The Bank's Earnings

Earnings available for distribution to the Government come from two principal sources – underlying earnings, and the gains or losses which come from realised valuation changes in the Bank's portfolio. Taken together, these two components are available to vary reserve holdings and for distribution to the Government. This procedure – whereby only *realised* profits are available for distribution – is in accordance with the *Reserve Bank Act* and widely accepted central bank practices.

Underlying earnings are dominated by net interest income on the Reserve Bank's portfolio. The Bank does not pay interest on around three-quarters of its liabilities. The largest such liability is the note issue, but others include capital, reserves and, until recently, non-callable deposits. On the assets side, interest income is received from government securities, both domestic and foreign. The Bank also receives some non-interest income (e.g. banking service fees, numismatic and other note sales) and must meet its expenses. Underlying earnings, the net outcome of these influences, tend to be relatively steady from year to year, varying slightly with interest rates and the size of the balance sheet. It is worth noting, however, that the abolition of non-callable deposits from 1 July 1999 will mean that the Bank's underlying earnings will be around $250 million lower in 1999/2000 and thereafter.

Sources of earnings available for distribution

($ million)

	Underlying earnings	Realised gains and losses	Earnings available for distribution
1989/90	1 248	-153 *	1 095
1990/91	1 322	391	1 713
1991/92	1 516	1 038	2 554
1992/93	1 760	2 803	4 563
1993/94	1 556	-48 *	1 508
1994/95	1 649	123	1 772
1995/96	1 784	702 *	2 486
1996/97	1 715	1 990	3 705
1997/98	1 750	1 524	3 274
1998/99	1 816	1 860 *	3 676

* Includes unrealised losses in excess of previous years' unrealised gains held in reserves.

In 1998/99, underlying earnings were $1 816 million, up from $1 750 million in the previous year. Major factors which have enhanced underlying earnings are increased income from growth in the domestic portfolio; a reduction in the interest cost of deposit liabilities; write-down of notes on issue; and a lower level of staff costs and other expenses. The main offsetting factor was lower returns on foreign currency assets because of lower average interest rates.

Realised gains arise when domestic or foreign securities are sold for more than their original purchase price. Sales of foreign currency made in the course of changing the composition of the Bank's foreign currency portfolio and the roll-over of foreign exchange swaps resulted in realised valuation gains during the year. Some of these swaps had been entered into at the time of the intervention in the foreign exchange market during the middle of last calendar year. In 1998/99, realised gains were $2.3 billion, the highest since 1992/93. It is also in accordance with central bank practices that unrealised *losses* through marking to market of the Bank's portfolio reduce the amount available for distribution, except to the extent that there are reserves which were built up from earlier unrealised gains, which can be used to offset these unrealised losses. Unrealised losses on marking to market in the current year were around $1.7 billion. After allowing for balances in the unrealised profits reserve available as a partial offset, unrealised losses reduced earnings available for distribution by $424 million in 1998/99.

Realised gains on gold sales boosted earnings in 1996/97 (by $1 637 million), and in 1997/98 ($548 million) when some gold sold earlier was delivered and the proceeds received. Such sales were not, of course, a factor in 1998/99.

Reserve Bank payments to Government

($ million)

	Earnings available for distribution	Transfers to reserves	Balance available for Commonwealth	Final payment from previous year	Interim payment from current year	Total payment
1989/90	1 095	520	575	140	300	440
1990/91	1 713	210	1 503	275	400	675
1991/92	2 554	200	2 354	1 103	400	1 503
1992/93	4 563	750	3 813	1 954	600	2 554
1993/94	1 508	–	1 508	3 213	–	3 213
1994/95	1 772	–	1 772	1 508	200	1 708
1995/96	2 486	150	2 336	1 572	200	1 772
1996/97	3 705	2 005	1 700	2 136	–	2 136
1997/98	3 274	548	2 726	1 700	–	1 700
1998/99	3 676	–	3 676	2 726	–	2 726
1999/2000*	–	–	–	3 000	–	3 000

* A second tranche of $676 million will be paid in 2000/01

The Reserve Bank's earnings available for distribution are paid to the Commonwealth Government, after any transfers to the two reserve funds the Bank maintains to deal with contingencies. Reserves had been increased over the previous two years when, with the approval of the Treasurer, the proceeds of gold sales totalling \$2 185 million were transferred to them. In view of this, no additions were made to these reserve funds from 1998/99 earnings and the full amount of \$3 676 million was available for payment to the Government. This will be paid in two tranches: the first, of \$3 000 million, will be paid in August 1999; and the balance of \$676 million will be paid in July 2000.

Following changes introduced in 1998 and explained in last year's Annual Report, the Bank's accounting profit is calculated according to general accounting principles, in which all valuation changes resulting from marking to market the Bank's portfolio during the year – whether realised or unrealised – are brought into the profit and loss account. The appreciation of the Australian dollar over the course of the year meant that the Bank's foreign exchange holdings are worth less in Australian dollars, while higher interest rates were associated with a fall in the value of its government security portfolio. These valuation changes were partially offset by gains realised during the year of around \$1.2 billion which arose mainly from foreign exchange swap transactions; after allowing for these, there was a net \$490 million loss on investments. This, combined with the underlying profit of \$1 816 million, resulted in an accounting profit of \$1 326 million.

The Reserve Bank's 1998/99 Financial Statements are presented in the following pages.

Balance Sheet as at 30 June 1999

Reserve Bank of Australia and controlled entities

	Note	1999 $M	1998 $M
ASSETS			
Cash and liquid assets	5, 19	587	369
Domestic government securities	1(d), 18	21 633	21 012
Foreign exchange	1(c), 18	25 370	24 198
Gold	1(b), 18	1 013	1 237
Loans, advances and bills discounted		76	95
Other assets	6	129	125
Property, plant and equipment	7	265	274
Total		49 073	47 310
LIABILITIES			
Due to other financial institutions	8	–	5
Deposits	9	10 383	11 073
Profit distribution payable to Commonwealth		3 676	2 726
Other liabilities	10	4 225	2 027
Australian notes on issue	1(i)	23 552	21 651
Capital and Reserves			
Reserves:			
Unrealised Profits Reserve	4	–	2 349
Asset revaluation reserves	4	1 045	1 287
Reserve for Contingencies and General Purposes	4	3 323	3 323
Reserve Bank Reserve Fund	4	2 829	2 829
Capital		40	40
Capital and reserves		7 237	9 828
Total		49 073	47 310

Profit and Loss Appropriation Statement for year ended 30 June 1999

Reserve Bank of Australia and controlled entities

	Note	1999 $M	1998 $M
Net Profit	2	1 326	4 403
Net transfers from/(to)			
Unrealised Profits Reserve	4	2 349	(1 687)
Transfer from asset revaluation reserves	4	1	558
Earnings available for distribution		3 676	3 274
Earnings applied:			
Reserve Bank Reserve Fund	4	–	548
Reserve for Contingencies and General Purposes	4	–	–
Commonwealth of Australia		3 676	2 726
Total		3 676	3 274

Notes To and Forming Part of the Financial Statements – 30 June 1999

Reserve Bank of Australia and controlled entities

Note 1 Summary of accounting policies

The financial statements have been prepared in accordance with the Reserve Bank Act and the Commonwealth Authorities and Companies Act.

The form and content of the financial statements have been amended to incorporate the requirements of Order Number 5 of the Commonwealth Authorities and Companies Orders 1998. Clause 3 (4) of Schedule 2 of this Order provides:

> "The Reserve Bank of Australia must comply with Australian Accounting Standards (including AAS32, entitled Specific Disclosures by Financial Institutions) and Urgent Issues Group Consensus Views. In the event of a conflict between the requirements of the standards and the requirements of this Schedule, the Bank must comply with the requirements of the standards."

The Bank has been granted certain exemptions from the requirements of the Orders as detailed in Note 1 (k). These exemptions relate to matters of disclosure and presentation which are of a minor nature and are adequately dealt with in these financial statements.

The statements are a general purpose financial report prepared in accordance with Australian Accounting Standards. Unless otherwise stated, the accounting policies and practices followed in these statements are consistent with those followed in the previous year.

All amounts are expressed in Australian dollars unless another currency is indicated. Current market values are used for the Bank's major assets, including domestic and foreign marketable securities, gold and foreign currency, as well as for premises and shares in international financial institutions. In other cases, an historical cost basis of accounting is used. Revenue and expenses are brought to account on an accrual basis.

(a) Consolidation and associated company 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. The results of the parent entity do not differ materially from the economic entity and have therefore not been separately disclosed other than in Note 15, Related party and other disclosures.

Note Printing Australia Limited was incorporated as a wholly owned subsidiary of the Bank on 1 July 1998, with an initial capital of $20 000 000.

The assets, liabilities, profit and loss account of Note Printing Australia Limited have been consolidated with the parent entity accounts in accordance with AAS24 "Consolidated Financial Reports". All internal transactions and balances have been eliminated on consolidation. Note Printing Australia Limited is subject to income tax; its income tax expense is included in Other Expenses in Note 2.

The Bank accounts for Securency Pty Ltd in accordance with AAS14 "Accounting for Investments in Associated Companies". The carrying amount of the Bank's investment in Securency Pty Ltd is reviewed annually to ensure it is not in excess of its recoverable amount. The Bank's investment in Securency Pty Ltd is included in Note 6.

Note 1 *(continued)*

(b) Gold Gold holdings (including gold on loan to other institutions) are valued at the Australian dollar equivalent of the 3pm fix in the London gold market on the last business day of June. The Bank loans gold to financial institutions participating in the gold market. All gold loans are secured to 110% of their market value by Australian denominated collateral security. Loans are usually for periods between 3 and 12 months, with very few extending beyond 12 months. Interest on gold loans is accounted for on a standard accrual basis.

(c) Foreign exchange Foreign exchange holdings are invested mainly in securities (issued by the governments of the United States, Japan and Germany) and bank deposits (with major OECD foreign commercial banks and central banks). The Bank engages in interest rate futures and foreign currency swaps, and has purchased call options.

Assets and liabilities denominated in foreign currency, other than those subject to swap contracts, are converted to Australian dollar equivalents at exchange rates ruling on the last business day of June. Realised and unrealised gains or losses on foreign currency are immediately taken to profit and loss.

Foreign government securities
Foreign government securities comprise coupon and discount securities and repurchase agreements. Coupon securities have bi-annual or annual interest payments depending on the currency and type of security. Interest earned on discount securities is the difference between the actual purchase cost and the face value of the security. The face value is received at maturity. Interest earned on securities is accrued over the term of the security.

Marketable securities, other than those contracted for sale under repurchase agreements, are reported at market values on the last business day of June; realised and unrealised gains and losses arising from changes in market valuations during the year are taken to the profit and loss account. Earnings on foreign currency investments are converted to Australian dollars using the exchange rate of the date they are received.

Foreign currency swaps
The Bank uses foreign currency swaps to assist daily domestic liquidity management or to smooth the impact of other foreign currency transactions on Official Reserve Assets. A 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 set period, and lending another currency for the same period. The pricing of the swap must therefore reflect the interest rates applicable to these money market transactions. Interest rates are implicit in the swap contract but interest itself is not paid or received.

Foreign exchange holdings contracted for sale beyond 30 June 1999 (including those under swap contracts) have been valued at contract exchange rates.

Interest rate futures
The Bank uses interest rate futures contracts on overseas exchanges to hedge 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, foreign currency swaps and call options purchased are off-balance sheet items. The Bank did not trade in any other derivative instruments during 1998/99.

Note 1 *(continued)*

(d) Domestic government securities The Bank holds Commonwealth Government Bonds, Treasury Notes, Capital Indexed Bonds, and Treasury Adjustable Bonds. It also holds Australian dollar-denominated securities issued by the central borrowing authorities of State and Territory Governments where these are acquired under repurchase agreements. Realised and unrealised gains or losses on domestic government securities are immediately taken to profit and loss.

Commonwealth Government Bonds are coupon securities; the interest is payable bi-annually at the coupon rate. Commonwealth Treasury Notes are discount securities; the interest earned is the difference between the purchase price and the face value on redemption. Capital 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. Treasury Adjustable Bonds are securities whose coupon rate is periodically reset by reference to movements in the Australian Bank Bill Swap Reference Rate; interest is payable each quarter.

Securities are valued at market prices on the last business day of June except when contracted for sale under repurchase agreements.

(e) Repurchase agreements In the course of its financial market operations, the Bank engages in repurchase agreements involving foreign and domestic marketable securities.

Securities sold but contracted for purchase under repurchase agreements are reported on the balance sheet within the relevant investment portfolio and are valued at market prices; the counterpart obligation to repurchase is included in "Other liabilities". The difference between the sale and repurchase price was previously recognised in the profit and loss account as an offset to interest income over the term of the agreement. The difference between the sale and repurchase price has been reclassified as interest expense in the profit and loss account. Comparative figures have been adjusted.

Securities held but contracted for sale under repurchase agreements are reported within the relevant investment portfolio at contract amount. The difference between the purchase and sale price is recognised as interest income over the term of the agreement.

(f) Property, plant and equipment A formal valuation of the Bank's properties is conducted on a triennial basis. The most recent valuation was at 30 June 1998, when Australian properties were valued by officers of the Australian Valuation Office and overseas properties were valued by local independent valuers. The valuations have been incorporated in the accounts.

Annual depreciation is based on market values and assessments of useful remaining life.

Plant and equipment are recorded at cost less depreciation, which is calculated at rates appropriate to the estimated useful life of the relevant assets. Depreciation rates are reviewed annually, and adjusted where necessary to reflect the most recent assessments of the useful life of assets.

In the opinion of the Board, values of plant and equipment in the financial statements do not exceed recoverable values.

Details of annual net expenditure, revaluation adjustments and depreciation of these assets are included in Note 7.

Note 1 *(continued)*

(g) Reserves Reserves are maintained to cover the broad range of risks to which the Bank is exposed. The Reserve Bank Reserve Fund is a general reserve which provides for potential losses arising from fraud and other non-insured losses. The Treasurer determines each year, after consultation with the Board, the amount to be credited to the Reserve Fund.

The Reserve for Contingencies and General Purposes provides cover against risks relating to events which are contingent and non-foreseeable. The major risks in the category arise from movements in market values of the Bank's holding of domestic and foreign securities. Amounts set aside for this Reserve are determined by the Treasurer after consultation with the Board.

Asset revaluation reserves reflect the impact of changes in the market values of a number of the Bank's assets (gold, premises, and shares in international financial institutions).

Unrealised gains on foreign exchange and domestic government securities are recognised in the profit and loss account. Until such gains are realised, they are not available for distribution to the Commonwealth of Australia; in the interim the amounts are retained in the Unrealised Profits Reserve.

(h) Provisions The Bank maintains provisions for accrued annual leave, calculated on salaries prevailing at balance date and including associated payroll tax. The Bank 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 in accordance with AAS 30. In addition, the Bank makes provision for future workers' compensation claims in respect of incidents which have occurred before balance date, based on an independent actuarial assessment.

(i) Australian notes on issue The Bank assesses regularly the value of notes still outstanding at least five years after the note issue ceased which are judged to have been destroyed and therefore unavailable for presentation. $19 million was written off Australian notes on issue in 1998/99; no amounts were written off in 1997/98.

(j) Rounding Amounts in the financial statements are rounded off to the nearest million dollars unless otherwise stated.

(k) Exemptions The Bank has been granted exemptions from the following requirements of Order Number 5 of the Commonwealth Authorities and Companies Orders:

Clause	Description	Detail of exemption
5 (1)	Rounding	Amounts are rounded to the nearest million dollars in these financial statements rather than to the nearest hundred thousand dollars in view of the size of the Bank's balance sheet.
9 (1) (c)	Standard forms to be used	The cash flow statement is provided in Note 19.
10	Items of revenue and expense	Details of revenues and expenses are disclosed in Note 2.
18	Analysis of property, plant and equipment	Information is included in Note 7 of these financial statements. These disclosures are more relevant than the dissections required by Clause 18 of the Orders.

	Note	1999 $M	1998 $M
Note 2 Net profits			
Interest revenue			
Overseas investments	1 (c)	963	1 121
Domestic government securities	1 (d)	1 199	1 106
Loans and advances		5	4
Overnight settlement systems		19	9
Gold loans		18	21
		2 204	2 261
Net gains/(losses) on securities			
Overseas investments		(106)	105
Domestic government securities		(276)	64
Foreign currency	1 (c)	(108)	2 484
		(490)	2 653
Dividend revenue			
Earnings on shares in Bank for International Settlements	6	3	3
Fees and commissions			
Banking services fees received		21	22
Other revenue			
Reimbursement by Commonwealth for loan management and registry expenses		2	2
Rental of Bank premises		7	7
Sales of numismatic and other note products		14	21
Gain on sale of plant and equipment		1	1
Australian notes on issue write-off	1 (i)	19	–
Other		13	21
		56	52
Total		1 794	4 991
Less:			
Interest expense			
Deposit liabilities		181	248
Repurchase agreements	1 (e)	116	124
		297	372
General administrative expenses			
Staff costs		87	102
Special redundancy/retirement payments	12	18	30
Depreciation of property	7	7	7
Depreciation of plant and equipment	7	7	7
Premises and equipment		24	25

	Note	1999 $M	1998 $M
Note 2 *(continued)*			
Materials used in note production		10	13
Travel		2	2
Consultants' fees	14	1	2
Other		5	5
		161	193
Other expenses			
Maintenance of Value payment to International Monetary Fund		–	15
Agency business reimbursement		1	1
Other		9	7
		10	23
Total		468	588
Net Profit		1 326	4 403

Note 3 Interest revenue and interest expense
Analysis for the year ended 30 June 1999

	Average Balance $M	Interest $M	Average Interest Rate %
Interest revenue			
Overseas investments	23 766	963	4.1
Domestic government securities	20 490	1 199	5.9
Loans and advances	161	5	3.1
Overnight settlements	389	19	5.0
Gold loans	1 169	18	1.5
	45 975	2 204	4.8
Interest expense			
Exchange settlement accounts	1 338	62	4.6
Non-callable deposits	4 975	–	0.0
Deposits from governments	2 386	113	4.7
Deposits from overseas institutions	81	2	2.2
Overseas repurchase agreements	1 824	77	4.2
Domestic repurchase agreements	864	39	4.5
Other deposits	149	4	3.0
	11 617	297	2.6

	1999 $M	1998 $M
Note 4 Reserves		
Changes in the Bank's various Reserves are shown below.		
Unrealised Profits Reserve (Note 1 (g))		
Opening balance	2 349	662
Net transfers from (to) Profit and Loss Appropriation	(2 349)	1 687
As at 30 June	–	2 349
Asset revaluation reserves (Note 1 (g))		
Gold		
Opening balance	1 130	1 589
Net revaluation adjustments	(227)	89
Transfers to Profit and Loss Appropriation – realised (gains)/losses	–	(548)
As at 30 June	903	1 130
Shares in international financial institutions (Note 6)		
Opening balance	77	68
Net revaluation adjustments	(14)	9
As at 30 June	63	77
Bank properties (Note 1(f), 7)		
Opening balance	80	71
Net revaluation adjustments	–	19
Transfers to Profit and Loss Appropriation – realised (gains)/losses	(1)	(10)
As at 30 June	79	80
Total asset revaluation reserves		
Opening balance	1 287	1 728
Net revaluation adjustments	(241)	117
Transfers to Profit and Loss Appropriation – realised (gains)/losses	(1)	(558)
As at 30 June	1 045	1 287

	1999 $M	1998 $M
Note 4 *(continued)*		
Reserve for Contingencies and General Purposes (Note 1 (g))		
Opening and closing balance	3 323	3 323
Reserve Bank Reserve Fund (Note 1 (g))		
Opening balance	2 829	2 281
Appropriation from profits in terms of section 30 of the Reserve Bank Act	–	548
As at 30 June	2 829	2 829

Note 5 Cash and liquid assets

This includes net amounts of $478 million owed to the Bank for overnight clearances of financial transactions through the clearing houses, Austraclear and Reserve Bank Information and Transfer System (RITS); an amount of $284 million was owed to the Bank at 30 June 1998.

	1999 $M	1998 $M
Note 6 Other assets		
Shareholding in Bank for International Settlements	65	80
Gold coin	13	16
Investment in Securency	11	1
Other	40	28
As at 30 June	129	125

The Reserve Bank of Australia has a 50 per cent share in Securency Pty Ltd, which is incorporated in Victoria Australia, and whose principal activity is the marketing and manufacture of polymer substrate. The capital of Securency increased during 1998/99 from $1 500 001 to $21 530 001; the Bank increased the amount of its investment in Securency from $750 000 to $10 765 000. Securency Pty Ltd has a 31 December balance date.

	1999 $M	1998 $M
Note 7 Property, plant and equipment (Note 1(f))		
Properties		
Opening balance	244	239
Disposals	(2)	(7)
	242	232
Depreciation prior to revaluation	(7)	(7)
Book valuation prior to revaluation	235	225
Net revaluation adjustments (Note 4)	–	19
As at 30 June	235	244
The triennial revaluation of Bank properties occurred at 30 June 1998.		
Plant and equipment		
Opening balance	103	98
Additions less disposals	(10)	5
	93	103
Accumulated depreciation	(63)	(73)
As at 30 June	30	30
Total property, plant and equipment	265	274
Note 8 Due to other financial institutions		
Remittances in transit	–	5
	–	5
Note 9 Deposits		
Banks		
Exchange Settlement accounts	1 909	5 019
Non-callable deposits	5 255	4 682
Government & government instrumentalities		
Commonwealth	2 511	756
State	388	365
Foreign governments, foreign institutions and international organisations	61	68
Other depositors	259	183
As at 30 June	10 383	11 073

	1999 $M	1998 $M
Note 10 Other liabilities		
Provisions (Note 1(h))		
Salaries and wages accrued	2	2
Provision for accrued annual leave	7	7
Provision for long service leave	18	22
Provision for post-employment benefits	50	46
Provision for workers' compensation	1	1
As at 30 June	78	78
Other		
Amounts outstanding under repurchase agreements (contract price) (Note 1 (e))	4 104	1 887
Interest accrued on deposits	18	28
Other	25	34
As at 30 June	4 147	1 949
Total other liabilities	4 225	2 027

Note 11 Contingent liabilities and other items not included in the balance sheet

Contingencies

The Bank has a contingent liability, amounting to $55.4 million at 30 June 1999 ($67.6 million at 30 June 1998), in respect of the uncalled portion of its shares held in the Bank for International Settlements.

In the course of providing banking services to its customers, the Bank 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.

Other items

The Reserve Bank had been a respondent on appeal from a judgement given in the Bank's favour by the Federal Court; in the appeal the Full Court of the Federal Court found in favour of the applicants; the Bank has lodged an application with the High Court of Australia seeking leave to appeal from the decision of the Full Court of the Federal Court. The Bank is a defendant in one common law matter. The Bank is an appellant in a case regarding a payroll tax assessment. No case is likely to have a materially adverse effect on the activities, financial condition or operating results of the Bank.

The Bank has commitments of $2.9 million at 30 June 1999 payable within one year.

The Bank carries its own insurance risks except where administrative costs are estimated to be excessive.

Note 12 Special redundancy/retirement payments

The Bank's expenses in 1998/99 include $18.4 million paid or payable to, or on behalf of, staff who accepted special redundancy/retirement offers. Corresponding payments in 1997/98 totalled $29.7 million. Staff leaving the Bank in 1998/99 under these arrangements numbered 155 (249 in 1997/98).

Note 13 Remuneration of executives

The number of executives whose remuneration packages, measured in terms of costs to the Bank, fell within the following bands was:

Remuneration band	Number 1999	Number 1998
$100 000 – $109 999		2
$110 000 – $119 999	1	
$120 000 – $129 999	2	2
$130 000 – $139 999	6	8
$140 000 – $149 999	3	3
$150 000 – $159 999	4	4
$160 000 – $169 999		1
$170 000 – $179 999		2
$180 000 – $189 999	1	2
$190 000 – $199 999	2	4
$200 000 – $209 999	5	
$220 000 – $229 999		2
$230 000 – $239 999	1	2
$240 000 – $249 999	3	1
$250 000 – $259 999	1	

Total remuneration received or due and receivable by these executives amounted to $5.026 million ($5.422 million in 1997/98). Remuneration includes cash salary, the Bank's contribution to superannuation, housing assistance, motor vehicles and health insurance and the fringe benefits tax paid or payable on these benefits. Remuneration excludes amounts paid to executives posted outside Australia for the whole or part of the financial year. Remuneration excludes amounts paid to executives who are also members of the Bank Board (refer Note 15).

On 1 July 1998, 5 executives, who were included in the 1997/98 column, were transferred to the newly established Australian Prudential Regulation Authority and no remuneration or termination payments were payable by the Bank to these executives in 1998/99 ($0.722 million paid in 1997/98) and beyond.

During 1998/99 5 executives resigned or retired and received termination payments totalling $0.941 million ($0.055 million paid in 1998 for 2 executives) which are not reflected in the above table.

Note 14 Remuneration of auditor

Fees paid or payable to the statutory auditor (Auditor-General of the Commonwealth of Australia) for audit services totalled $160 000 in 1998/99 ($307 000 in 1997/98). They are included in “Consultants’ fees” in Note 2, which also covers legal fees and payments made to specialists for “review and advice” services.

Note 15 Related party and other disclosures

The Remuneration Tribunal determines the remuneration appropriate to the Bank’s non-executive Board members. In 1998/99, payments to executive and non-executive board members totalled $979 786 ($1 260 452 in 1997/98).

The number of directors whose remuneration packages, measured in terms of costs to the Bank, fell within the following bands was:

Remuneration band	Number 1999	Number 1998
$0 – $9 999		2
$20 000 – $29 999		4
$30 000 – $39 999	5	1
$50 000 – $59 999	1	1
$280 000 – $289 999		1
$300 000 – $309 999	1	
$330 000 – $339 999		1
$430 000 – $439 999		1
$450 000 – $459 999	1	

The Bank is not empowered to lend to non-executive members of the Board. Loans to the Governor and Deputy Governor are permitted only in terms of section 71 of the Reserve Bank Act; at 30 June 1999, there was one such loan of $77 007 (three loans aggregating to $378 260 at 30 June 1998) which had been made for a home in which the officer resides, and is on the same terms and conditions as for other officers of the Bank.

There were no other related-party transactions with Board members; transactions with director-related entities which occurred in the normal course of the Bank’s operations were conducted on terms no more favourable than similar transactions with other employees or customers.

In addition, $41 408 was paid for the services of non-executive members of the Board of Note Printing Australia Limited who are not employees of the Bank or members of the Bank Board. The Bank also paid $94 504 for the services of members of the Payments System Board who are not employees of the Bank.

Note 16 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 are held by the Bank as nominee for the trustees of the OSF; such assets are not included in these statements. Payment of the funds' current and future benefits is funded by member and Bank contributions and the funds' existing asset bases. The Bank's contributions to the OSF in accordance with the Reserve Bank (Officers' Superannuation) Rules, and to the UK Pension Scheme in accordance with the UK Trust Deed, are included in staff costs in Note 2. Administration and other operational costs (eg salaries, overheads, legal costs and valuation fees) incurred by the Bank for superannuation arrangements are also included in Note 2. There were no other related-party transactions between the Bank and the funds during 1998/99.

At 30 June 1999, the OSF had a surplus of assets over accrued benefits of $185 million ($158 million at 30 June 1998). The UK Pension Scheme had a surplus equivalent to $5 million ($7 million at 30 June 1998). During 1998/99, the Bank made superannuation contributions of $3.0 million ($3.3 million in 1997/98).

Details of the Funds as at 30 June 1999 are as follows:

	1999 $M	**1998 $M**
Reserve Bank Officers' Superannuation Fund		
Accrued benefits	398	411
Net market value of assets	583	569
Surplus	185	158
Vested benefits	396	414
Reserve Bank of Australia UK Pension Scheme		
Accrued benefits	19	18
Net market value of assets	24	25
Surplus	5	7
Vested benefits	19	21
Total Superannuation Funds		
Accrued benefits	417	429
Net market value of assets	607	594
Surplus	190	165
Vested benefits	415	435

Accrued benefits refer to the present value of future benefits payable to current fund members, taking into account assumed future salary increases. Vested benefits are the benefits payable if all current members were to terminate their fund membership at balance date.

Note 17 Segment reporting

The Bank operates as a central bank, predominantly in one geographical area.

Note 18 Financial instruments

Australian Accounting Standard AAS 33 – Presentation & Disclosure of Financial Instruments – requires disclosure of information relating to: both recognised and unrecognised financial instruments; their significance and performance; accounting policy terms & conditions; net fair values; and risk information.

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 identifiable financial instruments for the Bank are its domestic government securities, its foreign government securities, bank deposits, interest rate futures, foreign currency swap contracts, gold loans, notes on issue and deposit liabilities.

Net 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 net of transaction costs. All of the Bank's recognised financial instruments are carried at current market value which approximates net fair value.

Financial risk of financial instruments embodies price risk (currency risk and interest rate risk); credit risk; liquidity risk; and cash flow risk. AAS 33 requires disclosure on interest rate risk and credit risk.

The interest rate risk and credit risk tables are based on the Bank's settled portfolio as reported in the Bank's balance sheet.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The following table shows the Bank's balance sheet restated in compliance with AAS 33.

Note 18 *(continued)*

Interest rate risk

As at 30 June 1999

	Balance sheet total $M	Floating interest rate $M	Repricing period $M 0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Not bearing interest $M	Weighted average rate %
Assets								
Gold								
Gold loans	1 008	–	380	539	89	–	–	1.8
Gold holdings	5	–	–	–	–	–	5	n/a
Sub-total	**1 013**							
Foreign exchange								
Securities sold under repurchase agreements	3 396	–	–	189	1 776	1 431	–	4.0
Securities purchased under repurchase agreements	7 384	–	7 384	–	–	–	–	4.4
Deposits and other securities	14 450	137	7 816	1 782	2 011	2 170	534	2.6
Accrued interest foreign exchange	140	–	–	–	–	–	140	n/a
Sub-total	**25 370**							
Domestic government securities								
Securities sold under repurchase agreements	662	–	–	81	459	122	–	5.1
Securities purchased under repurchase agreements	11 656	–	10 155	1 501	–	–	–	4.7
Other securities	9 091	–	3 424	1 818	2 296	1 553	–	5.0
Accrued interest domestic government securities	224	–	–	–	–	–	224	n/a
Sub-total	**21 633**							
Loans, advances and bills discounted	76	57	–	–	–	–	19	3.3
Property, plant & equipment	265	–	–	–	–	–	265	n/a
Cash and liquid assets	587	–	–	–	–	–	587	n/a
Other assets	129	–	–	–	–	–	129	n/a
Total assets	**49 073**	194	29 159	5 910	6 631	5 276	1 903	3.8
Liabilities								
Australian notes on issue	23 552	–	–	–	–	–	23 552	n/a
Deposits	10 383	10 193	–	–	–	–	190	2.2
Profit distribution	3 676	–	–	–	–	–	3 676	n/a
Other	4 225	–	4 104	–	–	–	121	4.0
Total liabilities	**41 836**	10 193	4 104	–	–	–	27 539	0.9
Capital and reserves	7 237	–	–	–	–	–	–	n/a
Total balance sheet	**49 073**							
Off balance sheet items								
Interest rate futures*	(26)	–	(7)	–	(1)	(18)	–	n/a

Note 18 *(continued)*

Interest rate risk

As at 30 June 1998

	Balance sheet total $M	Floating interest rate $M	Repricing period $M 0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Not bearing interest $M	Weighted average rate %
Total assets	47 310	78	28 120	6 644	5 874	5 105	1 489	4.6
Total liabilities	37 481	11 073	1 887	–	–	–	24 521	1.0
Capital and reserves	9 829	–	–	–	–	–	–	n/a
Total balance sheet	47 310							
Off balance sheet items	(1 864)	–	(877)	–	–	(987)	–	n/a

Other liabilities includes amounts outstanding under sale repurchase agreements.

All recognised financial instruments are shown at net fair value.

Off balance sheet items are shown at nominal market value (difference from net fair value is negligible).

All Financial Instruments are shown at their repricing period.

Repricing period is equivalent to maturity period except for some holdings of domestic government securities (which appear in the 0 to 3 months category):

Approximately $1.8 billion has a maturity period of 1-5 years

* Interest rate futures reflect short positions in interest rate contracts traded in foreign futures exchanges to manage interest rate risk on Official Reserve Assets.

Credit risk

Credit risk in relation to a financial instrument is the risk that a third party (customer, bank or other counterparty) will not meet its obligations (or be permitted to meet them) in accordance with agreed terms.

The Bank's maximum exposure to credit risk in relation to each class of recognised financial assets, other than derivatives (off balance sheet items) is the carrying amount of those assets as indicated in the balance sheet. The Bank's exposures are all to highly rated counterparties and its credit risk is very low.

As part of an IMF support package during 1997/98 and 1998/99 the Bank undertook a series of foreign currency swaps with the Bank of Thailand. The Bank provided United States dollars, receiving Thai Baht in exchange. The amount outstanding on the swaps at 30 June 1999 was the equivalent of $1.3 billion Australian dollars ($1.2 billion at 30 June 1998), on which the Bank is earning a yield of 4.82% (5.33% in 1998). The swaps represent 2.6% of the Bank's total Assets as at 30 June 1999 (2.5% at 30 June 1998).

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

1. ***Foreign exchange swaps*** – As at 30 June 1999 the Bank was under contract to purchase $10.7 billion of foreign currency and sell $22.9 billion of foreign currency. As of that date there was an unrealised net gain of $119.5 million on these swap positions. The credit risk exposure of these contracts is the cost of re-establishing the contract in the market in the event of the failure of the counterparty to fulfil their obligations.

2. ***Interest rate futures*** – As at 30 June 1999 about 0.14% of the Bank's foreign currency reserves (excluding gold) were hedged through interest rate futures contracts. The amount of credit risk on these contracts is approximately $0.1 million ($9.3 million at 30 June 1998). As at 30 June 1999 there was an unrealised gain on those contracts of $0.2 million ($1.4 million at 30 June 1998).

Note 18 *(continued)*

Concentration of credit risk

The Bank operates to minimise its credit risk exposure through comprehensive risk management policy guidelines. The following table indicates the concentration of credit risk in the Bank's investment portfolio. See Note 1(c) Foreign Exchange.

Credit risk table

Security type	Risk rating of security issuer*	Risk rating of counterparties*	% of total asset portfolio as at 30/6/99	% of total asset portfolio as at 30/6/98
Domestic government securities				
Holdings of Commonwealth Government securities	AAA	n/a	18.9	24.2
Securities sold under repurchase agreements	AAA	AAA	0.0	0.2
	AAA	AA	1.4	0.5
	AAA	other	0.0	0.3
Securities held under repurchase agreements	AAA	AAA	0.0	3.6
	AAA	AA	19.0	10.0
	AAA	other	1.5	2.7
	AA	AAA	0.0	0.1
	AA	AA	3.3	2.1
	AA	other	0.1	0.7
	other	other	0.0	0.2
Foreign investments				
Holdings of securities	AAA	n/a	21.4	18.1
Securities sold under repurchase agreements	AAA	AA	4.6	2.6
	AAA	other	2.3	0.5
Securities held under repurchase agreements	AAA	AA	11.2	13.4
	AAA	other	3.8	9.5
Deposits	n/a	AAA	1.4	0.6
	n/a	AA	4.0	4.2
	n/a	other	2.9	2.5
Gold loans	n/a	AAA	0.2	0.3
	n/a	AA	1.3	0.7
	n/a	other	0.6	1.4
Other			2.1	1.6
			100%	100%

* Standard & Poor's equivalent ratings

Note 19 Cash flow statement

The following cash flow statement appears as a matter of record to meet the requirements of AAS 28; in the Bank's view, it does not shed any additional light on the Bank's financial results. For the purpose of this statement, cash includes the notes and coin held at the Reserve Bank and overnight settlements system account balances with other banks.

Statement of Cash Flows for the financial year ended 30 June 1999

	1999 Inflow/(outflow) $M	1998 Inflow/(outflow) $M
Cash flow from operating activities		
Interest received on investments	2 040	2 449
Interest received on loans, advances, and on net overnight settlements systems	24	29
Loan management reimbursement	2	2
Banking service fees received	28	22
Rents received	7	7
Net payments for and proceeds from sale of investments	(91)	4 435
Interest paid on deposit liabilities	(190)	(276)
Staff costs (including redundancy)	(106)	(130)
IMF Maintenance of Value adjustment	(15)	20
Premises, equipment and stores	(24)	(26)
Other	20	30
Net cash provided by operating activities	1 695	6 562
Cash flows from investment activities		
Net expenditure on property, plant and equipment	11	(1)
Net cash used in investing activities	11	(1)
Cash flows from financing activities		
Profit payment to Commonwealth	(2 726)	(1 700)
Net movement in deposit liabilities	(689)	(8 209)
Net movement in loans and advances	38	11
Net movement in notes on issue	1 920	1 587
Proceeds from gold sales	–	608
Other	(31)	(159)
Net cash provided by financing activities	(1 488)	(7 862)
Net increase/(decrease) in cash	218	(1 301)
Cash at beginning of financial year	369	1 670
Cash at end of financial year	587	369

Note 19 *(continued)*

Reconciliation of cash	**30 June 1999 $M**	**30 June 1998 $M**
Cash	109	85
Overnight settlements system	478	284
	587	369

Reconciliation of net cash provided by operating activities to Net Profits	**1999 $M**	**1998 $M**
Net profit	1 326	4 403
Increase in interest payable	(10)	(28)
Increase in interest receivable	–	1
Net loss/(gain) on overseas investments	106	(105)
Net loss/(gain) on domestic government securities	276	(64)
Net loss/(gain) on foreign currency	108	(2 465)
Increase in income accrued on investments	(6)	347
Depreciation of property	7	7
Depreciation of plant and equipment	7	6
IMF Maintenance of Value adjustment (including accrual to end June)	(15)	34
Net payments for and proceeds from sale of domestic and foreign investments	(91)	4 435
Write-off of Australian notes	(19)	–
Other	6	(9)
Net cash provided by operating activities	1 695	6 562

Directors' Statement

In the opinion of the directors, the financial statements for the year ended 30 June 1999 give a true and fair view of the matters required by the Finance Minister's Orders, contained in Order number 5 of the Commonwealth Authorities and Companies Orders 1998.

IJ Macfarlane
Chairman, Reserve Bank Board
5 August 1999

Auditor-General for Australia

Australian National Audit Office

INDEPENDENT AUDIT REPORT

To the Treasurer

Scope

I have audited the financial statements of the Reserve Bank of Australia (the Bank) for the year ended 30 June 1999. The financial statements include the consolidated financial statements of the economic entity comprising the Bank and the entity it controlled at the year's end or from time to time during the year. The statements comprise

- Balance Sheet;
- Profit and Loss Appropriation Statement;
- Notes to and forming part of the financial statements; and
- Directors Statement.

The members of the Bank's Board are responsible for the preparation and presentation of the financial statements and the information they contain. I have conducted an independent audit of the financial statements in order to express an opinion on them to you, the Treasurer.

The audit has been conducted in accordance with Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards, to provide reasonable assurance as to whether the financial statements are free of material misstatement. Audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial statements are presented fairly in accordance with Australian Accounting Standards, other mandatory professional reporting requirements and statutory requirements so as to present a view which is consistent with my understanding of the Bank's and the economic entity's financial position, the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

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Audit Opinion

In my opinion,

(i) the financial statements have been prepared in accordance with Schedule 2 of the Finance Minister's Orders

(ii) the financial statements give a true and fair view, in accordance with applicable Accounting Standards, other mandatory professional reporting requirements and Schedule 2 of the Finance Minister's Orders, of the financial positions of the Bank and the economic entity as at 30 June 1999 and the results of their operations and their cash flows for the year then ended.

P. J. Barrett
Auditor-General

Sydney

5 August 1999