	–	–	138	1.12	1.12
Total liabilities	69 974	6 854	12 923	–	–	–	50 197	1.34	1.34
Capital and reserves	5 339								
Total balance sheet	75 313								
Local Currency									
Swaps									
Contractual outflow	(7)	–	(7)	–	–	–	–	n/a	n/a
Contractual inflow	163	–	163	–	–	–	–	n/a	n/a
	156	–	156	–	–	–	–		
Foreign Currency									
Swaps									
Contractual outflow	(340)	–	(340)	–	–	–	–	n/a	n/a
Contractual inflow	184	–	184	–	–	–	–	n/a	n/a
	(156)	–	(156)	–	–	–	–		

Maturity Analysis – As at 30 June 2010

	Balance sheet total $M	Contracted maturity $M					No Specified Maturity $M	Weighted average coupon rate %	Weighted average effective rate %
		On Demand	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years			
Assets									
Gold									
Gold loans	141	–	47	47	47	–	–	0.27	0.28
Gold holdings	3 606	–	–	–	–	–	3 606	n/a	n/a
	3 747								
Foreign exchange									
Balances with central banks	376	2	374	–	–	–	–	0.03	0.03
Securities sold under repurchase agreements	3 142	–	409	1 026	678	1 029	–	1.57	1.33
Securities purchased under repurchase agreements	8 348	–	8 348	–	–	–	–	0.19	0.19
Other securities	30 092	–	6 320	7 548	7 867	2 551	5 806	1.32	0.73
Deposits	997	3	993	–	–	–	1	0.31	0.31
Accrued interest	141	–	79	62	–	–	–	n/a	n/a
	43 096								
Australian dollar securities									
Securities sold under repurchase agreements	248	–	–	–	130	118	–	6.52	5.27
Securities purchased under repurchase agreements	31 634	–	29 252	2 382	–	–	–	4.63	4.63
Other securities	4 889	–	1 245	866	1 198	1 580	–	5.57	4.96
Accrued interest	201	–	116	85	–	–	–	n/a	n/a
	36 972								
Property, plant & equipment	449	–	–	–	–	–	449	n/a	n/a
Cash and cash equivalents	852	–	845	–	–	–	7	4.25	4.25
Loans and advances	7	–	–	–	–	7	–	3.68	3.68
Other	529	–	30	–	–	–	499	n/a	n/a
Total assets	85 652	5	48 058	12 016	9 920	5 285	10 368	2.63	2.38
Liabilities									
Australian notes on issue	48 759	–	–	–	–	–	48 759	0.23	0.23
Deposits	20 987	5 967	15 020	–	–	–	–	4.44	4.44
Distribution payable to Australian Government	750	–	750	–	–	–	–	n/a	n/a
Other	4 762	–	4 615	–	–	–	147	0.53	0.53
Total liabilities	75 258	5 967	20 385	–	–	–	48 906	1.42	1.42
Capital and reserves	10 394								
Total balance sheet	85 652								
Local Currency									
Swaps									
Contractual outflow	(4 172)	–	(4 172)	–	–	–	–	n/a	n/a
Contractual inflow	1 231	–	1 231	–	–	–	–	n/a	n/a
	(2 941)	–	(2 941)	–	–	–	–		
Foreign Currency									
Swaps									
Contractual outflow	(1 916)		(1 916)	–	–	–	–	n/a	n/a
Contractual inflow	4 857		4 857	–	–	–	–	n/a	n/a
	2 941	–	2 941	–	–	–	–		

Fair Value of Financial Instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms' length transaction, and is usually determined by the quoted market price. The RBA's Australian dollar securities, foreign government securities, interest rate futures, foreign currency swap contracts and its shareholding in the Bank for International Settlements are carried in the balance sheet (and shown in this note) at fair value. The RBA's repurchase agreements, BIS deposits, cash and cash equivalents, notes on issue and deposit liabilities are carried in the balance sheet (and shown in this note) at face value, which is equivalent to their amortised cost using the effective interest method; this approximates fair value.

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

	2011 $M	2010 $M
Assets accounted for under AASB 139		
At fair value through Profit or Loss	33 366	38 071
Loans and receivables	37 487	43 025
Available-for-sale	302	328
Assets accounted for under other standards	4 158	4 228
Total assets as at 30 June	75 313	85 652
Liabilities accounted for under AASB 139		
At fair value through Profit or Loss	1	7
Not at fair value through Profit or Loss	69 842	75 104
Liabilities accounted for under other standards	131	147
Total liabilities as at 30 June	69 974	75 258

AASB 7 also requires that financial assets and liabilities measured at fair value be disclosed according to their position in the fair value hierarchy. This hierarchy has three levels for financial instruments valued at fair value: Level 1 is based on quoted prices in active markets for identical assets; Level 2 is based on quoted prices or other observable market data not included in Level 1; while Level 3 valuations are based on inputs other than observable market data.

	Level One $M	Level Two $M	Level Three $M	Total $M
As at 30 June 2011				
Assets at fair value through Profit or Loss				
Domestic government securities	4 927	3 587	–	8 514
Foreign government securities	22 370	2 477	–	24 847
Foreign currency swap gains	–	5	–	5
Available for sale				
Shares in international and other institutions	–	–	302	302
	27 297	6 069	302	33 668
Liabilities at fair value through Profit or Loss				
Foreign currency swap losses	–	1	–	1
	–	1	–	1
As at 30 June 2010				
Assets at fair value through Profit or Loss				
Domestic government securities	4 077	1 091	–	5 168
Foreign government securities	28 966	3 903	–	32 869
Foreign currency swap gains	–	34	–	34
Available for sale				
Shares in international and other institutions	–	–	328	328
	33 043	5 028	328	38 399
Liabilities at fair value through Profit or Loss				
Foreign currency swap losses	–	7	–	7
	–	7	–	7

Note 16 – Subsequent Events

On 1 July 2011, charges were laid against Note Printing Australia Limited, a wholly owned subsidiary of the RBA, and Securency International Pty Ltd, in which the RBA holds a 50 per cent share. The charges, in summary, allege that between 1999 and 2003 the two companies and a number of individuals engaged in conspiracy to bribe foreign officials in Indonesia and Malaysia. In August 2011, a further two charges were laid against Securency for similar alleged conduct relating to Vietnam in the period between 2001 and 2004. A number of former employees of the companies, including two former chief executives, were also charged. The Australian Federal Police stated on 1 July 2011 that the charges against the companies are a result of alleged actions of former senior managers of the companies. In terms of AASB 137 – *Provisions, Contingent Liabilities and Contingent Assets*, the Bank has set aside certain provisions for the possible financial impact of the charges against NPA and Securency, based on information available at the time of preparing these accounts. Specific information relating to the charges and their financial consequences have not been disclosed in these accounts as the matters have not yet been finalised and are before the courts.

The Bank's foreign exchange holdings are invested mainly in securities issued by the governments of the United States, Germany, France, the Netherlands, Japan and Canada (see Note 15). In August 2011, Standard & Poor's lowered the long-term sovereign credit rating of the United States Government and related agencies' debt obligations from AAA to AA+. The value of these securities amounted to around 19 per cent of the Bank's foreign exchange holdings as at 30 June 2011. However, based on information currently available the credit downgrade has not had a material impact on the Bank's financial position.

There have been no other events since 30 June 2011 relevant to the financial statements.

Auditor-General for Australia

Australian National
Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Treasurer

Report on the Financial Statements

I have audited the accompanying financial statements of the Reserve Bank of Australia and the controlled entities for the year ended 30 June 2011, which comprise: a Directors' Statement; Balance Sheet; Statement of Comprehensive Income; Statement of Distribution; Statements 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.

Directors' Responsibility for the Financial Statements

The directors of the Reserve Bank of Australia are responsible for the preparation of the financial statements that give a true and fair view in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997,* including the Australian Accounting Standards, and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error. In Note 1, the directors also state that the financial statements comply with *International Financial Reporting Standards.*

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate 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.

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 of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Reserve Bank of Australia's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

GPO Box 707 CANBERRA ACT 2601
19 National Circuit BARTON ACT
Phone (02) 6203 7500 Fax (02) 6273 5355
Email ian.mcphee@anao.gov.au

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 and the controlled entities:

(a) have been prepared in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997,* including the Australian Accounting Standards;

(b) give a true and fair view of the matters required by the Finance Minister's Orders including the Reserve Bank of Australia's and the controlled entities financial position as at 30 June 2011 and of their financial performance and cash flows for the year then ended; and

(c) comply with *International Financial Reporting Standards* as disclosed in Note 1.

Australian National Audit Office

Ian McPhee
Auditor-General

Canberra
25 August 2011