Financial Statements

For the year ended 30 June 2016

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 2016 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 2 August 2016.

Glenn Stevens AC
Governor and Chair, Reserve Bank Board

Frank Campbell
Assistant Governor (Corporate Services)

18 August 2016

Statement of Financial Position – as at 30 June 2016

Reserve Bank of Australia and Controlled Entity

	Note	2016 $M	2015 $M
Assets			
Cash and cash equivalents	6	367	438
Australian dollar investments	1(b), 15	88,500	86,294
Foreign currency investments	1(b), 15	72,879	65,241
Gold	1(d), 15	4,567	3,915
Property, plant and equipment	1(e), 8	640	549
Other assets	7	536	476
Total Assets		167,489	156,913
Liabilities			
Deposits	1(b), 9	61,210	60,486
Distribution payable to the Commonwealth	1(h), 3	3,222	2,501
Australian banknotes on issue	1(b)	70,209	65,481
Other liabilities	10	8,936	4,576
Total Liabilities		143,577	133,044
Net Assets		23,912	23,869
Capital and Reserves			
Reserves:			
Unrealised profits reserve	1(g)	4,861	6,590
Asset revaluation reserves	1(g), 5	5,074	4,376
Superannuation reserve	1(g)	(182)	134
Reserve Bank Reserve Fund	1(g)	14,119	12,729
Capital	1(g)	40	40
Total Capital and Reserves		23,912	23,869

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

Statement of Comprehensive Income – for the year ended 30 June 2016

Reserve Bank of Australia and Controlled Entity

	Note	2016 $M	2015 $M
Net interest income	2	1,193	920
Net gains/(losses) on securities and foreign exchange	2	1,660	6,056
Fees and commission income	2	508	324
Other income	2	66	65
General administrative expenses	2	(405)	(340)
Other expenses	2	(139)	(137)
Net Profit		2,883	6,888
Other Comprehensive Income			
Items that may be reclassified to profit or loss			
Gains/(losses) on:			
Gold		651	331
Shares in international and other institutions		14	52
		665	383
Items that will not be reclassified to profit or loss			
Gains/(losses) on:			
Property, plant and equipment		33	15
Superannuation		(316)	157
		(283)	172
Total Other Comprehensive Income		382	555
Total Comprehensive Income		3,265	7,443

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

Statement of Distribution – for the year ended 30 June 2016

Reserve Bank of Australia and Controlled Entity

	Note	2016 $M	2015 $M
Net Profit		2,883	6,888
Transfer from/(to) unrealised profits reserve		1,729	(3,434)
Earnings available for distribution		4,612	3,454
Distributed as follows:			
Transfer to Reserve Bank Reserve Fund		1,390	1,570
Payable to the Commonwealth	3	3,222	1,884
		4,612	3,454

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 2016

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 2014		**3,156**	**3,978**	**(23)**	**–**	**11,159**	**40**	**18,310**
Net Profit/(Loss)	1(h)	3,434			3,454			6,888
Gains/(losses) on:								
Gold	1(d)		331					331
Shares in international and other institutions	1(b)		52					52
Property, plant and equipment	1(e)		15					15
Superannuation	1(i)			157				157
Other comprehensive income			398	157				555
Total comprehensive income for 2014/15								**7,443**
Transfer to Reserve Bank Reserve Fund	1(g), 3				(1,570)	1,570		–
Transfer to distribution payable to the Commonwealth	1(h), 3				(1,884)			(1,884)
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, plant and equipment	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**

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

Cash Flow Statement – for the year ended 30 June 2016

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	2016 Inflow/ (outflow) $M	2015 Inflow/ (outflow) $M
Cash flows from operating activities			
Interest received		2,299	2,176
Interest paid		(1,095)	(1,259)
Net fee income received		423	278
Net payments for investments		(1,194)	(12,243)
Net cash collateral received/(pledged)		(3,002)	545
Other		(361)	(296)
Net cash used in operating activities	6	(2,930)	(10,799)
Cash flows from investment activities			
Proceeds from the sale of Securency		1	8
Net expenditure on property, plant and equipment		(93)	(42)
Net cash used in investment activities		(92)	(34)
Cash flows from financing activities			
Distribution to the Commonwealth	3	(2,501)	(618)
Net movement in deposit liabilities		724	6,912
Net movement in loans and advances		–	1
Net movement in banknotes on issue		4,728	4,703
Net cash provided by financing activities		2,951	10,998
Net increase/(decrease) in cash		(71)	165
Cash at beginning of financial year		438	273
Cash at end of financial year	6	367	438

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 2016

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 2016 have been prepared under Australian Accounting Standards (AAS), other accounting standards and accounting interpretations issued by the Australian Accounting Standards Board, in accordance with the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* (FRR), which is issued pursuant to the PGPA Act. 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 2016.

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

These financial statements were approved by a resolution of the Reserve Bank Board on 2 August 2016 in accordance with the Reserve Bank Act.

(a) Consolidation and joint venture

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

Note Printing Australia Limited

NPA was incorporated as a wholly owned subsidiary of the RBA on 1 July 1998, with an initial capital of $20.0 million. The RBA provided NPA with additional capital of $15.0 million in July 2008 and a further $25.0 million in July 2009.

NPA Balance Sheet	2016 $M	2015 $M
Assets	159.6	144.2
Liabilities	30.9	19.2
Equity	128.7	125.0

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.

Innovia Security Pty Ltd (formerly Securency International Pty Ltd)

In February 2013, the RBA completed the sale of its 50 per cent interest in Securency International Pty Ltd (Securency). The sale of the RBA's shares was made to a related entity of Innovia Films, a UK-based film manufacturer, which had previously owned the other half of Securency. Under the terms of the sale agreement, additional payments arising from the sale may be made to the RBA in future periods, including if Innovia Security exceeded certain earnings benchmarks in the period to 31 December 2015. Under these arrangements, an amount of $6.0 million was recognised in the Statement of Comprehensive Income in 2015/16 ($7.7 million in 2014/15). These amounts are shown in Note 2 as the Gain on sale of Securency. Other potential payments relating to the sale remain uncertain at the reporting date and are, therefore, not recognised in these financial statements.

Legal issues

Charges were laid against NPA and Securency and against former employees of these companies in the period between 2011 and 2013. These charges relate to allegations that these employees and the companies had conspired to provide, or offered to provide, benefits to foreign public officials that were not legitimately due. The RBA has accounted for these matters in accordance with the relevant accounting standards. Specific information about these charges and the associated costs has not been disclosed in the notes to the accounts as these legal matters remain before the courts.

(b) Financial instruments

A financial instrument is defined as any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. The RBA's financial instruments include its Australian dollar securities, foreign government securities, repurchase agreements, deposits with the Bank for International Settlements (BIS) and other central banks, interest rate futures, foreign currency swap contracts, holdings in the Asian Bond Fund (ABF), a shareholding in the BIS, gold loans, cash and cash equivalents, Australian banknotes on issue and deposit liabilities. 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 in the second leg. 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. This treatment of repurchase agreements is discussed further below.

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 were introduced in November 2013 to assist eligible financial institutions manage their liquidity after normal business hours following the introduction of same-day settlement of Direct Entry payments. 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 and is received periodically or at maturity. Interest accrued but not received is included in Accrued interest (Note 15).

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.

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 at the relevant market price 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. The two funds are classified under AASB 139 as 'at fair value through profit or loss'. The funds are valued on balance date at the relevant unit price of the fund and valuation gains and losses are taken to profit.

Following agreement among member central banks, EMEAP announced the closure of ABF1 in July 2016. The funds of member central banks, including the RBA, invested in ABF1 were transferred to ABF2.

Bank for International Settlements

The RBA holds shares in the BIS. The purpose of this membership is to maintain and develop strong relationships with other central banks. 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). Dividends are recognised as revenue in the Statement of Comprehensive Income.

Financial liabilities

Deposit liabilities

Deposits 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 ruling 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 the relevant market exchange rate 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 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. As outlined in Note 1(b), gold loans are a financial instrument and the RBA accounts for them in accordance with AASB 139 and reports them under AASB 7.

(e) Property, plant and equipment

The RBA accounts for its property, plant and equipment at fair value in accordance with AASB 116 – *Property, Plant and Equipment* and AASB 13. Valuation gains (losses) are generally transferred to (from) the relevant 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.

Property

The RBA's Australian properties are formally valued annually by an independent valuer; overseas properties are independently valued on a triennial basis. The most recent independent valuation of overseas properties was at 30 June 2016. Reflecting its specialised nature, the RBA's Business Resumption Site is valued at depreciated replacement cost. Annual depreciation is calculated on a straight line basis using assessments of the remaining useful life of the relevant asset.

Plant and equipment

Plant and equipment is valued by an independent valuer every three years. The most recent independent valuation was at 30 June 2014. Between revaluations, plant and equipment is carried at the most recent valuation less any subsequent depreciation. Annual depreciation is calculated on a straight line basis using the RBA's assessments of the remaining useful life of individual assets.

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

	Years
Buildings	20–50
Fit-out and furniture	5–10
Computer hardware	3–5
Motor vehicles	5
Plant and other equipment	4–20

The RBA's 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 three and five years. The useful life of core banking software may be up to 15 years, reflecting the period over which future economic benefits are expected to be realised from this asset.

(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 which 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. 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)). Accordingly, the Treasurer, after consulting the Board, has determined that a sum of $1,390 million be transferred from the 2015/16 net profit to the RBRF. The balance of the RBRF currently stands at a level that the Board regards as appropriate for the risks the Bank 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 re-measurement 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, plant and equipment; 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. Re-measurement 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

From 1 January 2015, the RBA has provided a Committed Liquidity Facility (CLF) to eligible authorised deposit-taking institutions. 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) Application of new or revised Australian accounting standards

A number of new and revised Australian accounting standards 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	2016 $M	2015 $M
Net interest income			
Interest income	1(b), 4	2,305	2,165
Interest expense	1(b), 4	(1,112)	(1,245)
		1,193	920
Net gains/(losses) on securities and foreign exchange			
Foreign investments	1(b)	68	40
Australian dollar securities	1(b)	(229)	(130)
Foreign currency	1(b)	1,821	6,146
		1,660	6,056
Fees and commissions income			
Committed Liquidity Facility fee income	1(j)	390	208
Banking services fee income		100	98
Payment services fee income		18	18
		508	324
Other income			
Sales of note and security products		43	41
Rental of Bank premises		9	10
Gain on sale of Securency	1(a)	6	8
Dividend revenue	1(b)	4	4
Other		4	2
		66	65
General administrative expenses			
Staff costs		(215)	(196)
Net gains/(losses) on employee provisions		(34)	10
Superannuation costs	1(i)	(50)	(54)
Depreciation of property, plant and equipment	1(e), 8	(34)	(32)
Amortisation of computer software	1(f), 7	(5)	(4)
Premises and equipment		(50)	(47)
Other		(17)	(17)
		(405)	(340)
Other expenses			
Banking service fee expenses		(81)	(79)
Materials used in note and security products		(25)	(28)
Banknote distribution expenses		(3)	(4)
Other		(30)	(26)
		(139)	(137)
Net Profit		2,883	6,888

Note 3 – Distribution Payable to the Commonwealth

	2016 $M	2015 $M
Opening balance	2,501	1,235
Distribution to the Commonwealth	(2,501)	(618)
Transfer from Statement of Distribution	3,222	1,884
As at 30 June	3,222	2,501

Section 30 of the Reserve Bank Act requires that the net profits of the RBA, less amounts set aside for contingencies or placed to the credit of the RBRF, shall be 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 2015/16, the RBA recorded a net profit of $2,883 million. Unrealised profits recorded in previous years were also realised during 2015/16, resulting in a net transfer of $1,729 million from the Unrealised profits reserve which became available for distribution. Earnings available for distribution therefore totalled $4,612 million in 2015/16.

The Treasurer, after consulting the Board, determined that a sum of $1,390 million was to be placed from earnings to the credit of the RBRF. Accordingly, a sum of $3,222 million is payable as a dividend to the Commonwealth. This sum will be paid to the Commonwealth in August 2016. In 2015/16, the Bank made payments totalling $2,501 million, comprising the dividend from 2014/15 profits of $1,884 million, paid in two equal instalments in August and May, and a sum of $618 million deferred from the dividend payable the previous year.

Note 4 – Interest Income and Interest Expense

Analysis for the year ended 30 June 2016.

	Average balance $M	Interest $M	Average annual interest rate Per cent
Interest income			
Foreign currency investments	63,013	189	0.3
Australian dollar investments	86,152	2,098	2.4
Overnight settlements	342	6	1.7
Cash collateral provided	563	11	1.9
Gold loans	195	1	0.2
Loans, advances and other	23	–	1.6
	150,288	2,305	1.5
Interest expense			
Exchange Settlement balances	23,552	458	1.9
Deposits from governments	29,280	581	2.0
Deposits from overseas institutions	2,363	17	0.7
Banknote holdings of banks	2,913	50	1.7
Foreign currency repurchase agreements	3,313	4	0.1
Australian dollar repurchase agreements	66	1	2.0
Cash collateral received	95	1	2.0
Other deposits	14	–	1.0
	61,596	1,112	1.8
Net interest income	88,692	1,193	1.3
Analysis for the year ended 30 June 2015			
Interest income	135,194	2,165	1.6
Interest expense	56,439	1,245	2.2
Net interest income	78,755	920	1.2

Interest income for 2015/16 includes $1,503 million calculated using the effective interest method for financial assets not at fair value through profit or loss ($1,625 million in 2014/15). Interest expense for 2015/16 includes $1,112 million calculated using the effective interest method for financial liabilities not at fair value through profit or loss ($1,245 million in 2014/15).

Note 5 – Asset Revaluation Reserves

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

	Note	2016 $M	2015 $M
Gold	1(d)	4,439	3,788
Shares in international and other institutions	1(b), 7	370	356
Property, plant and equipment	1(e), 8	265	232
As at 30 June		5,074	4,376

Note 6 – Cash and Cash Equivalents

	2016 $M	2015 $M
Cash	31	33
Overnight settlements	336	405
As at 30 June	367	438

Reconciliation of net cash used in operating activities to Net Profit	**Note**	**2016 $M**	**2015 $M**
Net Profit		2,883	6,888
Increase/(decrease) in interest payable		11	(6)
Net loss/(gain) on overseas investments	2	(68)	(40)
Net loss/(gain) on Australian dollar securities	2	229	130
Net loss/(gain) on foreign currency	2	(1,821)	(6,146)
Decrease/(increase) in income accrued on investments		–	11
Cash collateral received/(pledged)		(3,002)	545
Depreciation of property, plant and equipment	2	34	32
Amortisation of computer software	2	5	4
Net payments for investments		(1,194)	(12,243)
Other		(7)	26
Net cash used in operating activities		(2,930)	(10,799)

Cash and cash equivalents include net amounts of $336 million owed to the RBA for overnight clearances of financial transactions through the payments system ($405 million at 30 June 2015). 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	2016 $M	2015 $M
Shareholding in Bank for International Settlements	1(b)	413	399
Computer software	1(f)	56	34
Other		67	43
As at 30 June		536	476

At 30 June 2016, the gross book value of the RBA's computer software amounted to $79.3 million and the accumulated amortisation on these assets was $23.1 million ($53.2 million and $18.9 million, respectively, at 30 June 2015). During 2015/16, there were $26.1 million in net additions to computer software ($20.0 million in 2014/15) and $4.6 million in amortisation expense ($4.0 million in 2014/15). The RBA had contractual commitments of $1.1 million as at 30 June 2016 for the acquisition of computer software ($11.7 million at 30 June 2015).

Other assets include receivables of $24.9 million as at 30 June 2016 ($21.6 million at 30 June 2015), 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 2015	383	207	590
Accumulated depreciation	(1)	(40)	(41)
Net Book Value	382	167	549
Additions	46	46	92
Depreciation expense	(9)	(25)	(34)
Net gain/(loss) recognised in Net Profit	1	–	1
Net gain/(loss) recognised in Other Comprehensive Income	33	–	33
Disposals	–	(1)	(1)
Net additions to net book value	71	20	91
Gross Book Value as at 30 June 2016	453	250	703
Accumulated depreciation	–	(63)	(63)
Net Book Value	453	187	640

The net book value of the RBA's property, plant and equipment includes $83.4 million of work in progress ($39.7 million at 30 June 2015).

As at 30 June 2016, the RBA had contractual commitments of $65.7 million for the acquisition or development of property, plant and equipment ($81.2 million at 30 June 2015); contractual commitments of $46.9 million are due within one year ($59.6 million at 30 June 2015). Included within these contractual commitments is an amount of $26.5 million which relates to the construction of the new National Banknote Site in Craigieburn ($55.0 million at 30 June 2015), which is due within one year.

Note 9 – Deposits

	2016 $M	2015 $M
Exchange Settlement balances	24,745	23,360
Australian Government	31,521	36,294
State governments	120	59
Foreign governments, foreign institutions and international organisations	4,810	758
Other depositors	14	15
As at 30 June	61,210	60,486

Note 10 – Other Liabilities

	Note	2016 $M	2015 $M
Provisions			
Provision for annual and other leave		19	18
Provision for long service leave		43	39
Provision for post-employment benefits		125	92
Other		1	–
		188	149
Other			
Securities sold under agreements to repurchase	1(b)	4,526	1,780
Payable for unsettled purchases of securities		1,809	1,556
Interest accrued on deposits		64	59
Superannuation liability	1(i), 14	397	64
Other		1,952	968
		8,748	4,427
Total Other Liabilities as at 30 June		8,936	4,576

The RBA's provision for its post-employment benefits was $33.1 million higher in 2015/16, largely due to a decrease in the discount rate. Benefits of $4.6 million were paid out of the provision for post-employment benefits in 2015/16. 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 $694,000 for workers compensation ($416,000 at 30 June 2015).

Note 11 – Contingent Assets and Liabilities

Committed Liquidity Facility

From 1 January 2015, the RBA has provided a Committed Liquidity Facility (CLF) to eligible authorised deposit-taking institutions (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 holding 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 2016 totalled about $224 billion for 13 ADIs (about $255 billion for 13 ADIs at 30 June 2015).

Bank for International Settlements

The RBA has a contingent liability, amounting to $67.7 million at 30 June 2016 ($65.8 million at 30 June 2015), for the uncalled portion of its shares held in the BIS.

NPA and Securency

As outlined in Note 1, the RBA has accounted for the costs, and potential costs, to the consolidated entity associated with the charges laid against NPA, Securency and several former employees of these companies during 2011 and the charges against former employees laid in 2013. 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.

Regarding the sale of Securency in 2013, the RBA provided the owner of Innovia Security with a number of indemnities for the period during which the company 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, they are treated as contingent liabilities in accordance with AASB 137 – *Provisions, Contingent Liabilities and Contingent Assets*.

In addition, an amount covering 50 per cent of certain potential liabilities of Innovia Security relating to events prior to the sale has been placed in escrow. The RBA will receive the remaining balance after relevant claims have been paid, settled or lapse. If 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. On the retirement of the Assistant Governor (Banking & Payments) late in 2015, the responsibilities of this position were consolidated with those of another Assistant Governor, creating a single role as the Assistant Governor (Business Services); there are now five Assistant Governors compared with six in the previous year. During the financial year, a total of 22 individuals occupied positions classified as Key Management Personnel for all or part of the year, the same as in the previous year.

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 these parameters, the Reserve Bank Board Remuneration Committee, comprising three non-executive directors, makes a recommendation on remuneration for these positions for the approval of the Board, which is the 'employing body' for the positions. 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 Remuneration Committee, determines the remuneration of Assistant Governors and other staff. 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.

In December 2015, the Remuneration Tribunal determined that, effective 1 January 2016, 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. Accordingly, total remuneration for the position of Governor was $1,030,645 (including superannuation salary of $878,549) and for the Deputy Governor was $771,120 (including superannuation salary of $593,782).

The RBA discloses remuneration of key management personnel in terms of both AAS and the FRR; these disclosures are set out below.

Disclosures under AAS

Under AAS, disclosure of remuneration of key management personnel is based on AASB 124 – *Related Party Disclosures*, as shown below in Table A. 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.

Table A: Remuneration of Key Management Personnel

	2016 $	2015 $
Short-term employee benefits	5,402,979	5,457,650
Post-employment benefits	1,013,006	1,026,138
Other long-term benefits	300,252	(65,074)
Termination benefits	–	–
Total compensation	6,716,237	6,418,714

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 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 2015/16 and 2014/15 by the RBA to any key management personnel.

There were no related party transactions with Board members or executives. Transactions with director-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.

Disclosure under FRR

The disclosures on senior management remuneration required under section 27 of the FRR are shown in Table B below. Aggregates in Table B are similar to those in Table A and correspond to the same group of key management personnel. The figures in Table B exclude valuation changes in accumulated annual and long service leave entitlements, consistent with the requirements of the FRR.

Table B: Remuneration of Senior Management[(a)]

	2016 $	2015 $
Short-term employee benefits		
Salary	4,322,772	4,383,444
Performance-related payments	58,604	57,105
Other[(b)]	226,628	236,392
Directors' fees	794,975	780,709
Total short-term employee benefits	5,402,979	5,457,650
Post-employment benefits		
Superannuation	983,355	996,003
Other[(c)]	29,651	30,135
Total post-employment benefits	1,013,006	1,026,138
Other long-term benefits[(d)]		
Annual leave	16,760	(16,130)
Long service leave	80,055	66,133
Total other long-term benefits	96,815	50,003
Termination benefits	–	–
Total employment benefits	6,512,800	6,533,791

(a) Within the group of 22 key management personnel, 20 positions are remunerated and included in this table, which is prepared on an accruals basis
(b) Other short-term employee benefits include car parking and health benefits and, for relevant executives, motor vehicle and related benefits
(c) Other post-employment benefits include health benefits
(d) Other long-term benefits include the net accrual of annual and long service leave in the relevant year, but not the cost of revaluing leave entitlements previously accrued (as in Table A above)

Note 13 – Auditor's Remuneration

	2016 $	2015 $
Fees paid or payable to the statutory auditor (Australian National Audit Office) for audit services	425,000	411,600

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 2015/16, KPMG earned additional fees of $184,698 for non-audit services that were separately contracted by the RBA ($143,085 in 2014/15). These fees are mainly included in General administrative expenses in Note 2.

Note 14 – Superannuation Funds

Overview

Independent actuarial estimates place the RBA defined benefit superannuation fund (the OSF) in surplus at 30 June 2016. This analysis updates the full actuarial valuation prepared as at 30 June 2014, and is consistent with AAS 25 – *Financial Reporting by Superannuation Plans*. The next full actuarial review of the fund will be completed for the financial position as at 30 June 2017.

For financial statement purposes, disclosures on superannuation follow AASB 119 and are based on future liabilities being discounted at the yield on high-quality Australian dollar corporate bonds. This places a higher present value on those liabilities than the funding assessment, which discounts them at the assumed return on fund assets. The RBA currently carries a liability for defined benefit superannuation in terms of AASB 119.

The RBA and OSF Board of Trustees are currently working to transfer the members and assets of the OSF to a multi-employer fund (MEF) via a successor fund transfer. The transfer to an MEF is expected to be completed by mid-2017, when the Bank's role in directly operating and governing the fund will cease.

Structure of funds

The RBA has two superannuation funds: the Reserve Bank of Australia Officers' Superannuation Fund (OSF) and the Reserve Bank of Australia UK Pension Scheme. 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 profits and shown in Note 2. Administration and other operational costs, and any recoupment of costs from the funds, are also included in Note 2. There were no other related party transactions between the RBA and either fund during 2015/16.

The OSF is a hybrid fund licensed by APRA, with a mix of defined benefit members, defined contribution members and pensioners. Defined benefit members receive a defined benefit in accordance with the OSF's Trust Deed. All members have unitised accumulation balances, which comprise employer contributions and members' personal contributions plus earnings on contributions. The OSF is classified as a single-employer plan in terms of AASB 119. Defined benefit membership in the OSF 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 – AAS 25

Independent actuarial valuations of the OSF and UK Pension Scheme are conducted every three years. The latest for the OSF was at 30 June 2014 and for the UK Scheme at 30 June 2013. These valuations showed both funds were in surplus and in a satisfactory financial position.

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. The OSF surplus measured on this basis as at 30 June 2016 amounted to $132.0 million.

The RBA maintained its contribution rate to the OSF defined benefit at 18.3 per cent of salaries in 2015/16, consistent with the actuary's recommendation.

The latest funding valuation for the UK Pension Scheme was prepared as at 30 June 2013 and was also based on the Attained Age Funding method. On this basis, the UK Pension Scheme recorded a small deficit at 30 June 2016, with assets of $25.6 million compared with accrued benefits of $26.0 million (assets of $26.4 million and accrued benefits of $26.5 million at 30 June 2015). The Trustees of the UK Scheme will keep its funding position under review.

Accounting valuation – AASB 119

For financial statement purposes, the financial positions of the OSF and 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. Unless otherwise stated, information is provided only for the OSF, as the UK Pension Scheme is not material.

Actuarial assumptions

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

	2016 Per cent	2015 Per cent
Discount rate (gross of tax)[(a)]	3.6	4.9
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 2.00 per cent for the first five years of the projections (2.50 per cent for the first five years of the projections in 2015)

Maturity analysis

The weighted-average duration of the defined benefit obligation for the OSF is 21 years (18 years at 30 June 2015). The expected maturity profile for defined benefit obligations of the OSF is as follows:

	2016 Per cent	2015 Per cent
Maturity profile		
Less than 5 years	15	19
Between 5 and 10 years	14	16
Between 10 and 20 years	25	26
Between 20 and 30 years	20	18
Over 30 years	26	21
Total	100	100

Risk exposures

Key risks from the RBA's sponsorship of the OSF 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 OSF members live longer 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 and increases 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.

	2016 $M	2015 $M
Change in defined benefit obligation from an increase of 0.25 percentage points:		
Discount rate (gross of tax)	(76)	(50)
Future salary growth	21	13
Future pension growth	56	38
Change in defined benefit obligation from a decrease of 0.25 percentage points:		
Discount rate (gross of tax)	82	54
Future salary growth	(20)	(13)
Future pension growth	(53)	(36)
Change in defined benefit obligation from an increase in life expectancy of one year	54	38

Asset distribution

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

	Per cent of fund assets	
	2016	2015
Cash and short-term securities	3	5
Fixed interest and indexed securities	15	14
Domestic equities	35	36
Foreign equities	17	18
Property	15	14
Private equity and infrastructure	15	13
Total	100	100

AASB 119 Reconciliation

The table below contains a reconciliation of the AASB 119 valuation of the two superannuation funds. For the OSF 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 the OSF. At 30 June 2016, OSF accumulation balances totalled $279.5 million ($265.0 million as at 30 June 2015).

	OSF		UK Scheme		Total	
	2016 $M	**2015 $M**	**2016 $M**	**2015 $M**	**2016 $M**	**2015 $M**
Opening balances:						
Net market value of assets	967	906	26	22	993	927
Accrued benefits	(1,031)	(1,103)	(22)	(19)	(1,053)	(1,123)
Surplus/(deficit)	(64)	(197)	4	2	(60)	(195)
Effect of asset cap	–	–	(4)	(2)	(4)	(2)
Opening superannuation asset/(liability)	(64)	(197)	–	–	(63)	(197)
Change in net market value of assets	24	61	(1)	5	23	66
Change in accrued benefits	(357)	72	2	(3)	(355)	69
Change in asset cap	–	–	(1)	(2)	(1)	(2)
Change in superannuation asset/(liability)	(333)	133	–	–	(333)	133
Closing balances:						
Net market value of assets	991	967	26	26	1,017	993
Accrued benefits	(1,388)	(1,031)	(21)	(22)	(1,409)	(1,053)
Surplus/(deficit)	(397)	(64)	5	4	(392)	(60)
Effect of asset cap	–	–	(5)	(4)	(5)	(4)
Closing superannuation asset/(liability)	(397)	(64)	–	–	(397)	(63)
Interest income	47	41	1	1	48	42
Benefit payments	(42)	(43)	(1)	(1)	(43)	(44)
Return on plan assets	(6)	38	3	2	(3)	40
Contributions from RBA to defined benefit schemes	24	25	–	–	24	25
Exchange rate gains/(losses)	–	–	(3)	3	(3)	3
Change in net market value of assets	24	61	(1)	5	23	66

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

Note 14 – Superannuation Funds (continued)

	OSF		UK Scheme		Total	
	2016 $M	2015 $M	2016 $M	2015 $M	2016 $M	2015 $M
Current service cost	(37)	(40)	–	–	(37)	(40)
Interest cost	(50)	(50)	(1)	(1)	(51)	(51)
Benefit payments	42	43	1	1	43	44
Gains/(losses) from change in demographic assumptions	–	–	–	–	–	–
Gains/(losses) from change in financial assumptions	(312)	88	(1)	(1)	(313)	87
Gains/(losses) from change in other assumptions	1	31	–	–	1	31
Exchange rate gains/(losses)	–	–	3	(2)	3	(2)
Change in accrued benefits	(357)	72	2	(3)	(355)	69
Current service cost	37	40	–	–	37	40
Net Interest expense/(income)	4	9	–	–	4	9
Productivity and superannuation guarantee contributions	6	5	–	–	6	5
Superannuation expense/(income) included in profit or loss	47	54	–	–	47	53
Actuarial remeasurement loss/(gain)	316	(157)	–	–	316	(157)
Superannuation expense/(income) included in Statement of Comprehensive Income	363	(103)	–	–	363	(103)

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 in the Annual Report on 'Operations in Financial Markets' and 'Risk Management' provide additional 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 exchange rate results in valuation losses, while a depreciation leads to valuation gains. The overall level of foreign currency exposure is determined by policy considerations. The RBA's net foreign currency exposure as at 30 June 2016 was $53.3 billion ($50.1 billion as at 30 June 2015). 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) were distributed as follows as at 30 June:

	Per cent of foreign exchange	
	2016	**2015**
US dollar	55	55
Euro	20	25
Japanese yen	5	5
Canadian dollar	5	5
Chinese renminbi	5	5
UK pound sterling	5	5
South Korean won	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.

	2016 $M	**2015 $M**
Change in profit/equity due to a 10 per cent appreciation in the reserves-weighted value of the A$	(4,845)	(4,547)
Change in profit/equity due to a 10 per cent depreciation in the reserves-weighted value of the A$	5,922	5,557

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.

	2016 $M	2015 $M
Change in profit/equity due to movements of +/–1 percentage point across yield curves:		
Foreign currency securities	–/+339	–/+300
Australian dollar securities	–/+144	–/+156

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 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 loans	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)	–	–	–	–	

Maturity Analysis – as at 30 June 2015

	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	438	32	405	–	–	–	1	1.75
Australian dollar investments								
Securities sold under repurchase agreements	–	–	–	–	–	–	–	na
Securities purchased under repurchase agreements	76,183	–	52,800	1,969	–	–	21,414	2.02
Other securities	9,930	–	1,404	6,318	899	1,309	–	2.15
Accrued interest	181	–	137	44	–	–	–	na
	86,294							
Foreign currency investments								
Balances with central banks	832	116	716	–	–	–	–	0.13
Securities sold under repurchase agreements	1,780	–	544	1,118	118	–	–	0.02
Securities purchased under repurchase agreements	4,090	–	4,090	–	–	–	–	0.11
Other securities	58,467	–	33,609	12,037	5,832	495	6,494	0.16
Deposits	1	–	1	–	–	–	–	(0.03)
Cash collateral provided	–	–	–	–	–	–	–	na
Accrued interest	71	–	42	29	–	–	–	na
	65,241							
Gold								
Gold loans	49	–	–	49	–	–	–	0.25
Gold holdings	3,866	–	–	–	–	–	3,866	na
	3,915							
Property, plant & equipment	549	–	–	–	–	–	549	na
Other assets	476	–	23	3	–	3	447	na
Total assets	156,913	148	93,771	21,567	6,849	1,807	32,771	1.18
Liabilities								
Deposits	60,486	26,236	34,250	–	–	–	–	1.98
Distribution payable to the Commonwealth	2,501	–	1,559	–	942	–	–	na
Cash collateral received	673	–	673	–	–	–	–	2.00
Australian banknotes on issue	65,481	–	–	–	–	–	65,481	0.07
Other liabilities	3,903	–	3,687	–	–	–	216	(0.02)
Total liabilities	133,044	26,236	40,169	–	942	–	65,697	0.94
Capital and reserves	23,869							
Total balance sheet	156,913							
Swaps								
Australian dollars								
Contractual outflow	(40)	–	(40)	–	–	–	–	
Contractual inflow	11,676	–	11,676	–	–	–	–	
	11,636	–	11,636	–	–	–	–	
Foreign currency								
Contractual outflow	(28,846)	–	(28,846)	–	–	–	–	
Contractual inflow	17,210	–	17,210	–	–	–	–	
	(11,636)	–	(11,636)	–	–	–	–	

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 2016, the RBA was under contract to purchase $25.3 billion of foreign currency ($17.2 billion at 30 June 2015) and sell $34.5 billion of foreign currency ($28.8 billion at 30 June 2015). As of that date there was a net unrealised loss of $1,852 million on these swap positions included in net profit ($218 million unrealised gain at 30 June 2015).

   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 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 2016, there was no cash collateral received ($673 million at 30 June 2015), while cash collateral provided was $2,329 million (nil at 30 June 2015).

2. ***Interest rate futures*** – As at 30 June 2016, the amount of credit risk on margin accounts associated with interest rate futures contracts held by the RBA was approximately $0.4 million ($0.5 million at 30 June 2015). As at 30 June 2016, there was an unrealised loss of $0.2 million brought to account on those contracts ($0.2 million unrealised loss at 30 June 2015).

The RBA held no past due or impaired assets at 30 June 2016 or 30 June 2015.

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 of holding them 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 2016, the carrying amount of securities sold and contracted for purchase under repurchase agreements was $4,527 million ($1,781 million at 30 June 2015). 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	
			2016	**2015**
Australian dollar investments				
Holdings of Australian Government Securities	Aaa	na	1.6	3.8
Holdings of semi-government securities	Aaa	na	0.6	0.6
	Aa	na	0.9	2.0
Securities purchased under reverse repurchase agreements	Aaa	Aa	26.4	27.4
	Aaa	A	10.4	7.3
	Aaa	Other[(b)]	1.1	1.6
	Aa	Aa	8.1	6.8
	Aa	A	1.5	3.1
	Aa	Baa	0.1	0.2
	Aa	B	0.0	0.1
	Aa	Other[(b)]	0.1	0.3
	A	Aa	1.4	1.2
	A	A	0.5	0.6
	A	Baa	0.1	0.0
	Baa	Aa	0.1	0.0
Foreign investments				
Holdings of securities	Aaa	na	10.6	14.7
	Aa	na	3.4	3.9
	A	na	15.3	18.0
Securities sold under repurchase agreements	Aaa	Aa	1.1	0.9
	Aaa	A	1.4	0.2
Securities purchased under reverse repurchase agreements	Aaa	Aa	1.4	1.1
	Aaa	A	1.9	0.5
	Aaa	Baa	0.0	0.2
	Aa	A	0.0	0.1
	A	A	0.2	0.8
Deposits	na	Aaa	0.5	0.5
	na	Aa	0.1	0.0
	na	A	4.3	0.0
Other	Aaa	A	0.4	0.0
	Aaa	Other[(b)]	0.1	0.0
	A	A	1.3	0.4
	Other[(b)]	Aa	0.7	0.1
	Other[(b)]	A	0.1	0.1
	Other[(b)]	Other[(b)]	0.6	0.0
Other assets			3.7	3.5
			100.0	100.0

(a) Average of the credit ratings of the three major rating agencies, where available
(b) This category includes counterparties which 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, plant and equipment. 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; that for Level 2 assets 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 2016.

	Fair Value			Amortised Cost	Total
	Level 1 $M	Level 2 $M	Level 3 $M	$M	$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	103,561	103,561
	53,104	5,515	415	103,561	162,595
Non-financial assets					
Land and buildings	–	–	453	na	453
Plant and equipment	–	–	187	na	187
Gold holdings not on loan	4,165	–	–	na	4,165
Other	–	–	–	89	89
	4,165	–	640	89	4,894
Total assets	57,269	5,515	1,055	103,650	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

	Fair Value			Amortised Cost	Total
	Level 1 $M	Level 2 $M	Level 3 $M	$M	$M
As at 30 June 2015					
Financial assets					
At fair value through profit or loss					
Australian dollar securities	9,379	617	–	na	9,996
Foreign government securities	54,535	4,582	–	na	59,117
Foreign currency swaps	50	367	–	na	417
Available for sale					
Shares in other institutions	–	–	401	–	401
Loans and receivables	na	na	na	82,521	82,521
	63,964	5,566	401	82,521	152,452
Non-financial assets					
Land and buildings	–	–	382	–	382
Plant and equipment	–	–	167	–	167
Gold holdings not on loan	3,866	–	–	–	3,866
Other	–	–	–	46	46
	3,866	–	549	46	4,461
Total assets	67,830	5,566	950	82,567	156,913
Financial liabilities					
At fair value through profit or loss					
Foreign currency swaps	–	198	–	na	198
Not at fair value through profit or loss	na	na	na	132,594	132,594
	–	198	–	132,594	132,792
Non-financial liabilities	na	na	na	252	252
Total liabilities	–	198	–	132,846	133,044

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, plant and equipment, as fair values for these assets are determined by reference to inputs that cannot be directly observed. 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, plant and equipment 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 and plant and equipment 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, plant and equipment assets during the financial year are detailed in Note 8; the increase in value of the RBA's shareholding in the BIS solely reflects a valuation gain recognised in Other Comprehensive Income.

Note 17 – Subsequent Events

There are no events subsequent to 30 June 2016 to be disclosed.