Financial Statements

For the year ended 30 June 2010

Directors' Statement

In the opinion of the directors, the financial statements for the year ended 30 June 2010 give a true and fair view of the matters required by the Finance Minister's Orders 2009-2010 made under the *Commonwealth Authorities and Companies Act 1997*. These statements have been prepared from properly maintained financial records and are signed in accordance with a resolution of the directors.

Glenn Stevens
Chairman, Reserve Bank Board
16 August 2010

Frank Campbell
Assistant Governor (Corporate Services)

Balance Sheet – As at 30 June 2010

Reserve Bank of Australia and Controlled Entities

	Note	2010 $M	2009 $M
Assets			
Cash and cash equivalents	6	852	772
Australian dollar securities	1(b), 15	36 972	47 125
Foreign exchange	1(b), 15	43 096	51 156
Gold	1(c), 15	3 747	2 957
Property, plant and equipment	1(d), 8	449	443
Loans, advances and other	7	536	513
Total Assets		85 652	102 966
Liabilities			
Deposits	1(b), 9	20 987	34 266
Distribution payable to Australian Government	1(f), 3	750	5 977
Other	10	4 762	2 093
Australian notes on issue	1(b), 15	48 759	48 087
Total Liabilities		75 258	90 423
Net Assets		10 394	12 543
Capital and Reserves			
Reserves:			
Unrealised profits reserves	1(e), 5	84	2 332
Asset revaluation reserves	1(e), 5	4 087	3 308
Reserve Bank Reserve Fund	1(e), 5	6 183	6 863
Capital	1(e)	40	40
Total Capital and Reserves		10 394	12 543

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

Statement of Comprehensive Income – For the year ended 30 June 2010

Reserve Bank of Australia and Controlled Entities

	Note	2010 $M	2009 $M
Income			
Interest revenue	2	1 994	4 401
Net gains on securities and foreign exchange	2	–	6 640
Dividend revenue	2	11	5
Fees and commissions	2	20	21
Other revenue	2	69	70
Total Income		2 094	11 137
Expenses			
Interest expense	2	918	2 040
Net losses on securities and foreign exchange	2	3 782	–
General administrative expenses	2	282	250
Other expenses	2	40	41
Total Expenses		5 022	2 331
Net Profit		(2 928)	8 806
Other Comprehensive Income			
Gains/(losses) on:			
Gold	5	790	475
Shares in international and other institutions	5	10	49
Properties	5	(21)	(23)
Total Other Comprehensive Income		779	501
Total Comprehensive Income		(2 149)	9 307

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

Statement of Distribution – For the year ended 30 June 2010

Reserve Bank of Australia and Controlled Entities

	Note	2010 $M	2009 $M
Net Profit		(2 928)	8 806
Distributed as follows:			
Unrealised gains transferred to/ (from) Unrealised profits reserves	5	(2 248)	2 252
Transfer to/(from) Reserve Bank Reserve Fund	5	(680)	577
Payable to the Australian Government	3	–	5 977
		(2 928)	8 806

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

Statement of Changes in Capital and Reserves – For the year ended 30 June 2010

Reserve Bank of Australia and Controlled Entities

	Note	Asset Revaluation Reserves $M	Unrealised Profits Reserves $M	Reserve Bank Reserve Fund $M	Capital $M	Earnings Available for Distribution $M	Total Capital and Reserves $M
Balance as at 30 June 2008		2 807	80	6 286	40	–	9 213
Plus:							
Net Profit	2	–	2 252	577		5 977	8 806
Gains/(losses) on:							
Gold	5	475					475
Shares in international and other institutions	5	49					49
Properties	5	(23)					(23)
Other comprehensive income		501					501
Total comprehensive income for 2008/09							9 307
Less:							
Transfer to the distribution payable to Australian Government	3	–	–	–		(5 977)	(5 977)
Balance as at 30 June 2009		3 308	2 332	6 863	40	–	12 543
Plus:							
Net Profit	2	–	(2 248)	(680)		–	(2 928)
Gains/(losses) on:							
Gold	5	790					790
Shares in international and other institutions	5	10					10
Properties	5	(21)					(21)
Other comprehensive income		779					779
Total comprehensive income for 2009/10							(2 149)
Less:							
Transfer to the distribution payable to Australian Government	3	–	–	–		–	–
Balance as at 30 June 2010		4 087	84	6 183	40	–	10 394

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

Cash Flow Statement – For the year ended 30 June 2010

Reserve Bank of Australia and Controlled Entities

This statement meets the requirements of AASB 107 – *Cash Flow Statements* and the Finance Minister's Orders 2009-2010. In the RBA's view, due to the nature of central banking activities, this statement does not shed additional light on the RBA's financial results. For the purpose of this statement, cash includes the notes and coins held at the Reserve Bank and overnight settlements balances due from other banks.

	2010 Inflow/ (outflow) $M	2009 Inflow/ (outflow) $M
Cash flows from operating activities		
Interest received on investments	2 498	4 040
Interest received on loans, advances, and on net overnight settlements balances	27	38
Loan management reimbursement	1	1
Banking service fees received	20	20
Dividends received	11	5
Rents received	9	9
Net payments for and proceeds from investments	16 559	(1 824)
Interest paid on deposit liabilities	(808)	(1 784)
Interest paid on currency note holdings of banks	(104)	(167)
Staff costs (including redundancy)	(167)	(142)
Property, plant and equipment	(37)	(37)
Other	(25)	(32)
Net cash provided by operating activities	17 984	127
Cash flows from investment activities		
Net expenditure on property, plant and equipment	(56)	(34)
Net cash used in investment activities	(56)	(34)
Cash flows from financing activities		
Profit payment to Australian Government	(5 227)	(1 403)
Net movement in deposit liabilities	(13 279)	(4 740)
Net movement in loans and advances	1	2
Net movement in notes on issue	672	6 023
Other	(15)	(65)
Net cash used in financing activities	(17 848)	(183)
Net increase/(decrease) in cash	80	(90)
Cash at beginning of financial year	772	862
Cash at end of financial year	852	772

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

Cash Flow Statement (continued) – For the year ended 30 June 2010

Reserve Bank of Australia and Controlled Entities

Reconciliation of Cash	Note	2010 $M	2009 $M
Cash		8	29
Overnight settlements systems	6	844	743
		852	772

Reconciliation of net cash provided by operating activities to Net Profits in terms of the *Reserve Bank Act 1959*	Note	2010 $M	2009 $M
Net Profit		(2 928)	8 806
Increase/(decrease) in interest payable		(7)	(39)
Net loss/(gain) on overseas investments	2	(416)	(1 469)
Net loss/(gain) on Australian dollar securities	2	(75)	(142)
Net loss/(gain) on foreign currency	2	4 273	(5 029)
Decrease/(increase) in income accrued on investments		544	(190)
Depreciation of property	8	9	9
Depreciation of plant and equipment	8	17	14
Net payments for and proceeds from investments		16 559	(1 824)
Other		8	(9)
Net cash provided by operating activities		17 984	127

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

Notes to and Forming Part of the Financial Statements – 30 June 2010

Reserve Bank of Australia and Controlled Entities

Note 1 – Accounting Policies

The Reserve Bank of Australia (RBA) reports its financial statements in accordance with the *Reserve Bank Act 1959* and the *Commonwealth Authorities and Companies (CAC) Act 1997*. These financial statements for the year ended 30 June 2010 have been prepared under Australian equivalents to International Financial Reporting Standards (AIFRS), other accounting standards and accounting interpretations issued by the Australian Accounting Standards Board, in accordance with the Finance Minister's Orders (FMOs) 2009–2010, which are issued pursuant to the *CAC Act 1997*. These financial statements comply fully with International Financial Reporting Standards. The RBA has not sought any exemptions from the requirements of the FMOs in 2009/10. In preparing these financial statements, the RBA has not 'early adopted' new accounting standards or amendments to current standards that will apply from 1 July 2010.

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

These financial statements were approved and authorised for issue by a resolution of the Board of the Reserve Bank of Australia on 3 August 2010.

(a) Consolidation and joint venture

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

Note Printing Australia

Note Printing Australia Limited was incorporated as a wholly-owned subsidiary of the RBA on 1 July 1998, with an initial capital of $20 000 000. The RBA provided NPA with additional capital of $15.0 million in July 2008 and a further $25.0 million of capital in July 2009. NPA's total assets, liabilities and capital as at 30 June 2010 were $129.9 million, $20.2 million and $109.7 million respectively ($103.0 million, $22.6 million and $80.4 million as at 30 June 2009).

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

Securency

The RBA equity accounts for its investment in Securency International Pty Ltd in accordance with AASB 131 – *Interests in Joint Ventures* as the Bank and its partner have joint control of the company. The RBA's investment in Securency International Pty Ltd is included in Note 7.

(b) Financial instruments

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

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

Financial Assets

Australian dollar securities

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

Domestic securities, except those held under buy repurchase agreements, are classified under AASB 139 as 'at fair value through profit or loss', as they are held for purposes of conducting monetary policy and may be sold or lent, typically for short terms, under repurchase agreements. In accordance with this standard, the securities are valued at market bid prices on balance date; realised and unrealised gains or losses are taken to profit. Only realised gains and losses are available for distribution in accordance with the *Reserve Bank Act 1959* (Note 1 (f)). Interest earned on the securities is accrued over the term of the security and included as revenue in the Statement of Comprehensive Income.

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

Foreign exchange

Foreign exchange holdings are invested mainly in securities (issued by the governments of the United States, Germany, France, the Netherlands and Japan) and bank deposits (with highly-rated international banks, central banks and international agencies). The RBA engages in interest rate futures and foreign currency swaps.

Assets and liabilities denominated in foreign currency are converted to Australian dollar equivalents at the relevant market bid or offer exchange rate ruling on balance date in accordance with AASB 121 – *The Effects of Changes in Foreign Exchange Rates*. Realised and unrealised gains or losses on foreign currency are taken to profit, but only realised gains and losses are available for distribution in accordance with the *Reserve Bank Act 1959* (Note 1 (f)). Interest revenue and expenses and revaluation gains and losses on foreign currency assets and liabilities are converted to Australian dollars using the relevant market exchange rate on the date they are accrued or recognised, in accordance with AASB 121.

Foreign government securities

Foreign government securities comprise coupon and discount securities. Coupon securities have biannual or annual interest payments depending on the currency and type of security; the principal of these securities is received at maturity. Interest earned on discount securities is the difference between the purchase cost and the face value of the security; this is accrued over the term of the securities. The face value is received at maturity. Foreign securities, except those held under buy repurchase agreements, are classified under AASB 139 as 'at fair value through profit or loss', as they are held for trading in the course of managing the portfolio of foreign exchange reserves. In accordance with this standard, the securities are valued at market bid prices on balance date; realised and unrealised gains or losses are taken to profit. Only realised gains and losses are available for distribution in accordance with the *Reserve Bank Act 1959* (Note 1 (f)). Interest earned on securities is accrued over the term of the security as revenue in the Statement of Comprehensive Income.

Foreign bank deposits

The RBA invests part of its foreign currency reserves in deposits with highly-rated international banks; it also maintains working accounts in foreign currencies. Deposits are classified as 'loans and receivables' under AASB 139 and recorded at their face value, which is equivalent to their amortised cost using the effective interest method. Interest is accrued over the term of deposits and is received periodically or at maturity. Interest accrued but not received is included in Accrued Interest (Note 15).

Buy repurchase agreements

In the course of its financial market operations, the RBA engages in repurchase agreements involving foreign and Australian dollar marketable securities. Securities purchased and contracted for sale under buy repurchase agreements are classified under AASB 139 as 'loans and receivables' and valued at amortised cost. The difference between the purchase and sale price is accrued over the term of the agreement and recognised as interest revenue (see page 78 for the treatment of sell repurchase agreements).

Foreign currency swaps

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

Foreign exchange holdings contracted for sale beyond 30 June 2010 (including those under swap contracts) have been valued at market exchange rates (Note 15).

The temporary foreign exchange swap facility established with the US Federal Reserve in September 2008, to address pressures in US dollar short-term funding in the Asian time zone, expired in February 2010. The facility had not been accessed since April 2009, with the final swap unwinding in July 2009. Under this facility, the Fed provided US dollar liquidity to the RBA in exchange for Australian dollars. The US dollars were, in turn, made available by the RBA to market participants under repurchase agreements, in exchange for Australian dollar collateral. The Australian dollars provided to the Fed under the swap were held on deposit with the RBA. On maturity, these swaps were unwound at the same exchange rate as the currencies were exchanged in the first leg. This facility increased the RBA's balance sheet, but had no effect on its net profits (see Note 15). Further detail on the establishment and use of this facility was discussed in the chapter on 'Operations in Financial Markets' in the 2009 Annual Report.

Interest rate futures

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

Interest rate futures positions are classified under AASB 139 as 'at fair value through profit or loss'. In accordance with this standard, futures positions are marked to market on balance date at the relevant bid or offer price and valuation gains and losses taken to profit. Only realised gains and losses are available for distribution in accordance with the *Reserve Bank Act 1959* (Note 1 (f)).

Bank for International Settlements

Under AASB 139 the RBA's shareholding in the Bank for International Settlements (BIS) is classified as 'available-for-sale' for accounting purposes. The shareholding is valued at fair value and revaluation gains and losses are transferred directly to the revaluation reserve for shares in international and other institutions (Note 5). The fair value is estimated on the basis of BIS' net asset value, less a discount of 30 per cent. When declared, dividends are recognised as revenue in the Statement of Comprehensive Income.

Financial Liabilities

Deposit liabilities

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

Australian notes on issue

Notes on issue are recorded at face value. Prior to 2005/06, the RBA periodically adjusted its liability for note series that had ceased to be issued to reflect the likelihood that the remaining notes on issue from these series would not be presented for redemption and the gains were included in accounting profits. If the written-down notes are subsequently presented, the RBA charges an expense against profits. In 2009/10, notes with a face value of $234 211 which had previously been written down were presented to the RBA and expensed ($280 000 in 2008/09).

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

Sell repurchase agreements

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

(c) Gold

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

(d) Property, plant and equipment

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

Property

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

Plant and equipment

Plant and equipment is valued by independent valuers on a triennial basis. The most recent independent valuation was on 30 June 2008. Between revaluations, plant and equipment is carried at the most recent valuation less any subsequent depreciation. Annual depreciation is based on fair values and the RBA's assessments of the useful remaining life of individual assets. Computer software and other intangible assets are accounted for in accordance with AASB 138 – *Intangible Assets*. Intangibles are recognised at cost less accumulated amortisation, which is calculated on the basis of the estimated useful life of the relevant assets. Amortisation expense for intangibles is included in Other Expenses in Note 2.

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

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

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

(e) Capital and Reserves

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

The Reserve Bank Reserve Fund (RBRF) is also established by the *Reserve Bank Act 1959* and is, in all respects, essentially capital. It is a general reserve maintained by the RBA to provide for events which are contingent and non-foreseeable, including to cover losses from exceptionally large falls in the market value of its holdings of domestic and foreign securities that cannot be absorbed by its other resources. The RBRF also provides for other risks to which the RBA is exposed, including fraud and operational risk. This reserve has been funded over the years by transfers from earnings available for distribution.

The Reserve Bank Board assesses the adequacy of the balance of the RBRF each year. In line with Section 30 of the *Reserve Bank Act 1959*, the Treasurer, after consultation with the Board, determines any amounts to be credited to the RBRF from earnings available for distribution (refer Note 1(f)). As the accounting loss in 2009/10 has reduced this reserve, the Board will seek to restore its balance to a level that it regards as satisfactory over time.

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

Unrealised gains and losses on foreign exchange, foreign securities and Australian dollar securities are recognised in profit from ordinary activities. However, until such gains or losses are realised, they are not available for distribution to the Australian Government; such unrealised gains are reflected in the Reserve for Unrealised Profits on Investments. Unrealised losses that exceed the balance held in the Unrealised Profits Reserve are initially charged against other sources of income, consistent with the *Reserve Bank Act 1959* and accounting practice. In 2009/10, unrealised losses exceeded both the balance of the Unrealised Profits Reserve plus income from other sources. Accordingly, the balance of the Unrealised Profits Reserve at 30 June 2010 was nil. At the same time, consistent with the purpose of the RBRF, the Board has transferred an amount of $680 million from this reserve to absorb the component of the accounting loss in 2009/10 that exceeds the balance of the Unrealised Profits Reserve.

Unrealised gains and losses on the asset which represents the staff superannuation funds are also recognised in the Statement of Comprehensive Income in accordance with the 'corridor' approach under AASB 119 – *Employee Benefits*. These amounts are reflected in the Reserve for Unrealised Profits on Superannuation (refer Note 1(h)).

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

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

(f) Profits

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

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

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

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

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

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

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

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

In 2009/10, the RBA's net profit was negative. The part of the accounting loss that exceeds unrealised gains retained from previous years and held in the unrealised profits reserves has been absorbed by the RBRF. Accordingly, the RBRF will be reduced by an amount of $680 million. No dividend will be payable to the Commonwealth in 2010/11 from earnings in 2009/10.

(g) Provisions

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

(h) Superannuation funds

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

(i) Rounding

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

(j) New Accounting Standards

A number of new accounting standards and amendments to current standards may be applied from 1 July 2010. The main changes relevant to the RBA relate to: AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvement Project;* AASB 9 – *Financial Instruments*; and Revised AASB 124 –*Related Party Disclosures*. These changes are not expected to have a material effect on the RBA's financial statements or the notes to the accounts.

Note 2 – Net Profits

	Note	2010 $M	2009 $M
Interest revenue			
Overseas investments	1(b), 4	452	1 266
Australian dollar securities	1(b), 4	1 515	3 093
Overnight settlements	4	26	37
Gold loans	1(c), 4	–	4
Loans, advances and other	4	1	1
		1 994	4 401
Net gains on securities and foreign exchange			
Overseas investments	1(b)	–	1 469
Australian dollar securities	1(b)	–	142
Foreign currency	1(b)	–	5 029
		–	6 640
Dividend revenue			
Earnings on shares in Bank for International Settlements	1(b)	11	5
Fees and commissions			
Banking services fees received		20	21
Other revenue			
Reimbursement by Australian Government for loan management and registry expenses		1	1
Rental of Bank premises		9	9
Sales of note and security products		35	34
Other		24	26
		69	70
Total		2 094	11 137
Less:			
Interest expense			
Deposit liabilities	1(b), 4	801	1 744
Currency note holdings of banks	1(b), 4	104	167
Repurchase agreements	1(b), 4	13	129
		918	2 040
Net losses on securities and foreign exchange			
Overseas investments	1(b)	(416)	–
Australian dollar securities	1(b)	(75)	–
Foreign currency	1(b)	4 273	–
		3 782	–
General administrative expenses			
Staff costs		148	149
Superannuation costs	1(h), 14	33	4
Special redundancy/retirement payments		2	3
Depreciation of property	1(d), 8	9	9
Depreciation of plant and equipment	1(d), 8	17	14
Premises and equipment	1(d)	37	37
Materials used in note and security products		23	20

Note 2 – (Continued)

	Note	2010 $M	2009 $M
Travel		3	4
Consultants' fees, legal fees and payments to contractors		2	2
Other		8	8
		282	250
Other expenses			
Agency business reimbursement		3	3
Subsidiary income tax		2	3
Cash distribution expenses		6	4
Other		29	31
		40	41
Total		5 022	2 331
Net Profit		(2 928)	8 806

Staff costs in 2009/10 include an expense of $10.5 million associated with the increase in the balance of the provision for post-employment benefits (in 2008/09 there was an expense of $9.0 million) (refer Note 10). Post-employment health care costs of $10.3 million are included in Staff costs ($9.6 million in 2008/09).

The RBA's aggregate research and development expenditure recognised as an expense in 2009/10 was $0.7 million ($0.5 million in 2008/09); this is included in Other expenses.

Note 3 – Distribution Payable to Australian Government

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

In 2009/10, the Bank's accounting loss exceeded the sum available to absorb losses in the Unrealised Profits Reserve. As a result, the Board transferred an amount of $680 million from the RBRF to offset the loss as measured on this basis. No dividend will be payable from 2009/10 earnings.

An amount of $5 227 million from earnings in 2008/09 was paid to the Australian Government in August 2009. The balance of $750 million from 2008/09 earnings was deferred and will be distributed to the Australian Government in August 2010.

Note 3 – (Continued)

	2010 $M	2009 $M
Opening balance	5 977	1 403
Distribution to Australian Government	(5 227)	(1 403)
Transfer from Statement of Distribution	–	5 977
As at 30 June	750	5 977

Note 4 – Interest Revenue and Interest Expense

Analysis for the year ended 30 June 2010

	Average balance $M	Interest $M	Average annual interest rate %
Interest revenue			
Overseas investments	46 207	452	1.0
Australian dollar securities	36 441	1 515	4.2
Overnight settlements	773	26	3.4
Gold loans	127	–	0.3
Loans, advances and other	28	1	3.3
	83 576	1 994	2.4
Interest expense			
Banks' Exchange Settlement balances	1 713	59	3.4
Deposits from governments	20 400	730	3.6
Deposits from overseas institutions	860	11	1.3
Currency note holdings of banks	2 827	104	3.7
Overseas repurchase agreements	3 295	3	0.1
Domestic repurchase agreements	288	10	3.5
Other deposits	24	1	2.4
	29 407	918	3.1
Analysis for the year ended 30 June 2009			
Interest revenue total	118 785	4 401	3.7
Interest expense total	56 783	2 040	3.6

Interest revenue for 2009/10 includes $1 317 million calculated using the effective interest method for financial assets not at fair value through profit and loss ($3 353 million in 2008/09). Interest expense for 2009/10 includes $918 million calculated using the effective interest method for financial liabilities not at fair value through profit and loss ($2 040 million in 2008/09).

Note 5 – Capital and Reserves

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

	2010 $M	2009 $M
Asset revaluation reserves		
Gold (Note 1(c))		
Opening balance	2 830	2 355
Net revaluation adjustments	790	475
As at 30 June	3 620	2 830
Shares in international and other institutions (Notes 1(b), 7)		
Opening balance	275	226
Net revaluation adjustments	10	49
As at 30 June	285	275
Bank properties, plant and equipment (Notes 1(d), 8)		
Opening balance	203	226
Net revaluation adjustments	(21)	(23)
As at 30 June	182	203
Total asset revaluation reserves (Note 1(e))		
Opening balance	3 308	2 807
Net revaluation adjustments	779	501
As at 30 June	4 087	3 308
Unrealised profits reserves		
Reserve for unrealised profits on investments (Note 1(e))		
Opening balance	2 237	–
Net transfers (to)/from Statement of Distribution	(2 237)	2 237
As at 30 June	–	2 237
Reserve for unrealised profits on superannuation (Note 1(h))		
Opening balance	95	80
Net transfers (to)/from Statement of Distribution	(11)	15
As at 30 June	84	95
Total unrealised profits reserves		
Opening balance	2 332	80
Net transfers (to)/from Statement of Distribution	(2 248)	2 252
As at 30 June	84	2 332
Reserve Bank Reserve Fund (Note 1(e))		
Opening balance	6 863	6 286
Transfers (to)/from Statement of Distribution	(680)	577
As at 30 June	6 183	6 863
Capital		
Opening and closing balance	40	40

Note 6 – Cash and Cash Equivalents

This includes net amounts of $844 million owed to the RBA for overnight clearances of financial transactions through the clearing houses; an amount of $743 million was owed to the RBA at 30 June 2009. Other cash and cash equivalents includes NPA's bank deposits.

Note 7 – Loans, Advances and Other Assets

	Note	2010 $M	2009 $M
Shareholding in Bank for International Settlements	1(b)	328	318
Superannuation asset	1(h),14	84	95
Officers' Home Advances		7	8
Investment in Securency	1(a)	49	44
Computer software and intangibles	1(d)	12	7
Other		56	41
As at 30 June		536	513

The Reserve Bank of Australia has a 50 per cent share in Securency International Pty Ltd (formerly Securency Pty Ltd), which is incorporated in Victoria, Australia, and whose principal activity is the marketing and manufacture of polymer substrate. The Bank jointly controls Securency with a joint-venture partner. The capital of Securency International (Securency) as at 30 June 2010 was $36.5 million. The carrying value of the RBA's investment in Securency as at 30 June 2010 was $49.4 million ($43.5 million at 30 June 2009). Securency has a 31 December balance date.

The RBA's share of Securency's profit before income tax in 2009/10 was $9.5 million ($11.9 million in 2008/09); its share of Securency's income tax expense in 2009/10 was $2.7 million ($3.5 million in 2008/09); and its share of the movement in Securency's reserves was -$0.5 million. Securency's current and non-current assets as at 30 June 2010 were $69.4 million and $95.2 million respectively ($74.4 million and $90.0 million as at 30 June 2009). Current and non-current liabilities on 30 June 2010 were $39.3 million and $24.0 million ($50.7 million and $25.8 million on 30 June 2009). Securency's revenue and expenses for 2009/10 were $137.5 million and $118.4 million ($132.9 million and $109.2 million in 2008/09). The RBA provides facilities to Securency under operating leases.

In 2005/06, the RBA provided a finance lease to Securency for $5.6 million in relation to the construction of a new building on the Bank's land at Craigieburn. The finance lease was fully drawn down during 2006/07. The lease was provided on commercial terms and at arm's length; it has a term of 10 years. The balance of the lease receivable as at 30 June 2010 was $3.4 million ($3.9 million as at 30 June 2009).

During 2009/10, the RBA acquired $1.0 million of computer software and intangibles ($0.7 million in 2008/09) and amortised $1.8 million ($1.7 million in 2008/09). At 30 June 2010 the gross book value of the RBA's computer software and intangibles amounted to $20.4 million and accumulated amortisation on these assets was $8.6 million ($14.1 million and $6.9 million respectively at 30 June 2009). The RBA had no contractual commitments as at 30 June 2010 for the acquisition of computer software and intangibles ($1.4 million at 30 June 2009).

As at 30 June 2010, other assets included receivables of $29.5 million, all of which are current (at 30 June 2009 other assets included receivables of $20.3 million, all of which were current).

Note 8 – Property, Plant and Equipment

	Land $M	Buildings $M	Plant and Equipment $M	Total $M
Gross Book Value as at 30 June 2009	121	229	114	464
Accumulated depreciation	–	(1)	(20)	(21)
Net Book Value	121	228	94	443
Additions	–	8	46	54
Depreciation expense	–	(9)	(17)	(26)
Net revaluation increment/ (decrement)	(4)	(17)	–	(21)
Disposals	–	–	(1)	(1)
Net additions to net book value	(4)	(18)	28	6
Gross Book Value as at 30 June 2010	117	210	158	485
Accumulated depreciation	–	–	(36)	(36)
Net Book Value	117	210	122	449

The net book value of buildings as at 30 June 2010 includes expenditure of $3.5 million on work in progress which has been capitalised in the carrying amount of these assets ($1.6 million as at 30 June 2009). Additions include expenditure of $11.4 million on work in progress that was capitalised during 2009/10 ($19.2 million in 2008/09).

As at 30 June 2010, the RBA had contractual commitments of $2.5 million to acquire buildings, plant and equipment ($30.3 million at 30 June 2009); contractual commitments of $2.5 million are due within 1 year ($2.5 million in 2008/09).

Note 9 – Deposits

	2010 $M	2009 $M
Banks' Exchange Settlement balances	3 584	2 582
Australian Government	16 663	30 160
State Governments	2	8
Foreign Governments, foreign institutions and international organisations	724	1 502
Other depositors	14	14
As at 30 June	20 987	34 266

Note 10 – Other Liabilities

	2010 $M	2009 $M
Provisions (Note 1(g))		
Provision for accrued annual leave	14	13
Provision for long service leave	30	27
Provision for post-employment benefits	89	78
Provision for workers' compensation	–	–
	133	118
Other		
Amounts outstanding under repurchase agreements (contract price) (Note 1(b))	4 167	1 501
Interest accrued on deposits	23	30
Other	439	444
	4 629	1 975
As at 30 June	4 762	2 093

The provision for workers' compensation at 30 June 2010 was $375 000 ($441 000 at 30 June 2009).

During 2009/10, annual leave of $7.5 million was accrued by staff, while $6.4 million of accrued leave was used. Staff accrued and used long service leave of $3.7 million and $1.7 million respectively in 2009/10; the provision for long service leave also increased by $0.5 million due to the decrease in the interest rate used to discount future cash flows.

The RBA provided an additional $2.5 million for post-retirement benefits in 2009/10; a decrease in the discount rate increased the provision by $7.6 million, while benefits of $3.7 million were paid out of the provision. The balance of the provision for post-employment benefits will change if assumptions regarding the length of staff service, the longevity of retired staff, future movements in medical costs or the discount rate vary.

At 30 June 2010, $6.7 million of the provision for accrued annual leave was due within 12 months ($6.1 million at 30 June 2009); $2.9 million of the provision for long service was due within 12 months ($2.7 million at 30 June 2009); and $1.9 million of the provision for post-employment benefits was due within 12 months ($2.6 million at 30 June 2009).

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

The RBA has a contingent liability, amounting to $62.3 million at 30 June 2010 ($68.8 million at 30 June 2009), in respect of the uncalled portion of its shares held in the Bank for International Settlements.

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

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

Note 12 – Key Management Personnel

The key management personnel of the Reserve Bank are members of the Reserve Bank Board, members of the Payments System Board, and senior staff who have responsibility for planning, directing and controlling the activities of the Bank. This Group comprises 20 in total, including the Governor and Deputy Governor, seven non-executive members of the Reserve Bank Board, five non-executive members of the Payments System Board and six Assistant Governors.

Fees of non-executive members of the Reserve Bank Board and the Payments System Board are determined by the Remuneration Tribunal. Responsibility for the terms and conditions on which the Governor and Deputy Governor hold office rests with the Reserve Bank Board, in accordance with section 24A of the *Reserve Bank Act 1959*. The Board's Remuneration Committee (comprising three non-executive directors) reviews annually these terms and conditions and, consistent with the Act, makes recommendations to the Board. The Governor and Deputy Governor do not participate in these deliberations.

Under long-standing arrangements, the remuneration of the Governor, Deputy Governor and senior executives of the Reserve Bank takes account of market levels of remuneration. This arrangement was established to allow the Bank the flexibility to attract and retain staff of the necessary quality. This arrangement is strongly supported by the Reserve Bank Board which sees it as being critical to supporting the Bank in achieving its objectives to the required standard.

In drawing relevant comparisons about the remuneration of the Governor and Deputy Governor as part of the annual review, the Board takes account of the high level of policy and operational responsibility carried by these positions. Their responsibilities for monetary policy and financial system stability are set out in the *Reserve Bank Act 1959* and the fourth *Statement on the Conduct of Monetary Policy* issued in December 2007. The Governor and Deputy Governor exercise both governance and executive responsibilities for monetary policy as, respectively, the Chief Executive and Deputy Chief Executive of the Bank, and Chairman and Deputy Chairman of the Reserve Bank Board. They direct the professional work of the Bank's staff concerning monetary policy, bring recommendations to the Board, and speak on behalf of the Board on policy and other matters. The Governor takes the leading role in publicly articulating Australia's monetary policy framework, objectives and decisions. There are parallel responsibilities in relation to the Bank's policies and actions to foster overall financial stability.

The Governor and Deputy Governor are also responsible for overseeing the operations of the Bank. As the nation's central bank, the Reserve Bank is a substantial financial institution, with a balance sheet that averaged about $90 billion in 2009/10. It manages a large portfolio of domestic and foreign assets and transacts in large volumes in markets on a daily basis. It provides core payment and interbank settlement facilities to Australian financial institutions and a number of international financial institutions. As banker to the Australian Government, it undertakes banking transactions that account for some 20 per cent of outward direct entry payments in Australia, and provides other banking services. It is responsible for issuing currency notes which remain secure against counterfeiting and retain public confidence. As the Bank's monetary policy and other operations are pivotal to the safe and effective functioning of the financial system, the associated financial, operational and other risks must be controlled to the highest possible standard.

In addition to the responsibilities for monetary policy and overall financial system stability, the Governor is Chairman of the Payments System Board, which has been given specific regulatory and other powers under the *Payments System (Regulation) Act 1998* for safety, efficiency and competition in the payments system. In this capacity, the Governor directs the work of the Bank's professional staff in relation to payments system policies and regulation.

The 2009 review of remuneration took account of the recent subdued outcomes in market pay. This followed a detailed review of the remuneration of these positions which began in 2007 and resulted in a substantial restructuring of this remuneration in 2008. The aim was to make the remuneration of these positions more transparent by removing long-standing non-cash benefits, which the Board regarded as no longer appropriate, and replacing them with salary. Accordingly, the only non-salary components of the remuneration of these positions is parking in Head Office, leave provisions and access to superannuation and health insurance on the same terms as are available to Reserve Bank staff. The Governor and the Deputy Governor are not eligible for performance bonuses. The Board also decided to increase total remuneration at the time of this review after reviewing developments in remuneration of executives in the private and public sectors, taking into account the significance and diversity of responsibility of the positions of Governor and Deputy Governor. The Board advises the Treasurer and the President of the Remuneration Tribunal of details of the remuneration of these positions.

The Governor, in consultation with the Remuneration Committee, determines the remuneration of Assistant Governors. Remuneration of staff, including Assistant Governors, is designed to ensure that the Bank attracts and retains the level of expertise necessary to carry out the work associated with its specialised policy, operating and regulatory objectives. Remuneration of staff is externally benchmarked against positions at a comparable level in the financial sector and in government business enterprises. Periodically, advice is sought from independent, specialised remuneration advisers on the structure of remuneration packages and the level of compensation in positions of comparable expertise and responsibility in relevant other organisations. The latest such review for Assistant Governors was carried out in 2007 and concluded that remuneration of these positions appeared toward the middle of the range of fixed remuneration for positions at a comparable level in a group of smaller financial institutions. Assistant Governors are employed under contract with a fixed term of five years. Continuation of employment, and renewal of contracts, is subject to ongoing satisfactory performance. Assistant Governors are not eligible for performance bonuses.

The RBA discloses remuneration of key management personnel on the basis of AASB 124 – *Related Party Disclosures*. The aggregate remuneration of the RBA's key management personnel on this basis was:

	2010 **$**	**2009** **$**
Short-term employee benefits	4 757 156	4 513 477
Post-employment benefits	899 960	861 621
Other long-term benefits	240 286	332 707
Share based payments	–	–
Termination benefits	–	–
Total Compensation	5 897 402	5 707 805

Short-term benefits include cash salary and, where relevant for executives, annual leave, motor vehicle benefits, car parking, health benefits and the fringe benefits tax paid or payable on these benefits. Post-employment benefits include superannuation benefits and, in the case of staff, health benefits. Other long-term benefits include long service leave. The components of remuneration are reported on an accruals basis. Members of the RBA's staff may salary sacrifice in exchange for certain benefits.

As at 30 June 2010 and 30 June 2009 there were no loans by the RBA to key management personnel.

There were no related-party transactions with Board members or executives: transactions with director-related entities which occurred in the normal course of the RBA's operations were conducted on terms no more favourable than similar transactions with other employees or customers; such transactions were incidental and for small amounts. As the Board of NPA comprised executives of the RBA in 2009/10 no directors fees were paid that year. An amount of $36 976 in 2008/09 was paid for non-executive members of the Board of NPA Limited who were not employees of the RBA or members of the Reserve Bank Board.

The information contained in the following table shows details of the remuneration of directors and management. The figures on which the table is based comply with AASB 124 – *Related Party Disclosures*, the usual commercial standard.

	2010			2009		
Remuneration Band $	**Number**	**Salary $**	**Total Remuneration $**	**Number**	**Salary $**	**Total Remuneration $**
0	2	0	0	2	0	0
40 000 – 54 999	4	44 969	49 016	4	45 130	49 192
55 000 – 69 999	5	57 732	62 928	5	55 591	60 594
70 000 – 84 999	1	69 613	75 887	1	67 443	73 513
505 000 – 519 999				2	365 542	507 705
520 000 – 534 999	1	398 272	532 667			
535 000 – 549 999	1	386 134	535 167			
565 000 – 579 999				2	401 390	573 539
580 000 – 594 999	2	416 972	585 834	2	397 557	585 452
595 000 – 609 999	1	439 258	605 063			
610 000 – 624 999	1	433 910	614 747			
790 000 – 804 999	1	607 663	802 202	1	593 800	790 995
1 000 000 – 1 014 999				1	786 300	1 010 169
1 045 000 – 1 059 999	1	804 657	1 049 297			
	20			20		

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

Note 13 – Remuneration of Auditor

Fees paid or payable to the statutory auditor (Auditor-General of the Commonwealth of Australia) for audit services (excluding GST) totalled $435 000 in 2009/10 ($326 000 in 2008/09); this includes audit services in relation to the RBA's subsidiary Note Printing Australia. These fees are included in Consultants' Fees, Legal Fees and Payments to Contractors in Note 2.

Note 14 – Superannuation Funds

Two superannuation funds are operated pursuant to the *Reserve Bank Act 1959*: the Reserve Bank of Australia Officers' Superannuation Fund (OSF) and the Reserve Bank of Australia UK Pension Scheme. A small part of the assets of the OSF is held by the RBA as nominee for the trustees of the OSF; such assets are not included in the RBA's financial statements. Payment of these superannuation funds' current and future benefits is funded by member and RBA contributions and the funds' existing asset bases. The RBA's superannuation expenses in relation to the OSF and the UK Pension Scheme are included in accounting profits and shown in Note 2. Administration and other operational costs (eg salaries, overheads, legal costs and valuation fees) incurred by the RBA for superannuation arrangements are also included in Note 2. There were no other related-party transactions between the RBA and the funds during 2009/10.

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

Funding valuation

Full independent actuarial valuations of the OSF and UK Pension Scheme are conducted every three years to determine funding for these schemes. The most recent funding valuation of the OSF was at 30 June 2008 and for the UK Pension Scheme at 30 June 2007. At the most recent valuations, the actuaries indicated that, on the basis of accrued benefits, both funds were in surplus and that the funds were in a satisfactory financial position. The next triennial funding valuation for the UK Pension Scheme for 30 June 2010 will be undertaken in 2010/11.

The OSF triennial funding valuation as at 30 June 2008 was based on the Attained Age Funding method, consistent with the accounting standard for superannuation funds, AAS 25 – *Financial Reporting by Superannuation Plans*. Under this standard, the accrued benefits of the OSF were determined as the value of the future benefits payable to members (allowing for future salary increases), discounted using the expected rate of return on the assets held to fund these benefits. At the time of the triennial review, the surplus of the OSF on this measure was $175 million, as the assets of the OSF of $897 million exceeded the accrued benefits of $722 million. The main financial assumptions in the triennial valuation were that the annual post-tax rate of return on assets for benefits of active members was 7.0 per cent, that for assets for current pensions was 7.5 per cent (pre-tax), with annual salary increases of 4.0 per cent and annual pension increases of 3.5 per cent. Subsequent to the triennial review, the OSF surplus measured on the basis of AAS 25 as at 30 June 2010 amounted to $51 million (assets of $690 million less accrued benefits of $639 million).

Consistent with the Actuary's funding recommendation, the RBA maintained its contribution rate to the OSF at 18.3 per cent of salaries in 2008/09. The main financial assumptions in the triennial valuation were that the annual post-tax rate of return on assets for benefits of active members was 7.0 per cent, that for assets for current pensions was 7.5 per cent (pre-tax), with annual salary increases of 4.0 per cent and annual pension increases of 3.5 per cent.

The triennial funding valuation for the UK Pension Scheme was based on the Attained Age method. The surplus of the UK Pension Scheme as at 30 June 2010, measured in accordance with AAS 25, was $1.1 million (assets of $18.2 million compared with accrued benefits of $17.1 million).

Accounting valuation

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

The principal actuarial assumptions for the AASB 119 valuation used in the case of the OSF were a discount rate of 5.27 per cent (5.70 per cent in 2008/09), future salary increases of 3.5 per cent (3.5 per cent in 2008/09), future pension increases of 3.5 per cent (3.5 per cent in 2008/09) and an assumed return on plan assets of 8.5 per cent (8.6 per cent in 2008/09). The actual return on plan assets of the OSF for 2009/10 was 10.6 per cent (-13.7 per cent in 2008/09). The assumptions used for the UK Pension Scheme were a discount rate of 5.3 per cent (6.4 per cent in 2008/09), future salary increases of 5.25 per cent (5.25 per cent in 2008/09), future pension increases of 3.25 per cent (3.25 per cent in 2008/09) and an assumed return on plan assets of 4.4 per cent (4.25 per cent in 2008/09). The actual return on plan assets of the UK Pension Scheme for 2009/10 was 6.1 per cent (–0.5 per cent in 2008/09). The expected overall rates of returns are based on the actuaries' models of returns for major asset classes and reflect the historic rates of return and volatility for each class and correlations across asset classes.

Details of the funds are as shown on the following pages. In the case of the OSF, these details relate only to the defined benefit component of the fund; defined contribution accumulation balances, on which the Bank has no actuarial risk, are excluded. This has no effect on the measurement of the surpluses in the OSF. At 30 June 2010 accumulation balances in the OSF totalled $150.5 million ($125.8 million as at 30 June 2009).

The distribution of the funds' assets at 30 June is shown below:

	% of fund assets			
	OSF		UK Pension Scheme	
	2010	2009	2010	2009
Cash and short-term securities	4.5	6.2	–	–
Fixed interest securities	7.0	6.0	–	–
Indexed securities	2.2	2.5	94.3	95.1
Domestic shares	40.2	37.0	5.7	4.9
Foreign shares	4.1	4.1	–	–
Property				
Direct	4.6	5.3	–	–
Indirect	16.6	18.7	–	–
Private equity and alternative investments	20.8	20.2	–	–
	100	100	100	100

Note 14 – (Continued)

	OSF		UK Scheme		Total	
	2010 $M	2009 $M	2010 $M	2009 $M	2010 $M	2009 $M
Opening balances:						
Net market value of assets	652	755	20	22	672	777
Accrued benefits	(829)	(679)	(14)	(16)	(843)	(695)
Surplus/(deficit)	(177)	76	7	6	(170)	82
Effect of asset cap	–	–	(3)	–	(3)	–
Actuarial (gains)/losses not included in balance sheet under Corridor	272	–	(4)	(3)	268	(3)
Exchange rate (gains)/losses	–	–	–	1	–	1
Opening superannuation asset	95	76	–	4	95	80
Change in net market value of assets	39	(103)	(2)	(1)	37	(104)
Change in accrued benefits	(99)	(149)	–	2	(99)	(148)
Change in asset cap	–	–	–	(3)	–	(3)
Change in actuarial (gains)/losses not included in balance sheet under Corridor	48	272	1	(1)	49	271
Exchange rate (gains)/losses	–	–	1	(1)	1	(1)
Total change in superannuation asset	(12)	20	–	(4)	(12)	16
Closing balances:						
Net market value of assets	691	652	18	20	710	672
Accrued benefits	(928)	(829)	(14)	(14)	(942)	(843)
Surplus/(deficit)	(236)	(177)	4	7	(232)	(170)
Effect of asset cap	–	–	(3)	(3)	(3)	(3)
Actuarial (gains)/losses not included in balance sheet under Corridor	320	272	(3)	(4)	317	268
Exchange rate (gains)/losses	–	–	1	–	1	–
Closing superannuation asset	84	95	–	–	83	95
Actuarially assumed return on plan assets	52	63	1	1	53	64
Benefit payments	(31)	(30)	(1)	(1)	(32)	(31)
Actuarial gains/(losses) on assets	2	(150)	1	(1)	3	(151)
Contributions from RBA to defined benefit schemes	19	17	–	–	19	17
Contributions tax	(3)	(2)	–	–	(3)	(2)
Exchange rate gains/(losses)	–	–	(3)	–	(3)	–
Change in net market value of assets	39	(103)	(2)	(1)	37	(104)

Note 14 – (Continued)

	OSF		UK Scheme		Total	
	2010 $M	2009 $M	2010 $M	2009 $M	2010 $M	2009 $M
Current service cost	(27)	(21)	–	–	(27)	(21)
Interest cost	(39)	(39)	(1)	(1)	(40)	(40)
Benefit payments	31	30	1	1	31	31
Contributions tax	3	2	–	–	3	2
Experience adjustments on benefits	3	(54)	–	–	3	(54)
Effects of changes in benefit actuarial assumptions	(69)	(68)	(2)	2	(71)	(66)
Exchange rate gains/(losses)		–	2	-	2	–
Change in accrued benefits	(99)	(149)	–	2	(99)	(148)
Actuarial (gains)/losses on assets	(2)	150	(1)	1	(3)	151
Experience adjustments on benefits	(3)	54	–	–	(3)	54
Effects of changes in benefit actuarial assumptions	69	68	2	(2)	71	66
Amortisation of actuarial gains/(losses)	(16)	–	–	–	(16)	–
Change in actuarial losses not included in balance sheet under Corridor	48	272	1	(1)	49	271
Superannuation expense/(income) included in Statement of Comprehensive Income						
Current service cost	27	21	–	–	27	21
Interest cost	39	39	1	1	40	40
Assumed return on plan assets	(52)	(63)	(1)	(1)	(53)	(64)
Amortisation of actuarial (gains)/losses under Corridor	16	–	–	–	16	–
Effect of asset cap	–	–	–	3	–	3
Productivity and superannuation guarantee contributions	4	3	–	–	4	3
Total superannuation expense/(income)	35	–	–	3	35	3

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

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

	2010 $M	2009 $M	2008 $M	2007 $M	2006 $M
OSF					
Closing balances:					
Net market value of assets	691	652	755	796	672
Accrued benefits	(928)	(829)	(679)	(631)	(650)
Surplus/(deficit)	(236)	(177)	76	165	22
Experience adjustments on assets	2	(150)	(90)	95	40
Experience adjustments on benefits	(3)	(54)	(20)	7	(11)
UK Scheme					
Closing balances:					
Net market value of assets	18	20	22	23	24
Accrued benefits	(14)	(14)	(16)	(17)	(20)
Surplus	4	7	6	5	4
Experience adjustments on assets	1	(1)	2	–	–
Experience adjustments on benefits	–	–	–	–	–

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

Note 15 – Financial Instruments and Risk

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

AASB 7 – *Financial Instruments*: *Disclosures* requires disclosure of information relating to financial instruments; their significance and performance; terms and conditions; fair values; risk exposures and risk management.

Financial Risk

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

Market Risk

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

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or cash flows of foreign currency assets and liabilities will fluctuate because of movements in exchange rates. Foreign exchange risk arises from the RBA's foreign currency assets, which are held to support its operations in the foreign exchange market. The value of these assets, measured in Australian dollars, varies with movements in the value of the Australian dollar exchange rate against the currencies in which the assets are invested. An appreciation in the exchange rate results in valuation losses, while a depreciation leads to valuation gains. The overall level of foreign currency exposure is determined by policy considerations and cannot otherwise be managed to reduce foreign exchange risk. The RBA's net foreign currency exposure as at 30 June 2010 was $41.8 billion ($39.3 billion as at 30 June 2009). Within the overall exposure and to a limited extent, foreign currency risk can be reduced by holding assets across a diversified portfolio of currencies. The RBA holds foreign reserves in three currencies – the US dollar, the Euro and the Yen – because the markets for these currencies are typically liquid and suitable for investing foreign exchange reserves (*see Concentration of foreign exchange below*).

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

Concentration of foreign exchange

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

	% of foreign exchange	
	2010	**2009**
US dollar	45	45
Euro	45	45
Japanese yen	10	10
	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.

	2010 $M	2009 $M
Change in profit/equity due to a 10 per cent appreciation in the reserves-weighted value of the A$	–3 804	–3 577
Change in profit/equity due to a 10 per cent depreciation in the reserves-weighted value of the A$	4 650	4 372

Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of financial instruments will fluctuate because of movements in market interest rates. The RBA's balance sheet is exposed to considerable interest rate risk because most of its assets are financial assets, such as domestic and foreign securities, which have a fixed income stream. The price of such securities increases when market interest rates decline, while the price of a security will fall if market rates rise. Interest rate risk increases with the maturity of a security because the associated income stream is fixed for a longer period.

Sensitivity to interest rate risk

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

	2010 $M	2009 $M
Change in profit/equity due to movements of +/-1 percentage point across yield curves:		
Foreign currency securities	–/+568	–/+591
Australian dollar securities	–/+158	–/+113

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

Other price risk

The RBA holds shares as a member of the Bank for International Settlements. This membership is mainly to maintain and develop strong relationships with other central banks which are to Australia's advantage. Shares in the BIS are owned exclusively by its member central banks and monetary authorities. For accounting purposes, the RBA treats BIS shares as 'available-for-sale' and the fair value of these shares is estimated on the basis of the BIS' net asset value, less a discount of 30 per cent. Accordingly, these shares are revalued to reflect movements in the net asset value of the BIS and in the Australian dollar. The price risk faced on BIS shares is incidental to the general reasons for holding them and is immaterial compared with other market risks faced by the RBA. For this reason, this exposure is not included as part of the RBA's net foreign currency exposure outlined above.

Credit Risk

Credit risk is the potential for financial loss arising from an issuer or counterparty defaulting on its obligations either to repay the principal, make interest payments due on an asset, or to settle a transaction. For the RBA, credit risk arises from exposure to: the issuers of securities that it holds; banks with which it deposits funds; and counterparties which are yet to settle transactions. The RBA's credit exposure is low compared with that of most commercial financial institutions, as it manages such risks within a highly risk-averse framework. In particular, credit risk is managed by: holding securities issued by a limited number of highly-rated governments, government-guaranteed agencies and supranational organisations; holding government guaranteed issues of certain highly-rated commercial banks and deposits with highly-rated banks, in amounts consistent with the credit ratings and capital positions of these financial institutions; and holding collateral only of low credit risk against buy repurchase agreements and gold loans.

Cash invested under repurchase agreements in overseas markets is secured by collateral in the form of government securities or securities issued by US agencies; the RBA takes and maintains collateral to the value of 102 per cent of the cash invested. Cash invested under domestic buy repurchase agreements is secured by securities issued by Australian governments, Australian banks and various corporate and asset-backed securities (see Note 1(b)). The RBA holds collateral to a value of between 102 and 110 per cent of the amount invested according to the risk profile of the collateral held. If the current value of collateral offered by a counterparty to a repo transaction falls by more than 1 percentage point below the initial margin, the counterparty is required to provide additional collateral to restore this margin. Gold loans are secured by Australian dollar securities to 110 per cent of the market value of the gold loaned.

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

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

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

1. Foreign exchange swaps – As at 30 June 2010 the RBA was under contract to purchase $4.9 billion of foreign currency ($2.5 billion at 30 June 2009) and sell $1.9 billion of foreign currency ($12.6 billion at 30 June 2009). As of that date there was a net unrealised gain of $26 million on these swap positions included in net profit ($773 million unrealised gain at 30 June 2009). The exposure of these contracts to credit risk is the cost of reestablishing the contract in the market if a counterparty fails to fulfill its obligations.

2. Interest rate futures – As at 30 June 2010 the amount of credit risk on interest rate futures contracts was approximately $1.4 million ($11.3 million at 30 June 2009). As at 30 June 2010 there was an unrealised loss brought to account on those contracts of $0.5 million ($9.2 million unrealised loss at 30 June 2009).

Concentration of credit risk

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

The RBA held no past due or impaired assets at 30 June 2010 or 30 June 2009.

	Risk rating of security/issuer[1]	Risk rating of counterparties[1]	% of total assets	
			2010	2009
Australian Dollar Securities				
Holdings – Commonwealth Government securities	AAA	n/a	0.9	0.2
Holdings – Semi Government securities	AAA	n/a	3.8	2.1
	AA	n/a	1.0	1.7
Securities sold under repurchase agreements	AAA	AA	0.1	0.1
	AAA	A	0.2	–
Securities held under repurchase agreements	AAA	AA	9.8	21.4
	AAA	A	10.0	6.5
	AAA	BBB	1.2	0.6
	AAA	Other[3]	0.8	1.1
	AA	AA	9.7	9.3
	AA	A	2.0	1.4
	AA	BBB	0.1	0.1
	AA	Other[3]	0.1	–
	A	AA	2.3	1.0
	A	A	0.1	0.3
	Other[2]	AA	0.9	–
Foreign Investments				
Holdings of securities	AAA	n/a	29.2	22.1
	AA	n/a	4.7	11.6
	A	n/a	0.5	0.4
Securities sold under repurchase agreements	AAA	AA	3.6	0.3
	AAA	A	0.9	1.0
	AA	A	0.1	–
Securities held under repurchase agreements	AAA	AAA	–	0.4
	AAA	AA	6.8	6.2
	AAA	A	2.8	4.9
	AA	AA	0.1	–
	AA	A	0.1	–
Deposits	n/a	AAA	0.4	1.2
	n/a	AA	1.2	0.7
	n/a	A	–	0.2
Other	n/a	AA	–	0.6
	n/a	A	–	0.1
Gold Loans	n/a	AAA	0.2	0.1
Other			6.4	4.4
			100	100

1 Standard & Poor's equivalent ratings.
2 This category includes Asset Backed Commercial Paper (ABCP), which does not have a long-term credit rating.
3 This category includes counterparties which are not rated.

Liquidity Risk

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

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

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

Maturity Analysis – As at 30 June 2010

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

Maturity Analysis – As at 30 June 2009

	Balance sheet total $M	Contracted maturity $M					No Specified Maturity $M	Weighted average coupon rate %	Weighted average effective rate %
		On Demand	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years			
Assets									
Gold									
Gold loans	149	–	38	74	37	–	–	0.45	0.48
Gold holdings	2 808	–	–	–	–	–	2 808	n/a	n/a
	2 957								
Foreign exchange									
Balances with central banks	372	2	370	–	–	–	–	0.01	0.01
Securities sold under repurchase agreements	1 393	–	–	–	733	660	–	2.24	2.60
Securities purchased under repurchase agreements	11 374	–	11 374	–	–	–	–	0.29	0.29
Other securities	35 671	–	15 283	7 640	8 375	3 735	638	1.45	1.00
Deposits	2 125	–	2 125	–	–	–	–	0.40	0.40
Accrued interest	221	–	144	77	–	–	–	n/a	n/a
	51 156								
Australian dollar securities									
Securities sold under repurchase agreements	104	–	–	–	104	–	–	7.13	5.43
Securities purchased under repurchase agreements	42 286	–	21 366	20 920	–	–	–	3.74	3.74
Other securities	4 069	–	1 261	457	909	1 442	–	5.27	4.56
Accrued interest	666	–	165	501	–	–	–	n/a	n/a
	47 125								
Property, plant & equipment	443	–	–	–	–	–	443	n/a	n/a
Cash and cash equivalents	772	–	767	–	–	–	5	2.76	2.76
Loans and advances	8	–	–	–	–	8	–	2.82	2.82
Other	505	–	20	–	–	–	485	n/a	n/a
Total assets	102 966	2	52 913	29 669	10 158	5 845	4 379	2.34	2.16
Liabilities									
Australian notes on issue	48 087	–	–	–	–	–	48 087	0.17	0.17
Deposits	34 266	6 914	27 352	–	–	–	–	2.96	2.96
Distribution payable to Australian Government	5 977	–	5 227	–	750	–	–	n/a	n/a
Other	2 093	–	1 969	–	–	–	124	(0.61)	(0.61)
Total liabilities	90 423	6 914	34 548	–	750	–	48 211	1.20	1.20
Capital and reserves	12 543								
Total balance sheet	102 966								
Local Currency									
Swaps									
Contractual outflow	(851)	–	(851)	–	–	–	–	n/a	n/a
Contractual inflow	10 913	–	10 913	–	–	–	–	n/a	n/a
	10 062	–	10 062	–	–	–	–		
Foreign Currency									
Swaps									
Contractual outflow	(12 584)	–	(12 584)	–	–	–	–	n/a	n/a
Contractual inflow	2 522	–	2 522	–	–	–	–	n/a	n/a
	(10 062)	–	(10 062)	–	–	–	–		

Fair Value of Financial Instruments

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

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

	2010 $M	2009 $M
Assets accounted for under AASB 139		
At fair value through Profit or Loss	38 071	41 261
Loans and receivables	43 025	57 968
Available-for-sale	328	318
Assets accounted for under other standards	4 228	3 419
As at 30 June	85 652	102 966
Liabilities accounted for under AASB 139		
At fair value through Profit or Loss	7	23
Not at fair value through Profit or Loss	75 104	90 276
Liabilities accounted for under other standards	147	124
As at 30 June	75 258	90 423

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

	Level One $M	Level Two $M	Level Three $M	Total $M
As at 30 June 2010				
Assets at fair value through Profit or Loss				
Australian dollar securities	4 077	1 091	–	5 168
Foreign government securities	28 966	3 903	–	32 869
Foreign currency swap gains	–	34	–	34
Available-for-sale				
Shares in international and other institutions	–	–	328	328
	33 043	5 028	328	38 399
Liabilities at fair value through Profit or Loss				
Foreign currency swap losses	–	7	–	7
	–	7	–	7
As at 30 June 2009				
Assets at fair value through Profit or Loss				
Australian dollar securities	3 160	1 059	–	4 219
Foreign government securities	31 537	4 709	–	36 246
Foreign currency swap gains	–	796	–	796
Available-for-sale				
Shares in international and other institutions	–	–	318	318
	34 697	6 564	318	41 579
Liabilities at fair value through Profit or Loss				
Foreign currency swap losses	–	23	–	23
	–	23	–	23

Note 16 – Subsequent Events

There have been no events since 30 June 2010 relevant to the financial statements.

Auditor-General for Australia

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Treasurer

Scope

I have audited the accompanying financial statements of Reserve Bank of Australia (the Bank) and the controlled entities for the year ended 30 June 2010, which comprise: a Directors' Statement, Balance Sheet; Statement of Comprehensive Income; Statement of Distributions; Statement of Changes in Capital and Reserves; Cash Flow Statement; and Notes to and forming part of the Financial Statements, including a Summary of Significant Accounting Policies.

The Directors' Responsibility for the Financial Statements

The members of the Board are responsible for the preparation and fair presentation of the financial statements in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997,* including the Australian Accounting Standards (which include the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards.*

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements 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 Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting

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estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Independence

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

Auditor's Opinion

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

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

(b) give a true and fair view of the matters required by the Finance Minister's Orders including the Bank's and the consolidated entity's financial position as at 30 June 2010 and their financial performance and cash flows for the year then ended.

Ian McPhee
Auditor-General

Sydney
16 August 2010