

FINANCIAL STATEMENTS

AS AT 30 JUNE 2003

DIRECTORS' STATEMENT

In the opinion of the directors, the financial statements for the year ended 30 June 2003 give a true and fair view of the matters required by the Finance Minister's Orders 2002-03 made under the *Commonwealth Authorities and Companies Act 1997*. The Reserve Bank is and will be able to pay its debts as and when they become due.

A handwritten signature in blue ink, appearing to read 'IJ Macfarlane', written in a cursive style.**IJ Macfarlane**

Chairman, Reserve Bank Board

13 August 2003

STATEMENT OF FINANCIAL POSITION As at 30 June 2003

Reserve Bank of Australia and Controlled Entities

	Note	2003 \$M	2002 \$M
ASSETS			
Cash and liquid assets	6, 19	839	606
Australian dollar securities	1(d), 18	18 933	21 987
Foreign exchange	1(c), 18	44 929	35 650
Gold	1(b), 18	1 350	1 459
Property, plant and equipment	1(f), 8	287	277
Loans, advances and other	7	255	149
Total Assets		66 593	60 128
LIABILITIES			
Deposits	1(g), 9	14 736	13 992
Distribution payable to Australian Government	1(i), 3	2 264	1 889
Other	10	8 007	2 807
Australian notes on issue	1(k)	32 172	31 930
Total Liabilities		57 179	50 618
Net Assets		9 414	9 510
Capital and Reserves			
Reserves:			
Unrealised Profits Reserve	1(h), 5	1 576	1 798
Asset revaluation reserves	1(h), 5	1 513	1 520
Reserve Bank Reserve Fund	1(h), 5	6 285	6 152
Capital	5	40	40
Total Capital and Reserves		9 414	9 510

STATEMENT OF FINANCIAL PERFORMANCE For the year ended 30 June 2003

Reserve Bank of Australia and Controlled Entities

	Note	2003 \$M	2002 \$M
REVENUES			
Interest revenue	2	2 175	2 196
Net gains on securities and foreign exchange	2	935	468
Dividend revenue	2	3	4
Fees and commissions	2	20	20
Other revenue	2	37	39
Total revenue		3 170	2 727
EXPENSES			
Interest expense	2	804	684
General administrative expenses	2	170	149
Other expenses	2	23	26
Total expenses		997	859
Net Profit		2 173	1 868
Net revaluation adjustments in asset revaluation reserves	1 (h), 5	(5)	100
Net profit plus net revaluation adjustments in asset revaluation reserves		2 168	1 968

STATEMENT OF DISTRIBUTION For the year ended 30 June 2003

Reserve Bank of Australia and Controlled Entities

	Note	2003 \$M	2002 \$M
Net Profit		2 173	1 868
Transfer from Unrealised Profits Reserve	5	222	11
Transfer from asset revaluation reserves	5	2	10
Earnings available for distribution		2 397	1 889
Distributed as follows:			
Reserve Bank Reserve Fund	5	133	–
Payable to the Australian Government	3	2 264	1 889
		2 397	1 889

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 30 June 2003

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 1997.

The form and content of the financial statements incorporate the requirements of the Finance Minister's Orders 2002-2003. These orders provide that the financial statements of agencies and authorities must comply with accounting standards and accounting interpretations issued by the Australian Accounting Standards Board. As the Reserve Bank of Australia (RBA) is a financial institution, the financial statements have been prepared using AAS32 – Specific Disclosures by Financial Institutions.

The RBA has been granted an exemption from the requirements of the Orders as detailed in Note 1 (m). This exemption relates 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. 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 the case of plant and equipment, 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. Unless otherwise stated, the accounting policies and practices followed in these statements are consistent with those followed in the previous year.

(a) Consolidation and associated company The financial statements show information for the economic entity only; this reflects the consolidated results for the parent entity, the Reserve Bank of Australia, and its wholly owned subsidiary, Note Printing Australia Limited. The results of the parent entity do not differ materially from the economic entity and have therefore not been separately disclosed other than in Note 15, Related party and other disclosures. Note Printing Australia Limited was incorporated as a wholly owned subsidiary of the 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 7.

(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 lends gold to financial institutions participating in the gold market. Gold loans are secured to 110 per cent 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, Germany, France and Japan) 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.

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 biannual 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 on the date they are accrued.

Foreign currency swaps

The RBA uses foreign currency swaps to assist daily domestic liquidity management and to manage its balance sheet holdings. 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 certain 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 2003 (including those under swap contracts) have been valued at market exchange rates (refer Note 18).

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 are off-balance sheet items. The RBA did not trade in any other derivative instruments during 2002/03.

(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 biannually 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 and contracted for purchase under repurchase agreements are reported on the Statement of Financial Position 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 purchased and 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 8.

(g) Deposits Deposits include deposits at call and term deposits. Deposit balances are shown at 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. Details of deposits are included in Note 9.

(h) Reserves Reserves are maintained to cover the broad range of risks to which the RBA is exposed. The Reserve Bank Reserve Fund (RBRF) is a general reserve which provides for events which are contingent and non-foreseeable, mainly those which arise from movements in market values of the RBA's holdings of Australian dollar and foreign securities; the RBRF also provides for potential losses from fraud and other non-insured losses. 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 Australian Government; in the interim, the amounts are retained in the Unrealised Profits Reserve.

(i) Profits Profits of the RBA are dealt with in terms of Section 30 of the Reserve Bank Act as follows:

- (1) Subject to subsection (2), 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 is 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.

(j) 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 AASB 1028 – *Employee Benefits*. 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.

(k) 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 2002/03, or in 2001/02.

In 2001/02, the RBA began to pay interest on working balances of currency notes held by banks under revised cash distribution arrangements. Interest is paid on balances up to a certain limit.

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

(m) Exemptions The RBA has been granted an exemption from the following requirements of the Finance Minister's Orders 2002-03:-

Requirement	Description	Detail of exemption
Appendix A	Forms of Financial Statements	Details of revenues and expenses are disclosed in Note 2.

	Note	2003 \$M	2002 \$M
NOTE 2 NET PROFITS			
Interest revenue			
Overseas investments	1(c)	1 056	1 186
Australian dollar securities	1(d)	1 062	957
Overnight settlements		37	30
Gold loans	1(b)	19	22
Loans, advances and other		1	1
		2 175	2 196
Net gains/(losses) on securities and foreign exchange			
Overseas investments	1(c)	1 036	207
Australian dollar securities	1(d)	49	(99)
Foreign currency	1(c)	(150)	360
		935	468
Dividend revenue			
Earnings on shares in Bank for International Settlements		3	4
Fees and commissions			
Banking services fees received		20	20
Other revenue			
Reimbursement by Australian Government for loan management and registry expenses		1	1
Rental of Bank premises		4	5
Sales of note products		19	19
Other		13	14
		37	39
Total		3 170	2 727
Less:			
Interest expense			
Deposit liabilities	1(g)	513	454
Currency note holdings of banks	1(k)	136	78
Repurchase agreements	1(e)	155	152
		804	684
General administrative expenses			
Staff costs		101	86
Special redundancy/retirement payments	12	3	4
Depreciation of property	8	7	7
Depreciation of plant and equipment	8	9	8
Premises and equipment		25	25

	Note	2003 \$M	2002 \$M
NOTE 2 CONTINUED			
Materials used in note production		8	8
Travel		3	3
Consultants' fees	14	8	2
Other		6	6
		170	149
<i>Other expenses</i>			
Agency business reimbursement		3	3
Subsidiary income tax		—	—
Cash distribution expenses		4	4
Other		16	19
		23	26
Total		997	859
Net Profit		2 173	1 868

Staff costs in 2002/03 include an expense of \$8 million associated with the increase in the balance of the Provision for post-employment benefits (refer Note 10).

NOTE 3 DISTRIBUTION TO AUSTRALIAN GOVERNMENT

Section 30 of the Reserve Bank Act requires that the net profits of the Reserve Bank of Australia, less amounts set aside for contingencies or placed in the RBRF as determined by the Treasurer, shall be paid to the Australian Government (see Note 1 (i) for details). Of the sum payable to the Australian Government of \$2 264 million out of profits for 2002/03, \$1 300 million will be paid in August 2003 and the balance of \$964 million will be paid in 2004/05.

	Average balance \$M	Interest \$M	Average annual interest rate %
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NOTE 4 INTEREST REVENUE AND INTEREST EXPENSE

Analysis for the year ended 30 June 2003

Interest revenue

Overseas investments	39 533	1 056	2.7
Australian dollar securities	20 055	1 062	5.3
Loans, advances and other	38	1	3.4
Overnight settlements	818	37	4.5
Gold loans	1 465	19	1.3
	<u>61 909</u>	<u>2 175</u>	<u>3.5</u>

Interest expense

Banks' Exchange Settlement balances	771	35	4.5
Deposits from governments	9 905	470	4.7
Deposits from overseas institutions	190	2	1.2
Overseas repurchase agreements	6 495	95	1.5
Domestic repurchase agreements	1 268	60	4.7
Currency note holdings of banks	2 865	136	4.7
Other deposits	146	6	4.2
	<u>21 640</u>	<u>804</u>	<u>3.7</u>

Analysis for the year ended 30 June 2002

Interest revenue total	<u>57 800</u>	<u>2 196</u>	<u>3.8</u>
Interest expense total	<u>18 357</u>	<u>684</u>	<u>3.7</u>

	2003 \$M	2002 \$M
NOTE 5 RESERVES		
Changes in the RBA's various reserves are shown below.		
Asset revaluation reserves (Note 1(h))		
Gold		
Opening balance	1 339	1 260
Net revaluation adjustments	(117)	79
As at 30 June	1 222	1 339
Shares in international financial institutions (Note 7)		
Opening balance	74	68
Net revaluation adjustments	105	6
As at 30 June	179	74
Bank properties (Notes 1(f), 8)		
Opening balance	107	102
Net revaluation adjustments	7	15
Transfers to Statement of Distribution	(2)	(10)
As at 30 June	112	107
Total asset revaluation reserves		
Opening balance	1 520	1 430
Net revaluation adjustments	(5)	100
Transfers to Statement of Distribution	(2)	(10)
As at 30 June	1 513	1 520
Unrealised Profits Reserve (Note 1(h))		
Opening balance	1 798	1 809
Net transfers to Statement of Distribution	(222)	(11)
As at 30 June	1 576	1 798
Reserve Bank Reserve Fund (Note 1(h))		
Opening balance	6 152	6 152
Transfer from Net Profit	133	–
As at 30 June	6 285	6 152
Capital		
Opening and closing balance	40	40
Total capital and reserves		
Opening balance	9 510	9 431
Net profit plus net revaluation adjustments in asset revaluation reserves	2 168	1 968
Distribution payable to Australian Government	(2 264)	(1 889)
As at 30 June	9 414	9 510

NOTE 6 CASH AND LIQUID ASSETS

This includes net amounts of \$822 million owed to the RBA for overnight clearances of financial transactions through the clearing houses; an amount of \$586 million was owed to the RBA at 30 June 2002.

	2003 \$M	2002 \$M
NOTE 7 LOANS, ADVANCES AND OTHER ASSETS		
Shareholding in Bank for International Settlements	181	76
Officers' Home Advances	25	27
Gold coin	17	19
Investment in Securrency	11	5
Other	21	22
As at 30 June	255	149

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 as at 30 June 2003 was \$36 530 001 (\$21 530 001 at 30 June 2002); during 2002/03 the RBA invested \$7 500 000 in Securrency. The carrying value of the RBA's investment in Securrency as at 30 June 2003 was \$11 164 670 (\$5 001 000 at 30 June 2002). Securrency Pty Ltd has a 31 December balance date.

As at 30 June 2003, other assets included receivables of \$17.2 million, of which \$15.9 million is current.

	Land \$M	Buildings \$M	Plant and equipment \$M	Computer software \$M	Total \$M
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NOTE 8 PROPERTY, PLANT AND EQUIPMENT

Gross Book Value as at 30 June 2002	86	141	119	5	351
Accumulated depreciation	–	–	(71)	(3)	(74)
Net Book Value	86	141	48	2	277
Additions	–	3	21	1	25
Net Revaluation increment/decrement	6	1	–	–	7
Depreciation/amortisation expense	–	(7)	(8)	(1)	(16)
Disposals	(3)	(2)	(1)	–	(6)
Gross Book Value as at 30 June 2003	89	136	135	5	365
Accumulated depreciation	–	–	(75)	(3)	(78)
Net Book Value	89	136	60	2	287

The triennial independent revaluation of all RBA properties occurred at 30 June 2001 (Note 1 (f)). Valuations have been updated annually since then to reflect developments in Australian property markets in which the RBA's properties are located.

	2003 \$M	2002 \$M
NOTE 9 DEPOSITS		
Banks' Exchange Settlement balances	628	1 091
Australian Government	13 784	12 387
State Governments	13	256
Foreign governments, foreign institutions and international organisations	244	146
Other depositors	67	112
As at 30 June	14 736	13 992
NOTE 10 OTHER LIABILITIES		
Provisions (Note 1(j))		
Provision for accrued annual leave	8	8
Provision for long service leave	21	20
Provision for post-employment benefits	55	47
Provision for workers' compensation	1	1
As at 30 June	85	76
Other		
Amounts outstanding under repurchase agreements (contract price) (Note 1 (e))	7 833	2 671
Interest accrued on deposits	55	34
Other	34	26
As at 30 June	7 922	2 731
Total other liabilities	8 007	2 807

**NOTE 11 CONTINGENT LIABILITIES AND OTHER ITEMS
NOT INCLUDED IN STATEMENT OF FINANCIAL POSITION****Contingencies**

The RBA has a contingent liability, amounting to \$72.6 million at 30 June 2003 (\$79.0 million at 30 June 2002), in respect of the uncalled portion of its shares held in the Bank for International Settlements.

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 commitments of \$8.2 million at 30 June 2003 (\$11.8 million at 30 June 2002) payable within one year; and \$0.5 million commitments payable beyond one year.

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

NOTE 12 SPECIAL REDUNDANCY/RETIREMENT PAYMENTS

The RBA's expenses in 2002/03 include \$3 million paid or payable to, or on behalf of, staff who accepted special redundancy/retirement offers. Corresponding payments in 2001/02 totalled \$4 million. Staff leaving the RBA in 2002/03 under these arrangements numbered 34 (31 in 2001/02).

NOTE 13 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 2003	Number 2002
\$100 000 – \$109 999	1	4
\$110 000 – \$119 999	1	
\$120 000 – \$129 999	6	8
\$130 000 – \$139 999	5	14
\$140 000 – \$149 999	14	13
\$150 000 – \$159 999	13	7
\$160 000 – \$169 999	6	4
\$170 000 – \$179 999	3	4
\$180 000 – \$189 999	2	3
\$190 000 – \$199 999	4	5
\$200 000 – \$209 999	5	1
\$210 000 – \$219 999		1
\$220 000 – \$229 999	1	
\$230 000 – \$239 999	2	
\$240 000 – \$249 999	1	6
\$250 000 – \$259 999		1
\$260 000 – \$269 999	4	1
\$270 000 – \$279 999	1	
\$300 000 – \$309 999		4
\$310 000 – \$319 999	1	
\$320 000 – \$329 999	4	
\$340 000 – \$349 999		1
\$380 000 – \$389 999	1	
\$490 000 – \$499 999		1
\$500 000 – \$509 999	1	

Total remuneration received or due and receivable by these 76 executives amounted to \$14.140 million (78 executives totalling \$13.668 million in 2001/02). 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, or seconded to other organisations 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 15).

Termination payments of \$0.228 million were made to executives who left the Bank during 2002/03 (\$1.055 million in 2001/02); these payments are not reflected in the above table.

NOTE 14 REMUNERATION OF AUDITOR

Fees paid or payable to the statutory auditor (Auditor-General of the Commonwealth of Australia) for audit services totalled \$186 000 in 2002/03 (\$179 000 in 2001/02). They are included in “Consultants’ fees” in Note 2, which also covers legal fees and payments made to specialists for “review and advice” services.

NOTE 15 RELATED PARTY AND OTHER DISCLOSURES

The Remuneration Tribunal determines the remuneration appropriate to the RBA’s non-executive Board members. In 2002/03, payments to executive and non-executive Board members totalled \$1 146 065 (\$1 241 410 in 2001/02). Remuneration includes amounts paid to members of the Bank Board who are also executives (refer Note 13).

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

Remuneration band	Number 2003	Number 2002
\$10 000 – \$19 999	1	
\$30 000 – \$39 999	4	4
\$40 000 – \$49 999	2	1
\$60 000 – \$69 999		1
\$160 000 – \$169 999		1
\$340 000 – \$349 999		1
\$380 000 – \$389 999	1	
\$490 000 – \$499 999		1
\$500 000 – \$509 999	1	

At 30 June 2003 and 30 June 2002 there were no loans by the RBA to the Governor, Deputy Governor or non-executive members of the Board.

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, \$106 401 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 (\$101 787 in 2001/02). The RBA also paid \$154 055 for the services of members of the Payments System Board who are not employees of the RBA (\$147 252 in 2001/02).

NOTE 16 SUPERANNUATION FUNDS

Two superannuation funds are operated pursuant to the Reserve Bank Act: the Reserve Bank of Australia Officers' Superannuation Fund (OSF) and the Reserve Bank of Australia UK Pension Scheme. A small part of the assets of the OSF is 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 2002/03.

At 30 June 2003, the OSF had a surplus of assets over accrued benefits of \$66 million (\$183 million at 30 June 2002). The UK Pension Scheme had a surplus equivalent to \$5 million (\$5 million at 30 June 2002). During 2002/03, the RBA made superannuation contributions of \$2.3 million (\$2.3 million in 2001/02).

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

	2003 \$M	2002 \$M
Reserve Bank of Australia Officers' Superannuation Fund		
Accrued benefits	542	426
Net market value of assets	608	609
Surplus	66	183
Vested benefits	508	435
Reserve Bank of Australia UK Pension Scheme		
Accrued benefits	19	20
Net market value of assets	24	25
Surplus	5	5
Vested benefits	16	18
Total Superannuation Funds		
Accrued benefits	561	446
Net market value of assets	632	634
Surplus	71	188
Vested benefits	524	453

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

NOTE 17 SEGMENT REPORTING

The RBA's primary function as a Central Bank is the implementation of monetary policy in one geographical area – Australia. Over 95 per cent of the RBA's assets (and a similar proportion of revenues) are managed for that purpose by the Financial Markets Group. Additional information on the make-up of the RBA's financial assets is provided in Note 18.

NOTE 18 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 Statement of Financial Position.

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 Statement of Financial Position restated in compliance with AAS33.

NOTE 18 CONTINUED**Interest rate risk** As at 30 June 2003

	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	1 333	–	316	630	366	–	21	1.2
Gold holdings	17	–	–	–	–	–	17	n/a
Sub-total	1 350							
Foreign exchange								
Securities sold under repurchase agreements	6 530	–	–	–	3 190	3 340	–	3.0
Securities purchased under repurchase agreements	10 453	–	10 453	–	–	–	–	1.5
Deposits and other securities	27 741	941	8 950	5 000	9 313	3 284	253	1.8
Accrued interest – foreign exchange	205	–	–	–	–	–	205	n/a
Sub-total	44 929							
Australian dollar securities								
Securities sold under repurchase agreements	1 303	–	–	–	563	740	–	4.7
Securities purchased under repurchase agreements	14 259	–	11 086	3 173	–	–	–	4.7
Other securities	3 263	–	1 635	2	802	824	–	4.6
Accrued interest – Australian dollar securities	108	–	–	–	–	–	108	n/a
Sub-total	18 933							
Property, plant & equipment	287	–	–	–	–	–	287	n/a
Cash and liquid assets	839	831	–	–	–	–	8	4.5
Loans and advances	25	25	–	–	–	–	–	3.3
Other	230	–	–	–	–	–	230	n/a
Total assets	66 593	1 797	32 440	8 805	14 234	8 188	1 129	2.7
Liabilities								
Australian notes on issue	32 172	2 456	–	–	–	–	29 716	0.4
Deposits	14 736	2 490	12 200	–	–	–	46	4.6
Distribution payable to Australian Government	2 264	–	–	–	–	–	2 264	n/a
Other	8 007	–	7 833	–	–	–	174	1.5
Total liabilities	57 179	4 946	20 033	–	–	–	32 200	1.4
Capital and reserves	9 414							
Total balance sheet	66 593							
Off balance sheet items								
Interest rate futures	72	–	–	–	–	72	–	n/a

NOTE 18 CONTINUED**Interest rate risk** As at 30 June 2002

	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	60 128	1 420	34 164	4 182	10 094	9 206	1 062	3.5
Total liabilities	50 618	6 142	13 071	–	–	–	31 405	1.4
Capital and reserves	9 510							
Total balance sheet	60 128							
Off balance sheet items	38	–	–	–	–	38	–	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, 2000/01, 2001/02 and 2002/03, 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 2003 was the equivalent of \$66 million (\$606 million at 30 June 2002), on which the RBA is earning a yield of 1.2 per cent (2.0 per cent in 2001/02). The swaps represent 0.1 per cent of the RBA's total assets as at 30 June 2003 (1.0 per cent at 30 June 2002). The remaining tranche of the swap was repaid in July 2003.

NOTE 18 CONTINUED

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

- 1. Foreign exchange swaps** – As at 30 June 2003 the RBA was under contract to purchase \$16.0 billion of foreign currency and sell \$43.1 billion of foreign currency. As of that date there was an unrealised net gain included in net profit of \$2 089 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 2003 the amount of credit risk on interest rate futures contracts was approximately \$0.8 million (\$0.9 million at 30 June 2002). As at 30 June 2003 there was an unrealised loss brought to account on those contracts of \$2.7 million (\$42 000 unrealised loss at 30 June 2002).

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

	Risk rating of security issuer*	Risk rating of counterparties*	% of total asset portfolio as at 2003	% of total asset portfolio as at 2002
Australian dollar securities				
Holdings of Commonwealth Government securities	AAA	n/a	5.1	5.4
Securities sold under repurchase agreements	AAA	AA	1.5	1.7
	AAA	other	0.4	0.1
Securities held under repurchase agreements	AAA	AA	18.6	25.9
	AAA	other	1.0	1.2
	AA	AA	1.9	1.9
	AA	other	0.0	0.3
Foreign investments				
Holdings of securities	AAA	n/a	25.3	29.8
	AA	n/a	8.1	5.4
Securities sold under repurchase agreements	AAA	AA	8.9	1.2
	AAA	other	0.9	1.5
Securities held under repurchase agreements	AAA	AA	14.8	9.7
	AAA	other	0.9	3.6
Deposits	n/a	AAA	0.6	1.2
	n/a	AA	7.8	6.0
	n/a	other	0.1	1.0
Gold loans	n/a	AAA	0.2	0.2
	n/a	AA	1.0	1.6
	n/a	other	0.8	0.5
Other			2.1	1.8
			100%	100%

* Standard & Poor's equivalent ratings

NOTE 19 CASH FLOW STATEMENT

The following cash flow statement appears as a matter of record to meet the requirements of AAS 28 – *Statement of Cash Flows*; 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

	2003 Inflow/(outflow) \$M	2002 Inflow/(outflow) \$M
Cash flows from operating activities		
Interest received on investments	2 011	2 056
Interest received on loans, advances, and on net overnight settlements systems	38	32
Loan management reimbursement	1	1
Banking service fees received	23	21
Rents received	4	5
Net payments for and proceeds from sale of investments	(73)	(622)
Interest paid on deposit liabilities	(492)	(484)
Interest paid on currency note holdings of banks	(136)	(78)
Staff costs (including redundancy)	(94)	(94)
Premises and equipment	(25)	(25)
Other	(105)	9
Net cash provided by operating activities	1 152	821
Cash flows from investment activities		
Net expenditure on property, plant and equipment	(16)	12
Net cash used in investing activities	(16)	12
Cash flows from financing activities		
Profit payment to Australian Government	(1 889)	(2 834)
Net movement in deposit liabilities	744	(2 872)
Net movement in loans and advances	2	8
Net movement in notes on issue	242	4 762
Other	(2)	29
Net cash provided by financing activities	(903)	(907)
Net increase/(decrease) in cash	233	(74)
Cash at beginning of financial year	606	680
Cash at end of financial year	839	606

NOTE 19 CONTINUED

Reconciliation of cash	2003 \$M	2002 \$M
Cash	17	20
Overnight settlements systems	822	586
	839	606

Reconciliation of net cash provided by operating activities to Net Profits in terms of the Reserve Bank Act	2003 \$M	2002 \$M
Net Profit	2 173	1 868
Increase/(decrease) in interest payable	22	(30)
Net loss/(gain) on overseas investments	(1 036)	(207)
Net loss/(gain) on Australian dollar securities	(49)	99
Net loss/(gain) on foreign currency	150	(360)
Decrease/(increase) in income accrued on investments	48	65
Depreciation of property	7	7
Depreciation of plant and equipment	9	8
Net payments for and proceeds from sale of investments	(73)	(622)
Other	(99)	(7)
Net cash provided by operating activities	1 152	821



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 2003. The financial statements include the consolidated financial statements of the consolidated entity comprising the Reserve Bank of Australia and the entities it controlled at the year's end or from time to time during the financial year. The financial statements comprise:

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

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 the 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 Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with my understanding of the Reserve Bank of Australia's and the consolidated entity's financial position, their financial performance and their 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 Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*; and
- give a true and fair view, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia and the Finance Minister's Orders, of the financial position of the Reserve Bank of Australia and the consolidated entity as at 30 June 2003, and their financial performance and cash flows for the year then ended.

P.J. Barrett
Auditor-General

Sydney
13 August 2003