Financial Statements

For the year ended 30 June 2013

Directors' Statement

In the opinion of the directors, the financial statements for the year ended 30 June 2013 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
Chairman, Reserve Bank Board
2 September 2013

Frank Campbell
Assistant Governor (Corporate Services)

Statement of Financial Position – as at 30 June 2013

Reserve Bank of Australia and Controlled Entities

	Note	2013 $M	2012 $M
Assets			
Cash and cash equivalents	6	137	164
Australian dollar securities	1(b), 15	43 249	32 648
Foreign exchange	1(b), 15	50 930	43 296
Gold	1(c), 15	3 299	4 027
Property, plant and equipment	1(d), 8	491	448
Loans, advances and other assets	7	421	496
Total Assets		98 527	81 079
Liabilities			
Deposits	1(b), 9	26 183	18 000
Distribution payable to the Commonwealth	1(f), 3	–	500
Other liabilities	10	5 389	2 615
Australian notes on issue	1(b), 15	56 943	53 595
Total Liabilities		88 515	74 710
Net Assets		10 012	6 369
Capital and Reserves			
Reserves:			
Unrealised profits reserve	1(e), 5	3 766	41
Asset revaluation reserves	1(e), 5	3 705	4 375
Reserve Bank Reserve Fund	1(e), 5	2 501	1 913
Capital	1(e), 5	40	40
Total Capital and Reserves		10 012	6 369

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

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

Reserve Bank of Australia and Controlled Entities

	Note	2013 $M	2012 $M
Revenue			
Interest revenue	2	1 642	1 875
Net gains on securities and foreign exchange	2	3 662	386
Dividend revenue	2	5	4
Fees and commissions	2	28	24
Other income	2	138	97
Total Revenue		5 475	2 386
Expenses			
Interest expense	2	708	889
General administrative expenses	2	410	377
Other expenses	2	44	44
Total Expenses		1 162	1 310
Net Profit		4 313	1 076
Other Comprehensive Income			
Items that may be reclassified to profit or loss			
Gains/(losses) on:			
Gold	5	(727)	427
Shares in international and other institutions	5	42	23
		(685)	450
Items that will not be reclassified to profit or loss			
Gains/(losses) on:			
Property, plant and equipment	5	15	4
Total Other Comprehensive Income		(670)	454
Total Comprehensive Income		3 643	1 530

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

Statement of Distribution – for the year ended 30 June 2013

Reserve Bank of Australia and Controlled Entities

	Note	2013 $M	2012 $M
Net Profit		4 313	1 076
Transfer (to)/from unrealised profits reserve	5	(3 725)	20
Earnings available for distribution		588	1 096
Distributed as follows:			
Transfer to Reserve Bank Reserve Fund	5	588	596
Payable to the Commonwealth	3	–	500
		588	1 096

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

Statement of Changes in Capital and Reserves – for the year ended 30 June 2013

Reserve Bank of Australia and Controlled Entities

	Note	Asset revaluation reserves $M	Unrealised profits reserve $M	Reserve Bank Reserve Fund $M	Capital $M	Earnings available for distribution $M	Total capital and reserves $M
Balance as at 30 June 2011		3 921	61	1 317	40	–	5 339
Plus:							
Net Profit/(Loss)	2	–	(20)	–	–	1 096	1 076
Gains/(losses) on:							
Gold	5	427					427
Shares in international and other institutions	5	23					23
Property, plant and equipment	5	4					4
Other comprehensive income		454					454
Total comprehensive income for 2011/12							1 530
Less:							
Transfer to Reserve Bank Reserve Fund	3	–	–	596	–	(596)	–
Transfer to distribution payable to the Commonwealth	3	–	–	–	–	(500)	(500)
Balance as at 30 June 2012		4 375	41	1 913	40	–	6 369
Plus:							
Net Profit/(Loss)	2	–	3 725	–	–	588	4 313
Gains/(losses) on:							
Gold	5	(727)					(727)
Shares in international and other institutions	5	42					42
Property, plant and equipment	5	15					15
Other comprehensive income		(670)					(670)
Total comprehensive income for 2012/13							3 643
Less:							
Transfer to Reserve Bank Reserve Fund	3	–	–	588	–	(588)	–
Transfer to distribution payable to the Commonwealth	3	–	–	–	–	–	–
Balance as at 30 June 2013		3 705	3 766	2 501	40	–	10 012

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

Cash Flow Statement – for the year ended 30 June 2013

Reserve Bank of Australia and Controlled Entities

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

	Note	2013 Inflow/ (outflow) $M	2012 Inflow/ (outflow) $M
Cash flows from operating activities			
Interest received on investments		1 655	1 961
Interest received on loans, advances and on net overnight settlements balances		30	41
Loan management reimbursement		1	1
Banking service fees received		28	23
Dividends received		5	9
Rents received		9	9
Net payments for investments		(11 592)	(5 957)
Cash collateral received/(pledged)		(253)	–
Interest paid on deposit liabilities		(611)	(778)
Interest paid on currency note holdings of banks		(89)	(123)
Staff costs (including redundancy)		(198)	(184)
Premises and equipment		(41)	(38)
Other		(28)	(24)
Net cash used in operating activities	6	(11 084)	(5 060)
Cash flows from investment activities			
Proceeds from the sale of Securency		75	–
Net expenditure on property, plant and equipment		(50)	(17)
Net cash provided by investment activities		25	(17)
Cash flows from financing activities			
Distribution to the Commonwealth		(500)	–
Net movement in deposit liabilities		8 183	496
Net movement in loans and advances		1	–
Net movement in notes on issue		3 348	3 536
Net cash provided by financing activities		11 032	4 032
Net increase/(decrease) in cash		(27)	(1 045)
Cash at beginning of financial year		164	1 209
Cash at end of financial year	6	137	164

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

Notes to and Forming Part of the Financial Statements – 30 June 2013

Reserve Bank of Australia and Controlled Entities

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 2013 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. These financial statements comply fully with International Financial Reporting Standards. The RBA has not sought any exemptions from the requirements of the FMOs in 2012/13. 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 2013.

These financial statements and attached notes are a general purpose financial report prepared in accordance with relevant AAS. Elections as to the accounting treatment under AAS made by the Bank 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 properties, plant and equipment. Revenue and expenses are brought to account on an accruals basis. All revenues, expenses and profits of the RBA are from ordinary activities.

These financial statements were approved and authorised for issue by a resolution of the Reserve Bank Board on 6 August 2013.

(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 2013 were \$135.7 million, \$23.4 million and \$112.3 million, respectively (\$151.2 million, \$37.8 million and \$113.4 million as at 30 June 2012).

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

Innovia Security Pty Ltd (formerly Securency International Pty Ltd)

The RBA formerly held 50 per cent of the shares in Securency International Pty Ltd (Securency). The other 50 per cent was owned by Innovia Films, a UK-based film manufacturer. In November 2010, the RBA announced it was pursuing with Innovia Films a joint sale of Securency. This process was terminated late in 2011, after Innovia advised the Bank that it no longer intended to sell its share. Subsequently, the Bank pursued the sale of its interest in Securency. On 28 February 2013, the RBA completed the sale of this interest to a related entity of Innovia Films (refer Note 7). The RBA's investment in Securency was classified in its financial statements as at 30 June 2012 as held for sale, in accordance with AASB 5 – *Non-current Assets Held for Sale and Discontinued Operations*. This was based on the expectation that the carrying amount of the asset would be recovered through a sale transaction within one year.

Legal issues

During 2011 charges were laid against several former employees of NPA and Securency, and against the companies, alleging that they had conspired to provide, or offer to provide, benefits to foreign public officials that were not legitimately due. Further charges were laid against several former NPA employees in March 2013. The RBA has accounted for these matters in accordance with the relevant accounting standards. Specific information relating to the charges and associated costs has not been disclosed in the notes to the accounts as 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, 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*.

The RBA brings its securities transactions and foreign exchange transactions to account on a trade date basis; that is, it recognises the effects of purchases and sales of these securities in the Statement of Financial Position and Statement of Comprehensive Income on the date these transactions are arranged (not when the transactions are settled). Bank deposits and repurchase agreements are brought to account on settlement date.

Financial assets

Australian dollar securities

The RBA holds Commonwealth Government Securities and securities issued by the central borrowing authorities of state and territory governments. These holdings include fixed coupon, inflation indexed and discount securities. It also holds under repurchase agreements: bank bills, certificates of deposit and debt securities of authorised deposit-taking institutions licensed in Australia; Australian dollar-denominated securities issued by foreign governments, foreign government agencies that have an explicit government guarantee (or equivalent support) and by certain highly rated supranational organisations; and eligible Australian dollar domestic residential and commercial mortgage-backed securities, asset-backed commercial paper and corporate securities.

Domestic securities, except those held under buy repurchase agreements, are classified under AASB 139 as 'at fair value through profit or loss', as they are held for 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(f)). Interest earned on the securities is accrued over the term of the security and included as revenue in the Statement of Comprehensive Income.

Interest on fixed coupon securities is received biannually at the coupon rate and the principal is received at maturity. Inflation indexed bonds are coupon securities with the nominal value of the security indexed in line with movements in the Consumer Price Index each quarter until maturity; interest is paid quarterly. Interest earned on discount securities is the difference between the purchase cost and the face value of the security; this is accrued over the term 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 and Japan, and deposits with the BIS and other central banks. The RBA engages 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(f)). Interest revenue and expenses and revaluation gains and losses on foreign currency assets and liabilities are converted to Australian dollars using the relevant market exchange rate on the date they are accrued or recognised, in accordance with AASB 121.

Foreign government securities

Foreign government securities comprise coupon and discount securities. Coupon securities have biannual or annual interest payments depending on the currency and type of security; the principal of these securities is received at maturity. Interest earned on discount securities is the difference between the purchase cost and the face value of the security; this is accrued over the term the securities are held. The face value is received at maturity. Foreign securities, except those held under buy repurchase agreements, are classified under AASB 139 as 'at fair value through profit or loss', as they are held for trading in the course of managing the portfolio of foreign exchange reserves. In accordance with this standard, the securities are valued at market bid prices on balance date; realised and unrealised gains or losses are taken to profit. Only realised gains and losses are available for distribution in accordance with the Reserve Bank Act (Note 1(f)). Interest earned on securities is accrued over the term of the security as revenue in the Statement of Comprehensive Income.

Foreign deposits

The RBA invests part of its foreign currency reserves in deposits with the 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).

Buy repurchase agreements

In the course of its financial market operations, the RBA engages in repurchase agreements involving foreign and Australian dollar marketable securities. Securities purchased and contracted for sale under buy repurchase agreements are classified under AASB 139 as 'loans and receivables' and valued at amortised cost. If the Bank enters into a buy repurchase agreement, the Bank records a receivable equal to the consideration paid; this is the equivalent of fair value. The difference between the purchase and sale price is accrued over the term of the agreement and recognised as interest revenue (see page 91 for the treatment of sell repurchase agreements).

Foreign currency swaps

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

Interest rate futures

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

Interest rate futures positions are classified under AASB 139 as 'at fair value through profit or loss'. In accordance with this standard, futures positions are marked to market on balance date at the relevant bid or offer price and valuation gains and losses taken to profit. Only realised gains and losses are available for distribution in accordance with the Reserve Bank Act (Note 1(f)).

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 and other institutions (Note 5). The fair value is estimated on the basis of the 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 include deposits at call and term deposits. Deposits are classified as financial liabilities under AASB 139. Deposit balances are shown at their amortised cost, which is equivalent to their face value. Interest is accrued over the term of deposits and is paid periodically or at maturity. Interest accrued but not paid is included in Other Liabilities (Note 10). Details of deposits are included in Note 9.

Australian notes on issue

Notes on issue are recorded at face value. Prior to 2005/06, the RBA periodically adjusted its liability for note series that had ceased to be issued – to reflect the likelihood that the remaining notes on issue from these series would not be presented for redemption – and the gains were included in accounting profits. If the written-down notes are subsequently presented, the RBA charges an expense against profits. In 2012/13, notes with a face value of $208 491, which had previously been written down, were presented to the RBA and expensed ($254 636 in 2011/12).

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

Costs related to the production of currency notes are included in General Administrative Expenses in Note 2.

Sell repurchase agreements

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

(c) Gold

Gold holdings (including gold on loan to other institutions) are valued at the Australian dollar equivalent of the 3 pm fix in the London gold market on balance date. Revaluation gains and losses on gold are transferred to the gold revaluation reserve. The RBA lends gold to financial institutions participating in the gold market. As outlined in Note 1(b), gold loans are a financial instrument and the RBA accounts for them in accordance with AASB 139 and reports these loans under AASB 7.

(d) Property, plant and equipment

The RBA accounts for its property, plant and equipment at fair value in accordance with AASB 116 – *Property, Plant and Equipment*. 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, to the extent that the gains offset prior losses treated as an expense.

Property

Formal valuations of all the RBA's Australian properties are conducted annually; overseas properties are formally valued on a triennial basis. Australian properties are valued by an independent valuer; overseas properties are valued by local independent valuers. The most recent independent valuation of overseas properties was at 30 June 2013. In accordance with AASB 116, properties are recognised at fair value, which reflects observable prices and is based on the assumption that assets would be exchanged between knowledgeable, willing parties at arm's length. The value of the RBA's property at Craigieburn reflects fair value based on the renegotiation in 2012/13 of leases with NPA and Innovia Security, the tenants of this property. These leases are on commercial terms. The fair value of the Craigieburn property had previously been determined on the basis of vacant possession.

Reflecting its specialised nature, the RBA's Business Resumption Site in outer metropolitan Sydney continues to be valued on a depreciated replacement cost basis. The latest valuations have been incorporated in the accounts. Annual depreciation is based on fair values and assessments of the useful remaining life of the relevant asset, determined by the independent valuer.

Plant and equipment

Plant and equipment is valued by independent valuers on a triennial basis. The most recent independent valuation was at 30 June 2011. Between revaluations, plant and equipment is carried at the most recent valuation less any subsequent depreciation. Annual depreciation is based on fair values and the RBA's assessments of the useful remaining life of individual assets.

Computer software and other intangible assets are accounted for in accordance with AASB 138 – *Intangible Assets*. Intangibles are recognised at cost less accumulated amortisation, which is calculated on the basis of the estimated useful life of the relevant assets. Amortisation expense for intangibles is included in Other Expenses in Note 2.

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

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

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

(e) Capital and Reserves

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

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 to which the RBA is exposed, including fraud and operational risk. This reserve is funded 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 credited to the RBRF from earnings available for distribution (refer Note 1(f)). As accounting losses in 2009/10 and 2010/11 reduced this reserve, the Board will, over time, seek to restore its balance from future profits to a level that it regards as satisfactory.

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

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

When calculating distributable earnings, unrealised losses that exceed the balance held in the Unrealised Profits Reserve are initially charged against other components of income, consistent with the Reserve Bank Act.

Unrealised gains and losses on the asset which represents the staff superannuation funds are also recognised in the Statement of Comprehensive Income in accordance with the 'corridor' approach under AASB 119 – *Employee Benefits*. These amounts are reflected in the Unrealised Profits Reserve (refer Note 1(h)). A sum of $70.7 million, representing an unrealised loss on the RBA's superannuation asset, was transferred to this reserve in 2012/13.

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 until the gains are realised through the sale of the relevant asset.

(f) 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.

(g) Provisions

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

(h) Superannuation funds

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

(i) Rounding

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

(j) New and revised accounting standards

A number of new and revised accounting standards will be applied from 1 July 2013. The RBA's assessment of the main effects of these standards on its financial statements is set out below.

AASB 119 – Employee Benefits and AASB 2011-10 – Amendments to Australian Accounting Standards

Revisions to AASB 119 and AASB 2011-10 will amend the basis for recognising and measuring employee benefits, in particular post-employment benefits. As a result of the change, the 'corridor' approach is no longer available to account for the remeasurement of defined benefit superannuation obligations. Accordingly, service costs and net interest amounts will be recognised in net profit. The calculation of net interest has also been amended and is to be calculated by applying the discount rate to the net defined benefit liability. Actuarial gains and losses will be recognised as part of other comprehensive income in the reporting period in which they occur.

Based on current estimates, application of the revised standard would have resulted in the recognition of a superannuation liability of $370.9 million as at 30 June 2013 (compared with a liability of $668.5 million had the standard been applied as at 30 June 2012) as well as a corresponding adjustment to the RBA's total comprehensive income. Additional narrative disclosures will also be required to be made in the notes to the financial statements around the RBA's defined benefit obligations.

The revised standard also amends the recognition and measurement of short-term and long-term employee benefits. These changes are not expected to have a material effect on the RBA's financial statements.

The revised AASB 119 will be applied in the RBA's financial statements for the year ending 30 June 2014.

AASB 13 – Fair Value Measurement

AASB 13 provides a framework for measuring fair value. The standard is not expected to have a material effect on the RBA's financial statements but will require additional disclosures to be made around fair value measurements contained in the notes to the financial statements. AASB 13 will be first applied in the RBA's financial statements for the year ending 30 June 2014.

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 Bank is assessing the impact of the new standard, which will first become applicable for annual reporting periods beginning on or after 1 January 2015.

Note 2 – Net Profits

	Note	2013 $M	2012 $M
Interest revenue			
Foreign investments	1(b), 4	213	325
Australian dollar securities	1(b), 4	1 398	1 508
Overnight settlements	4	30	41
Loans, advances and other	4	1	1
		1 642	1 875
Net gains/(losses) on securities and foreign exchange			
Foreign investments	1(b)	(70)	426
Australian dollar securities	1(b)	(244)	188
Foreign currency	1(b)	3 976	(228)
		3 662	386
Dividend revenue			
Investment in Bank for International Settlements	1(b)	5	4
Fees and commissions			
Banking services fees received		28	24
Other income			
Reimbursement by Australian Government for loan management and registry expenses		1	1
Rental of Bank premises		9	9
Sales of note and security products		79	66
Gain on the sale of Securency		21	–
Other		28	21
		138	97
Total		5 475	2 386
Less:			
Interest expense			
Deposit liabilities	1(b), 4	614	753
Currency note holdings of banks	1(b), 4	89	123
Cash collateral received	1(b), 4	2	–
Repurchase agreements	1(b), 4	3	13
		708	889
General administrative expenses			
Staff costs		153	199
Superannuation costs	1(h), 14	97	45
Special redundancy/retirement payments		6	2
Depreciation of property	1(d), 8	8	7
Depreciation of plant and equipment	1(d), 8	19	18
Premises and equipment	1(d)	41	38
Materials used in note and security products	1(b)	70	48
Travel		3	3
Consultants' fees, legal fees and payments to contractors		6	8
Other		7	9
		410	377

Note 2 – Net Profits (continued)

	Note	2013 $M	2012 $M
Other expenses			
Agency business reimbursement		12	7
Subsidiary income tax		–	3
Cash distribution expenses		5	5
Other		27	29
		44	44
Total		1 162	1 310
Net Profit		4 313	1 076

Staff costs in 2012/13 include a credit of $20.6 million associated with the decrease in the balance of the provision for post-employment benefits, mostly from post-employment health insurance (in 2011/12 there was an expense of $34.4 million) (refer Note 10). The large decrease in these provisions mainly reflected the increase in the discount rate, as measured by the yield on Commonwealth Government bonds.

The RBA's aggregate research and development expenditure recognised as an expense in 2012/13 was $0.7 million ($0.6 million in 2011/12); this is included in Other Expenses.

Comparative figures for staff costs and other expenses have been reclassified. Staff costs and other expenses in 2011/12 were previously shown as $192 million and $36 million, respectively.

Note 3 – Distribution Payable to the Commonwealth

Section 30 of the Reserve Bank Act requires that the net profits of the Reserve Bank of Australia, less amounts set aside for contingencies or placed to the credit of the RBRF as determined by the Treasurer after consultation with the Board, shall be paid to the Commonwealth (see Note 1(f)). 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 2012/13, the Bank recorded an accounting profit of $4 313 million. Earnings available for distribution were $588 million, comprising underlying earnings of $723 million minus realised losses of $135 million. Unrealised gains of $3 725 million were transferred to the Unrealised Profits Reserve.

After consulting the Reserve Bank Board, the Treasurer has determined that all earnings available for distribution in 2012/13, a sum of $588 million, are to be placed to the credit of the RBRF, consistent with the Board's aim of restoring the reserve. As a result, no dividend will be paid to the Commonwealth from earnings in 2012/13. A dividend of $500 million was distributed from 2011/12 earnings to the Commonwealth in September 2012.

Note 3 – Distribution Payable to the Commonwealth (continued)

	2013 $M	2012 $M
Opening balance	500	–
Distribution to the Commonwealth	(500)	–
Transfer from Statement of Distribution	–	500
As at 30 June	–	500

Note 4 – Interest Revenue and Interest Expense

Analysis for the year ended 30 June 2013

	Average balance $M	Interest $M	Average annual interest rate %
Interest revenue			
Foreign investments	41 439	213	0.5
Australian dollar securities	36 738	1 398	3.8
Overnight settlements	1 029	30	2.9
Loans, advances and other	20	1	2.9
	79 226	1 642	2.1
Interest expense			
Exchange Settlement balances	1 120	32	2.9
Deposits from governments	17 891	552	3.1
Deposits from overseas institutions	1 223	29	2.3
Currency note holdings of banks	3 112	89	2.9
Foreign repurchase agreements	1 884	1	0.0
Australian dollar repurchase agreements	73	2	3.1
Cash collateral received	156	2	3.0
Other deposits	29	1	1.9
	25 488	708	2.8
Analysis for the year ended 30 June 2012			
Interest revenue total	75 837	1 875	2.5
Interest expense total	22 890	889	3.9

Interest revenue for 2012/13 includes $857 million calculated using the effective interest method for financial assets not at fair value through profit and loss ($1 138 million in 2011/12). Interest expense for 2012/13 includes $708 million calculated using the effective interest method for financial liabilities not at fair value through profit and loss ($889 million in 2011/12).

Note 5 – Capital and Reserves

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

	Note	2013 $M	2012 $M
Asset revaluation reserves			
Gold	1(c)		
Opening balance		3 900	3 473
Net revaluation adjustments		(727)	427
As at 30 June		3 173	3 900
Shares in international financial institutions	1(b), 7		
Opening balance		282	259
Net revaluation adjustments		42	23
As at 30 June		324	282
Property, plant and equipment	1(d), 8		
Opening balance		193	189
Net revaluation adjustments		15	4
As at 30 June		208	193
Total asset revaluation reserves	1(e)		
Opening balance		4 375	3 921
Net revaluation adjustments		(670)	454
As at 30 June		3 705	4 375
Unrealised profits reserve	1(e)		
Opening balance		41	61
Net transfers (to)/from Statement of Distribution		3 725	(20)
As at 30 June		3 766	41
Reserve Bank Reserve Fund	1(e)		
Opening balance		1 913	1 317
Transfers (to)/from Statement of Distribution		588	596
As at 30 June		2 501	1 913
Capital			
Opening and closing balance		40	40

Note 6 – Cash and Cash Equivalents

This includes net amounts of $115 million owed to the RBA for overnight clearances of financial transactions through the clearing houses; an amount of $135 million was owed to the RBA at 30 June 2012. Other cash and cash equivalents includes 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.

	2013 $M	2012 $M
Cash	22	29
Overnight settlements	115	135
	137	164

Reconciliation of net cash used in operating activities to Net Profits	Note	2013 $M	2012 $M
Net Profit		4 313	1 076
Increase/(decrease) in interest payable		5	(25)
Net loss/(gain) on overseas investments	2	70	(426)
Net loss/(gain) on Australian dollar securities	2	244	(188)
Net loss/(gain) on foreign currency	2	(3 976)	228
Decrease/(increase) in income accrued on investments		47	140
Cash collateral received/(pledged)		(253)	–
Depreciation of property	8	8	7
Depreciation of plant and equipment	8	19	18
Net payments for investments		(11 592)	(5 957)
Other		31	67
Net cash used in operating activities		(11 084)	(5 060)

Note 7 – Loans, Advances and Other Assets

	Note	2013 $M	2012 $M
Shareholding in Bank for International Settlements	1(b)	367	325
Superannuation asset	1(h), 14	–	41
Officers' Home Advances		4	5
Investment in Securency	1(a)	–	54
Computer software and other intangibles	1(d)	21	16
Other		29	55
As at 30 June		421	496

In February 2013, the RBA completed the sale of its 50 per cent shareholding in Securency (now Innovia Security Pty Ltd) to a related entity of Innovia Films, a UK-based film manufacturer and the owner of the remaining 50 per cent shareholding in Securency.

The sale of the RBA's interest in Securency is in accordance with its longstanding intention to exit from its shareholding once Securency had established itself as a viable long-term supplier in the international market for banknote substrate. The sale brings to a conclusion the process that had commenced in late 2010 with the RBA and Innovia Films announcing their intention to undertake a joint sale of Securency. Subsequent to this announcement, Innovia Films advised that it no longer wished to sell its 50 per cent shareholding and made an offer to purchase the RBA's shareholding.

Under the terms of the sale, the RBA has to date received payments of $75.4 million for its shareholding. This amount exceeds the value of the RBA's investment in Securency of $53.9 million recorded in its 2011/12 financial statements. The gain on sale is included as part of Other Income. Additional payments may be made to the Bank over the following years, including if Innovia Security exceeds certain earnings benchmarks. Because the possibility of such additional payments is uncertain, they are not recognised in the Statement of Financial Position.

The RBA may also recover certain funds currently held in escrow to satisfy potential liabilities of Innovia Security relating to events prior to the sale if such liabilities do not materialise. The RBA has provided the purchaser with a number of indemnities for the period during which Securency was jointly owned (refer Note 11).

In conjunction with the sale of Securency, NPA has entered into a long-term supply contract with Innovia Security to supply polymer substrate, including for Australia's next generation of banknotes.

During 2012/13, the RBA acquired $1.8 million of computer software and intangibles ($3.0 million in 2011/12) and amortised $2.8 million ($2.3 million in 2011/12). At 30 June 2013, the gross book value of the RBA's computer software and intangibles amounted to $33.7 million and accumulated amortisation on these assets was $12.6 million ($27.1 million and $10.9 million, respectively, at 30 June 2012). The RBA had contractual commitments of $0.4 million as at 30 June 2013 for the acquisition of computer software and other intangibles (nil at 30 June 2012).

As at 30 June 2013, other assets included receivables of $20.8 million, none of which are impaired (at 30 June 2012 other assets included receivables of $32.2 million).

Note 8 – Property, Plant and Equipment

	Land $M	Buildings $M	Plant and Equipment $M	Total $M
Gross Book Value as at 30 June 2012	132	199	150	481
Accumulated depreciation	–	–	(33)	(33)
Net Book Value	132	199	117	448
Additions	–	5	45	50
Depreciation expense	–	(8)	(19)	(27)
Net revaluation increment/(decrement)	(2)	23	–	21
Disposals	–	–	(1)	(1)
Net additions to net book value	(2)	20	25	43
Gross Book Value as at 30 June 2013	130	219	190	539
Accumulated depreciation	–	–	(48)	(48)
Net Book Value	130	219	142	491

The net book value of buildings as at 30 June 2013 includes expenditure of $3.9 million on work in progress which has been capitalised in the carrying amount of these assets ($4.0 million as at 30 June 2012). Additions include expenditure of $40.0 million on work in progress during 2012/13 ($6.8 million in 2011/12).

As at 30 June 2013, the RBA had contractual commitments of $12.0 million to acquire plant and equipment ($6.7 million at 30 June 2012); contractual commitments of $7.6 million are due within one year ($6.7 million in 2011/12).

Note 9 – Deposits

	2013 $M	2012 $M
Banks' Exchange Settlement balances	2 235	1 567
Australian Government	21 100	15 861
State governments	10	2
Foreign governments, foreign institutions and international organisations	2 815	542
Other depositors	23	28
As at 30 June	26 183	18 000

Note 10 – Other Liabilities

	Note	2013 $M	2012 $M
Provisions	1(g)		
Provision for accrued annual leave		17	16
Provision for long service leave		40	37
Provision for post-employment benefits		96	117
		153	170
Other			
Amounts purchased under repurchase agreements (contract price)	1(b)	2 379	1 535
Purchases not yet settled		2 484	825
Interest accrued on deposits		17	12
Other		356	73
		5 236	2 445
Total Other Liabilities as at 30 June		5 389	2 615

The provision for workers compensation at 30 June 2013 was $290 000 ($340 000 at 30 June 2012).

During 2012/13, annual leave of $10.6 million was accrued by staff, while $9.6 million of accrued leave was used. Staff accrued and used long service leave of $5.0 million and $2.0 million, respectively, in 2012/13.

The RBA reduced its provision for post-employment benefits by $20.6 million in 2012/13. This is largely due to an increase in the discount rate, and the payment of $4.2 million in benefits. The balance of the provision for post-employment benefits will change if assumptions regarding the length of staff service, the longevity of retired staff, future movements in medical costs or the discount rate vary.

At 30 June 2013, $9.3 million of the provision for accrued annual leave was due within 12 months ($7.3 million at 30 June 2012); $3.5 million of the provision for long service leave was due within 12 months ($3.6 million at 30 June 2012); and $4.4 million of the provision for post-employment benefits was due within 12 months ($3.9 million at 30 June 2012).

Note 11 – Contingent Assets and Liabilities

The RBA has a contingent liability, amounting to $58.4 million at 30 June 2013 ($53.4 million at 30 June 2012), in respect of 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, the RBA has provided the purchaser with a number of indemnities for the period during which Securency was 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 disclosed 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 of the escrow funds after any relevant claims have been paid, settled or lapse. It is not possible to estimate the likelihood of the RBA receiving any payments from the amount held in escrow and they are disclosed as contingent assets.

Note 12 – Key Management Personnel

The key management personnel of the Reserve Bank are members of the Reserve Bank Board, members of the Payments System Board and senior staff who have responsibility for planning, directing and controlling the activities of the Bank. This group comprises the Governor and Deputy Governor, up to seven non-executive members of the Reserve Bank Board, up to six non-executive members of the Payments System Board and six Assistant Governors. No new positions were added to this group in 2012/13. A total of 21 individuals occupied these positions over the course of 2012/13, compared with 23 in 2011/12.

Remuneration of the Governor and Deputy Governor, and fees of non-executive members of the Reserve Bank Board and the Payments System Board, are governed by the Remuneration Tribunal. The positions of Governor and Deputy Governor are Principal Executive Offices (PEOs) within the jurisdiction of the Remuneration Tribunal. As the employing body of the Governor and Deputy Governor, the Reserve Bank Board sets their remuneration following a recommendation of the Remuneration Committee (comprising three non-executive directors). No adjustment was made to the remuneration of the Governor or Deputy Governor in 2012/13. Total remuneration (and salary) for these positions in 2012/13 was $986 773 (including salary of $842 285) and $700 000 (including salary of $593 782). These rates are consistent with those declared by the Remuneration Tribunal.

The Governor, in consultation with the Board Remuneration Committee, determines the remuneration of Assistant Governors. For staff generally, remuneration is market competitive and designed to attract and retain appropriately skilled people. Remuneration levels for employees are externally benchmarked.

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*. The required disclosures are shown in Table A below. The figures are on an accruals basis and show the full cost to the Bank; they include all leave and all fringe benefit tax charges.

Table A: Remuneration of Key Management Personnel

	2013 $	2012 $
Short-term employee benefits	5 046 255	5 103 308
Post-employment benefits	966 809	959 306
Other long-term benefits	90 074	502 594
Share based payments	–	–
Termination benefits	–	–
Total compensation	6 103 138	6 565 208

Under AASB 124, short-term benefits include cash salary and, where relevant for executives, lump sum payments, annual leave, 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. The reduction in short-term employee benefits reflects the effect of turnover in key management personnel in 2011/12. The reduction in other long-term benefits reflects leave taken and the revaluation of the provision for long service leave. In 2011/12, the high level of other long-term benefits reflected adjustments to the provision for long service leave arising from the appointments of the Deputy Governor and an Assistant Governor in that year.

There were no loans during 2012/13 and 2011/12 by the RBA to key management personnel.

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

Disclosure under FMOs

The disclosures on remuneration required in terms of Division 23 of the FMOs are shown in Tables B to E below. Table B shows similar aggregates to those in Table A above which are based on AASB 124. The corresponding figures are lower in Table B because the FMOs require that non-executive directors be excluded from this Table (shown separately in Table E).

Table B: Executive Remuneration[(a)]

	2013 $	2012 $
Short-term employee benefits		
Salary	3 776 765	3 864 664
Annual leave accrued	319 568	316 354
Performance-related payments	57 858	60 482
Other[(b)]	234 490	239 044
Total short-term employee benefits	4 388 681	4 480 544
Post-employment benefits		
Superannuation	884 968	880 234
Other[(c)]	27 466	26 283
Total post-employment benefits	912 434	906 517
Other long-term benefits		
Long service leave	126 978	123 184
Total other long-term benefits	126 978	123 184
Termination benefits	–	–
Total employment benefits	5 428 093	5 510 245

(a) This table is based on remuneration for the group of executives, including the Governor and Deputy Governor, included for reporting purposes under AASB 124 and is prepared on an accruals basis. These figures exclude staff acting in executive positions and part-year service where total remuneration expensed was less than $180 000. Figures for annual and long service leave 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 benefits.

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

As required by the FMOs, the figures in Tables C and D below are on a cash basis. Any differences between figures in Table C for remuneration of the Governor and Deputy Governor and remuneration determined by the Remuneration Tribunal reflect that the FMOs require measurement of remuneration on a different basis from the Remuneration Tribunal. There was no increase to the gross salary paid to the Governor and Deputy Governor in 2012/13. The average adjustment to gross salary for other senior staff included in Table C was 3.8 per cent in 2012/13; these staff were eligible for lump sum performance-related payments in 2012/13 and 2011/12. The positions of Governor and Deputy Governor were not eligible for performance-related payments in 2012/13 and 2011/12. The figures for reportable salary in 2012/13 and 2011/12 include all salary sacrificed amounts.

Table C: Executive Remuneration[(a)]

30 June 2013

Remuneration band	Number of staff	Reportable salary[(b)]	Contributed superannuation[(c)]	Reportable allowances[(d)]	Lump sum payment[(e)]	Total
Total remuneration:						
$540 000 to $569 999	3	447 751	90 822	–	8 319	546 892
$570 000 to $599 999	1	478 091	96 623	–	8 841	583 555
$600 000 to $629 999	2	502 769	104 957	–	12 030	619 756
$720 000 to $749 000	1	605 866	126 476	–	–	732 342
$1 020 000 to $1 049 999	1	845 805	179 407	–	–	1 025 212
	8					

30 June 2012

Remuneration band	Number of staff	Reportable salary[(b)]	Contributed superannuation[(c)]	Reportable allowances[(d)]	Lump sum payment[(e)]	Total
Total remuneration:						
$180 000 to $209 999	1	160 521	32 925	–	–	193 446
$480 000 to $509 999	1	400 099	84 417	–	–	484 516
$510 000 to $539 999	2	431 259	88 043	–	7 050	526 352
$540 000 to $569 999	1	460 104	92 906	–	7 438	560 448
$570 000 to $599 999	1	484 380	101 479	–	13 973	599 832
$600 000 to $629 999	1	486 053	100 894	–	13 848	600 795
$630 000 to $659 999	1	528 883	107 909	–	11 124[(f)]	647 916
$1 020 000 to $1 049 999	1	846 306	179 407	–	–	1 025 713
	9					

(a) This table is based on remuneration for the group of executives, including the Governor and Deputy Governor, included for reporting purposes under AASB 124 who received remuneration of more than $180 000 during the reporting period, including from part-time arrangements. Each row is an average figure based on the number of individuals in each band. As the components of this table are measured on a cash basis and fully in accordance with the provisions of the FMOs, these figures are on a different measurement basis from those determined by the Remuneration Tribunal for the positions of Governor and Deputy Governor and are not directly comparable with those figures.
(b) 'Reportable salary' includes gross payments (including salary less any lump sum amounts paid), the net amount of reportable fringe benefits and any amounts salary sacrificed.
(c) The 'contributed superannuation' amount is the average 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 average actual lump sum amounts paid during the reporting period to staff in the remuneration band.
(f) Lump sum payment awarded in position of Assistant Governor.

Table D includes disclosures for RBA and NPA staff. The increase in the number of staff in 2013 in the remuneration bands '$180 000 to $209 999', mainly reflects that normal salary increases resulted in more RBA staff being remunerated at a level above the reportable threshold; it does not reflect the creation of new management positions. The average salary increase for the group of RBA staff shown in Table D was 3.9 per cent in 2012/13. Lump sum performance-based payments and modest career increments were also paid to some individuals within this group. NPA staff are not employees of the RBA and are employed on terms and conditions 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 2013

Remuneration band	Number of staff	Reportable salary[b]	Contributed superannuation[c]	Reportable allowances[d]	Lump sum payment[e]	Total
Total remuneration:						
$180 000 to $209 999	69	158 834	30 534	14	4 413	193 795
$210 000 to $239 999	36	180 941	35 679	25	5 838	222 483
$240 000 to $269 999	15	211 453	41 936	–	3 643	257 032
$270 000 to $299 999	17	229 749	44 553	49	9 064	283 415
$300 000 to $329 999	8	255 239	49 192	–	9 956	314 387
$330 000 to $359 999	5	284 462	44 072	–	13 609	342 143
$360 000 to $389 999	4	304 838	59 987	–	5 317	370 142
$420 000 to $449 999	7	357 887	71 168	–	6 753	435 808
$450 000 to $479 999	1	398 609	46 787	–	7 502	452 898
$480 000 to $509 999	2	405 082	81 084	–	7 431	493 597
$570 000 to $599 999	1	425 918	47 113	–	106 070	579 101
	165					

30 June 2012

Remuneration band	Number of staff	Reportable salary[b]	Contributed superannuation[c]	Reportable allowances[d]	Lump sum payment[e]	Total
Total remuneration:						
$180 000 to $209 999	55	159 112	31 027	49	4 256	194 444
$210 000 to $239 999	30	182 455	35 194	7	3 597	221 253
$240 000 to $269 999	22	207 772	40 299	8	10 109	258 188
$270 000 to $299 999	12	231 116	49 081	62	7 705	287 964
$300 000 to $329 999	3	254 485	42 899	–	19 977	317 361
$330 000 to $359 999	8	287 901	52 021	–	4 357	344 279
$390 000 to $419 999	3	333 190	66 286	–	6 071	405 547
$420 000 to $449 999	3	349 334	69 713	–	6 384	425 431
$450 000 to $479 999	2	388 381	78 217	–	7 180	473 778
$480 000 to $509 999	1	400 815	78 963	–	7 248	487 026
$540 000 to $569 999	1	414 992	45 230	–	101 207	561 429
	140					

(a) This table shows remuneration for staff of the RBA and NPA whose reportable remuneration was $180 000 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 band. These figures are disclosed on a cash basis.
(b) 'Reportable salary' includes gross payments (including salary less any lump-sum amounts paid), the net amount of reportable fringe benefits and any amounts salary sacrificed.
(c) The 'contributed superannuation' amount is the average actual superannuation contributions paid.
(d) 'Reportable allowances' are the average actual allowances paid as per the 'total allowances' line on individuals' payments 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 includes total remuneration received (or due and receivable) by non-executive directors who are members of the Reserve Bank Board, the Payments System Board and the NPA Board. Executives of the Reserve Bank who are non-executive directors of NPA are paid no fees as directors.

Table E: Remuneration of Non-executive Directors

	Number of directors	
	2013	**2012**
$0 to $29 999	3	4
$30 000 to $59 999	4	5
$60 000 to $89 999	5	5
$90 000 to $119 999	1	–
Total	13	14
Total remuneration received	683 459	639 334

Note 13 – Auditor's Remuneration

	2013 $	2012 $
Fees paid or payable to the statutory auditor (Australian National Audit Office) for audit services	416 500	364 500
	416 500	364 500

PricewaterhouseCoopers has been contracted by the Australian National Audit Office to provide audit services in relation to the audit of the RBA. This includes audit services for the RBA's subsidiary, Note Printing Australia Limited, and the Reserve Bank of Australia Officers' Superannuation Fund.

During 2012/13, PricewaterhouseCoopers earned additional fees of $609 680 ($986 402 in 2011/12) for non-audit services that were 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

The Reserve Bank administers two superannuation funds: the Reserve Bank of Australia Officers' Superannuation Fund (OSF) and the Reserve Bank of Australia UK Pension Scheme. A small part of the assets of the OSF is held by the RBA as nominee for the trustees of the OSF; such assets are not included in the RBA's financial statements. Payment of these superannuation funds' current and future benefits is funded by member and RBA contributions and the funds' existing asset bases. The RBA's superannuation expenses in relation to the OSF and the UK Pension Scheme are included in accounting profits and shown in Note 2. Administration and other operational costs (e.g. salaries, overheads, legal costs and valuation fees) incurred by the RBA for superannuation arrangements are also included in Note 2. There were no other related party transactions between the RBA and the funds during 2012/13.

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

Two disclosure standards are relevant for superannuation funds: AAS 25 – *Financial Reporting by Superannuation Plans* and AASB 119. Superannuation funds themselves report their financial position on the basis of AAS 25, which is also the basis for making assessments about the adequacy of funding arrangements to meet future obligations. Entities which sponsor superannuation funds, typically the employer entity, report for their purposes on the basis of AASB 119. Differences of approach between AAS 25 and AASB 119 result in different measures of the financial position of the same superannuation fund. Disclosures on these standards are discussed further below.

Funding valuation

Full independent actuarial valuations of the OSF and UK Pension Scheme are conducted every three years to determine funding for these schemes. The most recent funding valuation of the OSF was at 30 June 2011 and for the UK Pension Scheme at 30 June 2010. At the most recent valuations, the actuaries indicated that, on the basis of accrued benefits, both funds were in surplus and that the funds were in a satisfactory financial position. The next triennial funding valuation for the OSF for 30 June 2014 will be undertaken early in 2014/15 and that for the UK Pension Scheme for 30 June 2013 will be undertaken during 2013/14.

The OSF triennial funding valuation as at 30 June 2011 was based on the Attained Age Funding method, consistent with the accounting standard for superannuation funds, AAS 25. Under this standard, the accrued benefits of the OSF were determined as the value of the future benefits payable to members (allowing for future salary increases), discounted using the expected rate of return on the assets held to fund these benefits. At the time of the triennial review, the surplus of the OSF on this measure was $57.8 million, as the assets of the OSF of $915.5 million exceeded the accrued benefits of $857.7 million. The main financial assumptions in the triennial valuation were that the annual post-tax rate of return on assets for benefits of active members was 7.0 per cent, that for assets for current pensions was 7.5 per cent (pre-tax), with annual salary increases of 4.0 per cent and annual pension increases of 3.5 per cent. Subsequent to the triennial review, the OSF surplus measured on the basis of AAS 25 as at 30 June 2013 amounted to $59.6 million (assets of $1 033.8 million less accrued benefits of $974.2 million).

Consistent with the actuaries' funding recommendation, the RBA maintained its contribution rate to the OSF defined benefit at 18.3 per cent of salaries in 2012/13.

The triennial funding valuation for the UK Pension Scheme was based on the Attained Age method. The surplus of the UK Pension Scheme as at 30 June 2013, measured in accordance with AAS 25, was $1.4 million (assets of $19.6 million compared with accrued benefits of $18.2 million).

Accounting valuation

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

The principal actuarial assumptions for the AASB 119 valuation used in the case of the OSF were a discount rate of 4.7 per cent (3.9 per cent in 2011/12), future salary increases of 3.25 per cent (3.5 per cent in 2011/12), future pension increases of 3.25 per cent (3.5 per cent in 2011/12) and an assumed return on plan assets of 7.1 per cent (8.5 per cent in 2011/12). The discount rate increased over 2012/13 reflecting the movement in yields on Australian Government bonds. The actual return on plan assets of the OSF for 2012/13 was 12.7 per cent (2.4 per cent in 2011/12). The assumptions used for the UK Pension Scheme were a discount rate of 4.3 per cent (4.25 per cent in 2011/12), future salary increases of 5.4 per cent (4.95 per cent in 2011/12), future pension increases of 3.4 per cent (2.95 per cent in 2011/12) and an assumed return on plan assets of 3.14 per cent (2.42 per cent in 2011/12). The actual return on plan assets of the UK Pension Scheme for 2012/13 was 4.3 per cent (21.2 per cent in 2011/12). The expected overall rates of return are based on the actuaries' models of returns for major asset classes and reflect the historic rates of return and volatility for each class and correlations across asset classes.

Details of the funds are as shown on the following pages. In the case of the OSF, these details relate only to the defined benefit component of the fund; defined contribution accumulation balances, on which the Bank has no actuarial risk, are excluded. This has no effect on the measurement of the financial position of the OSF. At 30 June 2013, accumulation balances in the OSF totalled \$206.7 million (\$176.0 million as at 30 June 2012).

Asset Distribution as at 30 June

	Per cent of fund assets			
	OSF		UK Pension Scheme	
	2013	2012	2013	2012
Cash and short-term securities	5.7	4.4	0.1	–
Fixed interest and indexed securities	11.9	13.9	93.0	94.0
Domestic shares	42.4	39.3	6.9	6.0
Foreign shares	6.7	6.0	–	–
Property				
Direct	1.6	5.0	–	–
Indirect	12.6	12.0	–	–
Private equity and alternative investments	19.1	19.4	–	–
Total	100.0	100.0	100.0	100.0

Note 14 – Superannuation Funds (continued)

	OSF		UK Scheme		Total	
	2013 $M	2012 $M	2013 $M	2012 $M	2013 $M	2012 $M
Opening balances:						
Net market value of assets	744	730	18	17	762	747
Accrued benefits	(1 412)	(976)	(14)	(13)	(1 426)	(989)
Surplus/(deficit)	(668)	(246)	4	4	(664)	(242)
Effect of asset cap	–	–	(3)	(2)	(3)	(2)
Actuarial (gains)/losses not included in balance sheet under Corridor	709	307	(1)	(1)	708	306
Opening superannuation asset	41	61	–	–	41	61
Change in net market value of assets	86	13	1	2	87	15
Change in accrued benefits	211	(436)	(1)	(1)	210	(437)
Change in asset cap	–	–	–	(1)	–	(1)
Change in actuarial (gains)/losses not included in balance sheet under Corridor	(368)	402	–	–	(368)	402
Total change in superannuation asset	(71)	(21)	–	–	(71)	(21)
Closing balances:						
Net market value of assets	830	744	20	18	850	762
Accrued benefits	(1 201)	(1 412)	(15)	(14)	(1 216)	(1 426)
Surplus/(deficit)	(371)	(668)	4	4	(367)	(664)
Effect of asset cap	–	–	(3)	(3)	(3)	(3)
Actuarial (gains)/losses not included in balance sheet under Corridor	341	709	(2)	(1)	339	708
Closing superannuation asset/(liability)	(30)	41	–	–	(30)	41
Actuarially assumed return on plan assets	49	58	–	1	49	58
Benefit payments	(36)	(36)	(1)	(1)	(37)	(36)
Actuarial gains/(losses) on assets	55	(26)	–	1	55	(25)
Contributions from RBA to defined benefit schemes	22	21	–	–	22	21
Contributions tax	(3)	(3)	–	–	(3)	(3)
Exchange rate gains/(losses)	–	–	1	–	1	–
Change in net market value of assets	86	13	1	2	87	15

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

Note 14 – Superannuation Funds (continued)

	OSF		UK Scheme		Total	
	2013 $M	2012 $M	2013 $M	2012 $M	2013 $M	2012 $M
Current service cost	(51)	(34)	-	-	(51)	(34)
Interest cost	(48)	(47)	(1)	(1)	(49)	(48)
Benefit payments	36	36	1	1	37	36
Contributions tax	3	3	–	–	3	3
Experience adjustments on benefits	(18)	(31)	–	–	(18)	(31)
Effects of changes in benefit actuarial assumptions	289	(363)	–	(1)	289	(363)
Exchange rate gains/(losses)	–	–	(1)	–	(1)	–
Change in accrued benefits	211	(436)	(1)	(1)	210	(437)
Actuarial (gains)/losses on assets	(55)	26	–	(1)	(55)	25
Experience adjustments on benefits	18	31	–	–	18	31
Effects of changes in benefit actuarial assumptions	(289)	363	–	1	(289)	363
Amortisation of actuarial gains/(losses)	(43)	(18)	–	1	(43)	(17)
Exchange rate gains/(losses)	–	–	–	–	–	–
Change in actuarial losses not included in balance sheet under Corridor	(368)	402	–	–	(368)	402
Superannuation expense/(income) included in Statement of Comprehensive Income						
Current service cost	51	34	–	–	51	34
Interest cost	48	47	1	1	48	48
Assumed return on plan assets	(49)	(58)	–	(1)	(49)	(58)
Amortisation of actuarial (gains)/losses under Corridor	43	18	–	(1)	43	17
Effect of asset cap	–	–	–	–	–	–
Productivity and superannuation guarantee contributions	5	4	–	–	5	4
Total superannuation expense/(income)	97	45	–	–	97	45

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

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

Note 14 – Superannuation Funds (continued)

	2013 $M	2012 $M	2011 $M	2010 $M	2009 $M
OSF					
Closing balances:					
Net market value of assets	830	744	730	691	652
Accrued benefits	(1 201)	(1 412)	(976)	(928)	(829)
Surplus/(deficit)	(371)	(668)	(246)	(236)	(177)
Experience adjustments on assets	55	(26)	1	2	(150)
Experience adjustments on benefits	(18)	(31)	(31)	(3)	(54)
UK Scheme					
Closing balances:					
Net market value of assets	20	18	17	18	20
Accrued benefits	(15)	(14)	(13)	(14)	(14)
Surplus	4	4	4	4	7
Experience adjustments on assets	–	1	1	1	(1)
Experience adjustments on benefits	–	–	–	–	–

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

The funding valuations of the OSF and UK Pension Scheme as at 30 June for the current reporting period and previous four reporting periods are:

	2013 $M	2012 $M	2011 $M	2010 $M	2009 $M
OSF					
Surplus	60	33	39	51	34
UK Scheme					
Surplus	1	1	1	1	1

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 a shareholding 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. 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 reflecting 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 foreign currency assets and liabilities will fluctuate because of movements in exchange rates. Foreign exchange risk arises from the RBA's foreign currency assets, which are held to support its operations in the foreign exchange market. The value of these assets, measured in Australian dollars, varies with movements in the value of the Australian dollar exchange rate against the currencies in which the assets are invested. An appreciation in the exchange rate results in valuation losses, while a depreciation leads to valuation gains. The overall level of foreign currency exposure is determined by policy considerations and the Bank does not seek to reduce foreign exchange risk. The RBA's net foreign currency exposure as at 30 June 2013 was $42.0 billion ($35.9 billion as at 30 June 2012). 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 four currencies – the US dollar, the euro, the Canadian dollar and the yen – because the markets for these currencies are typically liquid and suitable for investing foreign exchange reserves. The RBA has announced its intention to hold assets in renminbi but has not as yet purchased such assets.

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 2012/13 the Reserve Bank adjusted the proportions of its holdings in the currencies in which it invests, increasing the proportion of US dollars and reducing the proportion of euros. 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	
	2013	2012
US dollar	55	45
Euro	35	45
Canadian dollar	5	5
Japanese yen	5	5
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.

	2013 $M	2012 $M
Change in profit/equity due to a 10 per cent appreciation in the reserves-weighted value of the A$	–3 764	–3 267
Change in profit/equity due to a 10 per cent depreciation in the reserves-weighted value of the A$	4 601	3 993

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 repurchase agreements. The RBA reduced the duration targets for some of its portfolios of foreign securities during 2012/13.

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.

	2013 $M	2012 $M
Change in profit/equity due to movements of +/–1 percentage point across yield curves:		
Foreign currency securities	–/+339	–/+467
Australian dollar securities	–/+140	–/+171

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

Other price risk

The RBA holds shares 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 exposure is not included as part of the RBA's net foreign currency exposure outlined above.

Credit risk

Credit risk is the potential for financial loss arising from an issuer or counterparty defaulting on its obligations to: repay 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 low compared with that of most commercial financial institutions, as it manages such risks within a highly risk-averse framework. In particular, credit risk is managed by: holding securities issued by a limited number of highly rated governments, government-guaranteed agencies and supranational organisations; and holding high-quality collateral against buy repurchase agreements.

Cash invested under repurchase agreements in overseas markets is secured by collateral in the form of government securities or securities issued by US agencies; the RBA takes and maintains collateral to the value of 102 per cent of the cash invested. Cash invested under domestic buy repurchase agreements is secured by securities issued by Australian governments, banks and various corporate and asset-backed securities (see Note 1(b)). The RBA holds collateral to a value of between 101 and 123 per cent of the amount invested according to the risk profile of the collateral held. If the current value of collateral offered by a counterparty to a repurchase transaction 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.

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

The RBA's maximum exposure to credit risk in relation to each class of recognised financial assets, other than derivatives, 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 2013, the RBA was under contract to purchase $1.5 billion of foreign currency ($4.4 billion at 30 June 2012) and sell $5.7 billion of foreign currency ($9.5 billion at 30 June 2012). As of that date there was a net unrealised loss of $275 million on these swap positions included in net profit ($110 million unrealised gain at 30 June 2012). To manage credit risk associated with foreign exchange swaps, the Bank in 2012/13 began to give or receive collateral under credit support annexes (CSAs) to cover the potential cost of replacing in the market the Bank's exposure to a swap if a counterparty fails to deliver the second leg of such a transaction and the exchange rate has moved from the rate at which the swap was contracted. Net cash collateral received was nil at 30 June 2013.
2. ***Interest rate futures*** – As at 30 June 2013, the amount of credit risk on interest rate futures contracts was approximately $0.6 million ($0.7 million at 30 June 2012). As at 30 June 2013, there was an unrealised loss brought to account on those contracts of $0.15 million ($0.03 million unrealised loss at 30 June 2012).

Concentration of credit risk

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

The RBA held no past due or impaired assets at 30 June 2013 or 30 June 2012.

	Risk rating of security/issuer[a]	Risk rating of counterparties[a]	Per cent of investments 2013	2012
Australian dollar securities				
Holdings – Commonwealth Government Securities	AAA	na	1.5	1.9
Holdings – semi-government securities	AAA	na	5.4	4.0
	AA	na	1.2	4.0
Securities sold under repurchase agreements	AAA	A	–	0.1
Securities purchased under repurchase agreements	AAA	AA	14.7	9.1
	AAA	A	8.3	8.6
	AAA	BBB	–	0.1
	AAA	Other[b]	0.6	0.7
	AA	AA	6.6	7.1
	AA	A	3.1	2.6
	AA	BBB	–	0.1
	AA	Other[b]	0.2	0.2
	A	AA	0.8	0.5
	A	A	1.4	1.3
	BBB	AA	0.1	–
Foreign investments				
Holdings of securities	AAA	na	16.3	17.2
	AA	na	23.2	18.1
	A	na	0.5	0.5
Securities sold under repurchase agreements	AAA	A	0.6	–
	AA	A	–	1.8
	AA	BBB	1.7	–
Securities purchased under repurchase agreements	AAA	AA	0.7	0.5
	AAA	A	1.8	1.2
	AA	AA	0.9	1.8
	AA	A	5.1	11.9
	AA	BBB	–	0.2
Deposits	na	AAA	0.6	–
Cash collateral	na	AA	0.2	–
	na	A	0.1	–
Other	na	AA	–	0.1
	na	A	–	0.1
Gold loans	na	AAA	–	0.1
Other			4.4	6.2
			100.0	100.0

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

Collateral pledged

At 30 June 2013, the carrying amount of securities sold and contracted for purchase under sell repurchase agreements was $2 371 million ($1 172 million at 30 June 2012). Terms and conditions of sell repurchase agreements are consistent with those for buy repurchase agreements disclosed above.

Cash collateral of $253 million was provided to cover credit risk on foreign exchange swaps under terms and conditions established by CSAs. As noted above, CSAs were introduced with swap counterparties during the course of 2012/13. The collateral exchanged under a CSA is designed to cover the cost of replacing the swap position in the market if a counterparty fails to deliver on the second leg of a swap. 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.

Liquidity risk

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

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

The maturity analysis table (on page 118) is based on the RBA's contracted portfolio as reported in the RBA's balance sheet. All financial instruments are shown at their remaining term to maturity, which is equivalent to the repricing period. Other liabilities include amounts outstanding under sale repurchase agreements. Foreign currency swaps reflect the gross settlement amount of the RBA's outstanding foreign currency swap positions.

Maturity Analysis – as at 30 June 2013

	Balance sheet total $M	Contracted maturity $M					No specified maturity $M	Weighted average coupon rate %	Weighted average effective rate %
		On demand	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years			
Assets									
Cash and cash equivalents	137	–	115	–	–	–	22	2.75	2.75
Australian dollar securities									
Securities sold under repurchase agreements	77	–	–	38	17	22	–	5.92	2.72
Securities purchased under repurchase agreements	35 130	–	33 870	1 260	–	–	–	2.73	2.73
Other securities	7 968	–	3 496	1 998	966	1 508	–	4.12	3.04
Accrued interest	74	–	60	14	–	–	–	na	na
	43 249								
Foreign exchange									
Balances with central banks	1 175	10	1 165	–	–	–	–	0.09	0.09
Securities sold under repurchase agreements	2 294	–	1 155	516	421	202	–	0.39	0.21
Securities purchased under repurchase agreements	7 777	–	7 777	–	–	–	–	0.09	0.09
Other securities	39 339	–	16 686	10 377	6 271	793	5 212	0.50	0.27
Deposits with BIS	3	2	–	–	–	–	1	0.02	0.02
Collateral exchanged	253	–	253	–	–	–	–	2.75	2.75
Accrued interest	89	–	61	28	–	–	–	na	na
	50 930								
Gold									
Gold loans	42	–	–	42	–	–	–	0.40	0.40
Gold holdings	3 257	–	–	–	–	–	3 257	na	na
	3 299								
Property, plant & equipment	491	–	–	–	–	–	491	na	na
Loans and advances	4	–	–	–	–	4	–	3.04	3.04
Other assets	417	–	21	–	–	–	396	na	na
Total assets	98 527	12	64 659	14 273	7 675	2 529	9 379	1.54	1.35
Liabilities									
Deposits	26 183	6 033	20 150	–	–	–	–	2.52	2.52
Distribution payable to Australian Government	–	–	–	–	–	–	–	na	na
Other liabilities	5 389	–	5 201	–	–	–	188	0.03	0.03
Australian notes on issue	56 943	–	–	–	–	–	56 943	0.13	0.13
Total liabilities	88 515	6 033	25 351	–	–	–	57 131	0.83	0.83
Capital and reserves	10 012								
Total balance sheet	98 527								
Local Currency									
Swaps									
Contractual outflow	(46)	–	(46)	–	–	–	–	na	na
Contractual inflow	4 266	–	4 266	–	–	–	–	na	na
	4 220	–	4 220	–	–	–	–		
Foreign Currency									
Swaps									
Contractual outflow	(5 700)	–	(5 700)	–	–	–	–	na	na
Contractual inflow	1 480	–	1 480	–	–	–	–	na	na
	(4 220)	–	(4 220)	–	–	–	–		

Maturity Analysis – as at 30 June 2012

	Balance sheet total $M	Contracted maturity $M					No specified maturity $M	Weighted average coupon rate %	Weighted average effective rate %
		On demand	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years			
Assets									
Cash and cash equivalents	164	–	135	–	–	–	29	3.25	3.25
Australian dollar securities									
Securities sold under repurchase agreements	17	–	–	–	17	–	–	5.50	2.47
Securities purchased under repurchase agreements	24 484	–	23 983	501	–	–	–	3.57	3.57
Other securities	8 028	–	2 269	2 225	2 007	1 527	–	5.09	3.39
Accrued interest	119	–	117	2	–	–	–	na	na
	32 648								
Foreign exchange									
Balances with central banks	572	10	562	–	–	–	–	0.15	0.15
Securities sold under repurchase agreements	1 155	–	245	–	330	580	–	1.01	1.01
Securities purchased under repurchase agreements	12 129	–	12 129	–	–	–	–	0.14	0.14
Other securities	29 344	–	7 413	6 850	8 707	1 595	4 779	0.95	0.37
Deposits with BIS	5	3	1	–	–	–	1	0.01	0.01
Accrued interest	91	–	91	–	–	–	–	na	na
	43 296								
Gold									
Gold loans	48	–	–	48	–	–	–	0.40	0.40
Gold holdings	3 979	–	–	–	–	–	3 979	na	na
	4 027								
Property, plant & equipment	448	–	–	–	–	–	448	na	na
Loans and advances	5	–	–	–	–	5	–	3.40	3.40
Other assets	491	–	33	–	–	–	458	na	na
Total assets	81 079	13	46 978	9 626	11 061	3 707	9 694	1.97	1.59
Liabilities									
Deposits	18 000	3 500	14 500	–	–	–	–	3.45	3.45
Distribution payable to Australian Government	500	–	500	–	–	–	–	na	na
Other liabilities	2 615	–	2 447	–	–	–	168	0.19	0.19
Australian notes on issue	53 595	–	–	–	–	–	53 595	0.19	0.19
Total liabilities	74 710	3 500	17 447	–	–	–	53 763	0.98	0.98
Capital and reserves	6 369								
Total balance sheet	81 079								
Local Currency									
Swaps									
Contractual outflow	(83)	–	(83)	–	–	–	–	na	na
Contractual inflow	5 191	–	5 191	–	–	–	–	na	na
	5 108	–	5 108	–	–	–	–		
Foreign Currency									
Swaps									
Contractual outflow	(9 539)	–	(9 539)	–	–	–	–	na	na
Contractual inflow	4 431	–	4 431	–	–	–	–	na	na
	(5 108)	–	(5 108)	–	–	–	–		

Fair Value of Financial Instruments

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

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

	2013 $M	2012 $M
Assets accounted for under AASB 139		
At fair value through Profit or Loss	47 960	38 283
Loans and receivables	46 421	37 912
Available for sale	367	325
Assets accounted for under other standards	3 779	4 559
Total assets as at 30 June	98 527	81 079
Liabilities accounted for under AASB 139		
At fair value through Profit or Loss	287	15
Not at fair value through Profit or Loss	88 038	74 020
Liabilities accounted for under other standards	190	175
Total liabilities as at 30 June	88 515	74 210

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

	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
As at 30 June 2013				
Assets at fair value through Profit or Loss				
Domestic government securities	4 083	3 958	–	8 041
Foreign government securities	38 809	1 098	–	39 907
Foreign currency swap gains	–	12	–	12
Available for sale				
Shares in international and other institutions	–	–	367	367
	42 892	5 068	367	48 327
Liabilities at fair value through Profit or Loss				
Foreign currency swap losses	15	272	–	287
	15	272	–	287

Level 3 assets are comprised of shares in the BIS. In accordance with the accounting policy, the gain on BIS shares of $42 million has been included in Other Comprehensive Income.

	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
As at 30 June 2012				
Assets at fair value through Profit or Loss				
Domestic government securities	5 364	2 720	–	8 084
Foreign government securities	28 389	1 684	–	30 073
Foreign currency swap gains	8	118	–	126
Available for sale				
Shares in international and other institutions	–	–	325	325
	33 761	4 522	325	38 608
Liabilities at fair value through Profit or Loss				
Foreign currency swap losses	–	15	–	15
	–	15	–	15

Note 16 – Subsequent Events

There have been no events subsequent to 30 June 2013 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 entities for the year ended 30 June 2013, 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 the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

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

Independence

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

Opinion

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

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

(b) give a true and fair view of the matters required by the Finance Minister's Orders including the consolidated entity's financial position as at 30 June 2013 and of its financial performance and cash flows for the year then ended; and

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

Australian National Audit Office

Ian McPhee
Auditor-General

Canberra
2 September 2013