

# Earnings and Distribution

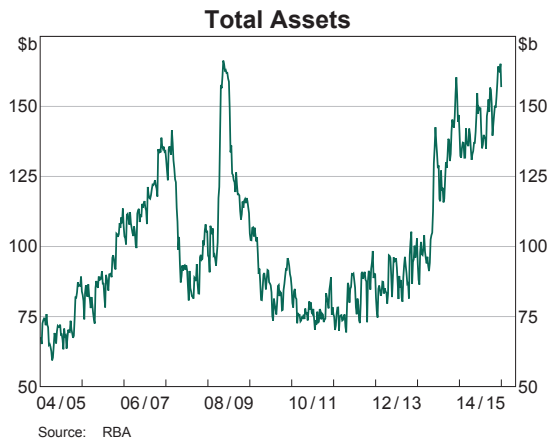
The Reserve Bank's balance sheet fluctuates in size according to operations in financial markets conducted to pursue monetary policy and other objectives, including supporting an efficient and orderly payments system in Australia. The Bank earns a profit in most years. It holds reserves that are sufficient to cover potential financial losses. In 2014/15, the Bank recorded a net profit of around \$6.9 billion, with earnings available for distribution of about \$3.5 billion.

## The Reserve Bank's Balance Sheet

The Reserve Bank's balance sheet consists mainly of financial assets held to conduct operations in financial markets, to pursue monetary policy objectives and support an efficient and orderly payments system in Australia. Monetary policy is implemented by transacting in these assets to manage liquidity in the cash market. The Bank's assets include both domestic securities and Australia's foreign exchange reserves. The Bank's financial liabilities mainly comprise banknotes on issue, deposits of the Australian Government and other customers, and capital and reserves.

The Reserve Bank's balance sheet was \$157 billion on 30 June 2015, compared with \$141 billion a year earlier. Banknotes on issue, the Reserve Bank's largest liability, rose by about 8 per cent, to \$65 billion, while

The Reserve Bank's  
balance sheet was  
**\$157 billion**  
on 30 June 2015



deposits of the Australian Government rose by about \$6 billion. Financial reserves also increased, as valuation gains on foreign exchange resulting from the depreciation in the Australian dollar were transferred to the unrealised profits reserve and a transfer was made to the Reserve Bank Reserve Fund (RBRF). Management of the Bank's assets is discussed in the chapter on 'Operations in Financial Markets'; the associated risks are considered in the chapter on 'Risk Management'.

## The Reserve Bank's Earnings

The Reserve Bank's earnings arise from two sources: underlying earnings – comprising net interest and

fee income, less operating costs – and valuation gains or losses. Net interest income arises because the Bank earns interest on almost all of its assets, albeit currently at very low rates, while it pays no interest on a large portion of its liabilities, such as banknotes on issue and capital and reserves. Fees paid by ADIs, with the introduction on 1 January 2015 of the Committed Liquidity Facility (CLF), also increased underlying earnings in the year in review.

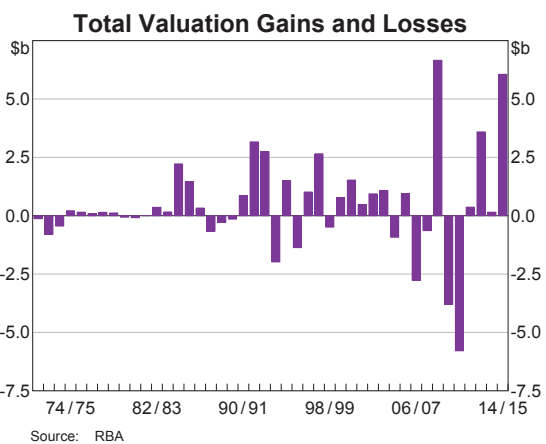
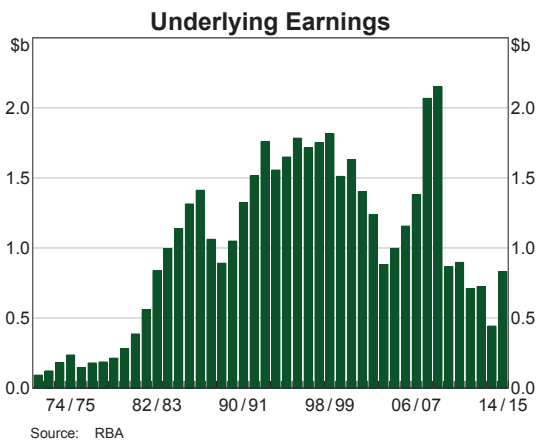
Valuation gains and losses result from fluctuations in the value of the Reserve Bank’s assets, in response to movements in exchange rates or in yields on securities. An appreciation of the Australian dollar or a rise in market yields reduces the value of assets and leads to valuation losses. Conversely, a depreciation of the Australian dollar or a decline in interest rates results in valuation gains. Valuation gains and losses are realised only when the underlying asset is sold or matures. Experience shows that valuation gains and losses are volatile, as both exchange rates and market interest rates fluctuate in wide ranges over time. These market risks are managed by the Bank within strict parameters determined by its responsibility for monetary policy.

The Reserve Bank reports net profit as income from all sources in accordance with the accounting standards, while the distribution of profits is determined by section 30 of the *Reserve Bank Act 1959*. In terms of the Reserve Bank Act, net profit is distributed in the following way:

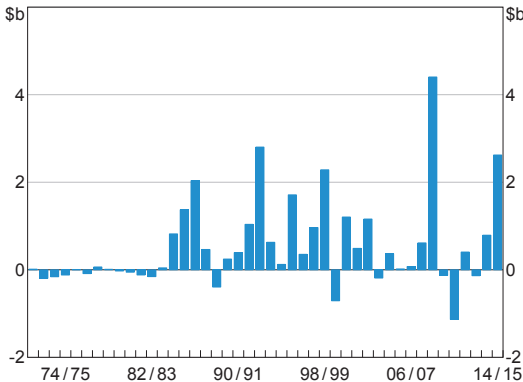
- unrealised gains (or losses) are not available for distribution and are transferred to (absorbed by) the unrealised profits reserve. The remaining net profit after this transfer is available for distribution
- the Treasurer determines, after consultation with the Board, any amounts to be placed from distributable earnings to the credit of the RBRF, the Bank’s permanent reserve
- the remainder of distributable earnings after any transfer to the RBRF is payable as a dividend to the Commonwealth.

In 2014/15, the Reserve Bank recorded a net profit of \$6 888 million, comprising:

- underlying earnings of \$832 million, which were \$390 million higher than the previous year because of higher net interest income and fee income from providing the CLF. Underlying earnings nevertheless remained near a historically low level with interest rates around the world also remaining very low
- total net valuation gains of \$6 056 million, mainly because of the depreciation of the Australian dollar during the year, of which \$2 622 million was realised mainly as a result of the sale of foreign currency in the normal course of managing the foreign currency portfolio.



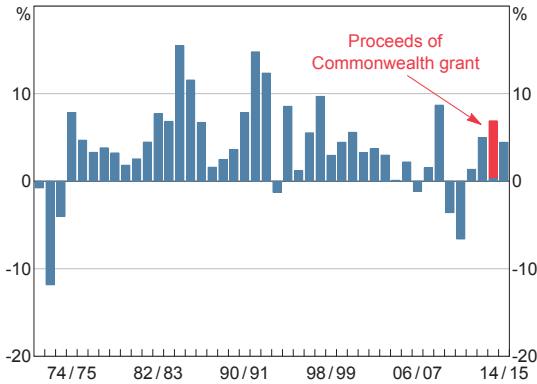
### Realised Valuation Gains and Losses



Source: RBA

### Net Profits\*

Per cent of balance sheet



\* Net profit is estimated prior to 1998

Source: RBA

With unrealised gains of \$3 434 million being transferred to the unrealised profits reserve, earnings available for distribution amounted to \$3 454 million in 2014/15. The pattern of net profit over the longer term is shown in the graph on net profits above.

## Capital, Reserves and Distribution

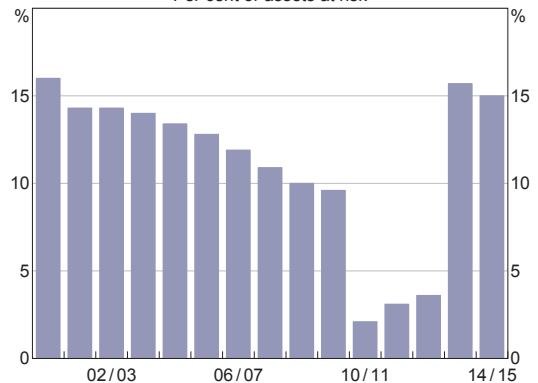
The RBRF is the Reserve Bank’s general reserve and essentially its capital. The RBRF is funded from transfers from earnings available for distribution. Its purpose is to provide the capacity to absorb losses when it is necessary to do so. The large valuation losses recorded in 2009/10 and 2010/11, as the

Australian dollar appreciated, were largely absorbed by the RBRF, as intended. This, however, left the balance of the reserve at a level lower than the Reserve Bank Board regarded as prudent in the medium term. While the process of replenishing the RBRF began in the years immediately following these losses, restoring its balance to an appropriate level appeared likely to be slow and uncertain. Consequently, the Australian Government provided a grant of \$8.8 billion in 2013/14, which added to the Bank’s net profit to the same extent and the Treasurer determined that the equivalent of this sum be transferred from net profit to the RBRF. This, in one step, returned the RBRF to a level the Board regarded as providing the Bank with strong resources to absorb potential losses from the risks it carries on its balance sheet.

With the Reserve Bank’s assets at risk rising further in 2014/15, the Treasurer determined, after consulting the Board, that a sum of \$1 570 million be placed from earnings available for distribution to the RBRF, to maintain this reserve in a position of appropriate strength. The balance of the RBRF now stands at \$12 729 million. Following this transfer, a sum of \$1 884 million was payable as a dividend to the Commonwealth. The Treasurer decided that an amount of \$942 million of this dividend would be paid to the Commonwealth in September 2015,

### Reserve Bank Reserve Fund

Per cent of assets at risk



Source: RBA



Signing of the Reserve Bank's accounts for 2014/15, (from left) Frank Campbell, Assistant Governor (Corporate Services), Governor Glenn Stevens, Michael Watson, Group Executive Director, Australian National Audit Office, Grant Hehir, Auditor-General of Australia, and John Akehurst, Chair of the Audit Committee

together with a sum of \$618 million deferred from 2013/14 profits. The remainder of 2014/15 earnings available for distribution would be paid in 2016/17.

Unrealised gains of \$3 434 million were added to the unrealised profits reserve in 2014/15, resulting in the balance of this reserve rising to \$6 590 million at the end of the financial year. This balance is available to absorb future valuation losses or may be distributed over time as these accumulated gains are realised when relevant assets are sold.

Asset revaluation reserves are held for non-traded assets, such as gold holdings and property, plant and equipment. Balances in these reserves represent the difference between the market value of these assets and the cost at which they were acquired. The total balance for these reserves stood at \$4 376 million at 30 June 2015, \$398 million

higher than at the end of the previous financial year, largely reflecting the increase in the Australian dollar value of the Reserve Bank's holdings of gold.

The balance of the superannuation reserve was a credit of \$134 million at 30 June 2015, compared with a debit of \$23 million a year earlier.

Details on the composition and distribution of the Reserve Bank's profits are shown in the table on page 108.

The Financial Statements (and accompanying Notes to the Financial Statements) for the 2014/15 financial year were prepared in accordance with Australian Accounting Standards, consistent with the Financial Reporting Rule issued under the *Public Governance, Performance and Accountability Act 2013*.

## Composition and Distribution of Reserve Bank Profits

\$ million

	Composition of profits <sup>(a)</sup>				Distribution of profits				Payments to government		
	Underlying earnings	Realised gains and losses <sup>(b)</sup>	Unrealised gains and losses <sup>(-)</sup>	Net profit or loss <sup>(-)</sup>	Unrealised profits reserve	Asset revaluation reserves	Reserve Bank Fund	Dividend payable	Payment from previous year's profit	Payment delayed from previous year	Total payment
1997/98	1 750	966	1 687	4 403	1 687	-558	548	2 726	1 700	-	1 700
1998/99	1 816	2 283	-2 773	1 326	-2 349	-1	-	3 676	2 726	-	2 726
1999/00	1 511	-708	1 489	2 292	1 489	-	-	803	3 000	-	3 000
2000/01	1 629	1 200	320	3 149	320	-5	-	2 834	803	676	1 479
2001/02	1 400	479	-11	1 868	-11	-10	-	1 889	2 834	-	2 834
2002/03	1 238	1 157	-222	2 173	-222	-2	133	2 264	1 889	-	1 889
2003/04	882	-188	1 261	1 955	1 261	-	-	694	1 300	-	1 300
2004/05	997	366	-1 289	74	-1 289	-	-	1 363	374	964	1 338
2005/06	1 156	4	933	2 093	933	-17	-	1 177	1 063	320	1 383
2006/07	1 381	72	-2 846	-1 393	-2 475	-3	-	1 085	1 177	300	1 477
2007/08	2 068	614	-1 252	1 430	27	-	-	1 403	1 085	-	1 085
2008/09	2 150	4 404	2 252	8 806	2 252	-	577	5 977	1 403	-	1 403
2009/10	866	-128	-3 666	-2 928	-2 248	-	-680	-	5 227	-	5 227
2010/11	897	-1 135	-4 651	-4 889	-23	-	-4 866	-	-	750	750
2011/12	710	405	-39	1 076	-20	-	596	500	-	-	-
2012/13	723	-135	3 725	4 313	3 725	-	588	-	500	-	500
2013/14	9 242 <sup>(c)</sup>	790	-640	9 392	-640	-3	8 800	1 235	-	-	-
2014/15	832	2 622	3 434	6 888	3 434	-	1 570	1 884	618	-	618
2015/16									942	618	1 560
2016/17										942	942

(a) As originally published  
(b) Excludes gains or losses realised from the sale of fixed assets that had been held in Asset Revaluation Reserves  
(c) Includes the Commonwealth grant of \$8 800 million