Financial Statements

For the year ended 30 June 2020

Statement of Assurance

In the opinion of each of the Governor, as the accountable authority of the Reserve Bank of Australia (RBA), and the Chief Financial Officer, the financial statements for the year ended 30 June 2020 present fairly the Reserve Bank's financial position, financial performance and cash flows, comply with the accounting standards and any other requirements prescribed by the rules made under section 42 of the *Public Governance, Performance and Accountability Act 2013* and have been prepared from properly maintained financial records. These financial statements have been approved by a resolution of the Reserve Bank Board on 1 September 2020.

Philip Lowe
Governor and Chair, Reserve Bank Board

Robert Middleton-Jones
Chief Financial Officer

4 September 2020

Statement of Financial Position – as at 30 June 2020

Reserve Bank of Australia and Controlled Entity

	Note	2020 $M	2019 $M
Assets			
Cash and cash equivalents	6	516	1,251
Australian dollar investments	1(b), 15	211,914	97,850
Foreign currency investments	1(b), 15	58,200	76,204
Gold	1(d), 15	6,615	5,159
Property, plant and equipment	1(e), 8	729	697
Other assets	7	697	647
Total assets		278,671	181,808
Liabilities			
Deposits	1(b), 9	153,541	68,654
Distribution payable to the Commonwealth	1(h), 3	2,567	1,685
Australian banknotes on issue	1(b)	90,102	80,024
Other liabilities	10	2,129	2,533
Total liabilities		248,339	152,896
Net Assets		30,332	28,912
Capital and Reserves			
Reserves:			
Unrealised profits reserve	1(g)	8,751	8,830
Asset revaluation reserves	1(g), 5	7,335	5,802
Superannuation reserve	1(g)	87	121
Reserve Bank Reserve Fund	1(g)	14,119	14,119
Capital	1(g)	40	40
Total Capital and Reserves		30,332	28,912

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

Statement of Comprehensive Income – for the year ended 30 June 2020

Reserve Bank of Australia and Controlled Entity

	Note	2020 $M	2019 $M
Net interest income	2	1,498	1,276
Fees and commission income	2	521	518
Other income	2	44	37
Net gains/(losses) on securities and foreign exchange	2	1,089	3,331
Net gains/(losses) on held for sale assets	2	–	51
General administrative expenses	2	(474)	(460)
Other expenses	2	(190)	(204)
Net Profit/(Loss)		2,488	4,549
Gains/(losses) on items that may be reclassified to profit or loss:			
Gold		1,456	815
		1,456	815
Gains/(losses) on items that will not be reclassified to profit or loss:			
Property		32	41
Superannuation		(34)	(217)
Shares in international and other institutions		45	32
		43	(144)
Other Comprehensive Income		1,499	671
Total Comprehensive Income		3,987	5,220

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

Statement of Distribution – for the year ended 30 June 2020

Reserve Bank of Australia and Controlled Entity

	Note	2020 $M	2019 $M
Net profit/(loss)		2,488	4,549
Transfer (to)/from unrealised profits reserve		79	(2,970)
Transfer from asset revaluation reserves		–	106
Earnings available for distribution		2,567	1,685
Distributed as follows:			
Transfer to Reserve Bank Reserve Fund		–	–
Payable to the Commonwealth	3	2,567	1,685
		2,567	1,685

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 2020

Reserve Bank of Australia and Controlled Entity

	Note	Unrealised profits reserve $M	Asset revaluation reserves $M	Superannuation reserve $M	Earnings available for distribution $M	Reserve Bank Reserve Fund $M	Capital $M	Total capital and reserves $M
Balance as at 30 June 2018		**5,860**	**5,020**	**338**	**–**	**14,119**	**40**	**25,377**
Net Profit/(Loss)	1(h)	2,970			1,579			4,549
Gains/(losses) on:								
Gold	1(d), 5		815					815
Shares in international and other institutions	1(b), 5		32					32
Property	1(e), 5		41					41
Superannuation	1(j)			(217)				(217)
Other comprehensive income			888	(217)				671
Total comprehensive income for 2018/19								**5,220**
Transfer from asset revaluation reserves	1(g)		(106)		106			–
Transfer to Reserve Bank Reserve Fund	1(g), 3				–	–		–
Transfer to distribution payable to the Commonwealth	1(h), 3				(1,685)			(1,685)
Balance as at 30 June 2019		**8,830**	**5,802**	**121**	**–**	**14,119**	**40**	**28,912**
Net Profit/(Loss)	1(h)	(79)			2,567			2,488
Gains/(losses) on:								
Gold	1(d), 5		1,456					1,456
Shares in international and other institutions	1(b), 5		45					45
Property	1(e), 5		32					32
Superannuation	1(j)			(34)				(34)
Other comprehensive income			1,533	(34)				1,499
Total comprehensive income for 2019/20								**3,987**
Transfer to Reserve Bank Reserve Fund	1(g), 3				–	–		–
Transfer to distribution payable to the Commonwealth	1(h), 3				(2,567)			(2,567)
Balance as at 30 June 2020		**8,751**	**7,335**	**87**	**–**	**14,119**	**40**	**30,332**

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

Cash Flow Statement – for the year ended 30 June 2020

Reserve Bank of Australia and Controlled Entity

For the purposes of this statement, cash includes the banknotes and coin held at the RBA and overnight settlement balances due from other banks.

	Note	2020 Inflow/ (outflow) $M	2019 Inflow/ (outflow) $M
Cash flows from operating activities			
Interest received		1,639	2,358
Interest paid		(471)	(1,034)
Net fee income received		424	413
Net payments for investments		(96,150)	9,334
Net cash collateral received/(provided)		1,018	(646)
Other		(437)	(412)
Net cash from operating activities	6	(93,977)	10,013
Cash flows from investment activities			
Net payments for property, plant and equipment		(32)	135
Net payments for computer software		(19)	(20)
Other		10	–
Net cash from investment activities		(41)	115
Cash flows from financing activities			
Distribution to the Commonwealth	3	(1,685)	(889)
Net movement in deposit liabilities		84,887	(12,820)
Net movement in banknotes on issue		10,078	4,459
Other		3	–
Net cash from financing activities		93,283	(9,250)
Net increase/(decrease) in cash		(735)	878
Cash at beginning of financial year		1,251	373
Cash at end of financial year	6	516	1,251

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

Notes to and Forming Part of the Financial Statements – for the year ended 30 June 2020

Reserve Bank of Australia and Controlled Entity

Note

Note 1 – Accounting Policies

The RBA reports its consolidated financial statements in accordance with the *Reserve Bank Act 1959* and the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). These financial statements for the year ended 30 June 2020 are a general purpose financial report prepared under Australian Accounting Standards (AAS) and accounting interpretations issued by the Australian Accounting Standards Board, in accordance with the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*, which is issued pursuant to the PGPA Act. The RBA is classified as a for-profit public sector entity for the purposes of financial disclosure. These financial statements comply with International Financial Reporting Standards. In preparing them, the RBA has not 'early adopted' new accounting standards or amendments to current standards that apply from 1 July 2020.

All amounts in these financial statements are expressed in Australian dollars, the functional and presentational currency of the RBA. All revenues and expenses are brought to account on an accruals basis.

COVID-19 Pandemic

In response to the COVID-19 pandemic, the RBA Board announced a range of policy measures in March 2020 to lower funding costs across the economy, to support the provision of credit to households and businesses, and to ensure the smooth functioning of key financial markets. These measures include:

- a target for the yield on 3-year Australian Government bonds of around 0.25 per cent, with purchases of government bonds in the secondary market to help achieve the yield target and address dislocations in government bond markets. To achieve these objectives, government bonds with a face value of $51.3 billion have been purchased since March. These are reported within Australian dollar securities.
- a Term Funding Facility (TFF) was established to lower borrowing costs and support lending to households and businesses. Under this arrangement, authorised deposit-taking institutions (ADIs) are able to access funding through reverse repurchase agreements with a three-year term and a fixed interest rate of 25 basis points. As at 30 June 2020, reverse repurchase agreements of $13.9 billion had been settled under the TFF. The total allowance available under the TFF was $135.1 billion at 30 June 2020.
- a temporary foreign exchange swap facility with the US Federal Reserve (the Fed) was established to help lessen strains in global US funding markets. Under these swaps, the Fed provides US dollars to the RBA in exchange for Australian dollars. The US dollars are, in turn, made available by the RBA to local market participants under reverse repurchase agreements, in exchange for Australian dollar denominated collateral (and reported within 'foreign currency investments'). The Australian dollars provided to the Fed under the swap are held on deposit with the RBA. On maturity, these swaps are unwound at the same exchange rate as the currencies were exchanged in the first leg. The amount outstanding under this facility was $0.8 billion at 30 June 2020.

Transactions arising from these measures are accounted for under the RBA's existing policies for such financial instruments (see Note 1(b)). Financial risks associated with these instruments are disclosed within Note 15. Further detail is provided in the chapter on 'Operations in Financial Markets'.

Accounting estimates

COVID-19 has increased the uncertainty of some accounting estimates, including assumptions around future salary growth used to value the RBA's provisions for employee benefits (Note 1(i)) and the defined benefit superannuation obligation (Note 14). There is also increased uncertainty around inputs used in the valuation of the RBA's property at 30 June 2020 (Note 16). Assumptions used in the RBA's assessment of expected credit losses on its financial instruments were also updated to reflect this uncertainty, mainly through applying default probabilities associated with historically adverse outcomes (Note 15). Management do not consider that the current uncertainty around these estimates and assumptions has had a material impact on the RBA's overall financial position and performance at 30 June 2020.

(a) Consolidation

The financial statements show information for the economic entity only; this reflects the consolidated results for the parent entity, the RBA, 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.

NPA Balance Sheet	2020 $M	2019 $M
Assets	175.0	160.9
Liabilities	46.3	36.0
Equity	128.7	124.9

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

(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 accounts for its financial instruments in accordance with AASB 9 – *Financial Instruments* and reports these instruments under AASB 7 – *Financial Instruments: Disclosures* and AASB 13 – *Fair Value Measurement*.

The RBA brings its securities and foreign exchange transactions to account on a trade date basis. Deposits, repurchase agreements and gold swaps are brought to account on settlement date.

Financial assets

Australian dollar securities

Australian dollar securities, except those held under reverse repurchase agreements, are measured at fair value through profit or loss, as they are held to implement monetary policy and may be sold or lent, typically for short terms, under repurchase agreements. The securities are valued at market bid prices on balance date; valuation gains or losses are taken to profit. Interest earned on securities is accrued as revenue in the Statement of Comprehensive Income.

Reverse repurchase agreements

In carrying out operations to manage domestic liquidity and foreign reserves, the RBA enters into reverse repurchase agreements in Australian dollar and foreign currency securities. A reverse repurchase agreement involves the purchase of securities with an undertaking to reverse this transaction at an agreed price on an agreed future date. As a reverse repurchase agreement provides the RBA's counterparties with cash for the term of the agreement, the RBA treats it as an asset by recording a cash receivable. Reverse repurchase agreements are measured at amortised cost. Interest earned is accrued over the term of the agreement and recognised as revenue.

RBA open repurchase agreements are provided to assist eligible financial institutions manage their liquidity after normal business hours. An RBA open repurchase agreement is an Australian dollar reverse repurchase agreement without an agreed maturity date. The RBA accrues interest daily on open repurchase agreements at the target cash rate.

Gold borrowed under gold swaps

Gold swaps are available to assist with domestic liquidity management and to enhance the return on the RBA's gold holdings.

Gold swaps involving the purchase of gold include an undertaking to reverse this transaction at an agreed price on an agreed future date. As these gold swaps provide the RBA's counterparty with cash for the term of the agreement, the RBA treats it as an asset by recording a cash receivable. Gold swaps are measured at amortised cost in accordance with AASB 9. The difference in agreed gold prices for the first and second legs is accrued over the term of the swap and recognised as interest income. Gold borrowed under a swap agreement is not recognised on the RBA's balance sheet as the predominant risk and reward of ownership, including exposure to any movement in the market price of gold, remains with the counterparty.

Foreign government securities

Foreign government securities, except those held under reverse repurchase agreements, are measured at fair value through profit or loss, as they are available to be traded in managing the portfolio of foreign exchange reserves. These securities are valued at market bid prices on balance date and valuation gains or losses are taken to profit. Interest earned on securities is accrued as revenue.

Foreign deposits

Some foreign currency reserves are invested in deposits with central banks and the Bank for International Settlements (BIS), while small working balances are also maintained with a small number of commercial banks. Deposits are measured at amortised cost. Interest is accrued over the term of deposits.

Foreign currency swaps

The RBA uses foreign currency swaps to assist domestic liquidity management and in managing foreign reserve assets. A foreign currency swap is the simultaneous purchase and sale of one currency against another currency for a specified maturity. The cash flows are the same as borrowing one currency for a certain period and lending another currency for the same period. The pricing of the swap therefore reflects the interest rates applicable to these money market transactions. Interest rates are implicit in the swap contract but interest itself is not paid or received. Foreign currency swaps are measured at fair value through profit or loss.

Bond futures

The RBA uses bond futures contracts on overseas exchanges to manage interest rate risk on its portfolio of foreign assets. Bond futures positions are measured at fair value through profit or loss with valuation gains or losses taken to net profit. Futures positions are reported within 'Foreign currency investments'.

Asian Bond Fund

The RBA invests in a number of non-Japan Asian debt markets through participation in the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) Asian Bond Fund. This investment comprises units in ABF2, which invests in local currency-denominated bonds issued by sovereign and quasi-sovereign issuers in EMEAP markets. ABF2 is measured at fair value through profit or loss and is valued on balance date at the relevant unit price of the fund, with valuation gains or losses taken to profit. ABF2 is reported within 'Foreign currency investments'.

Shareholding in Bank for International Settlements

Shares in the BIS are owned exclusively by the central banks and monetary authorities that are its members, including the RBA. The RBA has made an election to designate its shareholding in the BIS at fair value through other comprehensive income, as permitted under AASB 9. The shareholding is measured at fair value and valuation gains or losses are transferred directly to the revaluation reserve for 'Shares in international and other institutions' (Note 5). An uncalled portion of this shareholding is disclosed as a contingent liability in Note 11. Dividends are recognised as revenue in net profit, when declared.

Financial liabilities

Deposit liabilities

Deposits held with the RBA include both deposits on-demand and term deposits (refer to Note 9). Deposit liabilities are measured at amortised cost. Interest is accrued over the term of deposits and is paid periodically or at maturity. Interest accrued on deposits but not paid is included in Note 10.

Australian banknotes on issue

Banknotes on issue are a financial liability recorded at face value.

The RBA pays interest on working balances of banknotes held by banks under cash distribution arrangements (see Note 4).

Costs related to materials used in the production of banknotes are included in 'Other expenses' in Note 2.

Repurchase agreements

A repurchase agreement involves the sale of securities with an undertaking to repurchase them on an agreed future date at an agreed price. Securities sold and contracted for repurchase under repurchase agreements are retained on the balance sheet and reported within the relevant investment portfolio (refer to 'Australian dollar securities' and 'Foreign government securities', above). The counterpart obligation to repurchase the securities is reported in 'Other liabilities' (Note 10) and measured at amortised cost. The difference between the sale and purchase price is accrued over the term of the agreement and recognised as interest expense.

Gold loaned under gold swaps

Gold swaps involving the sale of gold include an undertaking to reverse this transaction at an agreed price on an agreed future date. Gold sold under gold swaps is retained on the balance sheet and reported within gold holdings (Note 1(d)). The counterpart obligation to repurchase the gold is reported in 'Other liabilities' (Note 10) and measured at amortised cost. The difference in agreed gold prices for each leg is accrued over the term of the swap and recognised as interest expense.

(c) Foreign exchange translation

Assets and liabilities denominated in foreign currency are converted to Australian dollar equivalents at the relevant market exchange rate on balance date in accordance with AASB 121 – *The Effects of Changes in Foreign Exchange Rates*. Valuation gains or losses on foreign currency are taken to net profit. Interest revenue and expenses and revaluation gains and losses on foreign currency securities are converted to Australian dollars using exchange rates on the date they are accrued or recognised.

(d) Gold

Gold holdings (including gold sold under gold swaps or on loan to other institutions) are valued at the Australian dollar equivalent of the 3.00 pm fix in the London gold market on balance date. Valuation gains or losses on gold are transferred to the asset revaluation reserve for gold.

In addition to gold swaps (Note 1(b)), the RBA also lends gold to institutions that participate in the gold market under gold loan agreements. Similar to gold swaps, gold provided under a loan is retained on the balance sheet. Interest is accrued over the term of the loan and is paid at maturity. The interest receivable on gold loans is accounted for in accordance with AASB 9.

(e) Property, plant and equipment

The RBA accounts for property, plant and equipment it owns outright in accordance with AASB 116 – *Property, Plant and Equipment* and AASB 13. Property, plant and equipment held under lease arrangements, including overseas and interstate representative offices and computer hardware, are accounted for under AASB 16 – *Leases*.

Annual expenditure, revaluation adjustments and depreciation of property, plant and equipment, including leased assets, are included in Note 8.

Property

The RBA measures its property at fair value. The RBA's Australian properties are formally valued annually by an independent valuer; overseas properties are independently valued on a triennial basis with the most recent valuation conducted in 2018/19. Reflecting their specialised nature, fair value for the RBA's Business Resumption Site and National Banknote Site is based on depreciated replacement cost. Valuation gains (losses) are generally transferred to (absorbed by) the asset revaluation reserve of each respective property. Any part of a valuation loss that exceeds the balance in the relevant asset revaluation reserve is expensed. Subsequent valuation gains that offset losses that were previously treated as an expense are recognised as income in net profit.

Annual depreciation is calculated on a straight line basis using assessments of the remaining useful life of the relevant building.

Plant and equipment

Plant and equipment is valued at cost less accumulated depreciation. Annual depreciation is calculated on a straight line basis using the RBA's assessment of the remaining useful life of individual assets.

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

	Years
Buildings	15–50
Fit-out	5–10
Computer hardware	4
Motor vehicles	5
Plant and other equipment	4–20

Leased Assets

Leased assets are measured at cost less accumulated depreciation. Annual depreciation is calculated on a straight line basis using the length of the lease term.

(f) Computer software

Computer software is reported in accordance with AASB 138 – *Intangible Assets*. Computer software is recognised at cost less accumulated amortisation and impairment adjustments, if any (refer to Note 7). Amortisation of computer software is calculated on a straight line basis over the estimated useful life of the relevant asset, usually for a period of between four and six years (refer to Note 2). The useful life of payments systems and core banking software may be for a period of between 10 and 15 years, reflecting the period over which future economic benefits are expected to be realised from these assets.

(g) 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 reserve maintained to provide for events that are contingent and not foreseeable, including to cover losses from falls in the market value of the RBA's holdings of Australian dollar and foreign currency investments that cannot be absorbed by its other resources. The RBRF also provides for other risks such as operational risk. In accordance with the Reserve Bank Act, this reserve is funded only by transfers from net profits, as determined by the Treasurer, after consulting the Reserve Bank Board (refer to Note 1(h)). The Board assesses the adequacy of the balance of the RBRF each year. The balance of the RBRF currently stands at a level that the Board regards as appropriate for the risks the RBA holds on its balance sheet.

The RBA's equity also includes a number of other reserves.

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

The balance of the Superannuation reserve represents accumulated remeasurement gains or losses on the RBA's defined benefit superannuation obligations (Note 1(j)).

Balances of asset revaluation reserves reflect differences between the fair value of non-traded assets and their cost. These assets are: gold; property held outright; and shares in international and other institutions. Valuation gains on these assets are not distributable unless an asset is sold and these gains are realised.

(h) Net profits

Net 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.

(i) Provisions for employee benefits entitlements

In accordance with AASB 119 – *Employee Benefits*, the RBA records provisions for certain employee benefit entitlements, including accrued annual and long service leave and post-employment health insurance benefits. These provisions reflect the present value of the estimated future cost to meet those entitlements, including any applicable fringe benefit or payroll taxes and, in the case of leave entitlements, superannuation contributions to the extent that any leave is assumed to be taken during service. Leave provisions are calculated using assumptions for length of staff service, leave utilisation and future salary. The provision for post-employment health insurance benefits is estimated using assumptions about the length of staff service, longevity of retired staff and future movements in health insurance costs. This post-employment benefit ceased to be available for new staff appointed after 30 June 2013.

Further detail on employee benefit provisions are included in Note 10.

(j) Superannuation funds

The RBA includes in its Statement of Financial Position an asset or liability representing the position of its defined benefit superannuation funds measured in accordance with AASB 119. Movements in the superannuation asset or liability are reflected in the Statement of Comprehensive Income. Remeasurement gains and losses are transferred to the Superannuation reserve.

Details of the superannuation funds and superannuation expenses are included in Note 14.

(k) Committed Liquidity Facility

The RBA provides a Committed Liquidity Facility (CLF) to eligible ADIs. Fees received from providing the CLF are recognised as fee income in net profit. Additional information on the CLF is provided in Note 11.

(l) Non-current assets held for sale

A non-current asset is classified as being held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. This classification requires the asset to be available for immediate sale and for the sale to be highly probable. Held for sale assets are measured at the lower of their carrying amount or fair value less sale costs, in accordance with AASB 5 – *Non-current Assets Held for Sale and Discontinued Operations*.

(m) Revenue from contracts with customers

In the course of its operations, the RBA enters into contracts for the provision of goods and services. These include contracts for the provision of banking and payment services to the Australian Government, overseas central banks and official institutions, the provision of the CLF for participating ADIs (refer to Note 1(k)) and, in the case of the RBA's subsidiary, banknote and security products to overseas central banks.

Revenue is recognised on a gross basis at the point the contracted performance obligation is satisfied, as required by AASB 15 – *Revenue from Contracts with Customers*. In the case of banking and payment services, revenue is recognised upon the completion of the provision of service. Revenue from the sale of banknote and security products is recognised at the point at which the product is accepted and CLF fee income is recognised over the period the facility is provided.

Where the right to consideration for the completion of the performance obligation under the contract becomes unconditional, a receivable is recognised in the Statement of Financial Position; a contract asset is recorded when this right remains conditional (refer to Note 7). Where a performance obligation under a contract remains unsatisfied, but consideration has been received, the RBA reports this as an unearned contract liability (refer to Note 10).

(n) Rounding

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

(o) Comparative information

Certain comparative information may be reclassified where required for consistency with the current year presentation.

(p) Application of new or revised Australian Accounting Standards

New Australian accounting standards that apply to the RBA's financial statements in the current and future financial years are set out below along with an assessment of the main effects of these standards on the RBA's financial statements.

The RBA has adopted accounting standard AASB 16 using the modified retrospective approach with effect from 1 July 2019. Accordingly, there has been no restatement of comparative information. In adopting the standard, the RBA has elected to apply the practical expedient to not reassess whether an existing contract is, or contains, a lease at the initial date of application. Thus, the requirements of the standard have been applied to contracts that were previously identified as leases under the previous applicable standard, AASB 117 – *Leases*. The RBA has also elected to apply the practical expedient to not apply the requirements of the standard to leases with a remaining lease term of 12 months or less from the initial date of application and to not apply the standard to leases of low value assets based on the value of the underlying asset when new. Lease payments in relation to these leases are expensed on a straight-line basis over the lease term.

Adoption of the new standard has resulted in the recognition of a lease liability and a right-of-use asset, of $12.9 million, in relation to the RBA's lease of property, plant and equipment in the Statement of Financial Position. Lease liabilities were measured at the present value of the remaining lease payments. Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. Additional disclosures on the RBA's right-of-use assets and lease liabilities are contained in Note 8 and 10 respectively.

Note 2 – Net Profit

	Note	2020 $M	2019 $M
Net interest income			
Interest income	1(b), 4	1,944	2,310
Interest expense	1(b), 4	(446)	(1,034)
		1,498	1,276
Fees and commissions income			
Committed liquidity facility	1(k), 1(m)	373	368
Banking services	1(m)	115	123
Payment services	1(m)	33	27
		521	518
Other income			
Sales of banknote and security products	1(m)	33	25
Rental of Bank premises		5	6
Dividend revenue	1(b)	–	5
Other		6	1
		44	37
Net gains/(losses) on securities and foreign exchange			
Foreign investments	1(b)	212	166
Australian dollar securities	1(b)	(435)	(17)
Foreign currency	1(b)	1,312	3,182
		1,089	3,331
Net gain on held for sale asset	1(l)	–	51
General administrative expenses			
Staff costs		(246)	(233)
Net gains/(losses) on employee provisions		7	(20)
Superannuation costs	1(j)	(71)	(52)
Depreciation of property, plant and equipment	1(e), 8	(52)	(47)
Amortisation of computer software	1(f), 7	(24)	(21)
Premises and equipment		(73)	(67)
Other		(15)	(20)
		(474)	(460)
Other expenses			
Banking service fees		(97)	(104)
Materials used in banknote and security products		(51)	(57)
Banknote distribution		(2)	(2)
Other		(40)	(41)
		(190)	(204)
Net profit/(loss)		2,488	4,549

Note 3 – Distribution Payable to the Commonwealth

Net profits of the RBA, less amounts transferred to the RBRF, are paid to the Commonwealth as required by section 30 of the Reserve Bank Act (see Note 1(h)). 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 or mature. Unrealised losses are, in the first instance, absorbed within the unrealised profits reserve where they are offset against unrealised profits accumulated from previous years. For purposes of distribution, if such losses exceed the balance of the unrealised profits reserve, the amount by which they do so is initially charged against other components of net profit, and any remaining loss is absorbed by the RBRF.

In 2019/20, the RBA recorded a net profit of $2,488 million. Unrealised losses of $79 million were absorbed within the unrealised profits reserve. Earnings available for distribution therefore amounted to $2,567 million in 2019/20.

As the Board regarded the balance of the RBRF as appropriate for the risks held on the balance sheet, it recommended that no transfer to this reserve be made from net profit in 2019/20. Accordingly, the Treasurer, after consulting the Board, determined that the full sum of earnings available for distribution be paid as a dividend to the Commonwealth. An amount of $1,685 million was paid to the Commonwealth in 2019/20.

	2020 $M	2019 $M
Opening balance	1,685	889
Distribution to the Commonwealth	(1,685)	(889)
Transfer from Statement of Distribution	2,567	1,685
As at 30 June	2,567	1,685

Note 4 – Interest Income and Interest Expense

Analysis for the year ended 30 June 2020

	Average balance $M	Interest $M	Average annual interest rate Per cent
Interest income			
Foreign currency investments	69,718	339	0.5
Australian dollar investments	118,688	1,598	1.3
Overnight settlements	606	3	0.4
Cash collateral provided	434	2	0.4
Gold loans	736	1	0.1
Gold borrowed under gold swaps	60	1	1.7
Loans, advances and other	37	–	0.8
	190,279	1,944	1.0
Interest expense			
Exchange Settlement balances	45,871	205	0.4
Deposits from governments	30,982	203	0.7
Deposits from overseas institutions	1,998	6	0.3
Banknote holdings of banks	4,250	19	0.5
Foreign currency repurchase agreements	838	12	1.4
Australian dollar repurchase agreements	196	1	0.6
Gold loaned under gold swaps	302	(1)	(0.4)
Cash collateral received	173	1	0.7
	84,610	446	0.5
Net interest margin			0.8
Analysis for the year ended 30 June 2019			
Interest income	163,598	2,310	1.4
Interest expense	65,036	1,034	1.6
Net interest margin			0.8

Interest income for 2019/20 includes $736 million calculated using the effective interest method for financial assets not at fair value through profit or loss ($1,646 million in 2018/19). Interest expense for 2019/20 includes $446 million calculated using the effective interest method for financial liabilities not at fair value through profit or loss ($1,034 million in 2018/19).

Note 5 – Asset Revaluation Reserves

The composition of the RBA's asset revaluation reserves (Note 1(g)) is shown below.

	Note	2020 $M	2019 $M
Gold	1(d)	6,488	5,032
Shares in international and other institutions	1(b), 7	474	429
Property	1(e), 8	373	341
As at 30 June		7,335	5,802

Note 6 – Cash and Cash Equivalents

	2020 $M	2019 $M
Cash	39	42
Overnight settlements	477	1,209
As at 30 June	516	1,251

Cash and cash equivalents include net amounts of $477 million owed to the RBA for overnight clearances of financial transactions through the payments system ($1,209 million at 30 June 2019). Other cash and cash equivalents include NPA's bank deposits.

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

Reconciliation of net cash used in operating activities to Net Profit	Note	2020 $M	2019 $M
Net Profit		2,488	4,549
Net (gain)/loss on overseas investments	2	(212)	(166)
Net (gain)/loss on Australian dollar securities	2	435	17
Net (gain)/loss on foreign currency	2	(1,312)	(3,182)
Depreciation of property, plant and equipment	2	52	47
Amortisation of computer software	2	24	21
Net payments for investments		(96,150)	9,334
(Increase)/decrease in interest receivable		(293)	72
Increase/(decrease) in interest payable		(37)	(24)
Cash collateral received/(provided)		1,018	(646)
Other		10	(9)
Net cash used in operating activities		(93,977)	10,013

Note 7 – Other Assets

	Note	2020 $M	2019 $M
Shareholding in Bank for International Settlements	1(b)	518	473
Computer software	1(f)	92	97
Other		87	77
As at 30 June		697	647

At 30 June 2020, the gross book value of the RBA's computer software amounted to $174.6 million and the accumulated amortisation on these assets was $82.7 million ($156.3 million and $59.1 million, respectively, at 30 June 2019). During 2019/20, there were $18.4 million in net additions to computer software ($16.1 million in 2018/19) and $24.3 million in amortisation expense ($20.5 million in 2018/19). The RBA had contractual commitments of less than $0.1 million as at 30 June 2020 for the acquisition of computer software ($3.5 million at 30 June 2019).

Other assets include receivables of $19.1 million at 30 June 2020 ($31.7 million at 30 June 2019). None of these assets is impaired. There were no contract assets at 30 June 2020 (Note 1(m)).

Note 8 – Property, Plant and Equipment

	Land and buildings $M	Plant and equipment $M	Leased assets $M	Total $M
Gross Book Value as at 30 June 2019	540	321	na	861
Accumulated depreciation	–	(164)	na	(164)
Net Book Value	540	157	na	697
Recognition of Leased Assets on initial application of AASB 16	–	–	13	13
Net Book Value as at 1 July 2019	540	157	13	710
Additions	8	21	12	41
Depreciation expense	(13)	(35)	(4)	(52)
Net gain/(loss) recognised in Other Comprehensive Income	32	–	–	32
Disposals	–	(2)	–	(2)
Net additions to net book value	27	(16)	8	19
Gross Book Value as at 30 June 2020	568	330	25	923
Accumulated depreciation	(1)	(189)	(4)	(194)
Net Book Value	567	141	21	729

The net book value of the RBA's property, plant and equipment includes $25.0 million of work in progress ($19.9 million at 30 June 2019). The carrying amount of leased assets at 30 June 2020 includes $11.9 million in property and $9.0 million in plant and equipment.

As at 30 June 2020, the RBA had contractual commitments of $24.5 million for acquisitions relating to its property, plant and equipment ($6.8 million at 30 June 2019), of which $18.6 million are due within one year ($4.1 million at 30 June 2019).

Note 9 – Deposits

	2020 $M	2019 $M
Exchange Settlement balances	73,497	29,490
Australian Government	76,110	36,525
State governments	544	310
Foreign governments, foreign institutions and international organisations	3,390	2,328
Other depositors	–	1
As at 30 June	153,541	68,654

Note 10 – Other Liabilities

	Note	2020 $M	2019 $M
Provisions			
Provision for annual and other leave		25	22
Provision for long service leave		50	49
Provision for post-employment benefits		100	108
Other		9	9
		184	188
Other			
Securities sold under agreements to repurchase	1(b)	22	350
Payable for unsettled purchases of securities	1(b)	579	1,084
Cash payable for gold loaned under gold swaps	1(b)	884	–
Foreign currency swap liabilities	1(b)	90	592
Interest accrued on deposits	1(b)	12	47
Superannuation liability	1(j), 14	247	177
Other		111	95
		1,945	2,345
Total Other Liabilities as at 30 June		2,129	2,533

The RBA's provision for its post-employment benefits was $7.8 million lower in 2019/20, largely due to a decline in the assumed growth rate for the cost of providing these benefits in future periods. Benefits of $4.7 million were paid out of the provision for post-employment benefits in 2019/20. The balance of the provision for post-employment benefits will change if assumptions about the length of staff service, the longevity of retired staff, future costs of providing benefits, or discount rates vary.

Other provisions include amounts for legal matters, redundancies and workers compensation.

Other liabilities include contract liabilities of $32.1 million relating to unearned revenue from the provision of the CLF (Note 1(m)) and $22.8 million in lease liabilities. Interest on lease liabilities was $0.3 million in 2019/20.

Note 11 – Contingent Assets and Liabilities

Committed Liquidity Facility

Since 1 January 2015, the RBA has provided a CLF to eligible ADIs as part of Australia's implementation of the Basel III liquidity standards. The CLF provides ADIs with a contractual commitment to funding under repurchase agreements with the RBA, subject to certain conditions. It was established to ensure that ADIs are able to meet their liquidity requirements under Basel III. The CLF is made available to ADIs in Australia because the supply of high-quality liquid assets (HQLA) is lower in Australia than is typical in other major economies; in other countries, these liquidity requirements are usually met by banks' HQLAs on their balance sheet. While the RBA administers the CLF, the Australian Prudential Regulation Authority (APRA) determines which institutions have access to the facility and the limits available. Any drawdown must meet certain conditions, including: APRA does not object to the drawdown; and the RBA assesses that the ADI has positive net worth. Accordingly, the potential funding under the CLF is disclosed as a contingent liability; repurchase agreements associated with providing funding are disclosed as a contingent asset. If an ADI drew on the CLF, the funds drawn would be shown as a deposit liability of the RBA, and the counterpart repurchase agreement as an Australian dollar investment.

The aggregate undrawn commitment of the CLF at 30 June 2020 totalled $201 billion for 15 ADIs ($218 billion for 15 ADIs at 30 June 2019).

Bank for International Settlements

The RBA has a contingent liability for the uncalled portion of its shares held in the BIS amounting to $72.4 million at 30 June 2020 ($71.4 million at 30 June 2019).

Securency

In February 2013, the RBA completed the sale of its 50 per cent interest in Securency International Pty Ltd (Securency; now known as CCL Secure Pty Ltd) to a related entity of Innovia Films, a UK-based film manufacturer, which had previously owned the other half of Securency. An amount covering 50 per cent of certain potential liabilities of Securency relating to events prior to the sale was placed in escrow in February 2013. As the escrow period expired in February 2020, the balances which remained in escrow, after relevant claims had been paid or settled, were received by the RBA in February 2020.

Under the sale agreement the RBA also provided the owner of Securency with a number of indemnities in relation to the period during which Securency had been jointly owned by the RBA and Innovia Films. These indemnities expired in February 2020.

Insurance

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

Performance Guarantees

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.

Similarly, the RBA has provided a performance guarantee for pension payments to members of the Reserve Bank of Australia UK Pension Scheme in relation to a UK insurer. This exposure is not material. Further detail is provided in Note 14.

Note 12 – Key Management Personnel

The key management personnel of the RBA are the Governor and Deputy Governor, non-executive members of the Reserve Bank Board, non-executive members of the Payments System Board and the Assistant Governors, who are the senior staff responsible for planning, directing and controlling the activities of the RBA. There were 20 of these positions in 2019/20 (unchanged from 2018/19). A total of 21 individuals occupied these positions for all or part of the financial year (22 in the previous year).

The positions of Governor and Deputy Governor are designated as Principal Executive Offices in terms of the *Remuneration Tribunal Act 1973*, which provides for the Remuneration Tribunal to determine the applicable remuneration for these positions. Within the parameters determined by the Remuneration Tribunal, the Reserve Bank Board Remuneration Committee, comprising three non-executive members, makes a recommendation on remuneration for these positions for the approval of the Board, which is the 'employing body' for the positions. In accordance with provisions of the Reserve Bank Act, neither the Governor nor the Deputy Governor takes part in decisions of the Reserve Bank Board relating to the determination or application of any terms or conditions on which either of them holds office. During 2019/20, the remuneration reference rate for the position of Governor was $1,061,210 (superannuable salary of $774,683) and that for the Deputy Governor was $795,910 (superannuable salary of $581,014). Remuneration of each of the Governor and Deputy Governor in 2019/20 was at the applicable reference rate. No performance payments were made to either the Governor or Deputy Governor in 2019/20.

Fees for non-executive members of the Reserve Bank Board and the Payments System Board are determined by the Remuneration Tribunal. The Governor determines the rates of remuneration of the Assistant Governors. For staff generally, remuneration aims to be market competitive and designed to attract and retain appropriately skilled people. Remuneration levels for employees are externally benchmarked.

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

	2020 $	2019 $
Short-term employee benefits	5,184,273	5,043,071
Post-employment benefits	853,974	835,716
Other long-term employee benefits	256,536	198,996
Termination benefits	–	–
Total compensation[(a)]	6,294,783	6,077,783

(a) Within the group of key management personnel, 18 individuals (19 in 2018/19) were remunerated and included in this table; the three key management personnel that are not remunerated are the individuals who held the positions of Secretary to the Treasury, as a member of the Reserve Bank Board, and the Chairman of APRA, as a member of the Payments System Board

Short-term benefits include salary and, for relevant executives, lump-sum performance payments and motor vehicle, car parking and health benefits (including any fringe benefits tax on these benefits).

Post-employment benefits include superannuation and, in the case of executives, an estimate of the cost to provide health benefits in retirement. Other long-term employee benefits include long service leave and annual leave, as well as the effect of revaluing previously accrued leave entitlements in accordance with AASB 119 (refer Note 10).

There were no loans or other related party transactions with Board members or other key management personnel during 2019/20 and 2018/19. Transactions with Board member-related entities that occurred in the normal course of the RBA's operations were incidental and conducted on terms no more favourable than similar transactions with other employees or customers; any vendor relationships with such entities were at arm's length and complied with the RBA's procurement policy.

Note 13 – Auditor's Remuneration

	2020 $	2019 $
Fees paid or payable to the statutory auditor (Australian National Audit Office) for audit services	436,091	413,339

KPMG has been contracted by the Australian National Audit Office (ANAO) to provide audit services for the external audit of the RBA and the RBA's subsidiary, NPA.

During 2019/20, KPMG earned additional fees of $91,197 for non-audit services that were separately contracted by the RBA ($23,470 in 2018/19). These fees included advisory services provided to the RBA.

Note 14 – Superannuation Funds

The RBA sponsors two superannuation funds: RB Super and the Reserve Bank of Australia UK Pension Scheme. For RB Super, current and future benefits are funded by member and RBA contributions and the existing assets of the scheme.

RB Super is a hybrid plan, with a mix of defined benefit members, defined contribution members and pensioners. Defined benefit members receive a defined benefit in accordance with RB Super's plan rules. Most members have unitised accumulation balances, which comprise employer contributions and members' personal contributions plus earnings on these contributions. Defined benefit membership was closed to new RBA staff from 1 August 2014. From that date, new staff have been offered defined contribution superannuation. The RBA does not have a role in directly operating or governing RB Super and has no involvement in the appointment of the RB Super Trustees.

The UK Pension Scheme is a closed defined benefit scheme subject to relevant UK regulation. In 2018, the Trustees, with agreement from the RBA, entered into the buy-in side of a bulk purchase annuity (BPA) contract with Aviva Life and Pensions UK Limited (Aviva) to reduce the funding risk in relation to the UK Pension Scheme's pension liabilities. During 2019 and 2020, the Trustees completed their work with Aviva to convert the buy-in policy to a buy-out policy, thereby fully securing members' benefits with Aviva. The Trustees and the RBA have now commenced the wind up of the Scheme. Defined benefit accrual for current members ceased on 30 June 2018. From that date, current and new staff have been offered defined contribution arrangements in a separate fund.

Funding valuation

An independent actuarial valuation of RB Super is conducted every three years. The most recent review was completed for the financial position as at 30 June 2017 using the Attained Age Funding method (the valuation for the financial position as at 30 June 2020 will be completed shortly). Accrued benefits were determined as the value of the future benefits payable to members (allowing for future salary increases), discounted by the expected rate of return on assets held to fund these benefits. At the time of this review, the surplus was $190.1 million. On the same valuation basis, the RB Super surplus as at 30 June 2020 amounted to $270.0 million. The RBA maintained its contribution rate to fund defined benefit obligations at 18.3 per cent of salaries in 2019/20, consistent with the actuary's recommendation.

Accounting valuation

For financial statement purposes, disclosures required by AASB 119 are provided only for RB Super, as the UK Pension Scheme is not material.

Actuarial assumptions

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

	2020 Per cent	**2019 Per cent**
Discount rate (gross of tax)[(a)]	3.5	3.4
Future salary growth[(b)]	3.0	3.0
Future pension growth[(b)]	3.0	3.0

(a) Based on highly rated Australian dollar-denominated corporate bond yields
(b) Includes a short-term assumption of 2.0 per cent for the first three years of the projections (2.0 per cent for the first two years in 2019)

Maturity analysis

The weighted average duration of the defined benefit obligation for RB Super is 20 years (20 years at 30 June 2019). The expected maturity profile for defined benefit obligations of RB Super is as follows:

	2020 Per cent	2019 Per cent
Less than 5 years	15	15
Between 5 and 10 years	15	14
Between 10 and 20 years	27	27
Between 20 and 30 years	21	21
Over 30 years	22	23
Total	100	100

Risk exposures

Key risks from the RBA's sponsorship of the RB Super defined benefit plan include investment, interest rate, longevity, salary and pension risks.

Investment risk is the risk that the actual future return on plan assets will be lower than the assumed rate.

Interest rate risk is the exposure of the defined benefit obligations to adverse movements in interest rates. A decrease in interest rates will increase the present value of these obligations.

Longevity risk is the risk that RB Super members live longer, on average, than actuarial estimates of life expectancy.

Salary risk is the risk that higher than assumed salary growth will increase the cost of providing a salary-related pension.

Pension risk is the risk that pensions increase at a faster rate than assumed, thereby increasing the cost of providing them.

The table below shows the estimated change in the defined benefit obligation resulting from movements in key actuarial assumptions. These estimates change each assumption individually, holding other factors constant; they do not incorporate any correlations among these factors.

	2020 $M	2019 $M
Change in defined benefit obligation from an increase of 0.25 percentage points in:		
Discount rate (gross of tax)	(82)	(83)
Future salary growth	17	19
Future pension growth	64	64
Change in defined benefit obligation from a decrease of 0.25 percentage points in:		
Discount rate (gross of tax)	88	89
Future salary growth	(17)	(18)
Future pension growth	(61)	(61)
Change in defined benefit obligation from an increase in life expectancy of one year	45	64

Asset distribution

The distribution of RB Super's assets used to fund members' defined benefits at 30 June is:

	Per cent of fund assets	
	2020	**2019**
Cash and short-term securities	2	2
Fixed interest and indexed securities	8	8
Australian equities	30	32
International equities	26	24
Property	10	11
Private equity	9	8
Infrastructure	10	11
Alternative strategies	5	4
Total	100	100

AASB 119 Reconciliation

The table below contains a reconciliation of the AASB 119 valuation of RB Super. These details are for the defined benefit component only, as the RBA faces no actuarial risk on defined contribution balances and these balances have no effect on the measurement of the financial position of RB Super.

	2020 $M	2019 $M
Opening balances:		
Net market value of assets	1,376	1,270
Accrued benefits	(1,552)	(1,212)
Opening superannuation asset/(liability)	(177)	57
Change in net market value of assets	(51)	106
Change in accrued benefits	(20)	(340)
Change in superannuation asset/(liability)	(70)	(234)
Closing balances:		
Net market value of assets	1,325	1,376
Accrued benefits	(1,572)	(1,552)
Closing superannuation asset/(liability)	(247)	(177)
Interest income	46	55
Benefit payments	(46)	(50)
Return on plan assets	(70)	80
Contributions from RBA to defined benefit schemes	19	21
Change in net market value of assets	(51)	106
Current service cost	(49)	(39)
Interest cost	(53)	(54)
Benefit payments	46	50
Gains/(losses) from change in demographic assumptions	–	–
Gains/(losses) from change in financial assumptions	64	(312)
Gains/(losses) from change in other assumptions	(28)	15
Change in accrued benefits	(20)	(340)
Current service cost	(49)	(39)
Net Interest (expense)/income	(6)	1
Productivity and superannuation guarantee contributions	(10)	(9)
Superannuation (expense)/income included in profit or loss	(66)	(47)
Actuarial remeasurement gain/(loss)	(34)	(217)
Superannuation (expense)/income included in Statement of Comprehensive Income	(100)	(264)

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

Note 15 – Financial Instruments and Risk

As the central bank in Australia, the RBA is responsible for implementing monetary policy, facilitating the smooth functioning of the payments system and managing Australia's foreign reserve assets. Consequently, the RBA holds a range of financial assets, including government securities, repurchase agreements and foreign currency swaps. As to financial liabilities, the RBA issues Australia's banknotes and takes deposits from its customers, mainly the Australian Government, and eligible financial institutions. The RBA also provides banking services to its customers and operates Australia's high-value payments and interbank settlement systems.

Financial Risk

The RBA is exposed to a range of financial risks that reflect its policy and operational responsibilities. These risks include market risk, credit risk and liquidity risk. The chapters on 'Operations in Financial Markets' and 'Risk Management' provide information on the RBA's management of these financial risks. The RBA's approach to managing financial risk is set out in the Risk Appetite Statement available on the RBA website.

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. In the RBA's case, market risk comprises foreign exchange risk and interest rate risk.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or cash flows of the RBA's foreign currency assets and liabilities will fluctuate because of movements in exchange rates. The RBA's net foreign currency exposure as at 30 June 2020 was $55.7 billion ($55.6 billion as at 30 June 2019). An appreciation in the Australian dollar would therefore result in valuation losses, while a depreciation would lead to valuation gains. The overall level of foreign currency exposure is determined by policy considerations. Foreign currency risk can be mitigated to a limited extent by holding assets across a diversified portfolio of currencies. The RBA holds foreign reserves in seven currencies – the US dollar, euro, Japanese yen, Canadian dollar, Chinese renminbi, UK pound sterling and South Korean won.

The RBA also undertakes foreign currency swaps to assist its daily domestic liquidity management and to manage foreign reserve assets. These instruments carry no foreign exchange risk.

Concentration of foreign exchange

The RBA's net holdings of foreign exchange (excluding Special Drawing Rights and Asian Bond Fund 2) were distributed as follows as at 30 June:

	Per cent of foreign exchange	
	2020	**2019**
US dollar	55	55
Euro	20	20
Japanese yen	5	5
Canadian dollar	5	5
Chinese renminbi	5	5
UK pound sterling	5	5
South Korean won	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.

	2020 $M	2019 $M
Change in profit/equity due to a 10 per cent:		
appreciation in the reserves-weighted value of the A$	(5,066)	(5,057)
depreciation in the reserves-weighted value of the A$	6,192	6,180

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 faces interest rate risk because most of its assets are financial assets that have a fixed income stream, such as Australian dollar and foreign currency securities. The price of such securities rises when market interest rates decline, and it falls if market rates rise. Interest rate risk increases with the maturity of a security. Interest rate risk on foreign assets is controlled through limits on the duration of these portfolios.

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. In March 2020, the RBA announced a package of policy measures in response to COVID-19, including a target for the yield on 3-year Australian Government bonds of around 0.25 per cent, with purchases of Australian government and semi-government bonds across the yield curve to help achieve this target and address dislocations in government bond markets. The significant increase in interest rate risk on Australian dollar securities is due to these purchases, which have increased the amount and average duration of the RBA's holdings at 30 June 2020.

	2020 $M	2019 $M
Change in profit/equity due to movements of +/–1 percentage point across yield curves:		
Foreign currency securities	–/+321	–/+294
Australian dollar securities	–/+3,135	–/+120

Liquidity risk

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

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

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

Maturity Analysis – as at 30 June 2020

	Balance sheet total $M	Contracted maturity $M					No specified maturity $M	Weighted average effective rate (%)
		On demand	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Assets								
Cash and cash equivalents	516	38	477	–	–	–	1	0.09
Australian dollar investments								
Securities sold under repurchase agreements	22	–	–	11	11	–	–	0.27
Securities purchased under repurchase agreements	138,626	–	81,367	15,326	13,922	–	28,011	0.23
Other securities	72,793	–	215	15,643	22,042	34,893	–	0.52
Accrued interest	473	–	178	292	3	–	–	na
	211,914							
Foreign currency investments								
Balance with central banks	16,046	15,245	801	–	–	–	–	(0.01)
Securities sold under repurchase agreements	–	–	–	–	–	–	–	na
Securities purchased under repurchase agreements	3,509	–	3,509	–	–	–	–	(0.01)
Other securities	38,197	–	13,984	10,858	6,133	111	7,111	0.16
Deposits	319	–	319	–	–	–	–	1.69
Cash collateral provided	49	–	49	–	–	–	–	0.14
Accrued interest	80	–	62	18	–	–	–	na
	58,200							
Gold								
Gold holdings on loan	1,096	–	590	506	–	–	–	0.12
Gold holdings	5,519	–	–	–	–	–	5,519	na
	6,615							
Property, plant & equipment	729	–	–	–	–	–	729	na
Other assets	697	–	25	9	4	1	658	na
Total assets	278,671	15,283	101,576	42,663	42,115	35,005	42,029	0.27
Liabilities								
Deposits	153,541	82,032	71,509	–	–	–	–	0.18
Distribution payable to the Commonwealth	2,567	–	2,567	–	–	–	–	na
Cash collateral received	27	–	27	–	–	–	–	0.14
Australian banknotes on issue	90,102	–	–	–	–	–	90,102	–
Other liabilities	2,102	–	1,651	1	10	12	428	(0.05)
Total liabilities	248,339	82,032	75,754	1	10	12	90,530	0.11
Capital and reserves	30,332							
Total balance sheet	278,671							
Swaps								
Australian dollars								
Contractual outflow	(107)	–	(107)	–	–	–	–	
Contractual inflow	988	–	988	–	–	–	–	
	881	–	881	–	–	–	–	
Foreign currency								
Contractual outflow	(20,844)	–	(20,844)	–	–	–	–	
Contractual inflow	19,963	–	19,963	–	–	–	–	
	(881)	–	(881)	–	–	–	–	

Maturity Analysis – as at 30 June 2019

	Balance sheet total $M	Contracted maturity $M					No specified maturity $M	Weighted average effective rate (%)
		On demand	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Assets								
Cash and cash equivalents	1,251	41	1,209	–	–	–	1	0.99
Australian dollar investments								
Securities sold under repurchase agreements	11	–	–	–	11	–	–	1.19
Securities purchased under repurchase agreements	88,345	–	57,147	3,903	–	–	27,295	1.43
Other securities	9,311	–	37	7,411	893	970	–	1.11
Accrued interest	183	–	127	56	–	–	–	na
	97,850							
Foreign currency investments								
Balance with central banks	25,059	24,274	785	–	–	–	–	0.02
Securities sold under repurchase agreements	339	–	–	339	–	–	–	2.10
Securities purchased under repurchase agreements	2,101	–	2,101	–	–	–	–	1.81
Other securities	43,734	–	20,879	9,870	5,816	291	6,878	0.74
Deposits	3,853	–	3,851	–	–	–	2	0.26
Cash collateral provided	1,040	–	1,040	–	–	–	–	1.25
Accrued interest	78	–	53	25	–	–	–	na
	76,204							
Gold								
Gold holdings on loan	719	–	260	459	–	–	–	0.15
Gold holdings	4,440	–	–	–	–	–	4,440	na
	5,159							
Property, plant & equipment	697	–	–	–	–	–	697	na
Other assets	647	–	31	13	–	1	602	na
Total assets	181,808	24,315	87,520	22,076	6,720	1,262	39,915	0.98
Liabilities								
Deposits	68,654	36,834	31,820	–	–	–	–	1.26
Distribution payable to the Commonwealth	1,685	–	1,685	–	–	–	–	na
Cash collateral received	–	–	–	–	–	–	–	na
Australian banknotes on issue	80,024	–	–	–	–	–	80,024	0.06
Other liabilities	2,533	–	2,174	–	–	–	359	0.33
Total liabilities	152,896	36,834	35,679	–	–	–	80,383	0.60
Capital and reserves	28,912							
Total balance sheet	181,808							
Swaps								
Australian dollars								
Contractual outflow	(337)	–	(337)	–	–	–	–	
Contractual inflow	17,828	–	17,828	–	–	–	–	
	17,491	–	17,491	–	–	–	–	
Foreign currency								
Contractual outflow	(41,910)	–	(39,813)	(2,097)	–	–	–	
Contractual inflow	24,419	–	22,322	2,097	–	–	–	
	(17,491)	–	(17,491)	–	–	–	–	

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. The RBA's credit exposure is managed within a framework designed to contain risk to a level consistent with its very low appetite for such risk. In particular, credit risk is controlled by holding securities issued by a limited number of highly rated governments, government-guaranteed agencies and supranational organisations and holding high-quality collateral under reverse repurchase agreements.

The RBA held no past due or impaired assets at 30 June 2020 or 30 June 2019.

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

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

1. ***Foreign exchange swaps*** – As at 30 June 2020, the RBA was under contract to purchase $20.0 billion of foreign currency ($24.4 billion at 30 June 2019) and sell $20.8 billion of foreign currency ($41.9 billion at 30 June 2019). As of that date there was a net unrealised gain of $0.1 billion on these swap positions included in net profit ($0.5 billion unrealised loss at 30 June 2019).

   The RBA has a credit exposure from foreign exchange swaps because of the risk that a counterparty might fail to deliver the second leg of a swap, a sum that would then have to be replaced in the market, potentially at a loss. To manage credit risk on both foreign exchange swaps (excluding swaps with the Fed under the US dollar swap facility) and gold swaps (see *Gold exchanged under gold swap agreements below*), the RBA exchanges collateral with counterparties under terms specified in credit support annexes (CSAs), which cover the potential cost of replacing the swap position in the market if a counterparty fails to deliver. The RBA's CSAs specify that only Australian dollar cash is eligible as collateral. Under CSAs, either party to the agreement may be obliged to deliver collateral with interest paid or received on a monthly basis. At 30 June 2020, the RBA provided less than $0.1 billion of collateral ($1.0 billion of collateral was provided at 30 June 2019).

2. ***Bond Futures*** – As at 30 June 2020, the amount of credit risk on margin accounts associated with bond futures contracts held by the RBA was approximately $2.4 million ($2.2 million at 30 June 2019). As at 30 June 2020, there was an unrealised gain of $1.1 million brought to account on those contracts ($1.6 million unrealised gain at 30 June 2019).

Assessment of expected credit loss under AASB 9

The RBA assesses its financial assets carried at amortised cost, mainly its reverse repurchase agreements, gold swaps and foreign currency-denominated balances held with other central banks, for any deterioration in credit quality which could result in losses being recorded. The RBA's assessment is done on an individual exposure basis and takes account of the counterparties with which balances are held; the collateral, if any, it holds against exposures and the terms upon which collateral is margined; and the remaining terms to maturity of such exposures. Based on the assessment at 30 June 2020, the provision for expected credit losses was immaterial.

Collateral held under reverse repurchase agreements

Cash invested under reverse repurchase agreements in overseas markets is secured against 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 Australian dollar reverse repurchase agreements is secured by securities issued by Australian governments, supranational organisations, banks and various corporate and asset-backed securities. The RBA holds collateral equivalent to the amount invested plus a margin according to the risk profile of the collateral held. If the current value of collateral falls by more than a predetermined amount, the counterparty is required to provide additional collateral to restore this margin; the thresholds are specified in the legal agreement which governs these transactions. The management of collateral and cash associated with tri-party repurchase agreements is conducted through a third party, in this case the Australian Securities Exchange. The terms and requirements of tri-party repurchase agreements are broadly consistent with bilateral agreements and the RBA manages the risk in a similar way. The RBA does not sell or re-pledge securities held as collateral under reverse repurchase agreements.

US dollars borrowed by the RBA under the US dollar swap facility with the Fed (see Note 1) and made available to local market participants under repurchase agreements with the RBA, are collateralised by Australian dollar securities. The margin ratios of eligible securities are set 10 percentage points higher than the ratios used in the RBA's regular open market operations.

Collateral provided under repurchase agreements

At 30 June 2020, the carrying amount of securities sold and contracted for purchase under repurchase agreements was $22 million ($350 million at 30 June 2019). Terms and conditions of repurchase agreements are consistent with those for reverse repurchase agreements disclosed above.

Gold exchanged under gold swap agreements

Credit exposure from gold swaps is managed under CSAs the RBA has established with its swap counterparties, which cover both gold swaps and foreign exchange swaps. Australian dollar cash collateral is exchanged to cover the potential cost of replacing swap positions in the market if a counterparty fails to meet their obligations. The potential cost is assessed as the net costs of replacing all outstanding swap positions covered by the CSA.

As at 30 June 2020, the carrying amount of gold sold and contracted for purchase under gold swap agreements was $0.9 billion (nil at 30 June 2019). There was no gold purchased and contracted for sale under gold swap agreements at 30 June 2020 or 30 June 2019.

Concentration of credit risk

As noted, the RBA operates to minimise its credit risk exposure through comprehensive risk management policy guidelines. The following table indicates the concentration of credit risk in the RBA's investment portfolio at 30 June.

	Risk rating of security/issuer[(a)]	Risk rating of counterparties[(a)]	Per cent of investments	
			2020	2019
Australian dollar investments				
Holdings of Australian Government Securities	Aaa	na	21.2	3.8
Holdings of semi-government securities	Aaa	na	2.2	0.5
	Aa	na	2.8	0.9
Securities purchased under reverse repurchase agreements	Aaa	Aaa	0.2	0.2
	Aaa	Aa	24.0	27.1
	Aaa	A	9.9	8.1
	Aaa	Baa	1.2	0.9
	Aaa	Other[(b)]	2.2	2.7
	Aa	Aaa	0.2	0.1
	Aa	Aa	5.4	4.3
	Aa	A	3.1	2.7
	Aa	Baa	0.2	0.1
	Aa	Other[(b)]	0.1	0.2
	A	Aa	0.9	0.9
	A	A	2.0	1.1
	A	Baa	0.2	0.1
	Baa	Aa	0.1	0.1
	Baa	A	0.1	–
	Baa	Baa	0.1	–
Foreign investments				
Holdings of securities	Aaa	na	6.5	9.1
	Aa	na	4.3	4.0
	A	na	2.8	10.9
Securities sold under repurchase agreements	Aaa	A	–	0.2
Securities purchased under reverse repurchase agreements	Aaa	Aa	1.0	0.7
	Aaa	A	–	0.5
	Aa	A	0.3	–
Deposits	na	Aaa	0.4	2.6
	na	Aa	0.1	0.1
	na	A	5.4	13.2
Other	Aaa	Aa	0.1	–
	na	Aa	–	0.5
	na	A	–	0.2
Other assets			3.0	4.2
			100.0	100.0

(a) Average of the credit ratings of the three major rating agencies, where available
(b) This category includes counterparties which are not rated

Note 16 – Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date. This is the quoted market price if one is available. The RBA's financial assets measured at fair value include its holdings of Australian dollar securities, foreign government securities, bond futures, foreign currency swap contracts and its shareholding in the BIS. Non-financial assets carried on the balance sheet at fair value include the RBA's property and gold holdings. Other than derivatives, there are no financial liabilities measured at fair value.

AASB 13 requires financial and non-financial assets and liabilities measured at fair value to be disclosed according to their position in the fair value hierarchy. This hierarchy has three levels: valuation for Level 1 assets is based on quoted prices in active markets for identical assets; for Level 2 assets, valuation is based on quoted prices or other observable market data not included in Level 1; Level 3 assets include inputs to valuation other than observable market data.

The table below presents the RBA's assets and liabilities measured and recognised at fair value and their classification within the fair value hierarchy at 30 June 2020.

	Fair Value			Amortised Cost	Total
	Level 1 $M	Level 2 $M	Level 3 $M	$M	$M
As at 30 June 2020					
Financial assets					
At fair value through profit or loss					
Australian dollar securities	72,880	368	–	na	73,248
Foreign government securities	32,263	5,664	–	na	37,927
Foreign currency swaps	–	204	–	na	204
At fair value through other comprehensive income					
Shares in international and other institutions	–	–	521	na	521
At amortised cost	na	na	na	159,273	159,273
	105,143	6,236	521	159,273	271,173
Non-financial assets					
Land and buildings	–	–	567	12	579
Gold holdings	6,614	–	–	na	6,614
Other	–	–	–	305	305
	6,614	–	567	317	7,498
Total assets	111,757	6,236	1,088	159,590	278,671
Financial liabilities					
At fair value through profit or loss					
Foreign currency swaps	3	60	–	na	63
Not at fair value through profit or loss	na	na	na	247,776	247,776
	3	60	–	247,776	247,839
Non-financial liabilities	na	na	na	500	500
Total liabilities	3	60	–	248,276	248,339

	Fair Value			Amortised Cost	Total
	Level 1 $M	Level 2 $M	Level 3 $M	$M	$M
As at 30 June 2019					
Financial assets					
At fair value through profit or loss					
Australian dollar securities	9,347	52	–	na	9,399
Foreign government securities	39,102	4,828	–	na	43,930
Foreign currency swaps	3	112	–	na	115
At fair value through other comprehensive income					
Shares in international and other institutions	–	–	476	na	476
At amortised cost	na	na	na	121,900	121,900
	48,452	4,992	476	121,900	175,820
Non-financial assets					
Land and buildings	–	–	540	na	540
Gold holdings	5,159	–	–	na	5,159
Other	–	–	–	289	289
	5,159	–	540	289	5,988
Total assets	53,611	4,992	1,016	122,189	181,808
Financial liabilities					
At fair value through profit or loss					
Foreign currency swaps	115	477	–	na	592
Not at fair value through profit or loss	na	na	na	151,898	151,898
	115	477	–	151,898	152,490
Non-financial liabilities	na	na	na	406	406
Total liabilities	115	477	–	152,304	152,896

The RBA's Level 2 financial instruments include foreign currency swaps priced with reference to an active market yield or rate, but which have been interpolated to reflect maturity dates. Prices for some Australian dollar and foreign currency-denominated securities are derived from markets that are not considered active.

Level 3 assets include the RBA's shareholding in the BIS and its property (excluding leased property which is recorded at amortised cost). The shareholding in the BIS is valued using the net asset value, as published in annual financial statements of the BIS, less a discount of 30 per cent. The discount applied is based on a Hague Arbitral Tribunal decision on compensation paid to former private shareholders in 2002, which remains the latest repurchase conducted by the BIS. Fair values of the RBA's property incorporate factors such as net market income and capitalisation rates, for property valued using an income capitalisation or a discounted cash flow approach, and depreciation rates for property valued using a depreciable replacement cost methodology.

There were no transfers between levels within the fair value hierarchy during the financial year. Movements in the fair value of the RBA's property during the financial year are detailed in Note 8. Fair value changes in the RBA's shareholdings in international and other institutions solely reflect valuation movements recognised in Other Comprehensive Income.

Note 17 – Subsequent Events

There are no events subsequent to 30 June 2020 to be disclosed.

Auditor-General for Australia

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Treasurer

Opinion

In my opinion, the financial statements of the Reserve Bank of Australia and its subsidiary (together the Consolidated Entity) for the year ended 30 June 2020:

(a) comply with Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and

(b) present fairly the financial position of the Consolidated Entity as at 30 June 2020 and its financial performance and cash flows for the year then ended.

The financial statements of the Consolidated Entity, which I have audited, comprise the following as at 30 June 2020 and for the year then ended:

- Statement of Assurance;
- 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 comprising a summary of significant accounting policies and other explanatory information.

Basis for opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Consolidated Entity in accordance with the relevant ethical requirements for financial statement audits conducted by me. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key audit matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

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Key audit matter	How the audit addressed the matter

Accuracy of the liability for the Australian Banknotes
Refer to note 1 'Accounting Policies'
The balance of Australian banknotes on issue represents the value of all banknotes on issue and the liability ($90,102m as at 30 June 2020) is measured at the face value of all Australian banknotes issued less any banknotes withdrawn from circulation.
Australian banknotes on issue relates directly to one of the Reserve Bank of Australia's key roles, the issuance of currency, as defined in the Reserve Bank Act 1959 and is a key audit matter due to:
• high interest to the users of the financial statements;
• the balance is significant relative to the Reserve Bank of Australia's Statement of Financial Position; and
• the accuracy of the liability for Australian banknotes on issue is dependent on the assumption that all Australian banknotes on issue retain their legal tender status. The audit of this assumption requires significant auditor judgement.
	To audit the Australian banknotes on issue, I performed the following audit procedures:
	• tested design and operating effectiveness of key controls relevant to the accurate recording of the issuance and return of banknotes, including information technology general controls (ITGCs) over the Note Control System;
	• agreed the liability for Australian banknotes on issue recorded in the financial statements to the balance recorded in the Note Control System as at 30 June 2020;
	• agreed the opening balance of bank notes on issue to prior year's closing balance;
	• tested a sample of transactions of issuance and return of banknote during the year and transactions occurring after the reporting period using the following procedures:
	    • obtained the amounts recorded in the general ledger and compared against transactional records in the Note Control System and cash movements;
	    • checked that transactions in the Note Control System were appropriately authorised; and
	    • checked that the transaction was recorded in the correct reporting period.

Key audit matter	How the audit addressed the matter
Valuation of Australian dollar and foreign currency investments *Refer to note 1 'Accounting Policies' and note 15 'Financial Instruments and Risk'* Valuation of Australian dollar and foreign currency investments was a key audit matter due to their significant size relative to the Reserve Bank of Australia's statement of financial position ($270,114m as at 30 June 2020) and the complexity inherent in auditing a wide range of investments which use different valuation methodologies. The portfolio of investments primarily comprises Australian dollar securities, foreign currency securities, repurchase agreements, deposits with other central banks, and foreign currency swap contracts. All investments are measured at fair value except for reverse repurchase agreements and deposits which are measured at amortised cost.	To audit the valuation of Australian dollar and foreign currency investments, I performed the following audit procedures: • tested design and operating effectiveness of key relevant controls over the accurate recording of the purchase and sale of investments, including ITGCs on the Reserve Bank of Australia's investment trading system; • tested design and operating effectiveness of key controls relevant to the ongoing monitoring of the collateralisation of repurchase agreements, including those established as part of the Term Funding Facility; and • tested year end valuations of Australian dollar and foreign currency securities using the following procedures: • checked all year end valuations of Australian dollar and foreign government securities and foreign currency swaps against independent

	pricing sources; • tested the year-end valuations of all foreign currency swaps using independent publicly available information; • checked whether all reverse repurchase agreements were appropriately collateralised in line with the Reserve Bank of Australia's policy. As part of this, for a sample of securities held as collateral I agreed valuations to independent pricing sources; and • requested and obtained independent confirmation from other central banks regarding the value of deposits held with them.

Other information

The Accountable Authority is responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020 but does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and accordingly I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Accountable Authority's responsibility for the financial statements

As the Accountable Authority of the Consolidated Entity, the Governor is responsible under the *Public Governance, Performance and Accountability Act 2013* (the Act) for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards and the rules made under the Act. The Governor is also responsible for such internal control as the Governor determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Governor is responsible for assessing the ability of the Consolidated Entity to continue as a going concern, taking into account whether the entity's operations will cease as a result of an administrative restructure or for any other reason. The Governor is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

Auditor's responsibilities for the audit of the financial statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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 Consolidated Entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;
- conclude on the appropriateness of the Accountable Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Consolidated Entity to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Consolidated Entity to express an opinion on the financial report. I am responsible for the direction, supervision and performance of the Consolidated Entity audit. I remain solely responsible for my audit opinion.

I communicate with the Accountable Authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

From the matters communicated with the Accountable Authority, I determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Australian National Audit Office

Grant Hehir

Auditor-General

Canberra

4 September 2020