Financial Statements

For the year ended 30 June 2017

Statement of Assurance

In the opinion of each of the Governor, as the accountable authority of the Reserve Bank of Australia, and the Assistant Governor (Corporate Services), the financial statements for the year ended 30 June 2017 present fairly the Reserve Bank's financial position, financial performance and cash flows, comply with the accounting standards and any other requirements prescribed by the rules made under section 42 of the *Public Governance, Performance and Accountability Act 2013* and have been prepared from properly maintained financial records. These financial statements have been approved by a resolution of the Reserve Bank Board on 1 August 2017.

Philip Lowe
Governor and Chair, Reserve Bank Board

Frank Campbell
Assistant Governor (Corporate Services)

16 August 2017

Statement of Financial Position – as at 30 June 2017

Reserve Bank of Australia and Controlled Entity

	Note	2017 $M	2016 $M
Assets			
Cash and cash equivalents	6	221	367
Australian dollar investments	1(b), 15	104,769	88,500
Foreign currency investments	1(b), 15	83,577	72,879
Gold	1(d), 15	4,147	4,567
Property, plant and equipment	1(e), 8	741	640
Other assets	7	557	536
Total Assets		194,012	167,489
Liabilities			
Deposits	1(b), 9	92,669	61,210
Distribution payable to the Commonwealth	1(h), 3	1,286	3,222
Australian banknotes on issue	1(b)	73,623	70,209
Other liabilities	10	4,671	8,936
Total Liabilities		172,249	143,577
Net Assets		21,763	23,912
Capital and Reserves			
Reserves:			
Unrealised profits reserve	1(g)	2,682	4,861
Asset revaluation reserves	1(g), 5	4,721	5,074
Superannuation reserve	1(g)	201	(182)
Reserve Bank Reserve Fund	1(g)	14,119	14,119
Capital	1(g)	40	40
Total Capital and Reserves		21,763	23,912

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

Statement of Comprehensive Income – for the year ended 30 June 2017

Reserve Bank of Australia and Controlled Entity

	Note	2017 $M	2016 $M
Net interest income	2	1,023	1,193
Fees and commission income	2	473	508
Other income	2	50	66
Net gains/(losses) on securities and foreign exchange	2	(1,857)	1,660
General administrative expenses	2	(406)	(405)
Other expenses	2	(180)	(139)
Net Profit/(Loss)		(897)	2,883
Gains/(losses) on items that may be reclassified to profit or loss:			
Gold		(420)	651
Shares in international and other institutions		(1)	14
		(421)	665
Gains/(losses) on items that will not be reclassified to profit or loss:			
Property		72	33
Superannuation		383	(316)
		455	(283)
Other Comprehensive Income		34	382
Total Comprehensive Income		(863)	3,265

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

Statement of Distribution – for the year ended 30 June 2017

Reserve Bank of Australia and Controlled Entity

	Note	2017 $M	2016 $M
Net Profit/(Loss)		(897)	2,883
Transfer from unrealised profits reserve		2,179	1,729
Transfer from asset revaluation reserves		4	–
Earnings available for distribution		1,286	4,612
Distributed as follows:			
Transfer to Reserve Bank Reserve Fund		–	1,390
Payable to the Commonwealth	3	1,286	3,222
		1,286	4,612

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

Statement of Changes in Capital and Reserves – for the year ended 30 June 2017

Reserve Bank of Australia and Controlled Entity

	Note	Unrealised profits reserve $M	Asset revaluation reserves $M	Superannuation reserve $M	Earnings available for distribution $M	Reserve Bank Reserve Fund $M	Capital $M	Total capital and reserves $M
Balance as at 30 June 2015		**6,590**	**4,376**	**134**	**–**	**12,729**	**40**	**23,869**
Net Profit/(Loss)	1(h)	(1,729)			4,612			2,883
Gains/(losses) on:								
Gold	1(d)		651					651
Shares in international and other institutions	1(b)		14					14
Property	1(e)		33					33
Superannuation	1(i)			(316)				(316)
Other comprehensive income			698	(316)				382
Total comprehensive income for 2015/16								**3,265**
Transfer to Reserve Bank Reserve Fund	1(g), 3				(1,390)	1,390		–
Transfer to distribution payable to the Commonwealth	1(h), 3				(3,222)			(3,222)
Balance as at 30 June 2016		**4,861**	**5,074**	**(182)**	**–**	**14,119**	**40**	**23,912**
Net Profit/(Loss)	1(h)	(2,179)			1,282			(897)
Gains/(losses) on:								
Gold	1(d)		(420)					(420)
Shares in international and other institutions	1(b)		(1)					(1)
Property	1(e)		72					72
Superannuation	1(i)			383				383
Other comprehensive income			(349)	383				34
Total comprehensive income for 2016/17								**(863)**
Transfer from Asset revaluation reserves	1(g), 3		(4)		4			–
Transfer to Reserve Bank Reserve Fund	1(g), 3					–		–
Transfer to distribution payable to the Commonwealth	1(h), 3				(1,286)			(1,286)
Balance as at 30 June 2017		**2,682**	**4,721**	**201**	**–**	**14,119**	**40**	**21,763**

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

Cash Flow Statement – for the year ended 30 June 2017

Reserve Bank of Australia and Controlled Entity

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

	Note	2017 Inflow/ (outflow) $M	2016 Inflow/ (outflow) $M
Cash flows from operating activities			
Interest received		1,890	2,299
Interest paid		(1,054)	(1,095)
Net fee income received		381	423
Net payments for investments		(35,984)	(1,194)
Net cash collateral received/(pledged)		3,437	(3,002)
Other		(360)	(335)
Net cash used in operating activities	6	(31,690)	(2,904)
Cash flows from investment activities			
Net expenditure on property, plant and equipment		(69)	(93)
Net expenditure on computer software		(36)	(26)
Other		(2)	1
Net cash used in investment activities		(107)	(118)
Cash flows from financing activities			
Distribution to the Commonwealth	3	(3,222)	(2,501)
Net movement in deposit liabilities		31,459	724
Net movement in banknotes on issue		3,414	4,728
Net cash provided by financing activities		31,651	2,951
Net increase/(decrease) in cash		(146)	(71)
Cash at beginning of financial year		367	438
Cash at end of financial year	6	221	367

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

Notes to and Forming Part of the Financial Statements – for the year ended 30 June 2017

Reserve Bank of Australia and Controlled Entity

Note 1 – Accounting Policies

The Reserve Bank of Australia (RBA) reports its consolidated financial statements in accordance with the *Reserve Bank Act 1959* and the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). These financial statements for the year ended 30 June 2017 are a general purpose financial report prepared under Australian Accounting Standards (AAS), other accounting standards and accounting interpretations issued by the Australian Accounting Standards Board, in accordance with the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR), which is issued pursuant to the PGPA Act. The RBA is classified as a for-profit public sector entity for purposes of financial disclosure. These financial statements comply with International Financial Reporting Standards. In preparing them, the RBA has not 'early adopted' new accounting standards or amendments to current standards that apply from 1 July 2017.

All amounts in these financial statements are expressed in Australian dollars, the functional and presentational currency of the RBA. Fair values are used to measure the RBA's major assets, including Australian dollar and foreign securities, gold and foreign currency. 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 by a resolution of the Reserve Bank Board on 1 August 2017 in accordance with the Reserve Bank Act.

(a) Consolidation

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 million. The RBA provided NPA with additional capital of $15 million in July 2008 and a further $25 million in July 2009.

NPA Balance Sheet	2017 $M	2016 $M
Assets	158.6	159.6
Liabilities	24.5	30.9
Equity	134.1	128.7

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

(b) Financial instruments

A financial instrument is defined as any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. The RBA accounts for its financial instruments in accordance with AASB 139 – *Financial Instruments: Recognition and Measurement* and reports these instruments under AASB 7 – *Financial Instruments: Disclosures* and AASB 13 – *Fair Value Measurement*. The RBA brings its securities transactions and foreign exchange transactions to account on a trade date basis. Deposits and repurchase agreements are brought to account on settlement date.

Financial assets

Australian dollar securities

The RBA holds on an outright basis Australian Government Securities and securities issued by the central borrowing authorities of state and territory governments.

Australian dollar securities, except those held under reverse repurchase agreements, are classified under AASB 139 as 'at fair value through profit or loss', as they are held to conduct monetary policy and may be sold or lent, typically for short terms, under repurchase agreements. The securities are valued at market bid prices on balance date; valuation gains or losses are taken to profit. Interest earned is accrued over the term of the security and included as revenue in the Statement of Comprehensive Income.

Repurchase agreements and reverse repurchase agreements

In carrying out operations to manage domestic liquidity and foreign reserves, the RBA enters into repurchase agreements and reverse repurchase agreements in Australian dollar and foreign currency securities. A repurchase agreement involves the sale of securities with an undertaking to repurchase them on an agreed future date at an agreed price. In a reverse repurchase agreement, securities are initially bought and this transaction is reversed at an agreed price on an agreed future date. As a reverse repurchase agreement provides the RBA's counterparties with cash for the term of the agreement, the RBA treats it as an asset by recording a cash receivable. Repurchase agreements result in cash being paid to the RBA and are treated as a liability, reflecting the obligation to repay cash.

Securities purchased and contracted for sale under reverse repurchase agreements are classified under AASB 139 as 'loans and receivables' and valued at amortised cost, the equivalent of fair value. The difference between the purchase and sale price is accrued over the term of the agreement and recognised as interest revenue.

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

Foreign government securities

Foreign government securities, except those held under reverse repurchase agreements, are classified under AASB 139 as 'at fair value through profit or loss', as they are available to be traded in managing the portfolio of foreign exchange reserves. These securities are valued at market bid prices on balance date and valuation gains or losses are taken to profit. Interest earned on securities is accrued as revenue in the Statement of Comprehensive Income.

Foreign deposits

Some foreign currency reserves are invested in deposits with the BIS and other central banks, while small working balances are also maintained with a small number of commercial banks. Deposits are classified as 'loans and receivables' under AASB 139 and recorded at face value, which is equivalent to their amortised cost using the effective interest method. Interest is accrued over the term of deposits.

Foreign currency swaps

The RBA uses foreign currency swaps with market counterparties both to assist daily domestic liquidity management and in managing foreign reserve assets. A foreign currency swap is the simultaneous purchase and sale of one currency against another currency for a specified maturity. The cash flows are the same as borrowing one currency for a certain period and lending another currency for the same period. The pricing of the swap therefore reflects the interest rates applicable to these money market transactions. Interest rates are implicit in the swap contract but interest itself is not paid or received. Foreign currency swaps are classified as 'at fair value through profit or loss' under AASB 139.

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'. Futures positions are marked to market on balance date and valuation gains and losses are taken to profit.

Asian Bond Fund

The RBA invests in a number of non-Japan Asian debt markets through participation in the EMEAP Asian Bond Fund. The RBA had modest holdings in the US dollar-denominated fund, ABF1, and the local currency-denominated fund, ABF2. EMEAP announced the closure of ABF1 in July 2016, with investments of member central banks, including the RBA, transferred to ABF2.

ABF2 is classified under AASB 139 as 'at fair value through profit or loss' and is valued on balance date at the relevant unit price of the fund, with valuation gains and losses taken to profit.

Bank for International Settlements

The RBA holds shares in the BIS. Shares in the BIS are owned exclusively by the central banks and monetary authorities that are its members. Under AASB 139, the RBA's shareholding in the BIS is classified as 'available for sale'. 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 uncalled portion of this shareholding is disclosed as a contingent liability in Note 11. Dividends are recognised as revenue in the Statement of Comprehensive Income.

Financial liabilities

Deposit liabilities

Deposits held with the RBA are classified as financial liabilities under AASB 139. Deposits include both deposits 'at call' and term deposits. 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 banknotes on issue

Banknotes on issue are recorded at face value.

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

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

Repurchase agreements

Securities sold and contracted for repurchase under repurchase agreements are classified under AASB 139 as 'at fair value through profit or loss', as these securities 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) Foreign exchange translation

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

(d) Gold

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

The RBA lends gold to institutions that participate in the gold market. Gold provided under a loan is retained on the balance sheet. Interest is accrued over the term of the loan and is paid at maturity. The interest receivable on gold loans is accounted for in accordance with AASB 139.

(e) Property, plant and equipment

The RBA accounts for its property, plant and equipment in accordance with AASB 116 – *Property, Plant and Equipment* and AASB 13.

Property

The RBA measures its property at fair value. The RBA's Australian properties are formally valued annually by an independent valuer; overseas properties are independently valued on a triennial basis with the most recent valuation conducted for 30 June 2016. Reflecting their specialised nature, the RBA's Business Resumption Site and National Banknote Site are valued at depreciated replacement cost. Valuation gains (losses) are generally transferred to (from) the asset revaluation reserve. Any part of a valuation loss that exceeds the balance in the relevant asset revaluation reserve is expensed. Subsequent valuation gains that offset losses that were previously treated as an expense are recognised as revenue in the Statement of Comprehensive Income.

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

Plant and equipment

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

Prior to 30 June 2017, the RBA measured plant and equipment at fair value. The change in accounting policy is consistent with AASB 116 and reflects the view that, compared with the fair value approach, cost provides a more reliable basis for measuring the value of the RBA's plant and equipment assets. The change has been applied prospectively as it does not materially affect the RBA's financial position (refer to Note 8).

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

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

Assets are assessed for impairment at the end of each financial year. If indications of impairment are evident, the asset's recoverable amount is estimated and an impairment adjustment is made if the recoverable amount is less than the asset's carrying amount.

Annual net expenditure, revaluation adjustments and depreciation of buildings, plant and equipment are included in Note 8.

(f) Computer software

Computer software is treated in accordance with AASB 138 – *Intangible Assets*. Computer software is recognised at cost less accumulated amortisation and impairment adjustments, if any (refer to Note 7).

Amortisation of computer software is disclosed in Note 2 and is calculated on a straight line basis over the estimated useful life of the relevant asset, usually for a period of between four and six years. The useful life of payments settlements and core banking software may be for a period of between 10 and 15 years, reflecting the period over which future economic benefits are expected to be realised from these assets.

(g) Capital and reserves

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

The Reserve Bank Reserve Fund (RBRF) is also established by the Reserve Bank Act and is regarded essentially as capital. The RBRF is a permanent reserve maintained to provide for events that are contingent and not foreseeable, including to cover losses from falls in the market value of the RBA's holdings of Australian dollar and foreign currency securities that cannot be absorbed by its other resources. The RBRF also provides for other risks such as fraud and operational risk. In accordance with the Reserve Bank Act, this reserve is funded only by transfers from net profits.

The Reserve Bank Board assesses the adequacy of the balance of the RBRF each year. During 2016/17, the Board initiated a review of its approach to measuring the adequacy of the balance of the RBRF and tied the target balance more directly to foreign exchange, interest rate and credit risk carried on the Bank's balance sheet. Further detail on this review is provided in the chapter on 'Earnings, Distribution and Capital'.

In line with section 30 of the Reserve Bank Act, the Treasurer, after consulting the Board, determines any amounts to be placed to the credit of the RBRF from net profit (refer Note 1(h)). The balance of the RBRF currently stands at a level that the Board regards as appropriate for the risks the RBA holds on its balance sheet.

The RBA also holds as equity a number of other reserves.

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

The balance of the Superannuation reserve represents accumulated remeasurement gains and losses on the RBA's defined benefit superannuation obligations (refer Note 1 (i)). These unrealised gains and losses are included in Other Comprehensive Income in accordance with AASB 119 – *Employee Benefits*.

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

(h) Profits

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

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

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

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

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

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

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

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

(i) Superannuation funds

The RBA includes in its Statement of Financial Position an asset or liability representing the position of its defined benefit superannuation funds measured in accordance with AASB 119. Movements in the superannuation asset or liability are reflected in the Statement of Comprehensive Income. Remeasurement gains and losses are transferred to the Superannuation reserve. Details of the superannuation funds and superannuation expenses are included in Note 14.

(j) Committed Liquidity Facility

The RBA provides a Committed Liquidity Facility (CLF) to eligible authorised deposit-taking institutions (ADIs). Fees received from providing the CLF are recognised as fee income in the Statement of Comprehensive Income. Additional information on the CLF is provided in Note 11.

(k) Rounding

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

(l) Comparative information

Certain comparative information has been reclassified where required for consistency with the current year presentation.

(m) Application of new or revised Australian Accounting Standards

A number of new and revised AAS will apply to the RBA's financial statements in future reporting periods, as set out below. Application of these standards is not expected to have a material effect on the RBA's financial statements.

AASB 9 – Financial Instruments

The new standard, which will be applicable for annual reporting periods beginning on or after 1 January 2018, contains requirements for the classification, measurement and recognition of financial assets and liabilities. It will replace the corresponding requirements currently in AASB 139.

AASB 15 – Revenue from Contracts with Customers

AASB 15, which will be applicable for annual reporting periods beginning on or after 1 January 2018, contains requirements for the recognition, measurement, classification and disclosure of revenue arising from contracts with customers. It will replace corresponding requirements currently contained in AASB 118 – *Revenue* and AASB 111 – *Construction Contracts*.

AASB 16 – Leases

AASB 16 contains requirements for the recognition, measurement, classification and disclosure of leases for both lessee and lessors. The new standard, which will be applicable for annual reporting periods beginning on or after 1 January 2019, will replace corresponding requirements currently contained in AASB 117 – *Leases*.

Note 2 – Net Profit

	Note	2017 $M	2016 $M
Net interest income			
Interest income	1(b), 4	2,109	2,305
Interest expense	1(b), 4	(1,086)	(1,112)
		1,023	1,193
Fees and commissions income			
Committed Liquidity Facility	1(j)	347	390
Banking services		106	100
Payment services		20	18
		473	508
Other income			
Sales of note and security products		32	43
Rental of Bank premises		9	9
Dividend revenue	1(b)	5	4
Other		4	10
		50	66
Net gains/(losses) on securities and foreign exchange			
Foreign investments	1(b)	(169)	68
Australian dollar securities	1(b)	(400)	(229)
Foreign currency	1(b)	(1,288)	1,821
		(1,857)	1,660
General administrative expenses			
Staff costs		(218)	(215)
Net gains/(losses) on employee provisions		20	(34)
Superannuation costs	1(i)	(77)	(50)
Depreciation of property, plant and equipment	1(e), 8	(41)	(34)
Amortisation of computer software	1(f), 7	(10)	(5)
Premises and equipment		(61)	(50)
Other		(19)	(17)
		(406)	(405)
Other expenses			
Banking service fees		(89)	(81)
Materials used in note and security products		(49)	(25)
Banknote distribution		(2)	(3)
Other		(40)	(30)
		(180)	(139)
Net Profit/(Loss)		(897)	2,883

Note 3 – Distribution Payable to the Commonwealth

In terms of section 30 of the Reserve Bank Act, net profits of the RBA, less amounts set aside for contingencies or placed to the credit of the RBRF, are paid to the Commonwealth (see Note 1(h)). Also under section 30, unrealised profits from foreign exchange, foreign securities and Australian dollar securities are not available for distribution. Instead they are transferred to the unrealised profits reserve where they remain available to absorb future valuation losses or are realised when relevant assets are sold or mature. Unrealised losses are, in the first instance, absorbed within the unrealised profits reserve and are offset against unrealised profits accumulated from previous years. For purposes of distribution, if such losses exceed the balance of the unrealised profits reserve, the amount by which they do so is initially charged against other components of net profit, and any remaining loss is absorbed by the RBRF.

In 2016/17, the RBA recorded a net accounting loss of $897 million. Unrealised valuation losses amounted to $2,179 million and were absorbed by the balance of the unrealised profits reserve. In addition, a sum of $4 million, mainly reflecting accumulated valuation gains on the Bank's plant and equipment assets, was transferred from the asset revaluation reserve to the Statement of Distribution as part of an accounting policy change for the measurement of such assets (see Note 1(e)). Earnings available for distribution therefore amounted to $1,286 million in 2016/17. As the Board regarded the balance of the RBRF as appropriate for the risks held on the balance sheet, it recommended that no transfer to this reserve be made from net profit in 2016/17. Accordingly, the Treasurer, after consulting the Board, determined that the full sum of earnings available for distribution be paid as a dividend to the Commonwealth. An amount of $3,222 million from earnings in 2015/16 was paid to the Commonwealth in 2016/17.

	2017 $M	2016 $M
Opening balance	3,222	2,501
Distribution to the Commonwealth	(3,222)	(2,501)
Transfer from Statement of Distribution	1,286	3,222
As at 30 June	1,286	3,222

Note 4 – Interest Income and Interest Expense

Analysis for the year ended 30 June 2017

	Average balance $M	Interest $M	Average annual interest rate Per cent
Interest income			
Foreign currency investments	67,407	190	0.3
Australian dollar investments	91,644	1,906	2.1
Overnight settlements	371	5	1.3
Cash collateral provided	409	6	1.6
Gold loans	384	1	0.2
Loans, advances and other	30	1	1.6
	160,245	2,109	1.3
Interest expense			
Exchange Settlement balances	25,588	384	1.5
Deposits from governments	36,407	613	1.7
Deposits from overseas institutions	2,488	33	1.3
Banknote holdings of banks	3,252	41	1.3
Foreign currency repurchase agreements	1,968	7	0.3
Australian dollar repurchase agreements	95	1	1.4
Cash collateral received	442	7	1.5
Other deposits	14	–	0.4
	70,254	1,086	1.5
Net interest income	89,991	1,023	1.1
Analysis for the year ended 30 June 2016			
Interest income	150,288	2,305	1.5
Interest expense	61,596	1,112	1.8
Net interest income	88,692	1,193	1.3

Interest income for 2016/17 includes $1,376 million calculated using the effective interest method for financial assets not at fair value through profit or loss ($1,503 million in 2015/16). Interest expense for 2016/17 includes $1,086 million calculated using the effective interest method for financial liabilities not at fair value through profit or loss ($1,112 million in 2015/16).

Note 5 – Asset Revaluation Reserves

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

	Note	2017 $M	2016 $M
Gold	1(d)	4,020	4,439
Shares in international and other institutions	1(b), 7	369	370
Property[a]	1(e), 8	332	265
As at 30 June		4,721	5,074

(a) The comparative includes a sum of $4 million in the asset revaluation reserve for plant and equipment. As noted in Note 1(e), the RBA has changed its accounting policy for the measurement of plant and equipment from fair value to cost, with effect 30 June 2017

Note 6 – Cash and Cash Equivalents

	2017 $M	2016 $M
Cash	42	31
Overnight settlements	179	336
As at 30 June	221	367

Reconciliation of net cash used in operating activities to Net Profit	**Note**	**2017 $M**	**2016 $M**
Net Profit/(Loss)		(897)	2,883
Increase/(decrease) in interest payable		23	11
Net loss/(gain) on overseas investments	2	169	(68)
Net loss/(gain) on Australian dollar securities	2	400	229
Net loss/(gain) on foreign currency	2	1,288	(1,821)
Decrease/(increase) in income accrued on investments		(210)	–
Cash collateral received/(pledged)		3,437	(3,002)
Depreciation of property, plant and equipment	2	41	34
Amortisation of computer software	2	10	5
Net payments for investments		(35,984)	(1,194)
Other		33	19
Net cash used in operating activities		(31,690)	(2,904)

Cash and cash equivalents include net amounts of $179 million owed to the RBA for overnight clearances of financial transactions through the payments system ($336 million at 30 June 2016). Other cash and cash equivalents include NPA's bank deposits.

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

Note 7 – Other Assets

	Note	2017 $M	2016 $M
Shareholding in Bank for International Settlements	1(b)	412	413
Computer software	1(f)	82	56
Other		63	67
As at 30 June		557	536

At 30 June 2017, the gross book value of the RBA's computer software amounted to $110.0 million and the accumulated amortisation on these assets was $27.9 million ($79.3 million and $23.1 million, respectively, at 30 June 2016). During 2016/17, there were $30.7 million in net additions to computer software ($26.1 million in 2015/16) and $10.1 million in amortisation expense ($4.6 million in 2015/16). The RBA had contractual commitments of $9.6 million as at 30 June 2017 for the acquisition of computer software ($1.1 million at 30 June 2016).

Other assets include receivables of $25.9 million as at 30 June 2017 ($24.9 million at 30 June 2016), none of which is impaired.

Note 8 – Property, Plant and Equipment

	Land and Buildings $M	Plant and Equipment $M	Total $M
Gross Book Value as at 30 June 2016	453	250	703
Accumulated depreciation	–	(63)	(63)
Net Book Value	453	187	640
Additions	37	35	72
Depreciation expense	(11)	(30)	(41)
Net gain/(loss) recognised in Net Profit	–	–	–
Net gain/(loss) recognised in Other Comprehensive Income	72	–	72
Disposals	–	(2)	(2)
Net additions to net book value	98	3	101
Gross Book Value as at 30 June 2017	552	296	848
Accumulated depreciation	(1)	(106)	(107)
Net Book Value	551	190	741

The net book value of the RBA's property, plant and equipment includes $29.0 million of work in progress ($83.4 million at 30 June 2016). The change in accounting policy for the measurement of the RBA's plant and equipment from fair value to cost (refer to Note 1(e)) resulted in a net reduction of $0.4 million in the net book value of plant and equipment at 30 June 2017.

As at 30 June 2017, the RBA had contractual commitments of $10.4 million for the acquisition or development of property, plant and equipment ($65.7 million at 30 June 2016), all of which are due within one year ($46.9 million at 30 June 2016).

Note 9 – Deposits

	2017 $M	2016 $M
Exchange Settlement balances	28,215	24,745
Australian Government	59,086	31,521
State governments	232	120
Foreign governments, foreign institutions and international organisations	5,126	4,810
Other depositors	10	14
As at 30 June	92,669	61,210

Note 10 – Other Liabilities

	Note	2017 $M	2016 $M
Provisions			
Provision for annual and other leave		21	19
Provision for long service leave		44	43
Provision for post-employment benefits		106	125
Other		–	1
		171	188
Other			
Securities sold under agreements to repurchase	1(b)	1,580	4,526
Payable for unsettled purchases of securities		1,533	1,809
Foreign currency swap liabilities	1(b), 15	1,150	1,861
Interest accrued on deposits		95	64
Superannuation liability	1(i), 14	55	397
Other		87	91
		4,500	8,748
Total Other Liabilities as at 30 June		4,671	8,936

The RBA's provision for its post-employment benefits was $18.9 million lower in 2016/17, largely due to an increase in the discount rate. Benefits of $4.6 million were paid out of the provision for post-employment benefits in 2016/17. The balance of the provision for post-employment benefits will change if assumptions about the length of staff service, the longevity of retired staff, future movements in medical costs or the discount rate vary.

Other provisions consist of $488,000 for workers compensation ($694,000 at 30 June 2016).

Note 11 – Contingent Assets and Liabilities

Committed Liquidity Facility

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

The aggregate undrawn commitment of the CLF at 30 June 2017 totalled about $193 billion for 14 ADIs (about $224 billion for 13 ADIs at 30 June 2016).

Bank for International Settlements

The RBA has a contingent liability, amounting to $65.1 million at 30 June 2017 ($67.7 million at 30 June 2016), for the uncalled portion of its shares held in the BIS.

NPA and Securency

Charges were laid in 2011 against NPA and Securency International Pty Ltd (Securency) alleging that the companies and a number of individuals conspired to provide or to offer to provide, at various times between December 1999 and September 2004, benefits to foreign public officials that were not legitimately due. A number of former employees of the companies were charged between 2011 and 2013 with engaging in the alleged conspiracies, with false accounting offences or with both. The RBA has accounted for the costs, and potential costs, to the consolidated entity related to these charges in accordance with AASB 137 – *Provisions, Contingent Liabilities and Contingent Assets*. Specific information about these charges and the associated costs have not been disclosed in the notes to the accounts as these matters remain before the courts. In light of several uncertainties, it is not possible to make reliable estimates of all of the potential costs associated with the charges, or potential claims in connection with them, at the date of preparing these accounts.

In February 2013, the RBA completed the sale of its 50 per cent interest in Securency (now known as CCL Secure Pty Ltd) to a related entity of Innovia Films, a UK-based film manufacturer, which had previously owned the other half of Securency. Under the sale agreement the RBA provided the owner of Securency with a number of indemnities in relation to the period during which Securency had been jointly owned by the RBA and Innovia Films. It is not possible to reliably estimate the potential financial effect of these indemnities. The RBA, however, does not consider it probable at this time that it will have to make payments in terms of these indemnities. Accordingly, the indemnities are treated as contingent liabilities in accordance with AASB 137.

In addition, an amount covering 50 per cent of certain potential liabilities of Securency relating to events prior to the sale was placed in escrow in February 2013. In 2016/17 the RBA contributed its agreed share from the escrow for one of those liabilities. The residual amount in escrow for that liability was released to the RBA during the financial year. In February 2020 the RBA will receive the balance then remaining in escrow after relevant claims have been paid, settled or lapse. Where it is not possible to estimate the likelihood of the RBA receiving any payments from amounts held in escrow, these amounts are treated as a contingent asset, in accordance with AASB 137.

Insurance

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

Performance Guarantees

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

Note 12 – Key Management Personnel

The key management personnel of the Reserve Bank are the Governor and Deputy Governor, non-executive members of the Reserve Bank Board, non-executive members of the Payments System Board and the Assistant Governors, who are the senior staff responsible for planning, directing and controlling the activities of the Bank. There were 20 of these positions in 2016/17, one fewer than in the previous year as the responsibilities of the Assistant Governor (Banking & Payments) were consolidated with those of another Assistant Governor, creating a single role as the Assistant Governor (Business Services) during 2015/16. A total of 25 individuals occupied these positions for all or part of the financial year, an increase from 22 in the previous year. This rise reflected the conclusion of the terms of, and the appointment of successors for, a number of occupants of positions in the group of key management personnel.

The positions of Governor and Deputy Governor are designated as Principal Executive Offices in terms of the *Remuneration Tribunal Act 1973*, which provides for the Remuneration Tribunal to determine the applicable remuneration for these positions. Within the parameters determined by the Remuneration Tribunal, the Reserve Bank Board Remuneration Committee, comprising three non-executive members, makes a recommendation on remuneration for these positions for the approval of the Board, which is the 'employing body' for the positions. In July 2017, the Remuneration Tribunal determined that, effective 1 July 2017, an adjustment of 2 per cent would be made to the remuneration of offices in its jurisdiction, including those of the Governor and Deputy Governor. Consistent with this, the Board resolved on 1 August 2017 to set the remuneration reference rate for the position of Governor at $1,020,000 (superannuable salary of $744,600) and that for the Deputy Governor at $765,000 (superannuable salary of $558,450). No performance payments were made to any individual while occupying these positions in 2016/17.

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

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

	2017 $	**2016 $**
Short-term employee benefits	5,331,771	5,402,979
Post-employment benefits	884,655	1,013,006
Other long-term employee benefits	596,005	300,252
Termination benefits	–	–
Total compensation[(a)]	6,812,431	6,716,237

(a) Within the group of key management personnel, 23 individuals (20 in 2015/16) were remunerated and included in this table; the two key management personnel that are not remunerated are the Secretary to the Treasury, as a member of the Reserve Bank Board, and the Chairman of the Australian Prudential Regulation Authority, as a member of the Payments System Board

Short-term benefits include cash salary and, where relevant for executives, lump sum payments, motor vehicle benefits, car parking and health benefits and the fringe benefits tax paid or payable on these benefits. Post-employment benefits include superannuation benefits and, in the case of staff, health benefits. Other long-term employee benefits include long service leave and annual leave as well as the cost of (or gain on) revaluing previously accrued leave entitlements in accordance with AASB 119 (refer Note 10).

There were no loans during 2016/17 and 2015/16 by the RBA to any key management personnel.

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

Note 13 – Auditor's Remuneration

	2017 **$**	**2016** **$**
Fees paid or payable to the statutory auditor (Australian National Audit Office) for audit services	459,000	425,000

KPMG has been contracted by the Australian National Audit Office (ANAO) to provide audit services for the external audit of the RBA. This includes audit services for the RBA's subsidiary NPA and the Reserve Bank of Australia Officers' Superannuation Fund.

During 2016/17, KPMG earned additional fees of $80,069 for non-audit services that were separately contracted by the RBA ($184,698 in 2015/16). These fees are mainly included in General administrative expenses in Note 2.

Note 14 – Superannuation Funds

The RBA sponsors two superannuation funds: RB Super (formerly the Reserve Bank of Australia Officers' Superannuation Fund (OSF)) and the Reserve Bank of Australia UK Pension Scheme. The OSF Board of Trustees transferred the members and assets of the OSF to a multi-employer fund (MEF) via a successor fund transfer in March 2017. The Bank does not have a role in directly operating or governing RB Super; the Bank has no involvement in the appointment of the RB Super Trustees. Current and future benefits are funded by member and RBA contributions and the existing assets of these schemes. The RBA's superannuation expenses are included in net profit and shown in Note 2.

RB Super is a hybrid plan, with a mix of defined benefit members, defined contribution members and pensioners. Defined benefit members receive a defined benefit in accordance with RB Super's plan rules. All members have unitised accumulation balances, which comprise employer contributions and members' personal contributions plus earnings on contributions. Defined benefit membership was closed to new RBA staff from 1 August 2014. From that date, new staff have been offered defined contribution superannuation.

The UK Pension Scheme is a closed defined benefit scheme subject to relevant UK regulation.

Funding valuation

Independent actuarial valuations of RB Super and the UK Pension Scheme are conducted every three years.

The first triennial actuarial valuation for RB Super will be completed for the financial position as at 30 June 2017. The valuation for the OSF was last undertaken at 30 June 2014. The funding valuation of the OSF in 2014 was based on the Attained Age Funding method. Accrued benefits were determined as the value of the future benefits payable to members (allowing for future salary increases), discounted by the expected rate of return on assets held to fund these benefits. At the time of this review, the surplus of the OSF was $110.3 million. On the same valuation basis, the RB Super surplus as at 30 June 2017 amounted to $238.9 million. The RBA maintained its contribution rate to fund defined benefit obligations at 18.3 per cent of salaries in 2016/17, consistent with the actuary's recommendation.

The latest funding valuation for the UK Scheme was at 30 June 2016 and was also based on the Attained Age Funding method. At the time of this review, the UK Pension Scheme was in a small surplus. On this basis, the surplus at 30 June 2017 was $0.6 million, with assets of $25.2 million compared with accrued benefits of $24.6 million. The Trustees of the UK Scheme will keep its funding position under review.

Accounting valuation

For financial statement purposes, the financial positions of RB Super and the UK Pension Scheme are valued in accordance with AASB 119. This standard requires disclosures of significant actuarial assumptions, a maturity analysis of the defined benefit obligation and key risk exposures. Information is provided only for RB Super, as the UK Pension Scheme is not material. Prior year disclosures relate to RB Super's predecessor, the OSF.

Actuarial assumptions

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

	2017 Per cent	2016 Per cent
Discount rate (gross of tax)[(a)]	4.5	3.6
Future salary growth[(b)]	3.0	3.0
Future pension growth[(b)]	3.0	3.0

(a) Based on highly rated Australian dollar-denominated corporate bond yields
(b) Includes a short-term assumption of 2.0 per cent for the first four years of the projections (2.0 per cent for the first five years in 2016)

Maturity analysis

The weighted-average duration of the defined benefit obligation for RB Super is 19 years (21 years at 30 June 2016). The expected maturity profile for defined benefit obligations of RB Super is as follows:

	2017 Per cent	2016 Per cent
Less than 5 years	18	15
Between 5 and 10 years	16	14
Between 10 and 20 years	26	25
Between 20 and 30 years	19	20
Over 30 years	21	26
Total	100	100

Risk exposures

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

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

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

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

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

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

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

	2017 $M	**2016 $M**
Change in defined benefit obligation from an increase of 0.25 percentage points in:		
Discount rate (gross of tax)	(62)	(76)
Future salary growth	16	21
Future pension growth	47	56
Change in defined benefit obligation from a decrease of 0.25 percentage points in:		
Discount rate (gross of tax)	66	82
Future salary growth	(15)	(20)
Future pension growth	(45)	(53)
Change in defined benefit obligation from an increase in life expectancy of one year	43	54

Asset distribution

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

	Per cent of fund assets	
	2017	**2016[(a)]**
Cash and short-term securities	2	3
Fixed interest and indexed securities	10	15
Domestic equities	34	35
Foreign equities	24	17
Property	12	15
Private equity and infrastructure	18	15
Total	100	100

(a) Composition of assets held by the OSF

AASB 119 Reconciliation

The table below contains a reconciliation of the AASB 119 valuation of RB Super. The figures for 2016 are for the OSF, as are the opening balances in 2017. These details are for the defined benefit component only, as the RBA faces no actuarial risk on defined contribution balances and these balances have no effect on the measurement of the financial position of RB Super.

	2017 $M	2016 $M
Opening balances:		
Net market value of assets	991	967
Accrued benefits	(1,388)	(1,031)
Opening superannuation asset/(liability)	(397)	(64)
Change in net market value of assets	166	24
Change in accrued benefits	175	(357)
Change in superannuation asset/(liability)	341	(333)
Closing balances:		
Net market value of assets	1,157	991
Accrued benefits	(1,213)	(1,388)
Closing superannuation asset/(liability)	(56)	(397)
Interest income	35	47
Benefit payments	(45)	(42)
Return on plan assets	152	(6)
Contributions from RBA to defined benefit schemes	24	24
Change in net market value of assets	166	24
Current service cost	(53)	(37)
Interest cost	(49)	(50)
Benefit payments	45	42
Gains/(losses) from change in demographic assumptions	–	–
Gains/(losses) from change in financial assumptions	253	(312)
Gains/(losses) from change in other assumptions	(21)	1
Change in accrued benefits	175	(357)
Current service cost	53	37
Net Interest expense/(income)	13	4
Productivity and superannuation guarantee contributions	7	6
Superannuation expense/(income) included in profit or loss	73	47
Actuarial remeasurement loss/(gain)	(383)	316
Superannuation expense/(income) included in Statement of Comprehensive Income	(310)	363

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

Note 15 – Financial Instruments and Risk

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

Financial Risk

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

Market risk

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

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or cash flows of the RBA's foreign currency assets and liabilities will fluctuate because of movements in exchange rates. An appreciation in the Australian dollar results in valuation losses, while a depreciation leads to valuation gains. The overall level of foreign currency exposure is determined by policy considerations. The RBA's net foreign currency exposure as at 30 June 2017 was $51.8 billion ($53.3 billion as at 30 June 2016). 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 seven currencies – the US dollar, euro, Japanese yen, Canadian dollar, Chinese renminbi, UK pound sterling and South Korean won.

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

Concentration of foreign exchange

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

	Per cent of foreign exchange	
	2017	**2016**
US dollar	55	55
Euro	20	20
Japanese yen	5	5
Canadian dollar	5	5
Chinese renminbi	5	5
UK pound sterling	5	5
South Korean won	5	5
Total foreign exchange	100	100

Sensitivity to foreign exchange risk

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

	2017 $M	2016 $M
Change in profit/equity due to a 10 per cent appreciation in the reserves-weighted value of the A$	(4,715)	(4,845)
Change in profit/equity due to a 10 per cent depreciation in the reserves-weighted value of the A$	5,763	5,922

Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of financial instruments will fluctuate because of movements in market interest rates. The RBA faces interest rate risk because most of its assets are financial assets that have a fixed income stream, such as Australian dollar and foreign currency securities. The price of such securities rises when market interest rates decline, and it falls if market rates rise. Interest rate risk increases with the maturity of a security. Interest rate risk on foreign assets is controlled through limits on the duration of these portfolios. Interest rate risk on Australian dollar assets is relatively low as most of the portfolio is held in short-term reverse 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.

	2017 $M	2016 $M
Change in profit/equity due to movements of +/–1 percentage point across yield curves:		
Foreign currency securities	–/+287	–/+339
Australian dollar securities	–/+157	–/+144

Liquidity risk

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

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

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

Maturity Analysis – as at 30 June 2017

	Balance sheet total $M	Contracted maturity $M					No specified maturity $M	Weighted average effective rate %
		On demand	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Assets								
Cash and cash equivalents	221	41	179	–	–	–	1	1.21
Australian dollar investments								
Securities sold under repurchase agreements	–	–	–	–	–	–	–	na
Securities purchased under repurchase agreements	90,303	–	63,198	800	–	–	26,305	1.65
Other securities	14,068	–	4,579	7,048	1,383	1,058	–	1.77
Accrued interest	398	–	392	6	–	–	–	na
	104,769							
Foreign currency investments								
Balances with central banks	20,340	19,624	716	–	–	–	–	0.04
Securities sold under repurchase agreements	1,580	–	–	842	738	–	–	1.30
Securities purchased under repurchase agreements	4,134	–	4,134	–	–	–	–	1.06
Other securities	57,265	–	34,178	11,440	5,806	122	5,719	0.40
Deposits	194	–	193	–	–	–	1	1.05
Cash collateral provided	–	–	–	–	–	–	–	na
Accrued interest	64	–	45	19	–	–	–	na
	83,577							
Gold								
Gold holdings on loan	365	–	209	156	–	–	–	0.21
Gold holdings	3,782	–	–	–	–	–	3,782	na
	4,147							
Property, plant & equipment	741	–	–	–	–	–	741	na
Other assets	557	–	25	7	5	2	518	na
Total assets	194,012	19,665	107,848	20,318	7,932	1,182	37,067	1.05
Liabilities								
Deposits	92,669	33,682	58,987	–	–	–	–	1.56
Distribution payable to the Commonwealth	1,286	–	1,066	220	–	–	–	na
Cash collateral received	1,108	–	1,108	–	–	–	–	1.50
Australian banknotes on issue	73,623	–	–	–	–	–	73,623	0.05
Other liabilities	3,563	–	3,354	–	–	–	209	0.42
Total liabilities	172,249	33,682	64,515	220	–	–	73,832	0.88
Capital and reserves	21,763							
Total balance sheet	194,012							
Swaps								
Australian dollars								
Contractual outflow	(170)	–	(170)	–	–	–	–	
Contractual inflow	28,815	–	28,815	–	–	–	–	
	28,645	–	28,645	–	–	–	–	
Foreign currency								
Contractual outflow	(52,745)	–	(52,745)	–	–	–	–	
Contractual inflow	24,100	–	24,100	–	–	–	–	
	(28,645)	–	(28,645)	–	–	–	–	

Maturity Analysis – as at 30 June 2016

	Balance sheet total $M	Contracted maturity $M					No specified maturity $M	Weighted average effective rate %
		On demand	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Assets								
Cash and cash equivalents	367	30	336	–	–	–	1	1.50
Australian dollar investments								
Securities sold under repurchase agreements	35	–	–	–	–	35	–	2.51
Securities purchased under repurchase agreements	83,223	–	58,315	1,828	–	–	23,080	1.83
Other securities	5,069	–	–	–	3,922	1,147	–	1.80
Accrued interest	173	–	163	10	–	–	–	na
	88,500							
Foreign currency investments								
Balances with central banks	8,135	7,394	741	–	–	–	–	0.04
Securities sold under repurchase agreements	4,491	–	–	3,463	1,028	–	–	0.40
Securities purchased under repurchase agreements	5,873	–	5,873	–	–	–	–	0.67
Other securities	51,931	–	28,411	11,356	6,139	510	5,515	0.09
Deposits	42	–	42	–	–	–	–	0.44
Cash collateral provided	2,329	–	2,329	–	–	–	–	1.75
Accrued interest	78	–	56	22	–	–	–	na
	72,879							
Gold								
Gold holdings on loan	402	–	230	172	–	–	–	0.22
Gold holdings	4,165	–	–	–	–	–	4,165	na
	4,567							
Property, plant & equipment	640	–	–	–	–	–	640	na
Other assets	536	–	23	4	6	2	501	na
Total assets	167,489	7,424	96,519	16,855	11,095	1,694	33,902	1.03
Liabilities								
Deposits	61,210	30,943	30,267	–	–	–	–	1.69
Distribution payable to the Commonwealth	3,222	–	3,222	–	–	–	–	na
Cash collateral received	–	–	–	–	–	–	–	na
Australian banknotes on issue	70,209	–	–	–	–	–	70,209	0.06
Other liabilities	8,936	–	8,346	–	–	–	590	0.26
Total liabilities	143,577	30,943	41,835	–	–	–	70,799	0.77
Capital and reserves	23,912							
Total balance sheet	167,489							
Swaps								
Australian dollars								
Contractual outflow	(115)	–	(115)	–	–	–	–	
Contractual inflow	9,255	–	9,255	–	–	–	–	
	9,140	–	9,140	–	–	–	–	
Foreign currency								
Contractual outflow	(34,472)	–	(34,472)	–	–	–	–	
Contractual inflow	25,332	–	25,332	–	–	–	–	
	(9,140)	–	(9,140)	–	–	–	–	

Credit risk

Credit risk is the potential for financial loss arising from an issuer or counterparty defaulting on its obligations to: repay principal; make interest payments due on an asset; or settle a transaction. The RBA's credit exposure is managed within a framework designed to contain risk to a level consistent with its very low appetite for such risk. In particular, credit risk is controlled by: holding securities issued by a limited number of highly rated governments, government-guaranteed agencies and supranational organisations; and holding high-quality collateral against reverse repurchase agreements.

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

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

1. ***Foreign exchange swaps*** – As at 30 June 2017, the RBA was under contract to purchase $24.1 billion of foreign currency ($25.3 billion at 30 June 2016) and sell $52.7 billion of foreign currency ($34.5 billion at 30 June 2016). As of that date there was a net unrealised gain of $1.5 billion on these swap positions included in net profit ($1.9 billion unrealised loss at 30 June 2016).

   The RBA has a credit exposure from foreign exchange swaps because of the risk that a counterparty might fail to deliver the second leg of a swap, a sum that would then have to be replaced in the market, potentially at a loss. To manage credit risk on swaps, the RBA exchanges collateral with counterparties under terms specified in credit support annexes (CSAs), which cover the potential cost of replacing the swap position in the market if a counterparty fails to deliver. The RBA's CSAs specify that only Australian dollar cash is eligible as collateral. Under CSAs, either party to the agreement may be obliged to deliver collateral with interest paid or received on a monthly basis. At 30 June 2017, the RBA held $1.1 billion of collateral ($2.3 billion of collateral was provided at 30 June 2016).

2. ***Interest rate futures*** – As at 30 June 2017, the amount of credit risk on margin accounts associated with interest rate futures contracts held by the RBA was approximately $0.8 million ($0.4 million at 30 June 2016). As at 30 June 2017, there was an unrealised gain of $0.3 million brought to account on those contracts ($0.2 million unrealised loss at 30 June 2016).

The RBA held no past due or impaired assets at 30 June 2017 or 30 June 2016.

Collateral held under reverse repurchase agreements

Cash invested under reverse repurchase agreements in overseas markets is secured against government securities or securities issued by US agencies; the RBA takes and maintains collateral to the value of 102 per cent of the cash invested. Cash invested under Australian dollar reverse repurchase agreements is secured by securities issued by Australian governments, banks and various corporate and asset-backed securities. The RBA holds collateral equivalent to the amount invested plus a margin according to the risk profile of the collateral held. If the current value of collateral falls by more than a predetermined amount, the counterparty is required to provide additional collateral to restore this margin; the thresholds are specified in the legal agreements which govern these transactions. The management of collateral and cash associated with tri-party repurchase agreements is conducted through a third party, in this case the Australian Securities Exchange. The terms and requirements of tri-party repurchase agreements are broadly consistent with bilateral agreements and the RBA manages the risk in a similar way. The RBA does not sell or re-pledge securities held as collateral under reverse repurchase agreements.

Collateral provided under repurchase agreements

At 30 June 2017, the carrying amount of securities sold and contracted for purchase under repurchase agreements was $1,580 million ($4,527 million at 30 June 2016). Terms and conditions of repurchase agreements are consistent with those for reverse repurchase agreements disclosed above.

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.

	Risk rating of security/issuer[a]	Risk rating of counterparties[a]	Per cent of investments	
			2017	2016
Australian dollar investments				
Holdings of Australian Government Securities	Aaa	na	6.1	1.6
Holdings of semi-government securities	Aaa	na	0.5	0.6
	Aa	na	0.8	0.9
Securities purchased under reverse repurchase agreements	Aaa	Aa	27.4	26.4
	Aaa	A	10.1	10.4
	Aaa	Baa	0.2	0.0
	Aaa	Other[b]	1.3	1.1
	Aa	Aa	2.8	8.1
	Aa	A	1.7	1.5
	Aa	Baa	0.2	0.1
	Aa	Other[b]	0.1	0.1
	A	Aa	1.7	1.4
	A	A	1.0	0.5
	A	Baa	0.0	0.1
	Baa	Aa	0.0	0.1
	Baa	A	0.1	0.0
Foreign investments				
Holdings of securities	Aaa	na	9.3	10.6
	Aa	na	1.6	3.4
	A	na	17.7	15.3
Securities sold under repurchase agreements	Aaa	Aa	0.0	1.1
	Aaa	A	0.8	1.4
Securities purchased under reverse repurchase agreements	Aaa	Aa	0.3	1.4
	Aaa	A	1.4	1.9
	A	A	0.4	0.2
Deposits	na	Aaa	0.5	0.5
	na	Aa	0.6	0.1
	na	A	9.5	4.3
Other	Aaa	A	0.0	0.4
	Aaa	Other[b]	0.1	0.1
	A	A	0.0	1.3
	Other[b]	Aa	0.5	0.7
	Other[b]	A	0.3	0.1
	Other[b]	Other[b]	0.0	0.6
Other assets			3.0	3.7
			100.0	100.0

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

Note 16 – Fair Value

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

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

The table below presents the RBA's assets and liabilities measured and recognised at fair value and their classification within the fair value hierarchy at 30 June 2017.

	Fair Value			Amortised Cost	Total
	Level 1 $M	Level 2 $M	Level 3 $M	$M	$M
As at 30 June 2017					
Financial assets					
At fair value through profit or loss					
Australian dollar securities	14,276	75	–	na	14,351
Foreign government securities	52,552	4,661	–	na	57,213
Foreign currency swaps	111	1,395	–	na	1,506
Available for sale					
Shares in other institutions	–	–	416	na	416
Loans and receivables	na	na	na	115,530	115,530
	66,939	6,131	416	115,530	189,016
Non-financial assets					
Land and buildings	–	–	551	na	551
Gold holdings	4,146	–	–	na	4,146
Other[(a)]	–	–	–	299	299
	4,146	–	551	299	4,996
Total assets	71,085	6,131	967	115,829	194,012
Financial liabilities					
At fair value through profit or loss					
Foreign currency swaps	–	42	–	na	42
Not at fair value through profit or loss	na	na	na	171,946	171,946
	–	42	–	171,946	171,988
Non-financial liabilities	na	na	na	261	261
Total liabilities	–	42	–	172,207	172,249

(a) Includes plant and equipment. As noted in Note 1(e), the RBA has changed its accounting policy for the measurement of plant and equipment from fair value to cost, with effect 30 June 2017

	Fair Value Level 1 $M	Level 2 $M	Level 3 $M	Amortised Cost $M	Total $M
As at 30 June 2016					
Financial assets					
At fair value through profit or loss					
Australian dollar securities	5,083	67	–	na	5,150
Foreign government securities	48,021	5,438	–	na	53,459
Foreign currency swaps	–	10	–	na	10
Available for sale					
Shares in other institutions	–	–	415	–	415
Loans and receivables	na	na	na	103,160	103,160
	53,104	5,515	415	103,160	162,194
Non-financial assets					
Land and buildings	–	–	453	na	453
Plant and equipment	–	–	187	na	187
Gold holdings	4,566	–	–	na	4,566
Other	–	–	–	89	89
	4,566	–	640	89	5,295
Total assets	57,670	5,515	1,055	103,249	167,489
Financial liabilities					
At fair value through profit or loss					
Foreign currency swaps	200	1,661	–	na	1,861
Not at fair value through profit or loss	na	na	na	141,093	141,093
	200	1,661	–	141,093	142,954
Non-financial liabilities	na	na	na	623	623
Total liabilities	200	1,661	–	141,716	143,577

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

Level 3 assets include the RBA's shareholding in the BIS and its property. The shareholding in the BIS is valued using the net asset value, as published in annual financial statements of the BIS, less a discount of 30 per cent. The discount applied is based on a Hague Arbitral Tribunal decision on compensation paid to former private shareholders, and subsequent transactions involving the re-allocation of BIS shares. Fair values of the RBA's property incorporate factors such as net market income and capitalisation rates, for property valued using an income capitalisation or a discounted cash flow approach, and depreciation rates for property valued using a depreciable replacement cost methodology.

There were no transfers between levels within the fair value hierarchy during the financial year. Movements in the fair value of the RBA's property during the financial year are detailed in Note 8; the decrease in value of the RBA's shareholding in the BIS solely reflects a valuation loss recognised in Other Comprehensive Income.

Note 17 – Subsequent Events

There are no events subsequent to 30 June 2017 to be disclosed.

Auditor-General for Australia

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Treasurer

Opinion

In my opinion, the financial statements of the Reserve Bank of Australia and its Controlled Entity (together the consolidated entity) for the year ended 30 June 2017:

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

(b) present fairly the financial position of the consolidated entity as at 30 June 2017 and its financial performance and cash flows for the year then ended.

The financial statements of the consolidated entity, which I have audited, comprise the following statements as at 30 June 2017 and for the year then ended:

- Statement of Assurance;
- Statement of Financial Position;
- Statement of Comprehensive Income;
- Statement of Distribution;
- Statement of Changes in Capital and Reserves;
- Cash Flow Statement; and
- Notes to and Forming Part of the Financial Statements, including Accounting Policies and other explanatory information.

Basis for Opinion

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

Key Audit Matters

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

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Key audit matter	
Accuracy of the liability for the Australian banknotes *Refer to Note 1 (b) Financial instruments: Australian banknotes on issue.* Australian banknotes on issue relates directly to one of the Reserve Bank of Australia's key roles, the issuance of currency, as defined in the *Reserve Bank Act 1959* and is a key audit matter due to: • high interest to the users of the financial statements; • the balance is significant relative to the Reserve Bank of Australia's Statement of Financial Position; and • complexity in assessing the accuracy of the liability for Australian banknotes on issue that are placed in circulation in the economy. The balance of Australian banknotes on issue represents the value of all bank notes on issue in Australia and the liability is measured at the face value of all Australian bank notes issued less any bank notes cancelled.	**How the audit addressed the matter** To audit the Australian banknotes on issue, I performed the following audit procedures: • Tested general IT controls and those controls relevant to the accurate recording of the issuance and return of bank notes within the system responsible for recording the balance of Australian banknotes on issue. • Assessed the movement in Australian banknotes on issue against known comparative trends. Demand for bank notes is driven by underlying economic activity. I therefore compared movements in Australian banknotes on issue against underlying economic activity, in particular household final consumption expenditure (HFCE). HFCE is produced by the Australian Bureau of Statistics and measures household expenditure. • I performed a comparison of current year movements against prior year patterns. I also performed a trend analysis on Australian banknotes on issue against prior periods focussing on the number of notes issued by denomination.

Key audit matter	

Valuation of Australian dollar and foreign currency investments
Refer to Note 1 (b) Financial instruments, Note 15 Financial Instruments and Risk and Note 16 Fair Value.
Valuation of Australian dollar and foreign currency investments was a key audit matter due to the significant size relative to the Reserve Bank of Australia's Statement of Financial Position ($188,346m) and the complexity inherent in valuing a range of investments using different methodologies.
The portfolio of investments primarily comprises Australian dollar securities, foreign currency securities, repurchase agreements, deposits with other central banks, and foreign currency swap contracts. All investments are held at fair value except for repurchase agreements which are held at amortised cost.
	How the audit addressed the matter
	To audit the valuation of Australian dollar and foreign currency investments, I performed the following audit procedures:
	• Tested general IT controls on the Reserve Bank of Australia's investment trading system.
	• Tested controls relevant to the accurate recording of the purchase and sale of investments.
	• Tested controls relevant to the ongoing monitoring of the collateralisation of repurchase agreements.
	• Tested year-end valuations of Australian dollar and foreign currency securities using the following procedures to address the different valuation methodologies:
	  ◦ Agreed year-end valuations of Australian dollar and foreign currency securities to independent pricing sources.
	  ◦ Tested the year-end valuations for all foreign currency swaps using independent observable pricing inputs.
	  ◦ Tested that repurchase agreements were appropriately collateralised in line with the Reserve Bank of Australia's policy. As part of this, for a sample of securities held as collateral I agreed the valuations to independent pricing sources.
	  ◦ Obtained independent confirmation from other central banks regarding value of deposits held.

Other Information

The Accountable Authority is responsible for the other information. The other information obtained at the date of this auditor's report is the Annual Performance Statement for 2016/17 and the Capital Framework for the year ended 30 June 2017 but does not include the financial statements and my auditor's report thereon.

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

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

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

Accountable Authority's Responsibility for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the consolidated entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;

- conclude on the appropriateness of the Accountable Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the consolidated entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the consolidated entity to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the consolidated entity to express an opinion on the financial report. I am responsible for the direction, supervision and performance of the consolidated entity audit. I remain solely responsible for my audit opinion.

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

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

Australian National Audit Office

Grant Hehir

Auditor-General

Canberra

16 August 2017