Financial Statements

For the year ended 30 June 2014

Directors' Statement

In the opinion of the directors, the financial statements for the year ended 30 June 2014 give a true and fair view of the matters required by the Finance Minister's Orders for Financial Reporting 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
Governor and Chair, Reserve Bank Board

Frank Campbell
Assistant Governor (Corporate Services)

21 August 2014

Statement of Financial Position – as at 30 June 2014

Reserve Bank of Australia and Controlled Entity

	Note	2014 $M	2013 $M
Assets			
Cash and cash equivalents	6	273	137
Australian dollar securities	1(b), 15	72,886	43,249
Foreign exchange	1(b), 15	63,807	50,930
Gold	1(c), 15	3,584	3,299
Property, plant and equipment	1(d), 8, 16	523	491
Loans, advances and other assets	7	412	421
Total Assets		141,485	98,527
Liabilities			
Deposits	1(b), 9	53,574	26,183
Distribution payable to the Commonwealth	1(g), 3	1,235	–
Australian notes on issue	1(b), 15	60,778	56,943
Other liabilities	10	7,588	5,679
Total Liabilities		123,175	88,805
Net Assets		18,310	9,722
Capital and Reserves			
Reserves:			
Unrealised profits reserve	1(f), 5	3,156	3,796
Asset revaluation reserves	1(f), 5	3,978	3,705
Superannuation reserve	1(f), 5	(23)	(178)
Reserve Bank Reserve Fund	1(f), 5	11,159	2,359
Capital	1(f), 5	40	40
Total Capital and Reserves		18,310	9,722

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

Comparative figures for the financial reporting period ended 30 June 2013 have been restated for the revised accounting standard AASB 119 – Employee Benefits (refer Note 1(l)).

Statement of Comprehensive Income – for the year ended 30 June 2014

Reserve Bank of Australia and Controlled Entity

	Note	2014 $M	2013 $M
Revenue			
Interest revenue	2	1,834	1,642
Net gains on securities and foreign exchange	2	150	3,662
Dividend revenue	2	3	5
Fees and commissions	2	86	66
Commonwealth grant	2	8,800	–
Other income	2	118	138
Total Revenue		10,991	5,513
Expenses			
Interest expense	2	1,086	708
General administrative expenses	2	405	393
Other expenses	2	108	79
Total Expenses		1,599	1,180
Net Profit		9,392	4,333
Other Comprehensive Income			
Items that may be reclassified to profit or loss			
Gains/(losses) on:			
Gold	5	284	(727)
Shares in international and other institutions	5	(20)	42
		264	(685)
Items that will not be reclassified to profit or loss			
Gains/(losses) on:			
Property, plant and equipment	5	12	15
Superannuation	5	155	345
		167	360
Total Other Comprehensive Income		431	(325)
Total Comprehensive Income		9,823	4,008

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

Comparative figures for the financial reporting period ended 30 June 2013 have been restated for the revised accounting standard AASB 119 – Employee Benefits (refer Note 1(l)).

Statement of Distribution – for the year ended 30 June 2014

Reserve Bank of Australia and Controlled Entity

	Note	2014 $M	2013 $M
Net Profit		9,392	4,333
Transfer from/(to) unrealised profits reserve	5	640	(3,796)
Transfer from asset revaluation reserves	5	3	–
Earnings available for distribution		10,035	537
Distributed as follows:			
Transfer to Reserve Bank Reserve Fund	5	8,800	537
Payable to the Commonwealth	3	1,235	–
		10,035	537

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

Comparative figures for the financial reporting period ended 30 June 2013 have been restated for the revised accounting standard AASB 119 – Employee Benefits (refer Note 1(l)).

Statement of Changes in Capital and Reserves – for the year ended 30 June 2014

Reserve Bank of Australia and Controlled Entity

	Note	Unrealised profits reserve $M	Asset revaluation reserves $M	Superannuation reserve $M	Earnings available for distribution $M	Reserve Bank Reserve Fund $M	Capital $M	Total capital and reserves $M
Balance as at 30 June 2012		**–**	**4,375**	**(523)**	**–**	**1,822**	**40**	**5,714**
Net Profit/(Loss)	1(g), 2	3,796			537			4,333
Gains/(losses) on:								
Gold	1(c), 5		(727)					(727)
Shares in international and other institutions	1(b), 5		42					42
Property, plant and equipment	1(d), 5		15					15
Superannuation	1(i), 5		–	345				345
Other comprehensive income			(670)	345				(325)
Total comprehensive income for 2012/13								**4,008**
Transfer to Reserve Bank Reserve Fund	1(f), 3		–		(537)	537		–
Transfer to distribution payable to the Commonwealth	1(g), 3		–		–			–
Balance as at 30 June 2013		**3,796**	**3,705**	**(178)**	**–**	**2,359**	**40**	**9,722**
Net Profit/(Loss)	1(g), 2	(640)			10,032			9,392
Gains/(losses) on:								
Gold	1(c), 5		284					284
Shares in international and other institutions	1(b), 5		(20)					(20)
Property, plant and equipment	1(d), 5		12					12
Superannuation	1(i), 5		–	155				155
Other comprehensive income			276	155				431
Total comprehensive income for 2013/14								**9,823**
Transfer from asset revaluation reserve	1(f), 3		(3)		3			–
Transfer to Reserve Bank Reserve Fund	1(f), 3		–		(8,800)	8,800		–
Transfer to distribution payable to the Commonwealth	1(g), 3		–		(1,235)			**(1,235)**
Balance as at 30 June 2014		**3,156**	**3,978**	**(23)**	**–**	**11,159**	**40**	**18,310**

Comparative figures for the financial reporting period ended 30 June 2013 have been restated for the revised AASB 119 – Employee Benefits (refer Note 1(l)).

Cash Flow Statement – for the year ended 30 June 2014

Reserve Bank of Australia and Controlled Entity

This statement meets the requirements of AASB 107 – *Cash Flow Statements* and the Finance Minister's Orders for Financial Reporting. For the purposes of this statement, cash includes the notes and coin held at the RBA and overnight settlement balances due from other banks.

	Note	2014 Inflow/ (outflow) $M	2013 Inflow/ (outflow) $M
Cash flows from operating activities			
Interest received on investments		1,719	1,655
Interest received on loans, advances, and on net overnight settlements balances		13	30
Banking service fees received		81	66
Banking service fees paid		(61)	(64)
Dividends received		–	5
Rents received		10	9
Commonwealth grant received	1(j)	8,800	–
Net payments for investments		(40,686)	(11,592)
Cash collateral received/(pledged)		382	(253)
Interest paid on deposit liabilities		(964)	(611)
Interest paid on banknote holdings of banks		(62)	(89)
Staff costs (including redundancy)		(215)	(198)
Premises and equipment		(45)	(41)
Other		(19)	(1)
Net cash used in operating activities	6	(31,047)	(11,084)
Cash flows from investment activities			
Proceeds from the sale of Securency		7	75
Net expenditure on property, plant and equipment		(50)	(50)
Net cash provided by investment activities		(43)	25
Cash flows from financing activities			
Distribution to the Commonwealth		–	(500)
Net movement in deposit liabilities		27,391	8,183
Net movement in loans and advances		–	1
Net movement in notes on issue		3,835	3,348
Net cash provided by financing activities		31,226	11,032
Net increase/(decrease) in cash		136	(27)
Cash at beginning of financial year		137	164
Cash at end of financial year	6	273	137

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

Notes to and Forming Part of the Financial Statements – 30 June 2014

Reserve Bank of Australia and Controlled Entity

Note

Note 1 – Accounting Policies

The Reserve Bank of Australia (RBA) reports its consolidated financial statements in accordance with the *Reserve Bank Act 1959* and the *Commonwealth Authorities and Companies Act 1997* (CAC Act). These financial statements for the year ended 30 June 2014 have been prepared under Australian Accounting Standards (AAS), other accounting standards and accounting interpretations issued by the Australian Accounting Standards Board, in accordance with the Finance Minister's Orders for Financial Reporting (FMOs), which are issued pursuant to the CAC Act. 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 2014.

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

These financial statements were approved and authorised for issue by a resolution of the Reserve Bank Board on 5 August 2014.

From 1 July 2014, the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) replaced the CAC Act. As a result, the RBA's consolidated financial statements will be prepared in accordance with the PGPA Act from the 2014/15 financial reporting period. The requirements of the PGPA Act are not expected to have a material impact on these financial disclosures.

(a) Consolidation and joint venture

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

Note Printing Australia Limited

NPA was incorporated as a wholly owned subsidiary of the RBA on 1 July 1998, with an initial capital of \$20.0 million. The RBA provided NPA with additional capital of \$15.0 million in July 2008 and a further \$25.0 million of capital in July 2009. NPA's total assets, liabilities and equity as at 30 June 2014 were \$143.4 million, \$22.0 million and \$121.4 million respectively (\$135.7 million, \$23.4 million and \$112.3 million as at 30 June 2013).

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

Innovia Security Pty Ltd (formerly Securency International Pty Ltd)

In February 2013, the RBA completed the sale of its 50 per cent interest in Securency International Pty Ltd (Securency). The sale of the RBA's shares was made to a related entity of Innovia Films, a UK-based film manufacturer, which prior to the sale owned the other half share of Securency.

Under the terms of the sale agreement, additional payments arising from the sale may be made to the RBA in future periods, including if Innovia Security exceeds certain earnings benchmarks. In 2013/14, an amount of $7.3 million was received under these arrangements and recognised in the Statement of Comprehensive Income. The receipt is shown within the Gain on sale of Securency in Note 2. As the possibility of further additional payments is uncertain at the reporting date, they are not recognised in the financial statements.

Legal issues

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

(b) Financial instruments

A *financial instrument* is defined as any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. The RBA's financial instruments are its Australian dollar securities, foreign government securities, repurchase agreements, deposits with the Bank for International Settlements (BIS) and other central banks, interest rate futures, foreign currency swap contracts, holdings in the Asian Bond Fund (ABF), gold loans, cash and cash equivalents, notes on issue, deposit liabilities and a shareholding in the BIS. The RBA accounts for its financial instruments in accordance with AASB 139 – *Financial Instruments: Recognition and Measurement* and reports these instruments under AASB 7 – *Financial Instruments: Disclosures* and AASB 13 – *Fair Value Measurement*.

The RBA brings its securities transactions and foreign exchange transactions to account on a trade date basis; that is, it recognises the effects of purchases and sales of securities in the financial statements on the date these transactions are arranged (not when they are settled). 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 eligible Australian dollar domestic residential and commercial mortgage backed securities, asset-backed commercial paper and corporate securities.

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

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

Foreign exchange

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

Foreign exchange translation

Assets and liabilities denominated in foreign currency are converted to Australian dollar equivalents at the relevant market 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 (Note 1(g)). Interest revenue and expenses and revaluation gains and losses on foreign currency assets and liabilities are converted to Australian dollars using the relevant market exchange rate on the date they are accrued or recognised, in accordance with AASB 121.

Foreign government securities

Foreign government securities include coupon and discount securities. Coupon securities have biannual or annual interest payments depending on the currency and type of security; the principal is received at maturity. Interest earned on discount securities is the difference between the purchase cost and the face value of the security; this is accrued over the term the securities are held. The face value is received at maturity. Foreign securities, except those held under reverse repurchase agreements, are classified under AASB 139 as 'at fair value through profit or loss', as they are traded in 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 (Note 1(g)). Interest earned on securities is accrued as revenue in the Statement of Comprehensive Income.

Foreign deposits

Some foreign currency reserves are invested in deposits with the BIS and other central banks. 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).

Repurchase agreements and reverse repurchase agreements

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

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

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

Foreign currency swaps

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

Interest rate futures

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

Interest rate futures positions are classified under AASB 139 as 'at fair value through profit or loss'. Futures positions are marked to market on balance date at the relevant 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 (Note 1(g)).

Asian Bond Fund

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

Bank for International Settlements

Under AASB 139, the RBA's shareholding in the BIS is classified as 'available for sale' for accounting purposes. The shareholding is valued at fair value and revaluation gains and losses are transferred directly to the revaluation reserve for Shares in international financial institutions (Note 5). The fair value is estimated on the basis of BIS' net asset value, less a discount of 30 per cent. This discount is consistent with the decision of the Hague Arbitral Tribunal, and has been applied by the BIS to new central bank subscriptions of shares. When declared, dividends are recognised as revenue in the Statement of Comprehensive Income.

Financial liabilities

Deposit liabilities

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

Australian notes on issue

Notes on issue are recorded at face value. Prior to 2005/06, the RBA periodically reduced its liability for note series that had ceased to be issued – to reflect the likelihood that the remaining notes on issue from these series would not be presented for redemption – and the gains were included in accounting profits. If the written down notes are subsequently presented, the RBA charges an expense against profits. In 2013/14, notes with a face value of $214,034 which had previously been written down were presented to the RBA and expensed ($208,491 in 2012/13).

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

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

Repurchase agreements

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

(c) Gold

Gold holdings (including gold on loan to other institutions) are valued at the Australian dollar equivalent of the 3 pm fix in the London gold market on balance date. Revaluation gains and losses on gold are transferred to the gold revaluation reserve. The RBA lends gold to 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 them under AASB 7.

(d) Property, plant and equipment

The RBA accounts for its property, plant and equipment at fair value in accordance with AASB 116 – *Property, Plant and Equipment* and AASB 13. Valuation gains (losses) are generally transferred to (from) the relevant revaluation reserve. Valuation losses which exceed the balance in the relevant asset revaluation reserve are expensed. Subsequent valuation gains are included in income if they offset prior losses that were 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 2013. The RBA's properties are recognised in accordance with AASB 116 at fair value, which reflects the price that would be received from an orderly sale between market participants at the reporting date, having regard also to the highest and best use of an asset as required by AASB 13. Reflecting its specialised nature, the RBA's Business Resumption Site is valued at depreciated replacement cost. Annual depreciation is based on fair values and assessments of the remaining useful life of the relevant asset, as determined by the independent valuer.

Plant and equipment

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

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

	Years
Buildings	20–50
Fit-out and furniture	5–13
Computer hardware	3–5
Office equipment	4–5
Motor vehicles	5
Plant	4–20

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

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

(e) Computer software

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

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

(f) Capital and Reserves

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

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

The Reserve Bank Board assesses the adequacy of the balance of the RBRF each year. In line with section 30 of the Reserve Bank Act, the Treasurer, after consultation with the Board, determines any amounts to be placed to the credit of the RBRF from earnings available for distribution (refer Note 1(g)). The Treasurer, after consulting the Board, has determined that in 2013/14 a sum of $8,800 million is to be transferred from net profit to the RBRF. The balance of the RBRF has now been restored to a level that the Board regards as appropriate given the risk the Bank holds on its balance sheet.

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

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

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

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

(g) Profits

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

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

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

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

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

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

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

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

(h) Provisions

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

(i) Superannuation funds

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

(j) Commonwealth grant

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

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

(k) Rounding

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

(l) Application of new or revised Australian accounting standards

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

AASB 13 – Fair Value Measurement

AASB 13 has been applied in the RBA's financial statements for the year ending 30 June 2014. AASB 13 provides a framework for measuring fair value. The standard has not had a material effect on the RBA's financial statements but has required additional disclosures to be made around fair value measurements, contained in Note 16.

AASB 10 – Consolidated Financial Statements

AASB 10 introduces a broader concept of control for the preparation of consolidated financial statements. Control is established, and consolidated financial statements are to be prepared, based on whether an entity is exposed, or has the rights, to the variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee. This standard replaces AASB 127 – *Consolidated and Separate Financial Statements* and has been applied in preparing the RBA's consolidated financial statements for the year ended 30 June 2014. The application of AASB 10 has not had a material effect on the RBA's financial statements.

AASB 9 – Financial Instruments

AASB 9 contains new requirements for the classification, measurement and de-recognition of financial assets and liabilities. It will replace the corresponding requirements in AASB 139. The RBA is assessing the impact of the new standard, which will now be applicable for annual reporting periods beginning on or after 1 January 2018.

AASB 119 – Employee Benefits

The revised accounting standard AASB 119 – *Employee Benefits* affects retrospectively the RBA's accounting policy on employee benefits, in particular post-employment benefits. Under the revised standard, actuarial gains and losses on defined benefit superannuation obligations are now fully recognised on the balance sheet, and included in Other Comprehensive Income, in the reporting period in which they occur. Current service and net interest costs are now recognised in net profit. Net interest is now calculated by applying the discount rate to the net defined benefit liability; previously the return on the assets of a superannuation scheme was incorporated in this calculation.

These amendments result in the RBA showing a Superannuation liability of $321 million being retrospectively recognised at 30 June 2013 ($614 million at 30 June 2012), with corresponding adjustments to the historical figures for the RBA's reported Total Comprehensive Income. The impact of these amendments in 2012/13 is shown in the restated financial statements set out in the following tables. Additional narrative disclosures are provided in Note 14.

The historical revision to the RBA's profit and loss from the revised AASB 119 has resulted in a cumulative reduction of $142 million in the balance of the RBRF as at 30 June 2013 from previous disclosures.

In addition, the revised standard amends disclosures for short-term and other long-term employee benefits, in particular annual leave. This does not materially affect the RBA's financial disclosures.

The effect of these changes on the consolidated financial statements if the revised accounting standard had been applied retrospectively, is outlined in the following tables.

Opening Statement of Financial Position – as at 1 July 2012

Reserve Bank of Australia and Controlled Entity

	Previous Accounting Standard $M	Revised Accounting Standard $M	Difference $M
Assets			
Cash and cash equivalents	164	164	–
Australian dollar securities	32,648	32,648	–
Foreign exchange	43,296	43,296	–
Gold	4,027	4,027	–
Property, plant and equipment	448	448	–
Loans, advances and other assets	496	455	(41)
Total Assets	81,079	81,038	(41)
Liabilities			
Deposits	18,000	18,000	–
Distribution payable to the Commonwealth	500	500	–
Australian notes on issue	53,595	53,595	–
Other liabilities	2,615	3,229	614
Total Liabilities	74,710	75,324	614
Net Assets	6,369	5,714	(655)
Capital and Reserves			
Reserves:			
Unrealised profits reserve	41	–	(41)
Asset revaluation reserves	4,375	4,375	–
Superannuation reserve	–	(523)	(523)
Reserve Bank Reserve Fund	1,913	1,822	(91)
Capital	40	40	–
Total Capital and Reserves	6,369	5,714	(655)

Statement of Financial Position – as at 30 June 2013

Reserve Bank of Australia and Controlled Entity

	Previous Accounting Standard $M	Revised Accounting Standard $M	Difference $M
Assets			
Cash and cash equivalents	137	137	–
Australian dollar securities	43,249	43,249	–
Foreign exchange	50,930	50,930	–
Gold	3,299	3,299	–
Property, plant and equipment	491	491	–
Loans, advances and other assets	421	421	–
Total Assets	98,527	98,527	–
Liabilities			
Deposits	26,183	26,183	–
Distribution payable to the Commonwealth	–	–	–
Australian notes on issue	56,943	56,943	–
Other liabilities	5,389	5,679	290
Total Liabilities	88,515	88,805	290
Net Assets	10,012	9,722	(290)
Capital and Reserves			
Reserves:			
Unrealised profits reserve	3,766	3,796	30
Asset revaluation reserves	3,705	3,705	–
Superannuation reserve	–	(178)	(178)
Reserve Bank Reserve Fund	2,501	2,359	(142)
Capital	40	40	–
Total Capital and Reserves	10,012	9,722	(290)

Statement of Comprehensive Income – for the year ended 30 June 2013

Reserve Bank of Australia and Controlled Entity

	Previous Accounting Standard $M	Revised Accounting Standard $M	Difference $M
Revenue			
Interest revenue	1,642	1,642	–
Net gains on securities and foreign exchange	3,662	3,662	–
Dividend revenue	5	5	–
Fees and commissions	66	66	–
Other income	138	138	–
Total Revenue	5,513	5,513	–
Expenses			
Interest expense	708	708	–
General administrative expenses	413	393	(20)
Other expenses	79	79	–
Total Expenses	1,200	1,180	(20)
Net Profit	4,313	4,333	20
Other Comprehensive Income			
Items that may be reclassified to profit or loss			
Gains/(losses) on:			
Gold	(727)	(727)	–
Shares in international and other institutions	42	42	–
	(685)	(685)	–
Items that will not be reclassified to profit or loss			
Gains/(losses) on:			
Property, plant and equipment	15	15	–
Superannuation	–	345	345
	15	360	345
Total Other Comprehensive Income	(670)	(325)	345
Total Comprehensive Income	3,643	4,008	365

Figures as at 30 June 2013 under the previous accounting standard relating to fees and commissions, general administrative expenses and other expenses have been restated (refer to Note 2).

Note 2 – Net Profits

	Note	2014 $M	2013 $M
Interest revenue			
Foreign investments	1(b), 4	153	213
Australian dollar securities	1(b), 4	1,667	1,398
Overnight settlements	4	13	30
Cash collateral provided	4	1	–
Loans, advances and other	4	–	1
		1,834	1,642
Net gains/(losses) on securities and foreign exchange			
Foreign investments	1(b)	94	(70)
Australian dollar securities	1(b)	(90)	(244)
Foreign currency	1(b)	146	3,976
		150	3,662
Dividend revenue			
Investment in Bank for International Settlements	1(b)	3	5
Fees and commissions			
Banking services fee income		86	66
Commonwealth grant revenue	1(j)	8,800	–
Other income			
Rental of Bank premises		10	9
Sales of note and security products		78	79
Gain on sale of Securency		7	21
Other		23	29
		118	138
Total		10,991	5,513
Less:			
Interest expense			
Deposit liabilities	1(b), 4	1,010	614
Banknote holdings of banks	1(b), 4	72	89
Cash collateral received	4	2	2
Repurchase agreements	1(b), 4	2	3
		1,086	708
General administrative expenses			
Staff costs		189	153
Superannuation costs	1(i), 14	60	77
Special redundancy/retirement payments		1	6
Depreciation of property	1(d), 8	9	8
Depreciation of plant and equipment	1(d), 8	21	19
Amortisation of computer software	1(e), 7	3	3
Premises and equipment	1(d)	45	41
Materials used in note and security products		61	70
Travel		3	3
Consultants' fees, legal fees and payments to contractors		4	6
Other		9	7
		405	393

Note 2 – Net Profits (continued)

	Note	2014 $M	2013 $M
Other expenses			
Banking service fee expenses		67	50
Subsidiary income tax		2	–
Banknote distribution expenses		4	5
Other		35	24
		108	79
Total		1,599	1,180
Net Profit		9,392	4,333

Staff costs in 2013/14 include an expense of $4.4 million associated with the increase in the balance of the provision for post-employment benefits, mostly from post-employment health insurance (in 2012/13 there was a credit of $20.6 million) (refer Note 10). This benefit ceased to be available for new staff appointed after 30 June 2013. The increase in this provision reflects a reduction in the discount rate, as measured by the yield on Commonwealth government bonds.

The RBA incurred aggregate research and development expenditure of $1.1 million in 2013/14 ($0.7 million in 2012/13); this is included in Other expenses.

Comparative figures for Banking service fee income and Other expenses have been restated. Banking service fees received were previously presented net of the associated expenses. However, as the RBA acts as principal in these transactions, revenue from banking service fees and the associated expenses are now shown in gross terms. This restatement has no effect on Net Profits.

Additional presentational amendments have also been made to improve readability. Amortisation of computer software is now separately disclosed and amounts relating to the reimbursement by the Australian Government for loan management and registry expenses have been included in 'Other' within reported Other income.

Note 3 – Distribution Payable to the Commonwealth

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

In 2013/14, the Reserve Bank recorded an accounting profit of $9,392 million, including revenue from the Commonwealth grant of $8,800 million. Unrealised losses of $640 million were absorbed within the Unrealised profits reserve, while $3 million was transferred from the Asset revaluation reserve to the Statement of Distribution, from the sale of a property at Kirribilli. Earnings available for distribution amounted to $10,035 million in 2013/14.

After consulting the Reserve Bank Board, the Treasurer determined that a sum of $8,800 million was to be placed from distributable earnings to the credit of the RBRF in 2013/14. This transfer is the equivalent of the proceeds from the Commonwealth grant. Accordingly, a sum of $1,235 million is payable as a dividend to the Commonwealth from earnings available for distribution in 2013/14. The Treasurer has determined that an amount of $618 million be paid in early 2014/15, with the balance to be paid in 2015/16. No dividend was distributed from earnings in 2012/13.

	2014 $M	2013 $M
Opening balance	–	500
Distribution to the Commonwealth	–	(500)
Transfer from Statement of Distribution	1,235	–
As at 30 June	1,235	–

Note 4 – Interest Revenue and Interest Expense

Analysis for the year ended 30 June 2014

	Average balance $M	Interest $M	Average annual interest rate %
Interest revenue			
Foreign investments	52,404	153	0.3
Australian dollar securities	58,397	1,667	2.9
Overnight settlements	549	13	2.3
Cash collateral provided	50	1	2.6
Gold loans	49	–	0.4
Loans, advances and other	20	–	2.3
	111,469	1,834	1.6
Interest expense			
Exchange Settlement balances	13,752	342	2.5
Deposits from governments	25,988	653	2.5
Deposits from overseas institutions	1,073	15	1.4
Banknote holdings of banks	3,175	72	2.3
Foreign repurchase agreements	2,548	(1)	–
Australian dollar repurchase agreements	124	3	2.5
Cash collateral received	101	2	2.5
Other deposits	19	–	1.0
	46,780	1,086	2.3
Analysis for the year ended 30 June 2013			
Interest revenue total	79,226	1,642	2.1
Interest expense total	25,488	708	2.8

Interest revenue for 2013/14 includes $1,259 million calculated using the effective interest method for financial assets not at fair value through profit and loss ($857 million in 2012/13). Interest expense for 2013/14 includes $1,086 million calculated using the effective interest method for financial liabilities not at fair value through profit and loss ($708 million in 2012/13).

Note 5 – Capital and Reserves

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

	Note	2014 $M	2013 $M
Asset revaluation reserves			
Gold	1(c)		
Opening balance		3,173	3,900
Net revaluation adjustments		284	(727)
As at 30 June		3,457	3,173
Shares in international financial institutions	1(b), 7		
Opening balance		324	282
Net revaluation adjustments		(20)	42
As at 30 June		304	324
Property, plant and equipment	1(d), 8		
Opening balance		208	193
Net revaluation adjustments		12	15
Transfers (to)/from Statement of Distribution		(3)	–
As at 30 June		217	208
Total asset revaluation reserves	1(f)		
Opening balance		3,705	4,375
Net revaluation adjustments		276	(670)
Transfers (to)/from Statement of Distribution		(3)	–
As at 30 June		3,978	3,705
Superannuation reserve	1(f)		
Opening balance		(178)	(523)
Net revaluation adjustments		155	345
As at 30 June		(23)	(178)
Unrealised profits reserve	1(f)		
Opening balance		3,796	–
Net transfers (to)/from Statement of Distribution		(640)	3,796
As at 30 June		3,156	3,796
Reserve Bank Reserve Fund	1(f)		
Opening balance		2,359	1,822
Transfers (to)/from Statement of Distribution		8,800	537
As at 30 June		11,159	2,359
Capital	1(f)		
Opening and closing balance		40	40

Note 6 – Cash and Cash Equivalents

This includes net amounts of $256 million owed to the RBA for overnight clearances of financial transactions through the payments system; an amount of $115 million was owed to the RBA at 30 June 2013. Other cash and cash equivalents include NPA's bank deposits.

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

	2014 $M	2013 $M
Cash	17	22
Overnight settlements	256	115
As at 30 June	273	137

Reconciliation of net cash used in operating activities to Net Profits	Note	2014 $M	2013 $M
Net Profit		9,392	4,333
Increase/(decrease) in interest payable		48	5
Net loss/(gain) on overseas investments	2	(94)	70
Net loss/(gain) on Australian dollar securities	2	90	244
Net loss/(gain) on foreign currency	2	(146)	(3,976)
Decrease/(increase) in income accrued on investments		(100)	47
Cash collateral received/(pledged)		382	(253)
Depreciation of property	8	9	8
Depreciation of plant and equipment	8	21	19
Amortisation of computer software	7	3	3
Net payments for investments		(40,686)	(11,592)
Other		34	8
Net cash used in operating activities		(31,047)	(11,084)

Note 7 – Loans, Advances and Other Assets

	Note	2014 $M	2013 $M
Shareholding in Bank for International Settlements	1(b)	348	367
Computer software	1(e)	18	11
Officers' Home Advances		4	4
Other		42	39
As at 30 June		412	421

At 30 June 2014, the gross book value of the RBA's computer software amounted to $33.2 million and the accumulated amortisation on these assets was $15.1 million ($23.3 million and $12.6 million, respectively, at 30 June 2013). During 2013/14, there were $10.8 million in net additions to computer software ($5.9 million in 2012/13) and $3.5 million in amortisation expense ($2.8 million in 2012/13). The RBA had contractual commitments of $1.9 million as at 30 June 2014 for the acquisition of computer software ($0.4 million at 30 June 2013).

Computer software has been separately disclosed to improve the presentation and readability of the financial statements. Other intangibles, previously reported with computer software, have been included within reported Other assets. As at 30 June 2014, Other assets included receivables of $30.1 million, none of which are impaired ($20.8 million at 30 June 2013).

Note 8 – Property, Plant and Equipment

	Land $M	Buildings $M	Plant and Equipment $M	Total $M
Gross Book Value as at 30 June 2013	130	219	190	539
Accumulated depreciation	–	–	(48)	(48)
Net Book Value	130	219	142	491
Additions	–	13	41	54
Depreciation expense	–	(9)	(21)	(30)
Net revaluation increment/(decrement)	2	9	1	12
Disposals	(3)	–	(1)	(4)
Net additions to net book value	(1)	13	20	32
Gross Book Value as at 30 June 2014	129	232	182	543
Accumulated depreciation	–	–	(20)	(20)
Net Book Value	129	232	162	523

The net book value of the RBA's property, plant and equipment includes $27.5 million of work in progress ($45.4 million at 30 June 2013).

As at 30 June 2014, the RBA had contractual commitments of $8.4 million to acquire plant and equipment ($12.0 million at 30 June 2013); contractual commitments of $6.5 million are due within one year ($7.6 million in 2012/13).

Note 9 – Deposits

	2014 $M	2013 $M
Exchange Settlement balances	22,379	2,235
Australian Government	30,304	21,100
State governments	–	10
Foreign governments, foreign institutions and international organisations	872	2,815
Other depositors	19	23
As at 30 June	53,574	26,183

Note 10 – Other Liabilities

	Note	2014 $M	2013 $M
Provisions	1(h)		
Provision for accrued annual leave		17	17
Provision for long service leave		40	40
Provision for post-employment benefits		101	96
		158	153
Other			
Securities sold under agreements to repurchase	1(b)	5,244	2,379
Payable for unsettled purchases of securities		1,693	2,484
Interest accrued on deposits		65	17
Superannuation liability	1(i), 14	197	321
Other		231	325
		7,430	5,526
Total Other Liabilities as at 30 June		7,588	5,679

The provision for workers compensation at 30 June 2014 was $237,000 ($290,000 at 30 June 2013).

During 2013/14, annual leave of $11.3 million was accrued by staff, while $11.0 million of accrued leave was used. Staff accrued and used long service leave of $5.3 million and $3.8 million respectively in 2013/14.

The RBA provided an additional $4.4 million for its post-retirement benefits in 2013/14, partially due to a decrease in the discount rate. Benefits of $4.1 million were paid out of the provision for post-employment benefits in 2013/14. The balance of the provision for post-employment benefits will change if assumptions about the length of staff service, the longevity of retired staff, future movements in medical costs or the discount rate vary.

At 30 June 2014, $11.4 million of the provision for accrued annual leave was due within 12 months ($9.3 million at 30 June 2013); $4.2 million of the provision for long service leave was due within 12 months ($3.5 million at 30 June 2013); and $4.5 million of the provision for post-employment benefits was due within 12 months ($4.4 million at 30 June 2013).

Note 11 – Contingent Assets and Liabilities

The RBA has a contingent liability, amounting to $59.0 million at 30 June 2014 ($58.4 million at 30 June 2013), for the uncalled portion of its shares held in the BIS.

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

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

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

Note 12 – Key Management Personnel

The key management personnel of the Reserve Bank are the Governor and Deputy Governor, non-executive members of the Reserve Bank Board, non-executive members of the Payments System Board and the Assistant Governors, who are the senior staff responsible for planning, directing and controlling the activities of the Bank. No new positions were added to this group in 2013/14. As a vacancy was filled on the Payments System Board, 22 individuals occupied these positions in 2013/14, one more than in the previous year.

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

The Remuneration Tribunal advised an increase in the remuneration rate for the position of Governor of 2.4 per cent, effective from 1 July 2013. The Board determined remuneration for this position accordingly. Consequently, total remuneration for the position of the Governor was $1,010,456 in 2013/14 (including salary of $862,256), compared with $986,773 (salary of $842,285) in 2012/13.

Further detail on remuneration of staff is set out below. The RBA discloses remuneration of directors, executives and management in terms of both AAS and the FMOs.

Disclosures under AAS

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

Table A: Remuneration of Key Management Personnel[(a)]

	2014 $	2013 $
Short-term employee benefits	5,375,433	5,076,213
Post-employment benefits	1,010,678	968,976
Other long-term benefits	52,929	85,030
Share-based payments	–	–
Termination benefits	–	–
Total compensation	6,439,040	6,130,219

(a) Comparative figures for the financial reporting period ended 30 June 2013 have been restated in terms of the revised AASB 119 – *Employee Benefits* (refer Note 1(l)).

Short-term benefits include cash salary and, where relevant for executives, lump sum payments, motor vehicle benefits, car parking and health benefits and the fringe benefits tax paid or payable on these benefits. Post-employment benefits include superannuation benefits and, in the case of staff, health benefits. Other long-term benefits include long service leave and annual leave.

There were no loans during 2013/14 and 2012/13 by the RBA to any key management personnel.

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

Disclosure under FMOs

The disclosures on remuneration required in terms of Division 23 of the FMOs are shown in Tables B to E below. Aggregates in Table B are similar to those in Table A but exclude information for non-executive directors, which is shown separately in Table E.

Table B: Executive Remuneration[(a)]

	2014 $	2013 $
Short-term employee benefits		
Salary	3,975,575	3,776,765
Performance-related payments	62,015	57,858
Other[(b)]	234,374	234,490
Total short-term employee benefits	4,271,964	4,069,113
Post-employment benefits		
Superannuation	914,407	884,968
Other[(c)]	28,702	27,466
Total post-employment benefits	943,109	912,434
Other long-term benefits		
Annual leave accrued	333,183	319,568
Long service leave	132,456	126,978
Total other long-term benefits	465,639	446,546
Termination benefits	–	–
Total employment benefits	5,680,712	5,428,093

(a) This table is based on remuneration for the executives, including the Governor and Deputy Governor, who are included in key management personnel. It is prepared on an accruals basis. Figures for annual and long service leave in 'Other long-term benefits' include the accrual of leave in the relevant year but not the cost of revaluing leave entitlements previously accrued (as in Table A above).

(b) Other short-term employee benefits include car parking and health benefits and, for relevant executives, motor vehicle and related benefits.

(c) Other post-employment benefits include health benefits.

The figures in Tables C and D are prepared in accordance with the FMOs and are on a cash basis derived from information on the payment summaries for individual employees. Differences between figures in Table C and those determined by the Remuneration Tribunal are due to measurement differences. The average adjustment to gross salary for Assistant Governors was 3.7 per cent in 2013/14; these staff were eligible for lump sum performance-related payments in 2013/14 and 2012/13.

Table C: Executive Remuneration[(a)]

30 June 2014

Remuneration band	Number of staff	Reportable salary[(b)]	Contributed superannuation[(c)]	Reportable allowances[(d)]	Lump sum payment[(e)]	Total
Total remuneration:						
$555,000 to $584,999	3	463,781	94,252	–	9,356	567,389
$585,000 to $614,999	1	498,304	100,488	–	11,494	610,286
$615,000 to $644,999	2	518,415	108,706	–	11,227	638,348
$735,000 to $764,999	1	636,507	126,476	–	–	762,983
$1,035,000 to $1,064,999	1	863,161	183,644	–	–	1,046,805
	8					

30 June 2013

Remuneration band	Number of staff	Reportable salary[(b)]	Contributed superannuation[(c)]	Reportable allowances[(d)]	Lump sum payment[(e)]	Total
Total remuneration:						
$525,000 to $554,999	2	442,902	90,069	–	8,242	541,213
$555,000 to $584,999	2	467,220	94,476	–	8,658	570,354
$585,000 to $614,999	1	473,884	105,031	–	13,257	592,172
$615,000 to $644,999	1	503,282	104,883	–	10,802	618,967
$705,000 to $734,999	1	580,808	126,476	–	–	707,284
$975,000 to $1,004,999	1	815,234	179,407	–	–	994,641
	8					

(a) This table is based on remuneration for the executives included in the RBA's key management personnel. Figures are averages for the individuals contained in each remuneration band. The figures are disclosed in terms of the FMOs and are on a different measurement basis from AASB 124 and as determined by the Remuneration Tribunal.

(b) In terms of the FMOs, 'Reportable salary' includes gross payments (including salary less any lump sum amounts paid), net reportable fringe benefits and reportable employer superannuation contributions. Reportable salary as prescribed by the FMOs differs from superannuable salary. It excludes salary sacrificed amounts (other than superannuation). The exclusion of salary sacrificed amounts means that increases in 'Reportable salary' and 'Total' remuneration, as measured, will differ from the increase in actual salary and total remuneration of these positions if salary sacrificed amounts (other than superannuation) change from year to year. In 2012/13, the Governor salary sacrificed the lease on a motor vehicle and for the associated fringe benefits tax; in 2013/14, the conclusion of that arrangement meant that the 'Reportable salary' and 'Total' remuneration amounts shown in Table C rose by more than the actual increase in salary and total remuneration for this position. The adjustment made to the remuneration of the position of Governor was 2.4 per cent, as advised by the Remuneration Tribunal.

(c) 'Contributed superannuation' amount is the average amount of actual superannuation contributions paid.

(d) 'Reportable allowances' are the average actual allowances paid as per the 'total allowances' line on individuals' payment summaries.

(e) 'Lump sum payment' represents the average actual lump sum amounts paid during the reporting period for staff in the remuneration band.

Table D includes disclosures for RBA and NPA staff. The increase in the number of staff in 2013/14 in the initial remuneration bands mainly reflects salary increases received during the financial year that resulted in more RBA staff being remunerated at levels above the reportable threshold; it does not primarily reflect the creation of new management positions. The average salary increase for RBA staff shown in Table D was 3.8 per cent in 2013/14; lump sum performance-based payments and modest career increments were also paid to some individuals. NPA staff are not employees of the Bank and their terms and conditions are determined by NPA. Lump sum performance-based payments are available to NPA staff.

Table D: Remuneration of Other Staff above the Reportable Threshold[(a)]

30 June 2014

Remuneration band	Number of staff	Reportable salary[(b)]	Contributed superannuation[(c)]	Reportable allowances[(d)]	Lump sum payment[(e)]	Total
Total remuneration:						
$195,000 to $224,999	54	174,187	34,568	15	4,501	213,271
$225,000 to $254,999	29	193,469	38,512	2	4,331	236,314
$255,000 to $284,999	16	223,185	41,536	–	7,459	272,180
$285,000 to $314,999	21	244,152	45,283	3	7,893	297,331
$315,000 to $344,999	9	270,501	46,805	–	9,862	327,168
$345,000 to $374,999	2	290,923	57,168	–	5,240	353,331
$375,000 to $404,999	5	336,859	53,315	–	5,186	395,360
$405,000 to $434,999	2	366,998	60,197	–	5,517	432,712
$435,000 to $464,999	7	377,665	69,670	–	7,148	454,483
$495,000 to $524,999	2	420,530	84,254	–	7,520	512,304
$555,000 to $584,999	1	415,978	49,940	–	105,788	571,706
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Remuneration band	Number of staff	Reportable salary[(b)]	Contributed superannuation[(c)]	Reportable allowances[(d)]	Lump sum payment[(e)]	Total
Total remuneration:						
$195,000 to $224,999	49	170,894	33,171	34	4,719	208,818
$225,000 to $254,999	19	193,065	39,209	–	5,353	237,627
$255,000 to $284,999	21	218,829	43,483	39	7,721	270,072
$285,000 to $314,999	9	244,171	47,675	–	9,427	301,273
$315,000 to $344,999	7	267,601	48,793	–	11,664	328,058
$345,000 to $374,999	3	304,878	48,638	–	3,364	356,880
$375,000 to $404,999	2	309,365	60,975	–	5,589	375,929
$405,000 to $434,999	5	352,013	70,336	–	6,433	428,782
$435,000 to $464,999	3	375,390	64,426	–	7,537	447,353
$465,000 to $494,999	1	394,151	80,310	–	7,360	481,821
$495,000 to $524,999	1	413,425	81,857	–	7,502	502,784
$555,000 to $584,999	1	402,886	47,113	–	106,070	556,069
	121					

(a) This table shows remuneration for staff of the RBA and NPA whose reportable remuneration was $195,000 or more in the year, and whose remuneration was not required to be disclosed in Table C. Each row shows an average figure based on the number of staff in each remuneration band. These figures are disclosed on a cash basis.

(b) 'Reportable salary' includes gross payments (including salary less any lump sum amounts paid), reportable fringe benefits (net amount) and reportable employer superannuation contributions.

(c) 'Contributed superannuation' amount is the average amount of actual superannuation contributions paid.

(d) 'Reportable allowances' are the average actual allowances paid as per the 'total allowances' line on individuals' payment summaries.

(e) 'Lump sum payment' represents the average actual lump sum amounts paid during the reporting period for staff in the remuneration band.

Table E reports total remuneration earned by non-executive directors who are members of the Reserve Bank Board, the Payments System Board and the NPA Board. Non-executive directors of NPA who are RBA executives are not paid directors' fees.

Table E: Remuneration of Non-executive Directors

	Number of directors	
	2014	**2013**
$0 to $29,999	3	3
$30,000 to $59,999	5	4
$60,000 to $89,999	5	5
$90,000 to $119,999	1	1
Total	14	13
Total remuneration received ($)	798,045	685,626

Note 13 – Auditor's Remuneration

	2014 $	**2013 $**
Fees paid or payable to the statutory auditor (Australian National Audit Office) for audit services	412,272	416,500

In 2013/14, KPMG was contracted by the Australian National Audit Office (ANAO) to provide audit services in relation to the audit of the RBA. This includes audit services for NPA and the Reserve Bank of Australia Officers' Superannuation Fund. PricewaterhouseCoopers provided these services to the ANAO in 2012/13.

During 2013/14, KPMG earned additional fees of $538,827 for non-audit services that were separately contracted by the RBA. A significant proportion of these fees was for services commissioned before the ANAO appointed KPMG to the RBA's audit. In 2012/13, PricewaterhouseCoopers earned additional fees of $609,680 for non-audit services that were also separately contracted by the RBA.

These fees are included in Consultants' fees, legal fees and payments to contractors in Note 2.

Note 14 – Superannuation Funds

Overview

Based on independent actuarial estimates, the defined benefit superannuation fund administered by the RBA was in surplus at 30 June 2014. This actuarial analysis is based on an update of the full actuarial valuation prepared as at 30 June 2011, and is consistent with AAS 25 – *Financial Reporting by Superannuation Plans*. As required by relevant legislation, a new actuarial review of the fund as at 30 June 2014 is currently being prepared.

The presentation of the RBA's financial statements follows disclosures for superannuation required by AASB 119 – *Employee Benefits*. Disclosures under this standard are based on the assumption of future liabilities being discounted at the government bond yield, which places a higher present value on those liabilities than the independent actuarial assessment which discounts them at the assumed return on fund assets. In other words, AASB 119 does not take into account that the assets held to fund future defined benefits have in the past earned a higher average rate of return than government bonds or that this tendency might continue over time.

Disclosures under AASB 119 in 2013/14 incorporate revisions that apply for the first time. The key revision is that the 'corridor approach', which the RBA previously applied to value actuarial gains and losses on defined benefit funds, is no longer available. The 'corridor approach' had the effect of smoothing out and delaying the impact of actuarial gains and losses on both the Statement of Financial Position and the Statement of Comprehensive Income. The result of the revised approach, which applies retrospectively, is that actuarial gains and losses are now immediately brought to account. In terms of this standard, the RBA currently carries a liability for defined benefit superannuation.

Structure of funds

The RBA has two superannuation funds: the Reserve Bank of Australia Officers' Superannuation Fund (OSF) and the Reserve Bank of Australia UK Pension Scheme. Current and future benefits of these schemes are funded by member and RBA contributions and the existing assets of these schemes. The RBA's superannuation expenses for these schemes are included in accounting profits and shown in Note 2. Administration and other operational costs are also included in Note 2. There were no other related party transactions between the RBA and the funds during 2013/14.

The OSF is a hybrid fund licensed by the Australian Prudential Regulation Authority. Most members receive a 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 in terms of AASB 119. The UK Pension Scheme is a closed defined benefit scheme subject to relevant UK regulation.

Defined benefit membership in the OSF was closed to new RBA staff from 1 August 2014. From that date, new staff have been offered defined contribution superannuation.

Funding valuation

Full independent actuarial valuations of the OSF and UK Pension Scheme are conducted every three years. The most recent funding valuation of the OSF was at 30 June 2011. The latest valuation of the UK Pension Scheme was at 30 June 2013. At these valuations, the actuaries concluded that, on the basis of accrued benefits, both funds were in surplus and in a satisfactory financial position.

The funding valuation of the OSF in 2011 was based on the Attained Age Funding method, consistent with AAS 25. Accrued benefits were determined as the value of the future benefits payable to members (allowing for future salary increases), discounted by the expected rate of return on assets held to fund these benefits. At the time of this review, the surplus of the OSF was $57.8 million, as the assets of the OSF of $915.5 million exceeded the accrued benefits of $857.7 million. The OSF surplus measured on this basis as at 30 June 2014 amounted to $119.4 million (assets of $1,135.4 million less accrued benefits of $1,016.0 million).

Consistent with the actuary's recommendation at the 2011 triennial review, the RBA maintained its contribution rate to the OSF defined benefit at 18.3 per cent of salaries in 2013/14. This contribution rate will be maintained for the time being, but will be subject to review on the basis of the triennial valuation for 30 June 2014.

The latest triennial funding valuation for the UK Pension Scheme was also based on the Attained Age Funding method. The UK Pension Scheme recorded a surplus of $0.1 million at 30 June 2014 (assets of $21.5 million compared with accrued benefits of $21.4 million).

Accounting valuation

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

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

Actuarial assumptions

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

	2014 Per cent	2013 Per cent
Discount rate (gross of tax)	4.60	4.70
Future salary growth	3.00	3.25
Future pension growth	3.00	3.25

Maturity Analysis

The weighted-average duration of the defined benefit obligation for the OSF is 18 years (18 years in 2013). The expected maturity profile for defined benefit obligations of the OSF is as follows:

	Maturity profile (per cent)					
	Less than 5 years	Between 5–10 years	Between 10–20 years	Between 20–30 years	Over 30 years	Total
Defined benefit obligation – 30 June 2013	18	16	26	19	21	100
Defined benefit obligation – 30 June 2014	19	16	26	18	21	100

Risk exposures

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

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

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

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

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

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

The table below shows the estimated increase in the defined benefit obligation resulting from a movement of +/– 0.25 percentage point in key actuarial assumptions. These estimates change each assumption individually, holding other factors constant; they do not incorporate any correlations among factors. Comparative information is not required for these disclosures by the transitional provisions of AASB 119.

	2014 $M
Change in the defined benefit obligation from an increase of 0.25 percentage point in:	
Discount rate (gross of tax)	(53)
Future salary growth	13
Future pension growth	40
Change in the defined benefit obligation from a decrease of 0.25 percentage point in:	
Discount rate (gross of tax)	57
Future salary growth	(13)
Future pension growth	(38)

The RBA outsourced the provision of most of the OSF's member and accounting services during 2013/14. Appropriate practices and procedures have been adopted to manage the associated risks.

Asset Distribution

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

	Per cent of fund assets	
	2014	2013
Cash and short-term securities	7.0	5.7
Fixed interest and indexed securities	14.0	11.9
Domestic shares	40.2	42.4
Foreign shares	11.6	6.7
Property	10.5	14.2
Private equity and infrastructure	16.7	19.1
Total	100.0	100.0

AASB 119 Reconciliation

A detailed reconciliation of the AASB 119 valuation of the funds is shown in the table below. In the case of the OSF, these details relate only to the defined benefit component of the fund as the RBA faces no actuarial risk on defined contribution accumulation balances. This has no effect on the measurement of the financial position of the OSF. At 30 June 2014 accumulation balances in the OSF totaled $236.8 million ($206.7 million as at 30 June 2013).

	OSF		UK Scheme		Total	
	2014 $M	2013 $M	2014 $M	2013 $M	2014 $M	2013 $M
Opening balances:						
Net market value of assets	830	744	20	18	850	762
Accrued benefits	(1,151)	(1,358)	(15)	(14)	(1,166)	(1,372)
Surplus/(deficit)	(321)	(615)	4	4	(317)	(610)
Effect of asset cap	–	–	(4)	(4)	(4)	(4)
Opening superannuation asset/(liability)	(321)	(615)	–	–	(321)	(615)
Change in net market value of assets	76	86	2	1	78	88
Change in accrued benefits	48	207	(4)	(1)	44	206
Change in asset cap	–	–	2	–	2	–
Change in superannuation asset/(liability)	124	294	–	–	124	294
Closing balances:						
Net market value of assets	906	830	22	20	927	850
Accrued benefits	(1,103)	(1,151)	(19)	(15)	(1,123)	(1,166)
Surplus/(deficit)	(197)	(321)	2	4	(195)	(317)
Effect of asset cap	–	–	(2)	(4)	(2)	(5)
Closing superannuation asset/(liability)	(197)	(321)	–	–	(197)	(321)
Interest income	39	29	1	1	39	29
Benefit payments	(37)	(40)	(1)	(1)	(38)	(40)
Return on plan assets	51	75	–	–	51	75
Contributions from RBA to defined benefit schemes	23	22	–	–	24	22
Exchange rate gains/(losses)	–	–	2	1	2	1
Change in net market value of assets	76	86	2	1	78	88

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

Note 14 – Superannuation Funds (continued)

	OSF		UK Scheme		Total	
	2014 $M	2013 $M	2014 $M	2013 $M	2014 $M	2013 $M
Current service cost	(41)	(51)	–	–	(41)	(51)
Interest cost	(52)	(50)	(1)	(1)	(53)	(51)
Benefit payments	37	40	1	1	38	40
Gains/(losses) from change in demographic assumptions	–	–	–	–	–	–
Gains/(losses) from change in financial assumptions	59	332	(1)	(1)	58	331
Gains/(losses) from change in other assumptions	46	(63)	(1)	–	45	(62)
Exchange rate gains/(losses)	–	–	(2)	(1)	(2)	(1)
Change in accrued benefits	48	207	(4)	(1)	44	206
Current service cost	41	51	–	–	41	51
Net Interest expense/(income)	14	22	–	–	14	22
Productivity and superannuation guarantee contributions	5	5	–	–	5	5
Superannuation expense/(income) included in profit or loss	60	77	–	–	60	77
Actuarial re-measurement loss/(gain)	(155)	(344)	–	–	(156)	(344)
Superannuation expense/(income) included in Statement of Comprehensive Income	(96)	(267)	–	–	(95)	(267)

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

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

Financial Risk

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

Market risk

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

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or cash flows of the RBA's foreign currency assets and liabilities will fluctuate because of movements in exchange rates. An appreciation in the exchange rate results in valuation losses, while a depreciation leads to valuation gains. The overall level of foreign currency exposure is determined by policy considerations. The RBA's net foreign currency exposure as at 30 June 2014 was $42.3 billion ($41.4 billion as at 30 June 2013). Within the overall exposure and to a limited extent, foreign currency risk can be mitigated by holding assets across a diversified portfolio of currencies. The RBA holds foreign reserves in five currencies – the US dollar, the euro, the Canadian dollar, the Japanese yen and the Chinese renminbi – because the markets for most of these currencies are liquid and suitable for investing foreign exchange reserves.

The RBA also undertakes foreign currency swaps to assist its daily domestic liquidity management. 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

During 2013/14, the RBA began purchasing assets denominated in renminbi by reducing the proportion of US dollars held in its reserves. The RBA's net holdings of foreign exchange (excluding its holding of Special Drawing Rights) were distributed as follows as at 30 June:

	Per cent of foreign exchange	
	2014	**2013**
US dollar	52	55
Euro	35	35
Canadian dollar	5	5
Japanese yen	5	5
Chinese renminbi	3	–
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.

	2014 $M	**2013 $M**
Change in profit/equity due to a 10 per cent appreciation in the reserves-weighted value of the A$	–3,849	–3,764
Change in profit/equity due to a 10 per cent depreciation in the reserves-weighted value of the A$	4,704	4,601

Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of financial instruments will fluctuate because of movements in market interest rates. The RBA's balance sheet is exposed to interest rate risk because most of its assets are financial assets, 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. Interest rate risk on foreign assets is controlled through limits on the duration, or interest rate sensitivity, of the portfolio. Interest rate risk on domestic assets is small as the bulk of the portfolio is held under short-term reverse repurchase agreements.

Sensitivity to interest rate risk

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

	2014 $M	2013 $M
Change in profit/equity due to movements of +/–1 percentage point across yield curves:		
Foreign currency securities	–/+365	–/+339
Australian dollar securities	–/+131	–/+140

Other price risk

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

Credit risk

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

Cash invested under reverse repurchase agreements in overseas markets is secured by collateral in the form of government securities or securities issued by US agencies; the RBA takes and maintains collateral to the value of 102 per cent of the cash invested. Cash invested under domestic reverse repurchase agreements is secured by securities issued by Australian governments, banks and various corporate and asset-backed securities (see Note 1(b)). The RBA holds collateral to a value of between 101 and 127 per cent of the amount invested according to the risk profile of the collateral held. If the current value of collateral falls by more than a predetermined amount, the counterparty is required to provide additional collateral to restore this margin; the thresholds are specified in the legal agreements which govern these transactions. During 2013/14, the RBA began contracting reverse repurchase agreements on a tri-party basis, though these still represent a small component of the RBA's total repurchase agreements. The management of collateral and cash associated with tri-party repurchase agreements is conducted through a third party, in this case the Australian Securities Exchange. The terms and requirements of tri-party repurchase agreements are broadly consistent with bilateral agreements and the RBA manages the risk of holding them in a similar way.

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

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

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

1. ***Foreign exchange swaps*** – As at 30 June 2014, the RBA was under contract to purchase $5.5 billion of foreign currency ($1.5 billion at 30 June 2013) and sell $20.0 billion of foreign currency ($5.7 billion at 30 June 2013). As of that date there was a net unrealised gain of $42 million on these swap positions included in net profit ($275 million unrealised loss at 30 June 2013).

   The RBA has a credit exposure from foreign exchange swaps because of the risk that a counterparty might fail to deliver the second leg of a swap which would have to be replaced, potentially at a loss if the exchange rate had moved from the level at which the second leg of the swap was to be completed. To manage credit risk on swaps, the RBA exchanges collateral with counterparties under credit support annexes (CSAs), which cover the potential cost of replacing the swap position in the market if a counterparty fails to deliver. The RBA's CSAs specify that only Australian dollar cash is eligible as collateral. Under CSAs, either party to the agreement may be obliged to deliver collateral with interest paid or received on a monthly basis. At 30 June 2014, net cash collateral received was $129 million (nil at 30 June 2013), while cash collateral provided was nil ($253 million at 30 June 2013).

2. ***Interest rate futures*** – As at 30 June 2014, the amount of credit risk on interest rate futures contracts was approximately $0.6 million ($0.6 million at 30 June 2013). As at 30 June 2014 there was an unrealised loss brought to account on those contracts of $0.2 million ($0.2 million unrealised gain at 30 June 2013).

The RBA held no past due or impaired assets at 30 June 2014 or 30 June 2013.

Collateral pledged

At 30 June 2014, the carrying amount of securities sold and contracted for purchase under repurchase agreements was $5,243 million ($2,371 million at 30 June 2013). Terms and conditions of repurchase agreements are consistent with those for reverse repurchase agreements disclosed above.

Concentration of credit risk

As noted, the RBA operates to minimise its credit risk exposure through comprehensive risk management policy guidelines. The following table indicates the concentration of credit risk in the RBA's investment portfolio.

	Risk rating of security/issuer[a]	Risk rating of counterparties[a]	Per cent of investments 2014	2013
Australian dollar securities				
Holdings – Commonwealth Government Securities	AAA	na	3.3	1.5
Holdings – semi-government securities	AAA	na	0.8	4.7
	AA	na	1.8	1.9
Securities sold under repurchase agreements	AAA	AA	–	0.0
	AAA	A	–	0.0
	AA	AA	–	0.0
Securities purchased under repurchase agreements	AAA	AA	24.0	14.8
	AAA	A	9.1	8.6
	AAA	BBB	0.0	–
	AA	AA	7.3	7.1
	AA	A	3.9	2.9
	AA	Other[b]	0.1	0.1
	A	AA	0.8	0.7
	A	A	0.4	1.4
	A	Other[b]	0.0	0.0
	BBB	AA	0.1	0.1
	BBB	A	–	0.0
Foreign investments				
Holdings of securities	AAA	na	9.8	16.0
	AA	na	24.9	22.2
Securities sold under repurchase agreements	AAA	AA	0.0	–
	AAA	A	0.2	0.6
	AA	A	3.5	1.7
Securities purchased under repurchase agreements	AAA	AA	0.0	0.7
	AAA	A	0.2	1.8
	AA	AA	0.1	0.4
	AA	A	4.9	5.1
	AA	BBB	–	0.0
Deposits	na	AAA	0.8	0.6
	na	AA	0.4	0.6
	na	A	0.0	0.0
Cash collateral pledged	na	AA	–	0.2
	na	A	–	0.1
Other	na	AAA	0.1	0.2
	na	AA	0.1	1.6
	na	A	0.0	0.0
Gold loans	na	AAA	0.0	0.0
Other			3.4	4.4
			100.0	100.0

(a) Standard & Poor's or equivalent rating.
(b) This category includes counterparties which are not rated.

Liquidity risk

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

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

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

Maturity Analysis – as at 30 June 2014

	Balance sheet total $M	Contracted maturity $M					No specified maturity $M	Weighted average effective rate %
		On demand	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Assets								
Cash and cash equivalents	273	–	256	–	–	–	17	2.25
Australian dollar securities								
Securities sold under repurchase agreements	–	–	–	–	–	–	–	na
Securities purchased under repurchase agreements	64,394	–	42,587	1,206	–	–	20,601	2.50
Other securities	8,298	–	1,030	5,118	903	1,247	–	2.69
Accrued interest	194	–	131	63	–	–	–	na
	72,886							
Foreign exchange								
Balances with central banks	622	32	590	–	–	–	–	0.07
Securities sold under repurchase agreements	5,241	–	2,820	1,532	776	113	–	0.15
Securities purchased under repurchase agreements	7,421	–	7,421	–	–	–	–	0.12
Other securities	49,388	–	26,483	10,536	6,248	955	5,166	0.22
Deposits	1,067	2	1,064	–	–	–	1	0.02
Cash collateral pledged	–	–	–	–	–	–	–	na
Accrued interest	68	–	36	32	–	–	–	na
	63,807							
Gold								
Gold loans	45	–	–	45	–	–	–	0.40
Gold holdings	3,539	–	–	–	–	–	3,539	na
	3,584							
Property, plant & equipment	523	–	–	–	–	–	523	na
Loans and advances	4	–	–	–	–	4	–	2.92
Other assets	408	–	32	–	–	–	376	na
Total assets	141,485	34	82,450	18,532	7,927	2,319	30,223	1.39
Liabilities								
Deposits	53,574	26,474	27,100	–	–	–	–	2.43
Distribution payable to Australian Government	1,235	–	618	–	617	–	–	na
Cash collateral received	129	–	129	–	–	–	–	2.50
Other liabilities	7,459	–	7,101	–	–	–	358	–0.09
Australian notes on issue	60,778	–	–	–	–	–	60,778	0.13
Total liabilities	123,175	26,474	34,948	–	617	–	61,136	1.12
Capital and reserves	18,310							
Total balance sheet	141,485							
Domestic currency								
Swaps								
Contractual outflow	(14)	–	(14)	–	–	–	–	na
Contractual inflow	14,556	–	14,556	–	–	–	–	na
	14,542	–	14,542	–	–	–	–	
Foreign currency								
Swaps								
Contractual outflow	(20,026)	–	(20,026)	–	–	–	–	na
Contractual inflow	5,484	–	5,484	–	–	–	–	na
	(14,542)	–	(14,542)	–	–	–	–	

Maturity Analysis – as at 30 June 2013

	Balance sheet total $M	Contracted maturity $M					No specified maturity $M	Weighted average effective rate %
		On demand	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Assets								
Cash and cash equivalents	137	–	115	–	–	–	22	2.50
Australian dollar securities								
Securities sold under repurchase agreements	77	–	–	38	17	22	–	2.72
Securities purchased under repurchase agreements	35,130	–	33,870	1,260	–	–	–	2.73
Other securities	7,968	–	3,496	1,998	966	1,508	–	3.04
Accrued interest	74	–	60	14	–	–	–	na
	43,249							
Foreign exchange								
Balances with central banks	636	10	626	–	–	–	–	0.10
Securities sold under repurchase agreements	2,294	–	1,155	516	421	202	–	0.21
Securities purchased under repurchase agreements	7,777	–	7,777	–	–	–	–	0.09
Other securities	39,339	–	16,686	10,377	6,271	793	5,212	0.27
Deposits	542	2	539	–	–	–	1	0.07
Cash collateral pledged	253	–	253	–	–	–	–	2.75
Accrued interest	89	–	61	28	–	–	–	na
	50,930							
Gold								
Gold loans	42	–	–	42	–	–	–	0.40
Gold holdings	3,257	–	–	–	–	–	3,257	na
	3,299							
Property, plant & equipment	491	–	–	–	–	–	491	na
Loans and advances	4	–	–	–	–	4	–	3.04
Other assets	417	–	21	–	–	–	396	na
Total assets	98,527	12	64,659	14,273	7,675	2,529	9,379	1.35
Liabilities								
Deposits	26,183	6,033	20,150	–	–	–	–	2.52
Distribution payable to Australian Government	–	–	–	–	–	–	–	na
Cash collateral received	–	–	–	–	–	–	–	na
Other liabilities	5,679	–	5,201	–	–	–	478	0.03
Australian notes on issue	56,943	–	–	–	–	–	56,943	0.13
Total liabilities	88,805	6,033	25,351	–	–	–	57,421	0.83
Capital and reserves	9,722							
Total balance sheet	98,527							
Domestic currency								
Swaps								
Contractual outflow	(46)	–	(46)	–	–	–	–	na
Contractual inflow	4,266	–	4,266	–	–	–	–	na
	4,220	–	4,220	–	–	–	–	
Foreign currency								
Swaps								
Contractual outflow	(5,700)	–	(5,700)	–	–	–	–	na
Contractual inflow	1,480	–	1,480	–	–	–	–	na
	(4,220)	–	(4,220)	–	–	–	–	

Note 16 – Fair Value

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

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

	2014 $M	2013 $M
Financial assets accounted for under AASB 139		
At fair value through profit or loss	62,855	47,960
Loans and receivables	74,189	46,421
Available for sale	348	367
Assets accounted for under other standards	4,093	3,779
Total assets as at 30 June	141,485	98,527
Financial liabilities accounted for under AASB 139		
At fair value through profit or loss	45	287
Not at fair value through profit or loss	122,771	88,038
Liabilities accounted for under other standards	359	480
Total liabilities as at 30 June	123,175	88,805

AASB 13 – *Fair Value Measurement* requires financial and non-financial assets and liabilities measured at fair value to be disclosed according to their position in the fair value hierarchy. This hierarchy has three levels: 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; Level 3 valuations include inputs other than observable market data. The following table presents the RBA's assets and liabilities measured and recognised at fair value and their classification within the fair value hierarchy at 30 June 2014. There were no transfers between levels within the fair value hierarchy during the financial year.

	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
As at 30 June 2014				
Financial assets				
At fair value through profit or loss				
Australian dollar securities	7,284	1,097	–	8,381
Foreign government securities	52,823	1,564	–	54,387
Foreign currency swaps	7	80	–	87
Available for sale				
Shares in international financial institutions	–	–	348	348
	60,114	2,741	348	63,203
Non-financial assets				
Land and buildings	–	–	361	361
Plant and equipment	–	–	162	162
	–	–	523	523
Financial liabilities				
At fair value through profit or loss				
Foreign currency swaps	1	44	–	45
	1	44	–	45
As at 30 June 2013				
Financial assets				
At fair value through profit or loss				
Australian dollar securities	4,083	3,958	–	8,041
Foreign government securities	38,809	1,098	–	39,907
Foreign currency swaps	–	12	–	12
Available for sale				
Shares in international financial institutions	–	–	367	367
	42,892	5,068	367	48,327
Non-financial assets				
Land and buildings	–	–	349	349
Plant and equipment	–	–	142	142
	–	–	491	491
Financial liabilities				
At fair value through profit or loss				
Foreign currency swaps	15	272	–	287
	15	272	–	287

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

The RBA's shareholding in the BIS is valued using the net asset value, as published in annual financial statements of the BIS, less a discount of 30 per cent. The discount applied is based on the 2001 Hague Arbitral Tribunal decision on compensation to be paid to former private shareholders, and subsequent transactions involving the re-allocation of BIS shares. This financial asset is classified as a Level 3 financial instrument.

Level 3 non-financial assets include the RBA's property, plant and equipment reflecting the use of unobservable market inputs in their valuation.

The following table presents the changes in Level 3 assets during 2013/14 for recurring fair value measurements of financial and non-financial assets.

	Financial Assets	Non-financial Assets	
	Shareholding in the BIS $M	**Land and Buildings $M**	**Plant and Equipment $M**
Opening Balance as at 1 July 2013	367	349	142
Transfers	–	–	–
Additions	–	13	41
Disposals	–	(4)	(1)
Depreciation	–	(9)	(21)
Gains or losses recognised in Net Profit	–	1	–
Gains or losses recognised in Other Comprehensive Income	(19)	11	1
Closing Balance as at 30 June 2014	348	361	162

The following table provides information about the significant unobservable inputs used in Level 3 fair value measurements, including the sensitivity of fair value measurements to changes in the noted unobservable inputs.

	Valuation Technique	Unobservable Inputs	Range of Inputs	Fair Value Movement Due to +/–Change in Unobservable Input:	
				Increase	**Decrease**
BIS Shares	Net asset value	Discount rate	30.0%	Decrease	Increase
Land and Buildings	Income capitalisation and Discounted Cash Flow methods	Net market income	$86/m^2 to $546/m^2	Increase	Decrease
		Discount rate	8.3% to 10.0%	Decrease	Increase
		Terminal yield	6.9% to 13.0%	Decrease	Increase
		Capitalisation rate	6.8% to 12.0%	Decrease	Increase
	Depreciated replacement cost	Depreciation rate	2.0%	Decrease	Increase
Plant and Equipment	Depreciated replacement cost	Indexation rate	0.2% to 5.3%	Increase	Decrease
		Depreciation rate	4.8% to 25.0%	Decrease	Increase

Note 17 – Subsequent Events

There have been no events subsequent to 30 June 2014 to be disclosed.

Auditor-General for Australia

Australian National
Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Treasurer

I have audited the accompanying financial statements of the Reserve Bank of Australia and the controlled entity for the year ended 30 June 2014, which comprise: a Directors' Statement; Statement of Financial Position; Statement of Comprehensive Income; Statement of Distribution; Statement of Changes in Capital and Reserves; Cash Flow Statement; and Notes to and Forming Part of the Financial Statements, including a summary of accounting policies. The consolidated entity comprises the Reserve Bank of Australia and the entity it controlled during the financial year.

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 is necessary to enable the preparation of financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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 Reserve Bank of Australia'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.

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

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Independence

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

Opinion

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

(a) 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; and

(b) give a true and fair view of the matters required by the Finance Minister's Orders including the consolidated entity's financial position as at 30 June 2014 and its financial performance and cash flows for the year then ended.

Australian National Audit Office

Ian McPhee
Auditor-General

Canberra
21 August 2014