

FINANCIAL STATEMENTS

2001 As at 30 June 2001

STATEMENT OF FINANCIAL POSITION As at 30 June 2001

Reserve Bank of Australia and Controlled Entities

	Note	2001 \$M	2000 \$M
ASSETS			
Cash and liquid assets	5, 18	680	821
Australian dollar securities	1(d), 17	19 814	22 935
Foreign exchange	1(c), 17	35 786	30 228
Gold	1(b), 17	1 381	1 251
Property, plant and equipment	7	280	292
Loans, advances and other	6	172	167
Total Assets		58 113	55 694
LIABILITIES			
Deposits	8	16 864	15 486
Distribution payable to Commonwealth		2 834	1 479
Other liabilities	9	1 816	4 329
Australian notes on issue	1(j)	27 168	25 434
Total Liabilities		48 682	46 728
Net Assets		9 431	8 966
Capital and Reserves			
Reserves:			
Unrealised Profits Reserve	4	1 809	1 489
Asset revaluation reserves	4	1 430	1 285
Reserve for Contingencies and General Purposes	4	-	3 323
Reserve Bank Reserve Fund	4	6 152	2 829
Capital		40	40
Total Capital and Reserves		9 431	8 966

STATEMENT OF FINANCIAL PERFORMANCE For year ended 30 June 2001

Reserve Bank of Australia and Controlled Entities

	Note	2001 \$M	2000 \$M
REVENUES			
Interest revenue	2	2 685	2 296
Net gains/(losses) on securities	2	1 520	781
Dividend revenue	2	3	3
Fees and commissions	2	18	17
Other revenue	2	46	79
Total Revenue		4 272	3 176
EXPENSES			
Interest expense	2	955	670
General administrative expenses	2	147	184
Other expense	2	21	30
Total Expenses		1 123	884
Net Profit		3 149	2 292
Net revaluation adjustments in asset revaluation reserves	4	150	240
Net profit plus net revaluation adjustments in asset revaluation reserves	4	3 299	2 532

STATEMENT OF DISTRIBUTION For year ended 30 June 2001

Reserve Bank of Australia and Controlled Entities

	Note	2001 \$M	2000 \$M
Net Profit		3 149	2 292
Transfer to unrealised profits reserve	4	(320)	(1 489)
Transfer from asset revaluation reserves	4	5	-
Earnings available for distribution		2 834	803
Distributed as follows:			
Payable to the Commonwealth of Australia		2 834	803

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 30 June 2001

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 3 of the Commonwealth Authorities and Companies (Financial Statements 2000-2001) Orders. Policy 1.9 of Schedule 1 of this Order provides:-

“Commonwealth entities that are classified as financial institutions (for example Reserve Bank of Australia), must comply with Australian Accounting Standards (including AAS32, entitled Specific Disclosures by Financial Institutions). In the event of a conflict between the requirements of the standards and this Schedule, the Commonwealth entity classified as a financial institution must comply with the requirements of the standards.”

The Reserve Bank of Australia (RBA) has been granted certain exemptions from the requirements of the Orders as detailed in Note 1 (l). 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. Compliance with revised accounting standards has resulted in a small number of comparative amounts being represented and reclassified to ensure comparability with the current reporting period. 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 RBA's major assets, including domestic and foreign marketable securities, gold and foreign currency, as well as for premises. In other cases, an historical cost basis of accounting is used. Revenue and expenses are brought to account on an accrual basis. All revenues, expenses and profits are from ordinary activities of the RBA.

(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 14, Related party and other disclosures. Note Printing Australia Limited was incorporated as a wholly owned subsidiary of the RBA on 1 July 1998, with an initial capital of \$20 000 000.

The assets, liabilities and results 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 the statement of financial performance.

The RBA accounts for its investment in Securrency Pty Ltd in accordance with AAS14 “Accounting for Investments in Associates”. The carrying amount of the RBA’s investment in Securrency Pty Ltd is reviewed annually to ensure that it is not in excess of its recoverable amount. The RBA’s investment in Securrency Pty Ltd is included in Note 6.

(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 RBA loans gold to financial institutions participating in the gold market. Gold loans are secured to 110% of their market value by Australian dollar denominated collateral security. 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, central banks and international agencies). The RBA engages in interest rate futures and foreign currency swaps and has purchased call options.

Assets and liabilities denominated in foreign currency 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, but only realised gains are available for distribution.

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 profit. Earnings on foreign currency investments are converted to Australian dollars using the exchange rate of the date they are received.

Foreign currency swaps

The RBA 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 2001 (including those under swap contracts) have been valued at market exchange rates (refer Note 17).

Interest rate futures

The RBA uses interest rate futures contracts on overseas exchanges to hedge risks 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 and foreign currency swaps and call options are off-balance sheet items. The RBA did not trade in any other derivative instruments during 2000/01.

(d) Australian dollar securities The RBA holds Commonwealth Treasury Fixed Coupon Bonds, Treasury Notes and Treasury Capital Indexed Bonds. It also holds Australian dollar denominated securities, issued by the central borrowing authorities of State and Territory Governments and certain highly rated supranational organisations, where these are acquired under repurchase agreements. Realised and unrealised gains or losses on Australian dollar securities are immediately taken to profit, but only realised gains are available for distribution.

Commonwealth Treasury Fixed Coupon 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. Treasury 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.

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 RBA engages in repurchase agreements involving foreign and Australian dollar 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 purchase price is recognised as interest expense over the term of the agreement.

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 all RBA properties is conducted on a triennial basis. The most recent valuation was at 30 June 2001, 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.

Valuations on Australian properties are updated annually for developments in the property markets where the RBA's assets are held. 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.

(g) Reserves Reserves are maintained to cover the broad range of risks to which the RBA is exposed. In the past, the RBA maintained two major reserve funds: the Reserve Bank Reserve Fund (RBRF) provided for potential losses from fraud and other non-insured losses; and the Reserve for Contingencies and General Purposes (RCGP) which provided for events which were contingent and non-foreseeable, mainly those which arise from movements in market values of the RBA's holdings of Australian dollar and foreign securities. During 2000/01 the Board reviewed the structure and adequacy of the Bank's capital and reserves. The decision was made to transfer the funds in the RCGP to the RBRF, and to close the RCGP. On 30 June 2001, balances formerly held in the RCGP were transferred to the RBRF, and the RCGP was closed. The RBRF is now a general reserve providing for all risks previously covered by both the RBRF and RCGP. 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 RBA's assets (gold, premises, and shares in international financial institutions).

Unrealised gains on foreign exchange and Australian dollar securities are recognised in profit from ordinary activities. 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) Profits Profits of the Bank are dealt with in terms of Section 30 of the *Reserve Bank Act* as follows:

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

- (a) such amount as the Treasurer, after consultation with the Reserve Bank Board, determines to be set aside for contingencies; and
 - (b) such amount as the Treasurer, after consultation with the Reserve Bank Board, determines shall be placed to the credit of the Reserve Bank Reserve Fund; and
 - (c) the remainder shall be paid to the Commonwealth.
- (2) If the net profit of the Bank for a year is calculated on a basis that requires the inclusion of unrealised gains on assets during the year, the amount to which subsection (1) applies is to be worked out as follows:
- (a) deduct from the net profit an amount equal to the total of all amounts of unrealised gains included in the net profit; and
 - (b) if an asset in respect of which unrealised gains were included in the net profit for a previous year or years is realised during the year - add to the amount remaining after applying paragraph (a) the total amount of those unrealised gains.

(i) Provisions The RBA maintains provisions for accrued annual leave, calculated on salaries prevailing at balance date and including associated payroll tax. The RBA also maintains provisions for long service leave and post-employment benefits, in the form of health insurance and housing assistance, and associated fringe benefits tax; these provisions are made on a present value basis in accordance with AAS30. In addition, the RBA makes provision for future workers' compensation claims in respect of incidents which have occurred before balance date, based on an independent actuarial assessment.

(j) Australian notes on issue The RBA 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. No amount was written off Australian notes on issue in 2000/01, or in 1999/2000.

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

(l) Exemptions The RBA has been granted exemptions from the following requirements of Order Number 3 of the Commonwealth Authorities and Companies (Financial Statements 2000-2001). Orders:-

Requirement	Description	Detail of exemption
Policy 10	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 Policy 10 of the Orders.
Appendix A	Forms of Financial Statements	Details of revenues and expenses are disclosed in Note 2. The cash flow statement is provided in Note 18.

	Note	2001 \$M	2000 \$M
Note 2 NET PROFITS			
<i>Interest revenue</i>			
Overseas investments	1 (c)	1 480	1 137
Australian dollar securities	1 (d)	1 147	1 107
Overnight settlement systems		39	27
Gold loans		17	21
Other		2	4
		2 685	2 296
<i>Net gains/(losses) on securities</i>			
Overseas investments		485	(232)
Australian dollar securities		(96)	(128)
Foreign currency	1 (c)	1 131	1 141
		1 520	781
<i>Dividend revenue</i>			
Earnings on shares in Bank for International Settlements	6	3	3
<i>Fees and commissions</i>			
Banking services fees received		18	17
<i>Other revenue</i>			
Reimbursement by Commonwealth for loan management and registry expenses		1	2
Rental of Bank premises		9	7
Sales of note products		22	55
Other		14	15
		46	79
Total		4 272	3 176
Less:			
<i>Interest expense</i>			
Deposit liabilities		702	459
Repurchase agreements	1 (e)	253	211
		955	670
<i>General administrative expenses</i>			
Staff costs		83	89
Special redundancy/retirement payments	11	3	10
Depreciation of property	7	7	7
Depreciation of plant and equipment	7	9	8
Premises and equipment		25	26

	Note	2001 \$M	2000 \$M
Note 2 (CONTINUED)			
Materials used in note production		10	25
Travel		3	3
Consultants' fees	13	2	2
Other		5	14
		147	184
Other expenses			
Agency business reimbursement		1	1
Subsidiary income tax		1	5
Cash distribution expenses		4	8
Other		15	16
		21	30
Total		1 123	884
Net Profit		3 149	2 292

Note 3 INTEREST REVENUE AND INTEREST EXPENSE

Analysis for the year ended 30 June 2001

	Average Balance \$M	Interest \$M	Average Interest Rate %
Interest revenue			
Overseas investments	35 719	1 480	4.1
Australian dollar securities	17 577	1 147	6.5
Loans, advances and other	51	2	3.9
Overnight settlements	695	39	5.6
Gold loans	1 283	17	1.3
	55 325	2 685	4.9
Interest expense			
Exchange settlement accounts	879	50	5.6
Deposits from governments	11 387	643	5.7
Deposits from overseas institutions	514	3	0.5
Overseas repurchase agreements	4 435	213	4.8
Domestic repurchase agreements	690	40	5.8
Other deposits	120	6	5.1
	18 025	955	5.3
Analysis for the year ended 30 June 2000			
Interest revenue total	48 117	2 296	4.8
Interest expense total	13 414	670	5.0

	2001 \$M	2000 \$M
Note 4 RESERVES		
Changes in the RBA's various reserves are shown below.		
Asset revaluation reserves (Note 1(g))		
Gold		
Opening balance	1 125	903
Net revaluation adjustments	135	222
As at 30 June	1 260	1 125
Shares in international financial institutions (Note 6)		
Opening balance	64	63
Net revaluation adjustments	4	1
As at 30 June	68	64
Bank properties (Notes 1(f), 7)		
Opening balance	96	79
Net revaluation adjustments	11	17
Transfers to Statement of Distribution	(5)	-
As at 30 June	102	96
Total asset revaluation reserves		
Opening balance	1 285	1 045
Net revaluation adjustments	150	240
Transfers to Statement of Distribution	(5)	-
As at 30 June	1 430	1 285
Unrealised profits reserve (Note 1(g))		
Opening balance	1 489	-
Net transfers from Statement of Distribution	320	1 489
As at 30 June	1 809	1 489
Reserve for Contingencies and General Purposes (Note 1(g))		
Opening balance	3 323	3 323
Transfer to Reserve Bank Reserve Fund	(3 323)	-
Closing balance	-	3 323
Reserve Bank Reserve Fund (Note 1(g))		
Opening balance	2 829	2 829
Transfer from Reserve for Contingencies and General Purposes	3 323	-
Closing balance	6 152	2 829

	2001 \$M	2000 \$M
Note 4 (CONTINUED)		
Capital		
Opening and closing balance	40	40
Total capital and reserves		
Opening balance	8 966	7 237
Net profit plus net revaluation adjustments in asset revaluation reserves	3 299	2 532
Distribution to Commonwealth of Australia	(2 834)	(803)
Closing balance	9 431	8 966

Note 5 CASH AND LIQUID ASSETS

This includes net amounts of \$565 million owed to the RBA for overnight clearances of financial transactions through the clearing houses, Austraclear and Reserve Bank Information and Transfer System (RITS); an amount of \$690 million was owed to the RBA at 30 June 2000.

	2001 \$M	2000 \$M
Note 6 LOANS, ADVANCES AND OTHER ASSETS		
Shareholding in Bank for International Settlements	70	66
Officers' Home Advances	35	42
Gold coin	18	16
Investment in Securrency	9	11
Other	40	32
As at 30 June	172	167

The Reserve Bank of Australia has a 50 per cent share in Securrency Pty Ltd, which is incorporated in Victoria Australia, and whose principal activity is the marketing and manufacture of polymer substrate. The capital of Securrency in 2000/01 was \$21 530 001; the carrying value of the RBA's investment in Securrency was \$8 649 000 (2000 - \$11 183 000). Securrency Pty Ltd has a 31 December balance date.

	2001 \$M	2000 \$M
Note 7 PROPERTY, PLANT AND EQUIPMENT (Note 1(f))		
Properties		
Opening balance	246	235
Additions	-	1
Disposals	(13)	-
	233	236
Depreciation prior to revaluation	(7)	(7)
Book valuation prior to revaluation	226	229
Net revaluation adjustments (Note 4)	11	17
As at 30 June	237	246
The triennial independent revaluation of all Bank properties occurred at 30 June 2001.		
Plant and equipment		
Opening balance	114	93
Additions	6	24
Disposals	(2)	(3)
	118	114
Accumulated depreciation	(75)	(68)
As at 30 June	43	46
Total property, plant and equipment	280	292

	2001 \$M	2000 \$M
Note 8 DEPOSITS		
Banks		
Exchange Settlement accounts	839	1 164
Government & government instrumentalities		
Commonwealth	14 947	13 437
State	455	343
Foreign governments, foreign institutions and international organisations	506	418
Other depositors	117	124
As at 30 June	16 864	15 486

	2001 \$M	2000 \$M
Note 9 OTHER LIABILITIES		
Provisions (Note 1(i))		
Provision for accrued annual leave	7	7
Provision for long service leave	19	19
Provision for post-employment benefits	53	51
Provision for workers' compensation	1	1
As at 30 June	80	78
Other		
Amounts outstanding under repurchase agreements (contract price) (Note 1 (e))	1 654	4 137
Interest accrued on deposits	64	90
Other	18	24
As at 30 June	1 736	4 251
Total other liabilities	1 816	4 329

Note 10 CONTINGENT LIABILITIES AND OTHER ITEMS NOT INCLUDED IN STATEMENT OF FINANCIAL POSITION

Contingencies

The RBA has a contingent liability, amounting to \$74.7 million at 30 June 2001 (\$67.4 million at 30 June 2000), in respect of the uncalled portion of its shares held in the Bank for International Settlements.

A contingent liability of \$4.6 million exists for remediation work to be carried out on Bank premises.

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.

Other items

The RBA has \$2.3 million commitments at 30 June 2001 (\$1.2 million at 30 June 2000) payable within one year; and no commitments payable beyond one year (\$0.6 million at 30 June 2000).

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

Note 11 SPECIAL REDUNDANCY/RETIREMENT PAYMENTS

The RBA's expenses in 2000/01 include \$3 million paid or payable to, or on behalf of, staff who accepted special redundancy/retirement offers. Corresponding payments in 1999/2000 totalled \$10 million. Staff leaving the RBA in 2000/01 under these arrangements numbered 46 (99 in 1999/2000).

Note 12 REMUNERATION OF EXECUTIVES

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

Remuneration band	Number 2001	Number 2000
\$100 000 – \$109 999	1	2
\$110 000 – \$119 999	6	8
\$120 000 – \$129 999	7	11
\$130 000 – \$139 999	15	15
\$140 000 – \$149 999	11	5
\$150 000 – \$159 999	4	8
\$160 000 – \$169 999	4	4
\$170 000 – \$179 999	4	4
\$180 000 – \$189 999	7	
\$200 000 – \$209 999	1	
\$210 000 – \$219 999		8
\$220 000 – \$229 999	2	
\$230 000 – \$239 999	5	1
\$240 000 – \$249 999	1	
\$250 000 – \$259 999	1	
\$260 000 – \$269 999		5
\$290 000 – \$299 999	4	
\$310 000 – \$319 999		1
\$320 000 – \$329 999	1	
\$470 000 – \$479 999		1
\$480 000 – \$489 999	1	

Total remuneration received or due and receivable by these 75 executives amounted to \$12.913 million (73 executives totalling \$11.933 million in 1999/2000). Remuneration includes cash salary, the RBA's contribution to superannuation, housing assistance, motor vehicles, car parking 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 includes amounts paid to executives who are also members of the Bank Board (refer Note 14).

This table has been expanded to include all members of the Reserve Bank's senior management group. A major reason for this change is that the RBA's senior managers are now employed on similar contractual terms to the executives included in the comparable table in previous Annual Reports. Comparative figures for 1999/2000 have been adjusted accordingly.

Termination payments of \$1.113 million were made to executives who left the Bank during 2000/01 (\$0.346 million in 1999/2000); these payments are not reflected in the above table.

Note 13 REMUNERATION OF AUDITOR

Fees paid or payable to the statutory auditor (Auditor-General of the Commonwealth of Australia) for audit services totalled \$165 000 in 2000/01 (\$165 000 in 1999/2000). 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 14 RELATED PARTY AND OTHER DISCLOSURES

The Remuneration Tribunal determines the remuneration appropriate to the RBA's non-executive Board members. In 2000/01, payments to executive and non-executive Board members totalled \$1 022 388 (\$1 016 312 in 1999/2000). Remuneration includes amounts paid to members of the Bank Board who are also executives (refer Note 12).

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

Remuneration band	Number 2001	Number 2000
\$1 – \$9 999	1	
\$10 000 – \$19 999	1	
\$20 000 – \$29 999	1	
\$30 000 – \$39 999	2	5
\$40 000 – \$49 999	1	
\$50 000 – \$59 999		1
\$60 000 – \$69 999	1	
\$310 000 – \$319 999		1
\$320 000 – \$329 999	1	
\$470 000 – \$479 999		1
\$480 000 – \$489 999	1	

The RBA 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 2001 and 30 June 2000, there were no such loans.

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

In addition, \$78 500 was paid for the services of non-executive members of the Board of Note Printing Australia Limited who are not employees of the RBA or members of the Bank Board (\$68 454 in 1999/2000). The RBA also paid \$145 317 for the services of members of the Payments System Board who are not employees of the RBA (\$101 534 in 1999/2000).

Note 15 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 RBA 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 RBA'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 RBA for superannuation arrangements are also included in Note 2. There were no other related-party transactions between the RBA and the funds during 2000/01.

At 30 June 2001, the OSF had a surplus of assets over accrued benefits of \$228 million (\$224 million at 30 June 2000). The UK Pension Scheme had a surplus equivalent to \$5 million (\$5 million at 30 June 2000). During 2000/01, the RBA made superannuation contributions of \$2.2 million (\$3.1 million in 1999/2000).

Details of the Funds as at 30 June 2001 are as follows:

	2001 \$M	2000 \$M
Reserve Bank Officers' Superannuation Fund		
Accrued benefits	388	385
Net market value of assets	616	609
Surplus	228	224
Vested benefits	401	398
Reserve Bank of Australia UK Pension Scheme		
Accrued benefits	21	20
Net market value of assets	26	25
Surplus	5	5
Vested benefits	20	20
Total Superannuation Funds		
Accrued benefits	409	405
Net market value of assets	642	634
Surplus	233	229
Vested benefits	421	418

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 16 SEGMENT REPORTING

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

Note 17 FINANCIAL INSTRUMENTS

Australian Accounting Standard AAS33 - 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 RBA are its Australian dollar 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. The RBA'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. AAS33 requires disclosure on interest rate risk and credit risk.

The interest rate risk and credit risk tables are based on the RBA's settled portfolio as reported in the RBA'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 RBA's balance sheet restated in compliance with AAS33.

Interest rate risk

As at 30 June 2001

	Balance sheet total \$M	Floating interest rate \$M	Repricing Period \$M				Not bearing interest \$M	Weighted average rate %
			0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Assets								
Gold								
Gold loans	1 322	-	307	779	222	-	14	1.6
Gold holdings	59	-	-	-	-	-	59	n/a
Sub-total	1 381							
Foreign exchange								
Securities sold under repurchase agreements	-	-	-	-	-	-	-	
Securities purchased under repurchase agreements	5 244	-	5 244	-	-	-	-	4.6
Deposits and other securities	30 222	391	12 206	2 947	6 787	7 750	141	3.1
Accrued interest – foreign exchange	320	-	-	-	-	-	320	n/a
Sub-total	35 786							
Australian dollar securities								
Securities sold under repurchase agreements	1 654	-	-	396	485	773	-	4.8
Securities purchased under repurchase agreements	14 879	-	14 879	-	-	-	-	4.9
Other securities	3 174	-	1	910	1 194	1 069	-	5.3
Accrued interest – Australian dollar securities	107	-	-	-	-	-	107	n/a
Sub-total	19 814							
Property, plant & equipment	280	-	-	-	-	-	280	n/a
Cash and liquid assets	680	577	-	-	-	-	103	4.8
Other assets	172	35	-	-	-	-	137	3.4
Total assets	58 113	1 003	32 637	5 032	8 688	9 592	1 161	3.8
Liabilities								
Australian notes on issue	27 168	-	-	-	-	-	27 168	n/a
Deposits	16 864	3 464	13 400	-	-	-	-	4.8
Profit distribution	2 834	-	-	-	-	-	2 834	n/a
Other	1 816	-	1 654	-	-	-	162	4.8
Total liabilities	48 682	3 464	15 054	-	-	-	30 164	1.9
Capital and reserves	9 431							
Total balance sheet	58 113							
Off balance sheet items								
Interest rate futures	(287)	-	-	-	-	(287)	-	n/a

Note 17 (CONTINUED)**Interest rate risk**

As at 30 June 2000

	Balance sheet total \$M	Floating interest rate \$M	Repricing Period \$M				Not bearing interest \$M	Weighted average rate %
			0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Total assets	55 694	892	37 065	3 941	6 250	6 288	1 258	5.1
Total liabilities	46 728	6 286	13 107	400	-	-	26 935	2.4
Capital and reserves	8 966							
Total balance sheet	55 694							
Off balance sheet items	(149)	-	(379)	-	147	83	-	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 which is equivalent to the remaining term to maturity.

Interest rate futures reflect the 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 customer, bank or other counterparty will not meet its obligations (or be permitted to meet them) in accordance with agreed terms.

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

As part of an IMF support package during 1997/98, 1998/99, 1999/2000 and 2000/01 the RBA undertook a series of foreign currency swaps with the Bank of Thailand. The RBA provided United States dollars, receiving Thai baht in exchange. The amount outstanding on the swaps at 30 June 2001 was the equivalent of \$1.4 billion Australian dollars (\$1.4 billion at 30 June 2000), on which the RBA is earning a yield of 4.4% (6.15% in 1999/2000). The swaps represent 2.4% of the RBA's total assets as at 30 June 2001 (2.6% at 30 June 2000).

Note 17 (CONTINUED)

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

1. **Foreign exchange swaps** – As at 30 June 2001 the RBA was under contract to purchase \$16.7 billion of foreign currency and sell \$45.6 billion of foreign currency. As of that date there was an unrealised net gain included in net profit of \$256 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 its obligations.
2. **Interest rate futures** – As at 30 June 2001 about 0.91% of the RBA's foreign currency reserves (excluding gold) were hedged through interest rate futures contracts. The amount of credit risk on these contracts was approximately \$3.6 million (\$2.5 million at 30 June 2000). As at 30 June 2001 there was an unrealised gain brought to account on those contracts of \$0.3 million (\$0.2 million unrealised loss at 30 June 2000).

Concentration of credit risk

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. 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 30/6/01	% of total asset portfolio as at 30/6/00
Australian dollar securities				
Holdings of Commonwealth Government securities	AAA	n/a	5.7	12.4
Securities sold under repurchase agreements	AAA	AA	2.8	0.0
Securities held under repurchase agreements	AAA	AA	24.0	24.4
	AAA	other	0.4	1.5
	AA	AA	0.9	2.7
	AA	other	0.3	0.2
Foreign investments				
Holdings of securities	AAA	n/a	25.6	11.3
	AA	n/a	16.8	11.9
Securities sold under repurchase agreements	AAA	AA	0.0	5.4
	AAA	other	0.0	1.9
Securities held under repurchase agreements	AAA	AA	5.4	6.8
	AAA	other	3.6	3.9
	n/a	AAA	0.3	7.3
Deposits	n/a	AA	7.4	3.1
	n/a	other	2.4	2.7
	n/a	AAA	0.3	0.3
Gold loans	n/a	AA	1.5	1.4
	n/a	other	0.5	0.5
	n/a	other	2.1	2.3
Other			2.1	2.3
			100%	100%

* Standard & Poor's equivalent ratings

Note 18 CASH FLOW STATEMENT

The following cash flow statement appears as a matter of record to meet the requirements of AAS28; in the RBA's view, it does not shed any additional light on the RBA's financial results. For the purpose of this statement, cash includes the notes and coin held at the Reserve Bank and overnight settlements system account balances with other banks.

Statement of Cash Flows For the financial year ended 30 June 2001

	2001 Inflow/(outflow) \$M	2000 Inflow/(outflow) \$M
Cash flows from operating activities		
Interest received on investments	2 274	2 022
Interest received on loans, advances, and on net overnight settlements systems	41	36
Loan management reimbursement	1	2
Banking service fees received	19	17
Rents received	9	7
Net payments for and proceeds from sale of investments	(3 299)	(5 344)
Interest paid on deposit liabilities	(728)	(388)
Staff costs (including redundancy)	(84)	(99)
Premises, equipment and stores	(25)	(26)
Other	15	21
Net cash provided by operating activities	(1 777)	(3 752)
Cash flows from investment activities		
Net expenditure on property, plant and equipment	9	(22)
Net cash used in investing activities	9	(22)
Cash flows from financing activities		
Profit payment to Commonwealth	(1 479)	(3 000)
Net movement in deposit liabilities	1 379	5 103
Net movement in loans and advances	7	16
Net movement in notes on issue	1 733	1 882
Other	(13)	7
Net cash provided by financing activities	1 627	4 008
Net increase/(decrease) in cash	(141)	234
Cash at beginning of financial year	821	587
Cash at end of financial year	680	821

Note 18 (CONTINUED)

Reconciliation of cash	30 June 2001 \$M	30 June 2000 \$M
Cash	115	131
Overnight settlements system	565	690
	680	821

Reconciliation of net cash provided by operating activities to Net Profits in terms of the Reserve Bank Act	2001 \$M	2000 \$M
Net profit	3 149	2 292
Increase in interest payable	(26)	72
Increase in interest receivable	-	2
Net loss/(gain) on overseas investments	(743)	232
Net loss/(gain) on Australian dollar securities	(457)	128
Net loss/(gain) on foreign currency	(320)	(1 141)
Increase in income accrued on investments	(100)	(8)
Depreciation of property	7	7
Depreciation of plant and equipment	9	8
Net payments for and proceeds from sale of domestic and foreign investments	(3 299)	(5 344)
Other	3	-
Net cash provided by operating activities	(1 777)	(3 752)

DIRECTORS' STATEMENT

In the opinion of the directors, the financial statements for the year ended 30 June 2001 give a true and fair view of the matters required by Schedule 1 to the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*.

**IJ Macfarlane**

Chairman, Reserve Bank Board

9 August 2001



INDEPENDENT AUDIT REPORT

To the Treasurer

Scope

I have audited the financial statements of the Reserve Bank of Australia for the year ended 30 June 2001. The financial statements comprise:

- Statement of Financial Position;
- Statement of Financial Performance;
- Statement of Distribution;
- Notes to and forming part of the Financial Statements, and
- Directors Statement.

The members of the 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 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 as to 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 in Australia so as to present a view of the entity which is consistent with my understanding of its financial position, the results of its operations and its cash flows.

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

Audit Opinion

In my opinion,

- the financial statements have been prepared in accordance with Schedule 1 of the Commonwealth Authorities and Companies (Financial Statements 2000-2001) Orders; and
- the financial statements give a true and fair view, in accordance with applicable Accounting Standards, other mandatory professional reporting requirements and Schedule 1 of the Commonwealth Authorities and Companies (Financial Statements 2000-2001) Orders, of the financial position of the Reserve Bank of Australia as at 30 June 2001 and the results of its operations and its cash flows for the year then ended.



P. J. Barrett
Auditor-General

Sydney
9 August 2001