

## Balance Sheet as at 30 June 1998

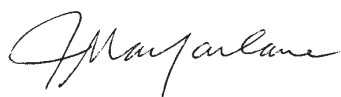
### Reserve Bank of Australia

<b>Liabilities</b>	<b>1997 \$'000</b>	<b>1998 \$'000</b>
Capital	40 000	40 000
Reserves:		
Reserve Bank Reserve Fund (Notes 1(f), 3)	2 281 380	2 829 277
Reserve for Contingencies and General Purposes (Notes 1(f), 3)	3 322 946	3 322 946
Unrealised Profits Reserve (Notes 1(f), 3, 16)	662 430	2 349 036
Asset revaluation reserves (Notes 1(f), 3, 16)	1 728 285	1 287 246
Capital and reserves	8 035 041	9 828 505
Australian notes on issue (Note 1(h))	20 063 976	21 650 623
Deposits by:		
Banks:		
Non-callable deposits	4 361 441	4 681 696
Exchange settlement accounts	9 235 175	5 019 291
Government and government instrumentalities:		
Commonwealth	5 164 193	755 632
State	317 676	364 918
Foreign governments, foreign institutions and international organisations	83 213	68 477
Other depositors	120 013	182 668
Other liabilities:		
Profit distribution payable to Commonwealth of Australia	1 700 000	2 725 983
Provisions (Notes 1(g), 4)	77 004	77 944
Other (Note 5)	1 767 359	1 953 837
Total	50 925 091	47 309 574

## Balance Sheet as at 30 June 1998

Reserve Bank of Australia

Assets	1997 \$'000	1998 \$'000
Gold and foreign exchange (Note 1(b)):		
Gold	1 757 281	1 236 577
Foreign exchange (Note 15)	21 590 124	24 197 457
Domestic government securities (Notes 1(c), 15)	25 406 665	21 012 026
Loans, advances and bills discounted	107 049	95 441
Bank premises and other durable assets (Notes 1(e), 6)	268 211	273 793
Clearing items (remittances in transit, cheques and bills of other banks) (Note 7)	1 591 013	284 446
Australian notes and coin	79 040	85 041
Other assets (Note 8)	125 708	124 793
Total	50 925 091	47 309 574



**IJ Macfarlane**

Chairman, Reserve Bank Board

6 August 1998

## **Profit and Loss Appropriation Statement** for year ended 30 June 1998

**Reserve Bank of Australia**

	<b>1997</b> <b>\$'000</b>	<b>1998</b> <b>\$'000</b>
Net Profit* (Note 2)	2 729 677	4 402 977
Net transfers to Unrealised Profits Reserve (Note 3)	(662 430)	(1 686 606)
Transfer from Asset Revaluation Reserves (Note 3)	1 637 490	557 509
Earnings available for distribution	3 704 737	3 273 880
Reserve Bank Reserve Fund (Note 3)	1 637 490	547 897
Reserve for Contingencies and General Purposes (Note 3)	367 247	-
Commonwealth of Australia	1 700 000	2 725 983
Total	3 704 737	3 273 880

\* The published Profit and Loss Appropriation Account for year ended 30 June 1997 showed Net Profit (after deducting amounts provided for contingencies and general purposes) as \$3 337.5 million. The 1997 Net Profit has been restated to show the effect of the change in accounting policy on investments; this has resulted in a decrease in the 1997 profit of \$607.8 million but has not changed Earnings available for distribution. Refer to Note 16 for full details.



**IJ Macfarlane**

Chairman, Reserve Bank Board

6 August 1998

## Notes To and Forming Part of the Financial Statements

30 June 1998 Reserve Bank of Australia

### Note 1 Summary of accounting policies

The financial statements have been prepared in accordance with the Reserve Bank Act and are based on the form prescribed by the Reserve Bank Regulations. The Bank is now subject to the Commonwealth Authorities and Companies Act 1997 which came into effect on 1 January 1998. The Bank has prepared its 1997/98 financial statements under the Reserve Bank Act and the Reserve Bank Regulations as they were immediately before 1 January 1998; this is in accordance with the transitional arrangements under Regulation 27 of the Audit (Transitional and Miscellaneous) Regulations 1997.

The statements are a general purpose financial report prepared in accordance with Australian Accounting Standards. Unless otherwise stated, the accounting policies and practices followed in these statements are consistent with those followed in the previous year.

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

The Bank has changed its accounting policy on the recognition of gains on gold and foreign exchange, domestic investments and premises. From 1 July 1997 all gains on foreign exchange and domestic investments are recognised immediately in the profit and loss account; any unrealised gains are transferred to the Unrealised Profits Reserve and are not available for distribution to the Commonwealth of Australia until they are actually realised. Realised profits on gold and premises are no longer recognised in the profit and loss account, but are now treated as transfers from the relevant asset revaluation reserve. Comparatives have been restated to take account of the effect of this change in accounting policy. Further detail on the change in accounting policy and its effect is contained in Note 16.

The Bank does not fall within the definition of a financial institution under AAS 32 Specific Disclosures by Financial Institutions.

**(a) Note Printing Australia** The operations of Note Printing Australia (NPA) are conducted as a separate business enterprise. Up to and including 30 June 1998, NPA was not a separate legal entity; its assets, liabilities and profit and loss account are included in the Bank's financial statements, after elimination of transactions internal to NPA and the Bank. On 1 July 1998 Note Printing Australia Limited was formed as a wholly owned subsidiary of the Bank.

**Note 1** (continued)

**(b) Gold and foreign exchange**

*Gold holdings and gold loans*

Gold holdings (including gold on loan to other institutions) are valued at the Australian dollar equivalent of the 3pm fix in the London gold market on the last business day of June. The Bank loans gold to financial institutions participating in the gold market. All gold loans are secured to 110% of their market value by Australian dollar denominated collateral security. Loans are usually for periods between 3 and 12 months, with very few extending beyond 12 months. Interest on gold loans is accounted for on a standard accrual basis.

*Foreign exchange*

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

Assets and liabilities denominated in foreign currency, other than those subject to swap contracts, are converted to Australian dollar equivalents at exchange rates ruling on the last business day of June. Realised and unrealised gains or losses on foreign currency are immediately taken to profit and loss; this is a change in accounting policy – refer to Note 16.

*Foreign government securities*

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

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

*Foreign currency swaps*

The Bank uses foreign currency swaps to assist daily domestic liquidity management or to smooth the impact of other foreign currency transactions on Official Reserve Assets. A currency swap is the simultaneous purchase and sale of one currency against another currency for different maturities. The cash flows are the same as when borrowing one currency for a set period, and lending another currency for the same period. The pricing of the swap must therefore reflect the interest rates applicable to these money market transactions. Interest rates are implicit in the swap contract but interest itself is not paid or received.

Foreign exchange holdings contracted for sale beyond 30 June 1998 (including those under swap contracts) have been valued at contract exchange rates.

**Note 1** (continued)

**Interest rate futures**

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

Both interest rate futures and foreign currency swaps are off balance sheet items. The Bank did not trade in any other derivative instruments during 1997/98.

**(c) Domestic government securities** The Bank holds Commonwealth Government Bonds, Treasury Notes, Capital Indexed Bonds, and Treasury Adjustable Bonds. It also holds Australian dollar denominated securities issued by the central borrowing authorities of State and Territory Governments where these are acquired under repurchase agreements. Realised and unrealised gains or losses on domestic government securities are immediately taken to profit and loss; this is a change in accounting policy – refer to Note 16.

Commonwealth Government Bonds are coupon securities; the interest is payable biannually at the coupon rate. Commonwealth Treasury Notes are discount securities; the interest earned is the difference between the purchase price and the face value on redemption. Capital Indexed Bonds are coupon securities with the nominal value of the security indexed in line with movements in the consumer price index each quarter until maturity; interest is paid quarterly. Treasury Adjustable Bonds are securities with a coupon rate periodically reset by reference to movements in the Australian Bank Bill Swap Reference Rate; interest is payable each quarter.

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

**(d) Repurchase agreements** In the course of its financial market operations, the Bank engages in repurchase agreements involving foreign and domestic marketable securities.

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

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

**(e) Bank premises and other durable assets** A formal valuation of the Bank's premises is conducted on a triennial basis. The most recent valuation was at 30 June 1998, when Australian premises were valued by officers of the Australian Valuation Office and overseas premises were valued by local independent valuers. The valuations have been incorporated in the accounts.

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

**Note 1** (continued)

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

In the opinion of the Board, values of durable assets in the financial statements do not exceed recoverable values.

Details of annual net expenditure, revaluation adjustments and depreciation of these assets are included in Note 6.

**(f) Reserves** Reserves are maintained to cover the broad range of risks to which the Bank is exposed. The Reserve Bank Reserve Fund is a general reserve which provides for potential losses arising from fraud, support of the financial system and other non-insured losses. The Treasurer determines each year, after consultation with the Board, the amount to be credited to the Reserve Fund.

The Reserve for Contingencies and General Purposes provides cover against risks relating to events which are contingent and non-foreseeable. The major risks in the category arise from movements in market values of the Bank's holding of domestic and foreign securities. Amounts set aside for this Reserve are determined by the Treasurer after consultation with the Board.

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

Due to the change in accounting policy for foreign exchange and domestic government securities, unrealised gains on these assets are now recognised in the profit and loss account - refer Note 16. Until such gains are realised, they are not available for distribution to the Commonwealth of Australia; in the interim the amounts are retained in the new Unrealised Profits Reserve.

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

**(h) Australian notes on issue** The Bank assesses regularly the value of notes still outstanding at least five years after the note issue ceased which are judged to have been destroyed and therefore unavailable for presentation. No amount was written off Australian notes on issue in 1997/98 or 1996/97.

	<b>1997</b> <b>\$'000</b>	<b>1998</b> <b>\$'000</b>
<b>Note 2 Net Profits</b>		
<b>Revenues</b>		
Income from overseas investments (Note 1(b))	796 962	1 043 284
Gains on overseas investments	65 374	104 497
Income from domestic		
government securities (Note 1(c))	1 615 713	1 059 168
Gains on domestic government securities	394 293	63 811
Gains on foreign currency (Note 1(b))	555 041	2 467 515
Interest on loans, advances, etc.	4 343	19 776
Net interest from overnight settlements systems	3 319	8 841
Reimbursement by Commonwealth for loan management and registry expenses	2 698	2 290
Banking services fees received from Commonwealth	14 871	27 509
Income from rental of Bank premises (incl. cleaning/maintenance fees)	5 721	6 660
Commission on gold loans	35 125	21 277
Sales of numismatic and other note products	17 049	25 030
Earnings on shares in Bank for International Settlements (Note 8)	2 067	2 541
Gain on sale of durable assets	-	1 125
Maintenance of Value payment from International Monetary Fund	19 147	-
Other	17 148	25 226
<b>Total Revenues</b>	<b>3 548 871</b>	<b>4 878 550</b>
<b>Less: Expenses</b>		
Interest on deposit liabilities	628 310	248 025
Staff costs	119 354	101 866
Special redundancy/retirement payments (Note 10)	12 912	29 684
Depreciation of Bank premises (Note 6)	7 091	7 145
Depreciation of durable assets (Note 6)	6 864	6 547
Premises	10 467	11 764
Equipment	11 281	13 150
Stores and stationery	1 280	1 048
Materials used in note production	9 469	16 577
Travel	1 706	2 245
Consultants' fees (Note 12)	1 672	2 129
Telecommunications	1 320	1 808
Reference materials	1 881	2 012
Maintenance of Value payment to International Monetary Fund	-	14 628
Other	5 587	16 945
<b>Total Expenses</b>	<b>819 194</b>	<b>475 573</b>
<b>Net Profit</b>	<b>2 729 677</b>	<b>4 402 977</b>



	<b>1997</b> <b>\$'000</b>	<b>1998</b> <b>\$'000</b>
<b>Note 3 Reserves</b>		
Changes in the Bank's various Reserves are shown below.		
<b>Reserve Bank Reserve Fund</b> (Note 1(f))		
Opening balance	643 890	2 281 380
Appropriation from profits in terms of section 30 of the Reserve Bank Act	1 637 490	547 897
As at 30 June	<u>2 281 380</u>	<u>2 829 277</u>
<b>Reserve for Contingencies and General Purposes</b> (Note 1(f))		
Opening balance	2 955 699	3 322 946
Appropriation from profits in terms of section 30 of the Reserve Bank Act	367 247	-
As at 30 June	<u>3 322 946</u>	<u>3 322 946</u>
<b>Unrealised Profits Reserve</b> (Notes 1(f), 16)		
Opening Balance	-	662 430
Net transfers from Profit and Loss Appropriation	662 430	1 686 606
As at 30 June	<u>662 430</u>	<u>2 349 036</u>
<b>Asset Revaluation Reserves</b> (Notes 1(f), 16)		
<b>Gold</b>		
Opening balance	3 472 670	1 588 663
Net revaluation adjustments	(246 517)	88 766
Transfers to Profit and Loss Appropriation - realised (gains)/losses	(1 637 490)	(547 897)
As at 30 June	<u>1 588 663</u>	<u>1 129 532</u>

	<b>1997</b> \$'000	<b>1998</b> \$'000
<b>Note 3</b> (continued)		
<b>Shares in international financial institutions</b> (Note 8)		
Opening balance	75 510	68 198
Net revaluation adjustments	(7 312)	9 117
As at 30 June	<u>68 198</u>	<u>77 315</u>
<b>Bank premises</b> (Notes 1(e), 6)		
Opening balance	57 953	71 424
Net revaluation adjustments	13 471	18 587
Transfers to Profit and Loss Appropriation – realised (gains)/losses	–	(9 612)
As at 30 June	<u>71 424</u>	<u>80 399</u>
<b>Total Asset Revaluation Reserves</b>		
Opening balance	3 606 133	1 728 285
Net revaluation adjustments	(240 358)	116 470
Transfers to Profit and Loss Appropriation – realised (gains)/losses	(1 637 490)	(557 509)
As at 30 June	<u>1 728 285</u>	<u>1 287 246</u>

	<b>1997</b> <b>\$'000</b>	<b>1998</b> <b>\$'000</b>
<b>Note 4 Other liabilities – provisions</b> (Note 1(g))		
Salaries and wages accrued	2 513	1 667
Provision for accrued annual leave	8 073	7 282
Provision for long service leave	23 908	21 667
Provision for post-employment benefits	42 140	46 628
Provision for workers' compensation	370	700
As at 30 June	<u>77 004</u>	<u>77 944</u>
<b>Note 5 Other liabilities – other</b>		
Amounts outstanding under repurchase agreements (contract price) (Note 1(d))	1 521 497	1 887 117
Remittances in transit	173 113	5 051
Interest accrued on deposits	56 012	27 848
Other	16 737	33 821
As at 30 June	<u>1 767 359</u>	<u>1 953 837</u>
<b>Note 6 Bank premises and other durable assets</b> (Note 1(e))		
<b>Premises</b>		
Opening balance	232 669	238 920
Net expenditure in year	(129)	198
Disposals	–	(6 856)
	<u>232 540</u>	<u>232 262</u>
Depreciation prior to revaluation	(7 091)	(7 145)
Book valuation prior to revaluation	225 449	225 117
Net revaluation adjustments (Note 3)	13 471	18 587
As at 30 June	<u>238 920</u>	<u>243 704</u>
The triennial revaluation of Bank premises occurred at 30 June 1998.		
<b>Other durable assets</b>		
Opening balance	95 350	97 838
Additions less disposals	2 488	5 176
	<u>97 838</u>	<u>103 014</u>
Accumulated depreciation	(68 547)	(72 925)
As at 30 June	<u>29 291</u>	<u>30 089</u>

	<b>1997</b> \$'000	<b>1998</b> \$'000
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**Note 7 Clearing items**

This includes net amounts of \$284 million owed to the Bank for overnight clearances of financial transactions through the clearing houses, Austraclear and Reserve Bank Information and Transfer System (RITS). (An amount of \$1 591 million was owed to the Bank at 30 June 1997.)

**Note 8 Other assets**

Shareholding in Bank for International Settlements	70 532	79 649
Gold coin	14 976	16 117
Other	40 200	29 027
As at 30 June	125 708	124 793

**Note 9 Contingent liabilities and other items not included in the balance sheet**

**Contingencies**

The Bank has a contingent liability, amounting to \$67.6 million at 30 June 1998 (\$62.8 million at 30 June 1997), in respect of the uncalled portion of its shares held in the Bank for International Settlements.

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

**Other items**

The Reserve Bank is a respondent on appeal from a judgement given in the Bank's favour by the Federal Court. The Bank is a defendant in two common law matters. The Bank is an appellant in a case regarding a payroll tax assessment and is a respondent and third party before the Administrative Appeals Tribunal in two matters concerning workers' compensation. All cases in which the Bank is defendant or respondent are being defended, and none is judged likely to have a materially adverse effect on the activities, financial condition or operating results of the Bank.

In keeping with Commonwealth Government policy, the Bank carries its own insurance risks except where administrative costs are estimated to be excessive. Experience with self insurance claims is as follows:

	<b>Number of Claims on Bank</b>	
	<b>1997</b>	<b>1998</b>
0 – \$10 000	64	32
\$10 001 – \$20 000	1	–
\$20 001 – \$30 000	–	3
\$40 001 – \$50 000	1	–

**Note 10 Special redundancy/retirement payments**

The Bank's expenses in 1997/98 include \$29.7 million paid or payable to, or on behalf of, staff who accepted special redundancy/retirement offers. Corresponding payments in 1996/97 totalled \$12.9 million. Staff leaving the Bank in 1997/98 under these arrangements numbered 249 (195 in 1996/97).

**Note 11 Cost of executives**

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

<b>Remuneration band</b>	<b>Number 1997</b>	<b>Number 1998</b>
\$100 000 - \$109 999	1	1
\$120 000 - \$129 999	6	2
\$130 000 - \$139 999	5	7
\$140 000 - \$149 999	4	3
\$150 000 - \$159 999	2	4
\$160 000 - \$169 999		1
\$170 000 - \$179 999	1	2
\$180 000 - \$189 999	6	2
\$190 000 - \$199 999	3	4
\$200 000 - \$209 999	1	
\$220 000 - \$229 999	2	2
\$230 000 - \$239 999	1	3
\$240 000 - \$249 999	1	2
\$250 000 - \$259 999	1	
\$260 000 - \$269 999	1	
\$280 000 - \$289 999		1
\$290 000 - \$299 999		1
\$330 000 - \$339 999		1
\$340 000 - \$349 999	2	
\$380 000 - \$389 999	1	
\$400 000 - \$409 999	1*	
\$430 000 - \$439 999		1

\* Less than full year at relevant salary level.

Total remuneration received or due and receivable by these executives amounted to \$7.021 million (\$7.435 million in 1996/97). Remuneration includes cash salary, the Bank's contribution to superannuation, housing assistance, motor vehicles and health insurance and the fringe benefits tax paid or payable on these benefits.

**Note 12 Remuneration of auditor**

Fees paid or payable to the statutory auditor (Auditor-General of the Commonwealth of Australia) for audit services to the Bank totalled \$307 000 in 1997/98 (\$295 000 in 1996/97). They are included in "Consultants' fees" in Note 2, which also covers legal fees and payments made to specialists for "review and advice" services.

**Note 13 Related party and other disclosures**

The Remuneration Tribunal determines the remuneration appropriate to the Bank's non-executive Board members. In 1997/98, payments totalled \$174 782 (\$181 804 in 1996/97). In addition, \$40 853 was paid for the services of members of the Board of Note Printing Australia, who are not employees of the Bank (\$39 523 in 1996/97).

Payments made by the Bank to a prescribed superannuation fund in connection with the retirement of members of the Board totalled \$61 702 in 1997/98 (\$367 011 in 1996/97) and are included in staff costs in Note 2. They represent payments made in respect of executive members of the Board on the same bases as for other employees, and for non-executive members in terms of the Superannuation Guarantee Charge.

The Bank is not empowered to lend to non-executive members of the Board. Loans to the Governor and Deputy Governors are permitted only in terms of section 71 of the Reserve Bank Act; at 30 June 1998, there are three such loans (aggregating to \$378 260 (three loans aggregating to \$433 340 at 30 June 1997)) which have been made for homes in which the officers reside, and are on the same terms and conditions as for other officers of the Bank.

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

**Superannuation funds**

Two superannuation funds are operated pursuant to the Reserve Bank Act: the Reserve Bank of Australia Officers' Superannuation Fund (OSF) and the Reserve Bank of Australia UK Pension Scheme. A small part of the assets of the OSF are held by the Bank as nominee for the trustees of the OSF; such assets are not included in these statements. Payment of the funds' current and future benefits is funded by member and Bank contributions and the funds' existing asset bases. The Bank's contributions to the OSF in accordance with the Reserve Bank (Officers' Superannuation) Rules, and to the UK Pension Scheme in accordance with the UK Trust Deed, are included in staff costs in Note 2. Administration and other operational costs (eg salaries, overheads, legal costs and valuation fees) incurred by the Bank for superannuation arrangements are also included in Note 2. There were no other related-party transactions between the Bank and the funds during 1997/98.

At 30 June 1998, the OSF had a surplus of assets over accrued benefits of \$158 million (\$160 million at 30 June 1997). The UK Pension Scheme had a surplus equivalent to \$6.7 million (\$3.0 million at 30 June 1997). During 1997/98, the Bank made superannuation contributions of \$3.3 million (\$5.4 million in 1996/97).

**Note 13** (continued)

Details of the Funds as at 30 June 1998 are as follows:

	<b>1997</b> \$'000	<b>1998</b> \$'000
<b>Reserve Bank Officers' Superannuation Fund</b>		
Accrued benefits	446 361	410 606
Net market value of assets	606 729	568 889
Surplus	160 368	158 283
Vested benefits	448 079	414 171
<b>Reserve Bank of Australia UK Pension Scheme</b>		
Accrued benefits	15 560	18 392
Net market value of assets	18 588	25 153
Surplus	3 028	6 761
Vested benefits	16 615	20 921
<b>Total Superannuation Funds</b>		
Accrued benefits	461 921	428 998
Net market value of assets	625 317	594 042
Surplus	163 396	165 044
Vested benefits	464 694	435 092

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

**Note 14 Segment reporting**

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

## **Note 15 – Financial instruments**

Australian Accounting Standard AAS 33 Presentation & Disclosure of Financial Instruments applies to reporting periods from 31 December 1997 and is applicable to the Bank for the first time in the 1997/98 Financial Statements. The standard requires disclosure of information relating to both recognised and unrecognised financial instruments; their significance and performance; accounting policy terms and conditions; net fair values; and risk information.

A **financial instrument** is defined as any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. The identifiable financial instruments for the Bank are its domestic government securities, its foreign government securities, bank deposits, interest rate futures, foreign currency swap contracts, gold loans, notes on issue and deposit liabilities.

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

**Financial risk** of financial instruments embodies price risk (currency risk and interest rate risk); credit risk; liquidity risk; and cash flow risk. AAS 33 requires disclosure on interest rate risk and credit risk.

### **Interest rate risk**

**Interest rate risk** is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The following table shows the Bank's balance sheet restated in compliance with AAS 33.



**Note 15** (continued)

**Interest rate risk**

As at 30 June 1998

	Balance Sheet Total \$ million	Floating Interest Rate \$ million	Repricing Period \$ million				Not Bearing Interest \$ million	Weighted Average Rate %
			0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
<b>Assets</b>								
<b>Gold</b>								
Gold loans	1 145	-	587	372	186	-	-	1.8
Gold holdings	92	-	-	-	-	-	92	n/a
	<b>1 237</b>							
<b>Foreign Exchange</b>								
Securities sold under repurchase agreements	1 405	-	161	-	228	1 016	-	5.2
Securities purchased under repurchase agreements	9 969	-	9 969	-	-	-	-	4.7
Deposits and other securities	12 656	-	4 323	2 225	3 524	2 317	267	4.3
Accrued interest foreign exchange	167	-	-	-	-	-	167	n/a
	<b>24 197</b>							
<b>Domestic Government Securities</b>								
Securities sold under repurchase agreements	445	-	-	-	164	281	-	5.4
Securities purchased under repurchase agreements	9 094	-	9 094	-	-	-	-	5.0
Other securities	11 296	-	4 076	4 047	1 772	1 401	-	5.0
Accrued interest domestic government securities	177	-	-	-	-	-	177	n/a
	<b>21 012</b>							
Loans advances and bills discounted	96	78	-	-	-	-	18	3.4
Bank premises and other durable assets	274	-	-	-	-	-	274	n/a
Clearing items	284	-	-	-	-	-	284	n/a
Australian notes and coin	85	-	-	-	-	-	85	n/a
Other assets	125	-	-	-	-	-	125	n/a
<b>Total Assets</b>	<b>47 310</b>	<b>78</b>	<b>28 210</b>	<b>6 644</b>	<b>5 874</b>	<b>5 015</b>	<b>1 489</b>	<b>4.6</b>

## Note 15 (continued)

### Interest rate risk (continued)

As at 30 June 1998

	Balance Sheet Total \$ million	Floating Interest Rate \$ million	Repricing Period \$ million				Not Bearing Interest \$ million	Weighted Average Rate %
			0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
<b>Liabilities</b>								
Australian notes on issue	21 651	-	-	-	-	-	21 651	n/a
Deposits	11 073	11 073	-	-	-	-	-	2.7
Profit distribution	2 726	-	-	-	-	-	2 726	n/a
Provisions	78	-	-	-	-	-	78	n/a
Other	1 953	-	1 887	-	-	-	66	4.3
<b>Total Liabilities</b>	<b>37 481</b>	<b>11 073</b>	<b>1 887</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>24 521</b>	<b>1.0</b>
Capital and Reserves	9 829	-	-	-	-	-	-	n/a
<b>Total Balance Sheet</b>	<b>47 310</b>							
<b>Off Balance Sheet Items</b>								
Interest Rate Futures*	(1 864)	-	(877)	-	-	(987)	-	n/a

Other liabilities includes amounts outstanding under Sale Repurchase Agreements.

All recognised financial instruments are shown at net fair value.

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

All financial instruments are shown at their repricing period. Repricing period is equivalent to maturity period except for some holdings of domestic government securities (which appear in the 0 to 3 months category):

Approximately \$1.7 billion has a maturity period of 1 to 5 years

Approximately \$90 million has a maturity period of over 5 years.

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

### Credit risk

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

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

As part of an IMF support package during 1997/98 the Bank undertook a series of foreign currency swaps with the Bank of Thailand. The Bank provided United States dollars, receiving Thai Baht in exchange. The amount outstanding on the swaps at 30 June 1998 was the equivalent of 1.2 billion Australian dollars, on which the Bank is earning a yield of 5.33%. The swaps represent 2.5% of the Bank's total assets as at 30 June 1998.

## Note 15 (continued)

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

**Foreign exchange swaps** As at 30 June 1998 the Bank was under contract to purchase \$6.5 billion of foreign currency and sell \$14.2 billion of foreign currency. As of that date there was an unrealised net gain of \$79.8 million on these swap positions. The credit risk exposure of these contracts is the cost of re-establishing the contract in the market in the event of the failure of the counterparty to fulfil their obligations.

**Interest rate futures** As at 30 June 1998 about 9% of the Bank's foreign currency reserves (excluding gold) were hedged through interest rate futures contracts. The amount of credit risk on these contracts is approximately \$9.3 million. As at 30 June 1998 there was an unrealised gain on those contracts of \$1.4 million.

### Concentration of credit risk

The Bank operates to minimise its credit risk exposure through comprehensive risk management policy guidelines. The following table indicates the concentration of credit risk in the Bank's investment portfolio. See Notes 1(b), 1(c) and 1(d).

### Credit Risk Table

Security type	Risk rating of security issuer*	Risk rating of counterparties*	% of total asset portfolio
<b>Domestic government securities</b>			
Holdings of Commonwealth Government Securities	AAA	n/a	24.2
Securities sold under repurchase agreements	AAA	AAA	0.2
	AAA	AA	0.5
	AAA	other	0.3
Securities held under repurchase agreements	AAA	AAA	3.6
	AAA	AA	10.0
	AAA	other	2.7
	AA	AAA	0.1
	AA	AA	2.1
	AA	other	0.7
	other	other	0.2
<b>Foreign investments</b>			
Holdings of securities	AAA	n/a	18.1
Securities sold under repurchase agreements	AAA	AA	2.6
	AAA	other	0.5
Securities held under repurchase agreements	AAA	AA	13.4
	AAA	other	9.5
Deposits	n/a	AAA	0.6
	n/a	AA	4.2
	n/a	other	2.5
<b>Gold loans</b>	n/a	AAA	0.3
	n/a	AA	0.7
	n/a	other	1.4
Other			1.6
			<u>100</u>

\* Standard & Poor's ratings

## **Note 16 Change in accounting policy – investments**

During 1997/98 the Bank conducted a detailed accounting review of the makeup, conditions and turnover associated with the domestic government securities portfolio; the results of this review were:

- the portfolio is now more actively managed;
- there are no explicit restrictions on the Bank taking profit when the opportunity exists, provided this is within the overall broader monetary policy framework of the Bank;
- there is regular movement and turnover in the portfolio;
- the securities are marketable securities.

Based on the results of this review the Bank has determined that the domestic government securities portfolio ought to be treated as current assets. From 1 July 1997, the Bank has therefore commenced accounting for all gains, both realised and unrealised, through the Profit and Loss Account. This change also results in domestic government securities being accounted for on a consistent basis with foreign exchange investments, and thus lends clarity and transparency to the financial statements.

Up to and including 1996/97 unrealised gains/losses on investments (gold and foreign exchange and domestic government securities) were passed to/from revaluation reserves provided market price was greater than cost. The accounting policies included treating domestic government securities as non-current assets. That part of the Investments Revaluation Reserve and/or Foreign Currency Revaluation Reserve relating to investments and/or currencies disposed of in the course of the financial year was transferred to the Profit and Loss Account for inclusion in the calculation of net operating earnings. This treatment allowed all realised gains to be distributed in terms of the Reserve Bank Act.

With recent changes to the Reserve Bank Act, the Bank is now required to retain unrealised gains until they are actually realised, and this had made possible the recognition of gains during the year in the profit and loss account. As of 1 July 1997, the Bank made the following changes to its accounting policy for investments:

- Foreign exchange investments are now accounted for in terms of AAS 20 – all gains and losses are recognised in the profit and loss account when they arise;
- Gold investments are now accounted for in terms of AAS 10 – the Bank will continue to use an asset revaluation reserve to recognise unrealised gains, and transfer any realised gains to the Profit and Loss Appropriation Account;
- Domestic investments – all gains and losses are recognised in the profit and loss account when they arise.

The following table shows the effect of the change in accounting policy on the 1997 published figures.

	\$'000	\$'000
<b>Asset Revaluation Reserves</b>		
As published at 30 June 1997		2 390 715
Transfer to Profit and Loss Account of unrealised gains due to change in accounting policy		
Foreign currency	(428 194)	
Foreign investments	(22 764)	
Domestic investments	(211 472)	(662 430)
Restated as at 30 June 1997		<u>1 728 285</u>
<b>Net Profit</b>		
As published at 30 June 1997 (before transfer to Reserve for Contingencies and General Purposes)		3 704 737
Add transfer of unrealised gains from Asset Revaluation Reserves due to change in accounting policy		
Foreign currency	428 194	
Foreign investments	22 764	
Domestic investments	211 472	662 430
Less transfer to Profit and Loss Appropriation of realised profits on gold sales, due to change in accounting policy		(1 637 490)
Restated as at 30 June 1997		<u>2 729 677</u>
<b>Profit and Loss Appropriation Account</b>		
Restated Net Profit at 30 June 1997		2 729 677
Transfer to Unrealised Profits Reserve due to change in accounting policy		(662 430)
Transfer from Profit and Loss Account of realised profit on gold sales due to change in accounting policy		1 637 490
Available for distribution at 30 June 1997 (unchanged)		<u>3 704 737</u>
Net Profits appropriated as follows:		
Reserve for Contingencies and General Purposes (amount unchanged, but previously disclosed at end of Note 2)		367 247
Reserve Bank Reserve Fund (unchanged)		1 637 490
Commonwealth of Australia (unchanged)		1 700 000
Total		<u>3 704 737</u>

## Note 17 Cash flow statement

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

### Statement of Cash Flows for the financial year ended 30 June 1998

	<b>1997</b> Inflow/(outflow) \$'000	<b>1998</b> Inflow/(outflow) \$'000
<b>Cash flow from operating activities</b>		
Interest received on investments	2 164 899	2 449 953
Interest received on loans, advances, etc. and on net overnight settlements systems	7 527	29 262
Loan management reimbursement	2 698	2 290
Banking service fees received from Commonwealth	13 763	16 038
Rents received	5 721	6 660
Net payments for and proceeds from sale of investments	(14 037 063)	4 435 389
Interest paid on deposit liabilities	(592 125)	(276 189)
Staff costs (including redundancy)	(120 103)	(130 609)
IMF Maintenance of Value adjustment	61 998	20 004
Premises, equipment and stores	(22 851)	(26 138)
Other	38 006	35 543
Net cash provided by operating activities	(12 477 530)	6 562 203
<b>Cash flows from investment activities</b>		
Net expenditure on premises and durable assets	(9 996)	(687)
Net cash used in investing activities	(9 996)	(687)
<b>Cash flows from financing activities</b>		
Profit payment to Commonwealth	(2 135 807)	(1 700 000)
Net movement in clearing items	89	-
Net movement in deposit liabilities	11 962 727	(8 209 029)
Net movement in Special Reserve - IMF SDRs	(15 470)	-
Net movement in loans and advances	(8 619)	11 533
Net movement in notes on issue	882 044	1 586 647
Proceeds from gold sales	1 822 749	608 327
Other	198 392	(159 560)
Net cash provided by financing activities	12 706 105	(7 862 082)
Net increase/(decrease) in cash	218 579	(1 300 566)
Cash at beginning of financial year	1 451 474	1 670 053
Cash at end of financial year	1 670 053	369 487

**Note 17** (continued)

<b>Reconciliation of Cash</b>	<b>1997</b> <b>\$'000</b>	<b>1998</b> <b>\$'000</b>
Cash	79 040	85 041
Overnight settlements system	1 591 013	284 446
	<u>1 670 053</u>	<u>369 487</u>
<b>Reconciliation of net cash provided by operating activities to Net Profit</b>		
	<b>1997</b> <b>\$'000</b>	<b>1998</b> <b>\$'000</b>
Net Profit	2 729 677	4 402 977
Increase in interest payable	36 185	(28 164)
Increase in interest receivable	(135)	645
Gain on sale of foreign currency	(126 847)	(830 263)
Gain on sale of investments	(225 431)	(118 953)
Unrealised gains on investments	(662 430)	(1 686 606)
Increase in income accrued on investments	(247 776)	347 502
Depreciation of Bank premises	7 091	7 145
Depreciation of durable assets	6 864	6 547
IMF Maintenance of Value adjustment (including accrual to end June)	42 851	34 632
Net payments for and proceeds from sale of domestic and foreign investments	(14 037 063)	4 435 389
Other	(516)	(8 648)
Net cash provided by operating activities	<u>(12 477 530)</u>	<u>6 562 203</u>


**IJ Macfarlane**

Chairman, Reserve Bank Board

6 August 1998



Auditor-General for Australia



## INDEPENDENT AUDIT REPORT

### To the Treasurer

#### Scope

I have audited the financial statements of the Reserve Bank of Australia for the year ended 30 June 1998. The financial statements comprise:

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

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

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

As indicated in Note 1, the financial statements have been prepared, under transitional provisions contained in legislation associated with the *Commonwealth Authorities and Companies Act 1997*, in accordance with requirements existing immediately before 1 January 1998. Under those transitional provisions, this audit report also reflects the requirements of the then existing subsection 81(2) of the *Reserve Bank Act 1959*.

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

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**Audit Opinion**

I now report that the financial statements are in agreement with the accounts and records of the Bank and, in my opinion:

- (i) the financial statements are based on proper accounts and records; and
- (ii) the financial statements give a true and fair view, in accordance with applicable Accounting Standards, other mandatory professional reporting requirements and statutory requirements, of the financial position of the Reserve Bank of Australia as at 30 June 1998 and the results of its operations and its cash flows for the year then ended.



R. J. Barrett  
Auditor-General

Sydney

6 August, 1998