Financial Statements

For the year ended 30 June 2012

Directors' Statement

In the opinion of the directors, the financial statements for the year ended 30 June 2012 give a true and fair view of the matters required by the Finance Minister's Orders for Financial Reporting made under the *Commonwealth Authorities and Companies Act 1997*. These statements have been prepared from properly maintained financial records and are signed in accordance with a resolution of the directors.

Glenn Stevens
Chairman, Reserve Bank Board
5 September 2012

Frank Campbell
Assistant Governor (Corporate Services)

Balance Sheet – as at 30 June 2012

Reserve Bank of Australia and Controlled Entities

	Note	2012 $M	2011 $M
Assets			
Cash and cash equivalents	6	164	1 209
Australian dollar securities	1(b), 15	32 648	31 834
Foreign exchange	1(b), 15	43 296	37 727
Gold	1(c), 15	4 027	3 599
Property, plant and equipment	1(d), 8	448	454
Loans, advances and other assets	7	496	490
Total Assets		81 079	75 313
Liabilities			
Deposits	1(b), 9	18 000	17 504
Distribution payable to Australian Government	1(f), 3	500	–
Other liabilities	10	2 615	2 411
Australian notes on issue	1(b), 15	53 595	50 059
Total Liabilities		74 710	69 974
Net Assets		6 369	5 339
Capital and Reserves			
Reserves:			
Unrealised profits reserves	1(e), 5	41	61
Asset revaluation reserves	1(e), 5	4 375	3 921
Reserve Bank Reserve Fund	1(e), 5	1 913	1 317
Capital	1(e)	40	40
Total Capital and Reserves		6 369	5 339

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

Statement of Comprehensive Income – for the year ended 30 June 2012

Reserve Bank of Australia and Controlled Entities

	Note	2012 $M	2011 $M
Income			
Interest revenue	2	1 875	1 930
Net gains on securities and foreign exchange	2	386	–
Dividend revenue	2	4	4
Fees and commissions	2	24	20
Other income	2	97	98
Total Income		2 386	2 052
Expenses			
Interest expense	2	889	798
Net losses on securities and foreign exchange	2	–	5 786
General administrative expenses	2	370	303
Other expenses	2	51	54
Total Expenses		1 310	6 941
Net Profit/(Loss)		1 076	(4 889)
Other Comprehensive Income			
Gains/(losses) on:			
Gold	5	427	(147)
Shares in international and other institutions	5	23	(26)
Properties, plant and equipment	5	4	7
Total Other Comprehensive Income		454	(166)
Total Comprehensive Income		1 530	(5 055)

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

Statement of Distribution – for the year ended 30 June 2012

Reserve Bank of Australia and Controlled Entities

	Note	2012 $M	2011 $M
Net Profit/(Loss)		1 076	(4 889)
Transfer (to)/from unrealised profits reserves	5	20	23
Transfer from Reserve Bank Reserve Fund	5	–	4 866
Earnings available for distribution		1 096	–
Distributed as follows:			
Transfer to Reserve Bank Reserve Fund	5	596	–
Payable to Australian Government	3	500	–
		1 096	–

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 2012

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 2010		4 087	84	6 183	40	–	10 394
Plus:							
Net Profit/(Loss)	2	–	(23)	(4 866)	–	–	(4 889)
Gains/(losses) on:							
Gold	5	(147)					(147)
Shares in international and other institutions	5	(26)					(26)
Property, plant and equipment	5	7					7
Other comprehensive income		(166)					(166)
Total comprehensive income for 2010/11							(5 055)
Less:							
Transfer to distribution payable to Australian Government	3	–	–	–	–	–	–
Balance as at 30 June 2011		3 921	61	1 317	40	–	5 339
Plus:							
Net Profit/(Loss)	2	–	(20)	–	–	1 096	1 076
Gains/(losses) on:							
Gold	5	427					427
Shares in international and other institutions	5	23					23
Property, plant and equipment	5	4					4
Other comprehensive income		454					454
Total comprehensive income for 2011/12							1 530
Less:							
Transfer to Reserve Bank Reserve Fund	3	–	–	596	–	(596)	–
Transfer to distribution payable to Australian Government	3	–	–	–	–	(500)	(500)
Balance as at 30 June 2012		4 375	41	1 913	40	–	6 369

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

Cash Flow Statement – for the year ended 30 June 2012

Reserve Bank of Australia and Controlled Entities

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

	2012 Inflow/ (outflow) $M	2011 Inflow/ (outflow) $M
Cash flows from operating activities		
Interest received on investments	1 961	1 975
Interest received on loans, advances, and on net overnight settlements balances	41	42
Loan management reimbursement	1	1
Banking service fees received	23	20
Dividends received	9	4
Rents received	9	8
Net payments for and proceeds from investments	(5 957)	2 244
Interest paid on deposit liabilities	(778)	(629)
Interest paid on currency note holdings of banks	(123)	(133)
Staff costs (including redundancy)	(177)	(174)
Property, plant and equipment	(38)	(39)
Other	(31)	(10)
Net cash provided by operating activities	(5 060)	3 309
Cash flows from investment activities		
Net expenditure on property, plant and equipment	(17)	(25)
Net cash used in investment activities	(17)	(25)
Cash flows from financing activities		
Profit payment to Australian Government	–	(750)
Net movement in deposit liabilities	496	(3 483)
Net movement in loans and advances	–	1
Net movement in notes on issue	3 536	1 300
Other	–	5
Net cash used in financing activities	4 032	(2 927)
Net increase/(decrease) in cash	(1 045)	357
Cash at beginning of financial year	1 209	852
Cash at end of financial year	164	1 209

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

Cash Flow Statement – for the year ended 30 June 2012 (continued)

Reserve Bank of Australia and Controlled Entities

Reconciliation of cash	Note	2012 $M	2011 $M
Cash		29	22
Overnight settlements systems	6	135	1 187
		164	1 209

Reconciliation of net cash provided by operating activities to Net Profits in terms of the *Reserve Bank Act 1959*	Note	2012 $M	2011 $M
Net Profit/(Loss)		1 076	(4 889)
Increase/(decrease) in interest payable		(25)	13
Net loss/(gain) on overseas investments	2	(426)	94
Net loss/(gain) on Australian dollar securities	2	(188)	26
Net loss/(gain) on foreign currency	2	228	5 666
Decrease/(increase) in income accrued on investments		140	(25)
Depreciation of property	8	7	8
Depreciation of plant and equipment	8	18	18
Net payments for and proceeds from investments		(5 957)	2 399
Other		67	(1)
Net cash provided by operating activities		(5 060)	3 309

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

Notes to and Forming Part of the Financial Statements – 30 June 2012

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 Act 1997* (CAC Act). These financial statements for the year ended 30 June 2012 have been prepared under Australian Accounting Standards (AAS), other accounting standards and accounting interpretations issued by the Australian Accounting Standards Board, in accordance with the Finance Minister's Orders for Financial Reporting (FMOs), which are issued pursuant to the CAC Act. These financial statements comply fully with International Financial Reporting Standards. The RBA has not sought any exemptions from the requirements of the FMOs in 2011/12. 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 2012.

These financial statements and attached notes are a general purpose financial report prepared in accordance with relevant AAS. Elections as to the accounting treatment under AAS made by the Bank are noted appropriately. All amounts are expressed in Australian dollars 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 4 September 2012.

(a) Consolidation and joint venture

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

Note Printing Australia Limited

NPA was incorporated as a wholly owned subsidiary of the RBA on 1 July 1998, with an initial capital of $20.0 million. The RBA provided NPA with additional capital of $15.0 million in July 2008 and a further $25.0 million of capital in July 2009. NPA's total assets, liabilities and capital as at 30 June 2012 were $151.2 million, $37.8 million and $113.4 million, respectively ($143.3 million, $28.0 million and $115.3 million as at 30 June 2011).

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 International Pty Ltd

The RBA has a 50 per cent share in Securency International Pty Ltd (Securency), a joint venture with Innovia Films. Securency markets and manufactures the polymer substrate on which Australia's banknotes are printed. In November 2010, the RBA announced it was pursuing a joint sale with Innovia Films of its half share in Securency. This process was terminated late in 2011, after Innovia advised the Bank that it was no longer a seller. Subsequently, the Bank is pursuing the sale of its half interest in Securency. Macquarie Capital Advisers is the Bank's adviser. Accordingly, the investment in Securency is classified as held for sale in accordance with AASB 5 – *Non Current Assets Held for Sale and Discontinued Operations*. This is based on the expectation that the carrying amount of the asset will be recovered through a sale transaction within one year. The RBA's investment in Securency is included in Note 7. The value of the RBA's investment in Securency was not impaired as at 30 June 2012.

Legal issues

During 2011 charges were laid against several former employees of NPA and Securency, and against the companies, alleging that they conspired to provide, or offer to provide, benefits to foreign public officials that were not legitimately due. The Reserve Bank has accounted for, or provided for, the costs or estimated costs associated with these matters, in accordance with the relevant accounting standards. Specific information relating to the charges and associated costs has not been disclosed in the notes to the accounts as legal matters remain before the courts.

(b) Financial instruments

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

The RBA brings its securities transactions and foreign exchange transactions to account on a trade date basis; that is, it recognises the effects of purchases and sales of these securities in the Statement of 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 eligible Australian dollar domestic residential and commercial mortgage-backed securities, asset-backed commercial paper and corporate securities.

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

Interest on fixed coupon securities is received biannually at the coupon rate and the principal is received at maturity. Inflation indexed bonds are coupon securities with the nominal value of the security indexed in line with movements in the Consumer Price Index each quarter until maturity; interest is paid quarterly. Interest earned on discount securities is the difference between the purchase cost and the face value of the security; this is accrued over the term 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, Canada and Japan and deposits with the BIS and other central banks. The RBA engages in interest rate futures and foreign currency swaps.

Foreign exchange translation

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

Foreign government securities

Foreign government securities comprise coupon and discount securities. Coupon securities have biannual or annual interest payments depending on the currency and type of security; the principal of these securities is received at maturity. Interest earned on discount securities is the difference between the purchase cost and the face value of the security; this is accrued over the term 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 (Note 1(f)). Interest earned on securities is accrued over the term of the security as revenue in the Statement of Comprehensive Income.

Foreign deposits

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

Buy repurchase agreements

In the course of its financial market operations, the RBA engages in repurchase agreements involving foreign and Australian dollar marketable securities. Securities purchased and contracted for sale under buy repurchase agreements are classified under AASB 139 as 'loans and receivables' and valued at amortised cost. Where the Bank enters into a buy repurchase agreement, the Bank records a receivable equating to the consideration paid. The difference between the purchase and sale price is accrued over the term of the agreement and recognised as interest revenue (see page 82 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.

Interest rate futures

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

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

Bank for International Settlements

Under AASB 139 the RBA's shareholding in the BIS is classified as 'available for sale' for accounting purposes. The shareholding is valued at fair value and revaluation gains and losses are transferred directly to the revaluation reserve for shares in international and other institutions (Note 5). The fair value is estimated on the basis of 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 2011/12, notes with a face value of $254 636 which had previously been written down were presented to the RBA and expensed ($227 643 in 2010/11).

The RBA pays interest on working balances of currency notes held by banks under cash distribution arrangements.

Sell repurchase agreements

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

(c) Gold

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

(d) Property, plant and equipment

The RBA accounts for its property, plant and equipment 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 at 30 June 2011. Between revaluations, plant and equipment is carried at the most recent valuation less any subsequent depreciation. Annual depreciation is based on fair values and the RBA's assessments of the useful remaining life of individual assets. Computer software and other intangible assets are accounted for in accordance with AASB 138 – *Intangible Assets*. Intangibles are recognised at cost less accumulated amortisation, which is calculated on the basis of the estimated useful life of the relevant assets. Amortisation expense for intangibles is included in Other Expenses in Note 2.

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

	Years
Buildings	20–50
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.

The Reserve Bank Reserve Fund (RBRF) is also established by the Reserve Bank Act 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 is funded by transfers from earnings available for distribution.

The Reserve Bank Board assesses the adequacy of the balance of the RBRF each year. In line with section 30 of the Reserve Bank Act, the Treasurer, after consultation with the Board, determines any amounts to be credited to the RBRF from earnings available for distribution (refer Note 1(f)). As accounting losses in 2009/10 and 2010/11 reduced this reserve, the Board will, over time, seek to restore its balance from future profits to a level that it regards as satisfactory.

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

Unrealised gains and losses on foreign exchange, foreign securities and Australian dollar securities are recognised in profit from ordinary activities. Such gains or losses are not available for distribution to the Australian Government and are transferred to the Unrealised Profits Reserve where they remain available to absorb future unrealised losses or become available for distribution when gains are realised as assets are sold. Unrealised losses that exceed the balance held in the Unrealised Profits Reserve are initially charged against other components of income, consistent with the Reserve Bank Act and accounting practice.

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)). A sum of $20 million representing an unrealised loss on the RBA's superannuation asset was transferred to this reserve in 2011/12.

Balances of asset revaluation reserves reflect differences between the fair value of a number of the RBA's assets, mainly non-traded assets, and their cost. These assets are gold; property, plant and equipment; and shares in international and other institutions. These unrealised gains are transferred directly to the relevant reserves and are 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:

(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.

(g) Provisions

The RBA maintains provisions for accrued annual leave in accordance with AASB 119 – *Employee Benefits*, based on expected salaries 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 2012. The main changes relevant to the RBA relate to the revised standards AASB 119 – *Employee Benefits* and AASB 13 – *Fair Value Measurement*. The Bank is assessing the impact of these amendments. The revised standards will be first applied in the financial statements for the year ending 30 June 2014.

Note 2 – Net Profits

	Note	2012 $M	2011 $M
Interest revenue			
Overseas investments	1(b), 4	325	391
Australian dollar securities	1(b), 4	1 508	1 497
Overnight settlements	4	41	41
Gold loans	1(c), 4	–	–
Loans, advances and other	4	1	1
		1 875	1 930
Net gains on securities and foreign exchange			
Overseas investments	1(b)	426	–
Australian dollar securities	1(b)	188	–
Foreign currency	1(b)	(228)	–
		386	–
Dividend revenue			
Earnings on shares in Bank for International Settlements	1(b)	4	4
Fees and commissions			
Banking services fees received		24	20
Other income			
Reimbursement by Australian Government for loan management and registry expenses		1	1
Rental of Bank premises		9	9
Sales of note and security products		66	63
Other		21	25
		97	98
Total		2 386	2 052
Less:			
Interest expense			
Deposit liabilities	1(b), 4	753	643
Currency note holdings of banks	1(b), 4	123	133
Repurchase agreements	1(b), 4	13	22
		889	798
Net losses on securities and foreign exchange			
Overseas investments	1(b)	–	94
Australian dollar securities	1(b)	–	26
Foreign currency	1(b)	–	5 666
		–	5 786
General administrative expenses			
Staff costs		192	141
Superannuation costs	1(h), 14	45	45
Special redundancy/retirement payments		2	2

Note 2 – Net Profits (Continued)

	Note	2012 $M	2011 $M
Depreciation of property	1(d), 8	7	8
Depreciation of plant and equipment	1(d), 8	18	18
Premises and equipment	1(d)	38	39
Materials used in note and security products		48	36
Travel		3	3
Consultants' fees, legal fees and payments to contractors		8	5
Other		9	6
		370	303
Other expenses			
Agency business reimbursement		7	3
Subsidiary income tax		3	2
Cash distribution expenses		5	5
Other		36	44
		51	54
Total		1 310	6 941
Net Profit		1 076	(4 889)

Staff costs in 2011/12 include an expense of $34.4 million associated with the increase in the balance of the provision for post-employment benefits (in 2010/11 there was income of $4.6 million) (refer Note 10). Post-employment healthcare costs of $34.5 million are included in Staff costs ($4.5 million in 2010/11). The large increase in these provisions mainly reflected the fall in the discount rate, as measured by the yield on Commonwealth Government bonds. Excluding provisions, staff costs rose by 5.6 per cent in 2011/12.

The RBA's aggregate research and development expenditure recognised as an expense in 2011/12 was $0.6 million ($0.6 million in 2010/11); this is included in Other expenses.

Note 3 – Distribution Payable to Australian Government

Section 30 of the Reserve Bank Act requires that the net profits of the Reserve Bank of Australia, less amounts set aside for contingencies or placed to the credit of the RBRF as determined by the Treasurer after consultation with the Board, shall be paid to the Australian Government (see Note 1(f)). Also under section 30, unrealised profits from foreign exchange, foreign securities and Australian dollar securities are not available for distribution. Instead they are transferred to the Reserve for Unrealised Profits on Investments 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 Reserve for Unrealised Profits on Investments and offset against unrealised profits accumulated from previous years. If such losses exceed the balance in this reserve, the amount by which they do so is initially charged against other components of income with any remaining amount absorbed by the RBRF.

In 2011/12, the Bank recorded an accounting profit of $1 076 million. Earnings available for distribution were $1 096 million, comprising underlying earnings of $710 million plus realised gains of $405 million minus $19 million in unrealised investment losses. Unrealised losses of $20 million on the Bank's superannuation assets were absorbed by an unrealised profits reserve.

After consulting the Reserve Bank Board, the Deputy Prime Minister and Treasurer has determined that a sum of $500 million will be paid from earnings available for distribution as a dividend to the Australian Government and that $596 million will be placed to the credit of the RBRF.

	2012 $M	2011 $M
Opening balance	–	750
Distribution to Australian Government	–	(750)
Transfer from Statement of Distribution	500	–
As at 30 June	500	–

Note 4 – Interest Revenue and Interest Expense

Analysis for the year ended 30 June 2012

	Average balance $M	Interest $M	Average annual interest rate %
Interest revenue			
Overseas investments	42 192	325	0.8
Australian dollar securities	32 589	1 508	4.6
Overnight settlements	983	41	4.1
Gold loans	52	–	0.3
Loans, advances and other	21	1	4.2
	75 837	1 875	2.5
Interest expense			
Banks' Exchange Settlement balances	1 252	52	4.1
Deposits from governments	15 898	672	4.1
Deposits from overseas institutions	696	24	3.4
Currency note holdings of banks	2 872	123	4.2
Overseas repurchase agreements	1 712	–	–
Domestic repurchase agreements	294	13	4.5
Other deposits	166	5	3.5
	22 890	889	3.9
Analysis for the year ended 30 June 2011			
Interest revenue total	71 650	1 930	2.7
Interest expense total	20 916	798	3.8

Interest revenue for 2011/12 includes $1 138 million calculated using the effective interest method for financial assets not at fair value through profit and loss ($1 214 million in 2010/11). Interest expense for 2011/12 includes $889 million calculated using the effective interest method for financial liabilities not at fair value through profit and loss ($798 million in 2010/11).

Note 5 – Capital and Reserves

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

	Note	2012 $M	2011 $M
Asset revaluation reserves			
Gold	1(c)		
Opening balance		3 473	3 620
Net revaluation adjustments		427	(147)
As at 30 June		3 900	3 473
Shares in international and other institutions	1(b), 7		
Opening balance		259	285
Net revaluation adjustments		23	(26)
As at 30 June		282	259
Bank property, plant and equipment	1(d), 8		
Opening balance		189	182
Net revaluation adjustments		4	7
As at 30 June		193	189
Total asset revaluation reserves	1(e)		
Opening balance		3 921	4 087
Net revaluation adjustments		454	(166)
As at 30 June		4 375	3 921
Unrealised profits reserves			
Reserve for unrealised profits on investments	1(e)		
Opening balance		–	–
Net transfers (to)/from Statement of Distribution		–	–
As at 30 June		–	–
Reserve for unrealised profits on superannuation	1(h)		
Opening balance		61	84
Net transfers (to)/from Statement of Distribution		(20)	(23)
As at 30 June		41	61
Total unrealised profits reserves			
Opening balance		61	84
Net transfers (to)/from Statement of Distribution		(20)	(23)
As at 30 June		41	61
Reserve Bank Reserve Fund	1(e)		
Opening balance		1 317	6 183
Transfers (to)/from Statement of Distribution		596	(4 866)
As at 30 June		1 913	1 317
Capital			
Opening and closing balance		40	40

Note 6 – Cash and Cash Equivalents

This includes net amounts of $135 million owed to the RBA for overnight clearances of financial transactions through the clearing houses; an amount of $1 187 million was owed to the RBA at 30 June 2011. Other cash and cash equivalents includes NPA's bank deposits.

Note 7 – Loans, Advances and Other Assets

	Note	2012 $M	2011 $M
Shareholding in Bank for International Settlements	1(b)	325	302
Superannuation asset	1(h),14	41	61
Officers' Home Advances		5	6
Investment in Securency	1(a)	54	54
Computer software and intangibles	1(d)	16	14
Other		55	53
As at 30 June		496	490

The Reserve Bank of Australia holds a share of 50 per cent 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 International (Securency) with a joint-venture partner.

As outlined in Note 1, the RBA is seeking to divest its half interest in Securency, which is classified as held for sale in accordance with AABS 5 – *Non Current Assets Held for Sale and Discontinued Operations*.

During 2011/12, the RBA acquired $3.0 million of computer software and intangibles ($4.8 million in 2010/11) and amortised $2.3 million ($2.2 million in 2010/11). At 30 June 2012 the gross book value of the RBA's computer software and intangibles amounted to $27.1 million and accumulated amortisation on these assets was $10.9 million ($23.2 million and $9.6 million, respectively, at 30 June 2011). The RBA had no contractual commitments as at 30 June 2012 for the acquisition of computer software and intangibles ($0.6 million at 30 June 2011).

As at 30 June 2012, other assets included receivables of $32.2 million, none of which are impaired (at 30 June 2011 other assets included receivables of $33.3 million).

Note 8 – Property, Plant and Equipment

	Land $M	Buildings $M	Plant and Equipment $M	Total $M
Gross Book Value as at 30 June 2011	132	199	138	469
Accumulated depreciation	–	–	(15)	(15)
Net Book Value	132	199	123	454
Additions	–	5	13	18
Depreciation expense	–	(7)	(18)	(25)
Net revaluation increment/(decrement)	–	2	–	2
Disposals	–	–	(1)	(1)
Net additions to net book value	–	–	(6)	(6)
Gross Book Value as at 30 June 2012	132	199	150	481
Accumulated depreciation	–	–	(33)	(33)
Net Book Value	132	199	117	448

The net book value of buildings as at 30 June 2012 includes expenditure of $4.0 million on work in progress which has been capitalised in the carrying amount of these assets ($1.0 million as at 30 June 2011). Additions include expenditure of $6.8 million on work in progress that was capitalised during 2011/12 ($8.4 million in 2010/11).

As at 30 June 2012, the RBA had contractual commitments of $6.7 million to acquire buildings, plant and equipment ($3.3 million at 30 June 2011); all of which are due within one year ($3.3 million in 2010/11).

Note 9 – Deposits

	2012 $M	2011 $M
Banks' Exchange Settlement balances	1 567	2 413
Australian Government	15 861	14 247
State governments	2	2
Foreign governments, foreign institutions and international organisations	542	779
Other depositors	28	63
As at 30 June	18 000	17 504

Note 10 – Other Liabilities

	Note	2012 $M	2011 $M
Provisions	1(g)		
Provision for accrued annual leave		16	15
Provision for long service leave		37	31
Provision for post-employment benefits		117	83
Provision for workers' compensation		–	–
		170	129
Other			
Amounts outstanding under repurchase agreements (contract price)	1(b)	1 535	1 666
Interest accrued on deposits		12	37
Other		898	579
		2 445	2 282
Total Other Liabilities as at 30 June		2 615	2 411

The provision for workers' compensation at 30 June 2012 was $340 000 ($323 000 at 30 June 2011).

During 2011/12, annual leave of $9.6 million was accrued by staff, while $8.9 million of accrued leave was used. Staff accrued and used long service leave of $4.9 million and $3.1 million, respectively, in 2011/12.

The RBA provided an additional $34.0 million for post-employment benefits in 2011/12; a decrease in the discount rate increased the provision by $41.3 million, while benefits of $4.5 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 2012, $7.3 million of the provision for accrued annual leave was due within 12 months ($6.8 million at 30 June 2011); $3.6 million of the provision for long service leave was due within 12 months ($3.0 million at 30 June 2011); and $3.9 million of the provision for post-employment benefits was due within 12 months ($2.7 million at 30 June 2011).

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

The RBA has a contingent liability, amounting to $53.4 million at 30 June 2012 ($53.5 million at 30 June 2011), in respect of the uncalled portion of its shares held in the BIS.

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

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

As outlined in Note 1, the Bank has accounted for, or provided for, the costs associated with the charges laid against NPA and Securency during 2011. In light of uncertainties, it is not possible to make reliable estimates of all of the potential costs associated with these claims or potential claims against these companies at the date of preparing these accounts.

Note 12 – Key Management Personnel

The group of Key Management Personnel of the Reserve Bank comprises members of the Reserve Bank Board, members of the Payments System Board and Assistant Governors, who have responsibility for planning, directing and controlling the activities of the Bank. No new positions were added to the group of Key Management Personnel in 2011/12. A total of 23 directors and executives occupied these positions over the course of 2011/12 (the same as in 2010/11).

Fees of non-executive members of the Reserve Bank Board and the Payments System Board are determined by the Remuneration Tribunal. The positions of Governor and Deputy Governor were declared as Principal Executive Offices (PEOs) within the jurisdiction of the Remuneration Tribunal in July 2011 in terms of the *Remuneration Tribunal Act 1973*. The Reserve Bank Board was declared as the employing body of these Offices and, on a recommendation from the Board's Remuneration Committee (comprising three non-executive directors), the Board set total remuneration for the Governor and Deputy Governor as $986 778 (including salary of $842 285) and $700 000 (including salary of $593 782), respectively, consistent with total remuneration declared by the Remuneration Tribunal. No adjustment was made to the Governor's remuneration in 2011/12. Total remuneration of the position of Deputy Governor was determined by the Remuneration Tribunal on the appointment to this position.

The Governor, in consultation with the Board Remuneration Committee, determines the remuneration of Assistant Governors. For staff generally, remuneration is market competitive and designed to attract and retain appropriately skilled people. Remuneration levels for employees are externally benchmarked. Consistent with section 67 of the Reserve Bank Act, remuneration is not tied to Australian Public Service classification bands.

The RBA is required to disclose remuneration of directors, executives and management in terms both of AAS and the FMOs. There are significant differences between these two standards of disclosure as to the definition of remuneration, the basis of measurement and the coverage of staff.

Disclosures under AAS

Disclosure of remuneration of key management personnel is made under AAS on the basis of AASB 124 – *Related Party Disclosures*. Disclosures of remuneration in terms of AASB 124 are on an accruals basis and cost to the Bank, including all leave and all fringe benefit tax charges, in addition to compensation and benefits. The aggregate remuneration of the RBA's key management personnel in terms of AASB 124 is shown in Table A.

Table A: Remuneration of Key Management Personnel

	2012 $	2011 $
Short-term employee benefits	5 103 308	4 930 190
Post-employment benefits	953 023	931 105
Other long-term benefits	502 594	219 587
Share based payments	–	–
Termination benefits	–	–
Total compensation	6 558 925	6 080 882

Under AASB 124, short-term benefits include cash salary and, where relevant for executives, lump-sum payments, 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 rise in other long-term benefits in 2011/12 mainly reflects the revaluation of the provision for long service leave arising from the appointment of the Deputy Governor and the promotion to fill the vacant Assistant Governor position caused by this appointment. Members of the RBA's staff may salary sacrifice in exchange for certain benefits.

As at 30 June 2012 and 30 June 2011 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 2011/12 and 2010/11, no directors' fees were paid in these years.

Disclosure under FMOs

The Bank also discloses information on remuneration of directors, executives and management in terms of Division 23 of the FMOs. The required disclosures are shown in Tables B to E below. The aggregates in Table B are reported on an accruals basis for executives only. Figures for non-executive directors are shown in Table E.

Table B: Executive Remuneration[(a)]

	2012 $	2011 $
Short-term employee benefits		
Salary	4 132 556	4 045 541
Annual leave accrued	48 462	27 186
Performance-related payments	60 482	–
Other[(b)]	239 044	246 649
Total short-term employee benefits	4 480 544	4 319 376
Post-employment benefits		
Superannuation	880 234	861 700
Other[(c)]	20 000	19 952
Total post-employment benefits	900 234	881 652
Other long-term benefits		
Long service leave	123 184	99 419
Total other long-term benefits	123 184	99 419
Termination benefits	–	–
Total employment benefits	5 503 962	5 300 447

(a) This table is based on remuneration for the group of executives, including the Governor and Deputy Governor, included for reporting purposes under AASB 124 and is prepared on an accruals basis. These figures exclude staff acting in executive positions and part-year service where total remuneration expensed was less than $150 000. Figures for annual and long service leave include the net accrual of leave in the relevant year but not the cost of revaluing leave entitlements previously accrued as in Table A above.

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

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

The figures in Tables C and D below report average remuneration for staff in the remuneration bands shown; these figures are reported on a cash basis. The apparent reduction in significant components of average remuneration in some remuneration bands between 2011 and 2012 reflects a number of factors including turnover of staff at different remuneration levels and the fact that there were 26 pay days in 2011/12 compared with 27 the previous year. No adjustment was made to the remuneration of the Governor in 2011/12. Lump-sum performance-related payments were available for all senior positions in 2011/12, except for the positions of Governor and Deputy Governor. Any difference between the figures in Table C and remuneration determined by the Board for the positions of Governor and Deputy Governor is due to differences in measurement between the FMOs and the Remuneration Tribunal.

Table C: Executive Remuneration[a]

30 June 2012

Remuneration band	Number of staff	Reportable salary[b]	Contributed superannuation[c]	Reportable allowances[d]	Lump-sum payment[e]	Total
Total remuneration:						
$180 000 to $209 999	1	167 824	33 505	–	6 848	208 177
$450 000 to $479 999	1	386 940	83 375	–	–	470 315
$480 000 to $509 999	1	406 688	86 881	–	6 934	500 503
$510 000 to $539 999	1	441 670	89 206	–	7 165	538 041
$540 000 to $569 999	1	460 103	92 906	–	7 438	560 447
$570 000 to $599 999	2	470 241	101 186	–	13 911	585 338
$630 000 to $659 999	1	516 370	107 909	–	11 124[f]	635 403
$990 000 to $1 019 999	1	815 735	179 407	–	–	995 142
	9					

30 June 2011

Remuneration band	Number of staff	Reportable salary[b]	Contributed superannuation[c]	Reportable allowances[d]	Lump-sum payment[e]	Total
Total remuneration:						
$240 000 to $269 999	2	217 842	44 583	–	–	262 425
$510 000 to $539 999	1	431 754	97 727	–	–	529 481
$540 000 to $569 999	3	460 973	96 754	–	–	557 727
$570 000 to $599 999	1	475 340	100 303	–	–	575 643
$750 000 to $779 999	1	614 706	138 692	–	–	753 398
$1 020 000 to $1 049 999	1	839 765	183 653	–	–	1 023 418
	9					

(a) Table C is based on remuneration for the group of executives, including the Governor, Deputy Governor and Assistant Governors, included for reporting purposes under AASB 124 who received remuneration of more than $150 000 during the reporting period, including from part-time arrangements. Each row is an average figure based on the number of individuals in each band. The components of this table are measured on a cash basis in accordance with the provisions of the FMOs.

(b) 'Reportable salary' includes gross payments (less any lump-sum amounts paid), the taxable value of reportable fringe benefits and exempt foreign employment income. The taxable value of reportable fringe benefits is the equivalent of the benefit received by staff excluding the tax payable on such benefits; the cost of fringe benefits shown under AAS in Table A and for the aggregates shown in Table B includes tax payable.

(c) The 'contributed superannuation' amount is the average actual superannuation contributions paid, including any salary sacrificed amounts.

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

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

(f) Lump-sum payment awarded in capacity as Assistant Governor.

Table D includes disclosures for RBA and NPA staff. The increase in the number of staff in 2012 in the remuneration band '$150 000 to $179 999' reflects that normal salary increases resulted in a higher number of RBA staff being remunerated at a level above the reportable threshold; it does not reflect the creation of new management positions. The average salary increase for the group of the RBA staff shown in Table D was 3.5 per cent in 2011/12. Lump-sum performance-based payments and modest career increments were also paid to some individuals within this group in 2011/12. NPA staff are not employees of the RBA and are employed on terms and conditions determined by NPA. Lump-sum performance-based payments are available to NPA staff.

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

30 June 2012

Remuneration band	Number of staff	Reportable salary[b]	Contributed superannuation[c]	Reportable allowances[d]	Lump-sum payment[e]	Total
Total remuneration:						
$150 000 to $179 999	141	129 642	28 903	324	3 407	162 276
$180 000 to $209 999	54	152 760	36 950	50	3 770	193 530
$210 000 to $239 999	30	173 176	41 539	7	5 071	219 793
$240 000 to $269 999	22	201 062	44 710	8	8 370	254 150
$270 000 to $299 999	11	227 688	51 700	68	7 695	287 151
$300 000 to $329 999	3	246 795	42 899	–	19 977	309 671
$330 000 to $359 999	9	271 163	62 674	–	8 992	342 829
$390 000 to $419 999	3	332 413	66 286	–	6 071	404 770
$420 000 to $449 999	3	348 839	69 713	–	6 384	424 936
$450 000 to $479 999	2	377 974	84 097	–	7 180	469 251
$480 000 to $509 999	1	393 567	86 211	–	7 248	487 026
$540 000 to $569 999	1	414 992	45 230	–	101 207	561 429
	280					

30 June 2011

Remuneration band	Number of staff	Reportable salary[b]	Contributed superannuation[c]	Reportable allowances[d]	Lump-sum payment[e]	Total
Total remuneration:						
$150 000 to $179 999	117	130 992	29 969	26	1 377	162 364
$180 000 to $209 999	59	155 408	37 161	4	1 637	194 210
$210 000 to $239 999	29	176 588	43 213	5	2 623	222 429
$240 000 to $269 999	16	203 183	43 848	2	2 088	249 121
$270 000 to $299 999	10	226 734	51 526	–	7 408	285 668
$300 000 to $329 999	5	250 882	50 188	–	7 449	308 519
$330 000 to $359 999	4	276 733	66 943	–	–	343 676
$360 000 to $389 999	2	319 964	63 208	–	–	383 172
$390 000 to $419 999	4	344 218	68 543	–	–	412 761
$420 000 to $449 999	1	368 308	74 396	–	–	442 704
$450 000 to $479 999	1	382 683	77 263	–	–	459 946
$480 000 to $509 999	2	385 400	59 512	10 383	34 585	489 880
	250					

(a) Table D shows remuneration for staff of the RBA and NPA whose reportable remuneration was $150 000 or more in the year, and whose remuneration was not required to be disclosed in Table C. Each row shows an average figure based on the number of staff in each remuneration band. These figures are disclosed on a cash basis.
(b) 'Reportable salary' includes gross payments (less any lump-sum amounts paid), the taxable value of reportable fringe benefits and exempt foreign employment income. The taxable value of reportable fringe benefits is the equivalent of the benefit received by staff excluding the tax payable on such benefits.
(c) The 'contributed superannuation' amount is the average actual superannuation contributions paid, including any salary sacrificed amounts.
(d) 'Reportable allowances' are the average actual allowances paid as per the 'total allowances' line on individuals' payments summaries.
(e) 'Lump-sum payment' represents the average actual lump-sum amounts paid during the reporting period for staff in the remuneration band.

Table E: Remuneration of Non-Executive Directors[(a)]

	Number of directors	
	2012	**2011**
$0 to $29 999	4	4
$30 000 to $59 999	5	5
$60 000 to $89 999	5	5
Total	14	14
Total remuneration received	639 334	598 932

(a) This table includes total remuneration received (or due and receivable) by non-executive directors who are members of the Reserve Bank Board or the Payments System Board.

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 $364 500 in 2011/12 ($396 100 in 2010/11); this includes audit services in relation to the RBA's subsidiary Note Printing Australia Limited. 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: the Reserve Bank of Australia Officers' Superannuation Fund (OSF) and the Reserve Bank of Australia UK Pension Scheme. A small part of the assets of the OSF is held by the RBA as nominee for the trustees of the OSF; such assets are not included in the RBA's financial statements. Payment of these superannuation funds' current and future benefits is funded by member and RBA contributions and the funds' existing asset bases. The RBA's superannuation expenses in relation to the OSF and the UK Pension Scheme are included in accounting profits and shown in Note 2. Administration and other operational costs (e.g. salaries, overheads, legal costs and valuation fees) incurred by the RBA for superannuation arrangements are also included in Note 2. There were no other related party transactions between the RBA and the funds during 2011/12.

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 2011 and for the UK Pension Scheme at 30 June 2010. At the most recent valuations, the actuaries indicated that, on the basis of accrued benefits, both funds were in surplus and that the funds were in a satisfactory financial position. The next triennial funding valuation for the OSF for 30 June 2014 will be undertaken early in 2014/15, and that for the UK Pension Scheme for 30 June 2013 will be undertaken during 2013/14.

The OSF triennial funding valuation as at 30 June 2011 was based on the Attained Age Funding method, consistent with the accounting standard for superannuation funds, AAS 25 – *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 $57.8 million, as the assets of the OSF of $915.5 million exceeded the accrued benefits of $857.7 million. The main financial assumptions in the triennial valuation were that the annual post-tax rate of return on assets for benefits of active members was 7.0 per cent, that for assets for current pensions was 7.5 per cent (pre-tax), with annual salary increases of 4.0 per cent and annual pension increases of 3.5 per cent. Subsequent to the triennial review, the OSF surplus measured on the basis of AAS 25 as at 30 June 2012 amounted to $33.2 million (assets of $743.7 million less accrued benefits of $710.5 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 2011/12.

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 2012, measured in accordance with AAS 25, was $0.6 million (assets of $18.2 million compared with accrued benefits of $17.6 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 over time earned a higher rate of return on average than government bonds.

The principal actuarial assumptions for the AASB 119 valuation used in the case of the OSF were a discount rate of 3.90 per cent (5.38 per cent in 2010/11), future salary increases of 3.5 per cent (3.5 per cent in 2010/11), future pension increases of 3.5 per cent (3.5 per cent in 2010/11) and an assumed return on plan assets of 7.1 per cent (8.5 per cent in 2010/11). The discount rate decreased over 2011/12 as a result of the reduction in yields on Australian Government bonds. The actual return on plan assets of the OSF for 2011/12 was 2.4 per cent (8.1 per cent in 2010/11). The assumptions used for the UK Pension Scheme were a discount rate of 4.25 per cent (5.4 per cent in 2010/11), future salary increases of 4.95 per cent (5.65 per cent in 2010/11), future pension increases of 2.95 per cent (3.65 per cent in 2010/11) and an assumed return on plan assets of 2.42 per cent (4.1 per cent in 2010/11). The actual return on plan assets of the UK Pension Scheme for 2011/12 was 21.2 per cent (10.0 per cent in 2010/11). The expected overall rates of return are based on the actuaries' models of returns for major asset classes and reflect the historic rates of return and volatility for each class and correlations across asset classes.

Details of the funds are as shown on the following pages. In the case of the OSF, these details relate only to the defined benefit component of the fund; defined contribution accumulation balances, on which the Bank has no actuarial risk, are excluded. This has no effect on the measurement of the surpluses in the OSF. At 30 June 2012 accumulation balances in the OSF totalled $176.0 million ($165.4 million as at 30 June 2011).

Asset Distribution as at 30 June

	Per cent of fund assets			
	OSF		UK Pension Scheme	
	2012	2011	2012	2011
Cash and short-term securities	4.4	6.3	–	1.6
Fixed interest securities	12.2	7.2	–	–
Indexed securities	1.7	1.5	94.0	91.9
Domestic shares	39.3	42.7	6.0	6.5
Foreign shares	6.0	3.8	–	–
Property				
Direct	5.0	4.3	–	–
Indirect	12.0	15.9	–	–
Private equity and alternative investments	19.4	18.3	–	–
Total	100.0	100.0	100.0	100.0

Note 14 – Superannuation Funds (Continued)

	OSF		UK Scheme		Total	
	2012 $M	2011 $M	2012 $M	2011 $M	2012 $M	2011 $M
Opening balances:						
Net market value of assets	730	691	17	18	747	710
Accrued benefits	(976)	(928)	(13)	(14)	(989)	(942)
Surplus/(deficit)	(246)	(236)	4	4	(242)	(232)
Effect of asset cap	–	–	(2)	(3)	(2)	(3)
Actuarial (gains)/losses not included in balance sheet under Corridor	307	320	(1)	(2)	306	318
Opening superannuation asset	61	84	–	–	61	83
Change in net market value of assets	13	39	2	(2)	15	37
Change in accrued benefits	(436)	(49)	(1)	1	(437)	(48)
Change in asset cap	–	–	(1)	–	(1)	–
Change in actuarial (gains)/losses not included in balance sheet under Corridor	402	(12)	–	–	402	(12)
Total change in superannuation asset	(21)	(22)	–	–	(21)	(22)
Closing balances:						
Net market value of assets	744	730	18	17	762	747
Accrued benefits	(1 412)	(976)	(14)	(13)	(1 426)	(989)
Surplus/(deficit)	(668)	(246)	4	4	(664)	(242)
Effect of asset cap	–	–	(3)	(2)	(3)	(2)
Actuarial (gains)/losses not included in balance sheet under Corridor	709	307	(1)	(1)	708	306
Closing superannuation asset	41	61	–	–	41	61
Actuarially assumed return on plan assets	58	54	1	1	58	55
Benefit payments	(36)	(33)	(1)	(1)	(36)	(34)
Actuarial gains/(losses) on assets	(26)	1	1	1	(25)	2
Contributions from RBA to defined benefit schemes	21	20	–	–	21	20
Contributions tax	(3)	(3)	–	–	(3)	(3)
Exchange rate gains/(losses)	–	–	–	(3)	–	(3)
Change in net market value of assets	13	39	2	(2)	15	37

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

Note 14 – Superannuation Funds (Continued)

	OSF		UK Scheme		Total	
	2012 $M	2011 $M	2012 $M	2011 $M	2012 $M	2011 $M
Current service cost	(34)	(33)	–	–	(34)	(33)
Interest cost	(47)	(43)	(1)	(1)	(48)	(44)
Benefit payments	36	33	1	1	36	34
Contributions tax	3	3	–	–	3	3
Experience adjustments on benefits	(31)	(31)	–	–	(31)	(31)
Effects of changes in benefit actuarial assumptions	(363)	22	(1)	(1)	(363)	21
Exchange rate gains/(losses)	–	–	–	2	–	2
Change in accrued benefits	(436)	(49)	(1)	1	(437)	(48)
Actuarial (gains)/losses on assets	26	(1)	(1)	(1)	25	(3)
Experience adjustments on benefits	31	31	–	–	31	31
Effects of changes in benefit actuarial assumptions	363	(22)	1	1	363	(21)
Amortisation of actuarial gains/(losses)	(18)	(20)	1	–	(17)	(19)
Exchange rate gains/(losses)	–	–	–	–	–	–
Change in actuarial losses not included in balance sheet under Corridor	402	(12)	–	–	402	(12)
Superannuation expense/(income) included in Statement of Comprehensive Income						
Current service cost	34	33	–	–	34	33
Interest cost	47	44	1	1	48	44
Assumed return on plan assets	(58)	(54)	(1)	(1)	(58)	(55)
Amortisation of actuarial (gains)/losses under Corridor	18	20	(1)	–	17	19
Effect of asset cap	–	–		–	–	–
Productivity and superannuation guarantee contributions	4	4	–	–	4	4
Total superannuation expense/(income)	45	46	–	–	45	46

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:

	2012 $M	2011 $M	2010 $M	2009 $M	2008 $M
OSF					
Closing balances:					
Net market value of assets	744	730	691	652	755
Accrued benefits	(1 412)	(976)	(928)	(829)	(679)
Surplus/(deficit)	(668)	(246)	(236)	(177)	76
Experience adjustments on assets	(26)	1	2	(150)	(90)
Experience adjustments on benefits	(31)	(31)	(3)	(54)	(20)
UK Scheme					
Closing balances:					
Net market value of assets	18	17	18	20	22
Accrued benefits	(14)	(13)	(14)	(14)	(16)
Surplus	4	4	4	7	6
Experience adjustments on assets	1	1	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, deposits with the BIS and other central banks, interest rate futures contracts, foreign currency swaps, gold loans, cash and cash equivalents. The RBA also holds a shareholding in the BIS. As to financial liabilities, the RBA issues Australia's banknotes and offers deposit facilities to its customers, mainly the Australian Government, and eligible financial institutions. Accordingly, the main financial claims on the RBA are banknotes on issue as well as deposit liabilities. The RBA also provides banking services to its customers, and operates Australia's high-value payments and interbank settlement systems. These payments and settlements occur through accounts held on the RBA's balance sheet.

AASB 7 – *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 the Bank does not seek to reduce foreign exchange risk. The RBA's net foreign currency exposure as at 30 June 2012 was $35.9 billion ($35.8 billion as at 30 June 2011). Within the overall exposure and to a limited extent, foreign currency risk can be mitigated by holding assets across a diversified portfolio of currencies. The RBA holds foreign reserves in four currencies – the US dollar, the euro, the Canadian dollar and the yen – because the markets for these currencies are typically liquid and suitable for investing foreign exchange reserves.

The RBA 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:

	Per cent of foreign exchange	
	2012	**2011**
US dollar	45	45
Euro	45	45
Canadian dollars	5	5
Japanese yen	5	5
Total foreign exchange	100	100

Sensitivity to foreign exchange risk

The sensitivity of the RBA's profit and equity to a movement of +/-10 per cent in the value of the Australian dollar exchange rate as at 30 June is shown below. These figures are generally reflective of the RBA's exposure over the financial year.

	2012 $M	**2011 $M**
Change in profit/equity due to a 10 per cent appreciation in the reserves-weighted value of the A$	–3 267	–3 258
Change in profit/equity due to a 10 per cent depreciation in the reserves-weighted value of the A$	3 993	3 982

Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of financial instruments will fluctuate because of movements in market interest rates. The RBA's balance sheet is exposed to interest rate risk because most of its assets are financial assets, such as domestic and foreign securities, which have a fixed income stream. The price of such securities increases when market interest rates decline, while the price of a security will fall if market rates rise. Interest rate risk increases with the maturity of a security because the associated income stream is fixed for a longer period. Interest rate risk on foreign assets is managed through limits on the duration, or interest rate sensitivity, of the portfolio. Interest rate risk on domestic assets is small as the bulk of the portfolio is held under short term repurchase agreements.

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.

	2012 $M	**2011 $M**
Change in profit/equity due to movements of +/–1 percentage point across yield curves:		
Foreign currency securities	–/+467	–/+456
Australian dollar securities	–/+171	–/+169

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 BIS. 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 the BIS shares as 'available for sale' and the fair value of these shares is estimated on the basis of the BIS' net asset value, less a discount of 30 per cent. Accordingly, these shares are revalued to reflect movements in the net asset value of the BIS and in the Australian dollar. The price risk faced on the BIS shares is incidental to the policy reasons for holding them and is immaterial compared with other market risks faced by the RBA. For this reason, this exposure is not included as part of the RBA's net foreign currency exposure outlined above.

Credit risk

Credit risk is the potential for financial loss arising from an issuer or counterparty defaulting on its obligations to: repay principal; make interest payments due on an asset; or settle a transaction. For the RBA, credit risk arises from exposure to: the issuers of securities that it holds; and counterparties which are yet to settle transactions. The RBA's credit exposure is low compared with that of most commercial financial institutions, as it manages such risks within a highly risk-averse framework. In particular, credit risk is managed by: holding securities issued by a limited number of highly rated governments, government-guaranteed agencies and supranational organisations; and holding 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, banks and various corporate and asset-backed securities (see Note 1(b)). The RBA holds collateral to a value of between 101 and 123 per cent of the amount invested according to the risk profile of the collateral held. If the current value of collateral offered by a counterparty to a repurchase transaction falls by more than a predetermined amount, the counterparty is required to provide additional collateral to restore this margin; the thresholds are specified in the legal agreements which govern these transactions.

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

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

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

1. ***Foreign exchange swaps*** – As at 30 June 2012, the RBA was under contract to purchase $4.4 billion of foreign currency ($0.2 billion at 30 June 2011) and sell $9.5 billion of foreign currency ($0.3 billion at 30 June 2011). As of that date there was a net unrealised gain of $110 million on these swap positions included in net profit ($4 million unrealised gain at 30 June 2011). The exposure of these contracts to credit risk is the cost of re-establishing the contract in the market if a counterparty fails to fulfill its obligations.
2. ***Interest rate futures*** – As at 30 June 2012, the amount of credit risk on interest rate futures contracts was approximately $0.7 million ($1.4 million at 30 June 2011). As at 30 June 2012 there was an unrealised loss brought to account on those contracts of $0.03 million ($0.6 million unrealised loss at 30 June 2011).

Concentration of credit risk

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

The RBA held no past due or impaired assets at 30 June 2012 or 30 June 2011.

	Risk rating of security/issuer[a]	Risk rating of counterparties[a]	Per cent of investments	
			2012	2011
Australian dollar securities				
Holdings – Commonwealth Government Securities	AAA	na	1.9	0.6
Holdings – semi-government securities	AAA	na	4.0	4.3
	AA	na	4.0	5.9
Securities sold under repurchase agreements	AAA	AA	–	0.2
	AAA	A	0.1	0.2
	AA	AA	–	0.1
Securities held under repurchase agreements	AAA	AA	9.1	11.9
	AAA	A	8.6	7.4
	AAA	BBB	0.1	0.1
	AAA	Other[b]	0.7	0.3
	AA	AA	7.1	6.1
	AA	A	2.6	2.6
	AA	BBB	0.1	–
	AA	Other[b]	0.2	0.1
	A	AA	0.5	1.8
	A	A	1.3	0.5
	A	BBB	–	0.1
Foreign investments				
Holdings of securities	AAA	na	17.2	29.9
	AA	na	18.1	1.5
	A	na	0.5	0.5
Securities sold under repurchase agreements	AAA	AA	–	0.9
	AAA	A	–	0.8
	AA	A	1.8	–
Securities held under repurchase agreements	AAA	AAA	–	0.4
	AAA	AA	0.5	8.3
	AAA	A	1.2	5.5
	AA	AA	1.8	–
	AA	A	11.9	0.5
	AA	BBB	0.2	–
Deposits	na	AAA	–	1.7
Other	na	AA	0.1	–
	na	A	0.1	–
Gold loans	na	AAA	0.1	0.1
Other			6.2	7.7
			100.0	100.0

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

Liquidity risk

Liquidity risk is the risk that the RBA will not have the resources required at a particular time to meet its obligations to settle its financial liabilities. As the ultimate source of liquidity in Australian dollars, the RBA 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 2012

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

Maturity Analysis – as at 30 June 2011

	Balance sheet total $M	Contracted maturity $M					No specified maturity $M	Weighted average coupon rate %	Weighted average effective rate %
		On demand	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years			
Assets									
Cash and cash equivalents	1 209	–	1 187	–	–	–	22	4.50	4.50
Australian dollar securities									
Securities sold under repurchase agreements	404	–	41	–	156	207	–	6.55	5.29
Securities purchased under repurchase agreements	23 203	–	23 078	125	–	–	–	4.82	4.82
Other securities	8 111	–	3 247	1 721	1 961	1 182	–	5.47	4.99
Accrued interest	116	–	78	38	–	–	–	na	na
	31 834								
Foreign exchange									
Balances with central banks	305	7	298	–	–	–	–	0.12	0.12
Securities sold under repurchase agreements	1 234	–	–	186	467	581	–	2.14	2.14
Securities purchased under repurchase agreements	10 797	–	10 797	–	–	–	–	0.45	0.45
Other securities	24 011	–	3 275	7 653	5 275	2 824	4 984	1.60	1.22
Deposits with BIS	1 261	2	1 258	–	–	–	1	0.06	0.06
Accrued interest	119	–	67	50	2	–	–	na	na
	37 727								
Gold									
Gold loans	46	–	–	46	–	–	–	0.30	0.30
Gold holdings	3 553	–	–	–	–	–	3 553	na	na
	3 599								
Property, plant & equipment	454	–	–	–	–	–	454	na	na
Loans and advances	6	–	–	–	–	6	–	3.91	3.91
Other assets	484	–	33	–	–	–	451	na	na
Total assets	75 313	9	43 359	9 819	7 861	4 800	9 465	2.79	2.61
Liabilities									
Deposits	17 504	6 854	10 650	–	–	–	–	4.53	4.53
Distribution payable to Australian Government	–	–	–	–	–	–	–	na	na
Other liabilities	2 411	–	2 273	–	–	–	138	1.12	1.12
Australian notes on issue	50 059	–	–	–	–	–	50 059	0.23	0.23
Total liabilities	69 974	6 854	12 923	–	–	–	50 197	1.34	1.34
Capital and reserves	5 339								
Total balance sheet	75 313								
Local Currency									
Swaps									
Contractual outflow	(7)	–	(7)	–	–	–	–	na	na
Contractual inflow	163	–	163	–	–	–	–	na	na
	156	–	156	–	–	–	–		
Foreign Currency									
Swaps									
Contractual outflow	(340)	–	(340)	–	–	–	–	na	na
Contractual inflow	184	–	184	–	–	–	–	na	na
	(156)	–	(156)	–	–	–	–		

Fair Value of Financial Instruments

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

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

	2012 $M	2011 $M
Assets accounted for under AASB 139		
At fair value through Profit or Loss	38 283	33 366
Loans and receivables	37 912	37 487
Available for sale	325	302
Assets accounted for under other standards	4 559	4 158
Total assets as at 30 June	81 079	75 313
Liabilities accounted for under AASB 139		
At fair value through Profit or Loss	15	1
Not at fair value through Profit or Loss	74 020	69 842
Liabilities accounted for under other standards	175	131
Total liabilities as at 30 June	74 210	69 974

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

	Level 1 $M	Level 2 $M	Level 3 $M	Total $M
As at 30 June 2012				
Assets at fair value through Profit or Loss				
Domestic government securities	5 364	2 720	–	8 084
Foreign government securities	28 389	1 684	–	30 073
Foreign currency swap gains	8	118	–	126
Available for sale				
Shares in international and other institutions	–	–	325	325
	33 761	4 522	325	38 608
Liabilities at fair value through Profit or Loss				
Foreign currency swap losses	–	15	–	15
	–	15	–	15
As at 30 June 2011				
Assets at fair value through Profit or Loss				
Domestic government securities	4 927	3 587	–	8 514
Foreign government securities	22 370	2 477	–	24 847
Foreign currency swap gains	–	5	–	5
Available for sale				
Shares in international and other institutions	–	–	302	302
	27 297	6 069	302	33 668
Liabilities at fair value through Profit or Loss				
Foreign currency swap losses	–	1	–	1
	–	1	–	1

Note 16 – Subsequent Events

There have been no events subsequent to 30 June 2012 to be disclosed.

Auditor-General for Australia

Australian National
Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Treasurer

Report on the Financial Statements

I have audited the accompanying financial statements of the Reserve Bank of Australia and the controlled entities for the year ended 30 June 2012, which comprise: a Directors' Statement; Balance Sheet; Statement of Comprehensive Income; Statement of Distribution; Statement of Changes in Capital and Reserves; Cash Flow Statement; and Notes to and Forming Part of the Financial Statements, including a summary of accounting policies. The consolidated entity comprises the Reserve Bank of Australia and the entity it controlled during the financial year.

Directors' Responsibility for the Financial Statements

The directors of the Reserve Bank of Australia are responsible for the preparation of the financial statements that give a true and fair view in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, including the Australian Accounting Standards, and for such internal control as is necessary to enable the preparation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Reserve Bank of Australia's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Reserve Bank of Australia's internal control. An audit also

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includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Independence

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

Opinion

In my opinion:

1. the financial statements of the Reserve Bank of Australia:

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

   (b) give a true and fair view of the matters required by the Finance Minister's Orders including the consolidated entity's financial position as at 30 June 2012 and of its financial performance and cash flows for the year then ended.

2. the financial statements also comply with *International Financial Reporting Standards* as disclosed in Note 1.

Australian National Audit Office

Ian McPhee
Auditor-General

Canberra
5 September 2012