Treasury Corporation of Victoria

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ABN: 97 552 308 966

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Reference to Credit Ratings

All references to credit ratings in this document are provided for information purposes only. A credit rating is not a recommendation to buy, sell or hold any financial product. Such ratings are subject to revision or withdrawal at any time by the relevant rating agency.

Statement of Corporate Intent

Our Vision

To be a respected central financing authority and adviser, optimising benefits for and protecting the interests of the State of Victoria and our clients.

Our Mission

We are united in our commitment to deliver innovative financing solutions to the State. Our culture motivates our people to act with integrity and professionalism to achieve the best results for the State and our clients.

Our Values

We value the following key skills and knowledge:

- commercial acumen
- communication
- relationship management
- management effectiveness
- proactivity
- problem solving
- empathy
- technical skills.

In addition, Treasury Corporation of Victoria (TCV or the Corporation) promotes the public sector values contained in Part 2 of the *Public Administration Act* 2004, which include responsiveness, integrity, impartiality, accountability, respect, leadership and the promotion of human rights.

Our People

TCV understands that our employees are central to the success of our business. Our people related policies support our commitment to the long-term development of our employees. We also recognise the importance of a healthy and balanced life.

In return, we expect our people to engage with TCV's key skills and knowledge, and to demonstrate the values and behaviours required of participants in financial markets and employees in the public sector, as set out in the relevant Codes of Conduct.

Our Shareholder

The Treasurer of the State of Victoria is our shareholder. His interests are monitored by the Department of Treasury and Finance (DTF). Our Chairman, on behalf of the Board of Directors, reports directly to the Treasurer.

Our Clients

We provide treasury services to those State and public authorities that have been accepted as participating authorities by the Corporation under the *Treasury Corporation of Victoria Act* 1992 (the TCV Act) and, at the request of the Treasurer, to other Victorian entities.

At 30 June 2011, there were 89 participating authorities (2010: 87) in addition to the budget sector. The services we provide include:

- debt portfolio management
- cash management and deposit products
- interest rate, foreign exchange and commodity risk management
- economic services
- financing policies and strategies
- a dedicated financing service
- general treasury and financing advice
- analytical services.

Our Objectives

TCV has the following objectives:

- to act as a financial institution for the benefit of the State and participating authorities
- to enhance the financial position of the State, the Corporation and participating authorities
- to provide our services in an effective, efficient and competitive manner.

Our Guarantee

Our payment obligations in relation to borrowings and derivative transactions are guaranteed by the State of Victoria (section 32 of the TCV Act). Our loans to participating authorities are guaranteed by the State of Victoria.

Our Business Operations

Our business operations assist the State in the prudent management of Victoria's financing risks by centralising financing and advisory activities through the:

- provision of a single interface to the debt markets
- maintenance and enhancement of the State's profile and reputation in financial markets
- assumption and management of financing risk that would otherwise reside with the State or its authorities
- retention of expert skills and knowledge to manage these financing risks
- provision of financing advice in anticipation of and in response to the requirements of the State and its authorities in all their financing arrangements
- adoption of prudent risk management policies and processes in relation to interest rate, refinancing, credit, liquidity, foreign currency, commodity and operational risks.

Our Borrowing Programs

Our borrowing programs provide financing liquidity for the State and its authorities as a result of:

- a range of borrowing programs that facilitate access to long and short term funding in domestic and international debt capital markets
- diversity of the investor base
- an active management philosophy that ensures the ability to provide sufficient funding at acceptable pricing in all market conditions
- a key corporate objective to raise funds at a cost consistent with or better than other comparable AAA/Aaa rated Australian state financing authorities
- a liquidity framework that ensures a spread of maturities to manage refinancing risks.

Report of the Chairman and Managing Director

The Annual Report for 2010-11 once again demonstrates the positive contribution TCV makes to Victoria through our financing, investment, risk management and advisory activities. In addition, the report highlights the important contribution made through our other activities - for example, our client industry sector support, our leadership role in the Australian financial markets and our domestic and international investor marketing program. These activities help our customers achieve their objectives, and promote the Victorian economy in the global arena.

Through the year, international concern focused on sovereign debt problems in some of the euro area countries, on US growth remaining stubbornly low and unemployment correspondingly high and on political instability across North Africa and the Middle East.

Australia has faced challenges. Most notable were a series of natural disasters in early 2011 that have limited growth.

The Victorian State Budget, released in May 2011, highlighted a slowing economy and lower projected revenue growth. Nevertheless, Treasurer Wells delivered a budget that maintained a surplus, curbed expenditure and committed to additional infrastructure spending, with only a modest increase in Victorian State debt. The budget supports the Victorian Government's commitment to maintaining its AAA/Aaa rating which assists TCV to maintain reliable access to financial markets and maintain our place as a significant participant in the Australian financial markets.

Indeed, TCV's domestic and international investors tell us that Victoria continues to be an investment destination of choice.

Our investors' confidence is reflected in TCV's ability to access term markets. TCV's 2010-11 call on markets of $A5.848 billion has been raised successfully. These funds were primarily raised through TCV's Australian Dollar Domestic Inscribed Stock (DIS) program and in response to client requirements at the longer end of the yield curve.

In October 2010, TCV issued a December 2024 DIS line that was quickly accepted by both domestic and international investors, and, in June 2011, a November 2026 DIS, which while not yet a benchmark line, is expected to receive significant investor interest through the new financial year.

In this environment, TCV has achieved its primary performance target: to provide for our clients competitively priced financing in the volume and duration required to deliver their infrastructure plans.

TCV's business continues to grow. We measure this growth by observing changes in:

1. Participating authorities - at 30 June 2011, the number of state and public authorities which have been accepted by TCV as participating authorities was 89 (2010: 87)
2. Client loans - at 30 June 2011, the number of state and public authorities with borrowings was 49 (2010: 46)
3. Lending growth - at 30 June 2011, loans to participating authorities were $A27.5 billion (2010: $A21.7 billion)
4. Deposit volumes - at 30 June 2011, deposits sourced from state and public authorities totalled $A5.9 billion (2010: $A5.7 billion).

We work tirelessly to exceed the expectations of our clients and these statistics demonstrate the continuing importance of the Corporation in meeting the financing needs of the State.

TCV consolidates much of the State's investment risk by centralising the investment of our clients in short term funds. These funds, and other funds, are used to maintain a portfolio of liquid assets which underpins the State's financing liquidity.

At the close of the financial year, these combined investments, cash and cash equivalents totalled approximately $A6.9 billion. These investments remain restricted to high end investment grade credits.

These activities are managed within a conservative framework that is overseen by the TCV Board and by the State through the Prudential Supervision framework.

Victoria utilises the *Partnerships Victoria* (PV) procurement model to build, operate and finance significant infrastructure projects where appropriate, with TCV continuing to play an important role in the assessment of these projects. TCV is also actively engaged in assisting the State on policy development. Over the year TCV has contributed to policy on Whole of State Liquidity, Centralised Investment and Prudential Supervision.

Our people are the key to the Corporation's success, and our employees, the executive team and the Board have continued to demonstrate their capability and diligence over the 12 months. This year we have welcomed several new employees, and we remain committed to maintaining our reputation as a quality employer. We thank all of these people for their contribution and dedication.

During the year, Ms Sue Carter and Ms Suzanne Ewart renewed their directorships and we would like to thank these Directors for their continued commitment. We also had a Director retirement, Mr Tim Knott.

Mr Knott retired after five years of service with TCV and his contribution over this time was appreciated by management and Board.

Our relationship with the officers of the Department of Treasury and Finance is strong and productive and we would like to thank them for their ongoing support. The Corporation works closely with these individuals and values the professional working dynamic that has been established over the years.

We would also like to thank our clients for their continued support of the Corporation. The trust that is evident in these relationships augments our ability to provide our services.

Finally, we would like to take this opportunity to thank Treasurer Wells and his staff for their support of TCV. The competing priorities for a new Treasurer are considerable and he has been generous with his time. We look forward to providing support to his office over coming years.

We remain committed to working together with our employees, clients and stakeholders in the year ahead to once more deliver the Corporation's expertise on behalf of the Victorian community.

Rob Hunt
Chairman

William (Bill) Whitford
Managing Director

Performance Summary

TCV has a number of key objectives and performance indicators. These are both financial and non-financial in nature, and are agreed with the Victorian Treasurer as part of the yearly corporate planning process.

The table below summarises TCV's performance for the reporting period.

Objective/Indicator	Outcome 2010-11
Delivery of the State's financing requirements	A key part of TCV's business model is to provide financing to participating authorities in the volume and maturity which they require to support their businesses. TCV once again achieved this objective through the year.
Management of market risk within approved parameters	TCV employs a number of risk measures to manage its market risk. Principal amongst these is a Value at Risk (VaR) parameter, determined by the Board and approved by the Victorian Treasurer through the TCV Corporate Plan. Over the 2010-11 financial year, TCV managed market risk within approved limits.
Maintenance of prescribed capital ratio	TCV's Prudential Supervision Policy requires that TCV maintain a minimum capital ratio of at least 8% and, where practicable, greater than 10%. Through the financial year TCV complied with this requirement.
Management of liquidity	Liquidity risk relates to the possibility that a financial institution may suffer financial distress due to its inability to raise funds to meet its financial obligations as and when they fall due. TCV's primary measurement of liquidity is that, within a rolling 12 month period, liquid investments and time weighted cash inflows cover at least 100% of time weighted cash outflows. TCV met this primary measurement.
Relative pricing of TCV debt	As one of Australia's significant AAA rated semi-government borrowing authorities, TCV aims to maintain price relativity for its cornerstone Domestic Inscribed Stock (DIS) debt with that of its peers. This target, as a spread to swap, was achieved and TCV closed the year with tighter spreads than comparable Australian state guaranteed issuers.
Victoria's AAA rating	TCV ensures that its interactions and activities assist the Government to maintain a AAA rating.TCV's actions through the year supported the maintenance of this rating.
Financial performance targets	TCV's Corporate Plan sets performance targets for Return on Capital and Financial Institution Value Add. TCV recorded a net profit for the financial year of $A52.6 million, in excess of these targets.
Client satisfaction	TCV measures Client satisfaction bi-annually through an independent Client Survey. This survey was undertaken in 2010-11 and provided a satisfaction score of 82%.
Investor relationships	TCV understands the important role strong relationships play in attracting a broad range of investors. To facilitate this diversity, an Investor Relationship program is undertaken each year. As a result of this program in 2010-11, TCV was able to extend the duration of its DIS curve by issuing a 13 year benchmark security (December 2024) and a 15 year non-benchmark security (November 2026).
Employee capability	The combined knowledge of TCV's employees represents a considerable corporate investment. TCV measures its ability to maintain that investment through training and succession planning. Through the year, TCV successfully maintained its employee capability.
Provision of financing advice to *Partnerships Victoria* projects	An important TCV advisory service is the provision of financing advice to projects procured under *Partnerships Victoria* guidelines. Over the 2010-11 year, TCV provided advisory services to all *Partnerships Victoria* projects taken to public tender.
Employee engagement	TCV measures employee engagement, as one indicator of a healthy organisational culture, through data gathered in our annual staff survey. While the 2010-11 survey indicated a reduction in employee engagement compared to last financial year, other indicators of employee engagement remained positive.
Environmental sustainability	Improving the environmental sustainability of TCV's operations and processes is an organisational goal. To achieve this, TCV has lodged an Environmental Strategic Plan with the Department of Sustainability and Environment, with which it remains compliant.

Treasury Corporation of Victoria

Financial Summary 2010-11

Income Summary	**2010-11**	**2009-10**	**2008-09**	**2007-08**	**2006-07**
	$ million	$ million	$ million	$ million	$ million
Income					
Net gain on financial assets and liabilities designated at fair value through profit and loss	61.7	60.3	59.3	7.6	29.6
Fees and other income	10.7	11.1	7.8	7.6	7.9
Total Income	**72.4**	**71.4**	**67.1**	**15.2**	**37.5**
Expenses					
Other borrowing related expenses	1.5	4.8	0.8	0.8	0.7
Other operational expenses	18.3	17.1	17.7	15.3	15.1
Total Expenses	**19.8**	**21.9**	**18.5**	**16.1**	**15.8**
Net Profit	**52.6**	**49.5**	**48.6**	**(0.9)**	**21.7**
Dividends paid	36.2	48.6	0.0	21.7	14.6

Statement of Financial Position	**2011**	**2010**	**2009**	**2008**	**2007**
	$ million	$ million	$ million	$ million	$ million
Loans to clients	27,462.7	21,750.0	16,248.0	11,783.2	10,144.2
Cash assets	4,118.4	5,555.2	5,320.2	4,586.7	3,058.7
Investments	2,815.6	2,582.8	2,539.3	4,499.4	3,244.7
Derivatives	2,176.1	1,902.8	2,553.4	541.4	646.0
Other assets	370.5	4.9	42.6	173.0	11.5
Total Assets	**36,943.3**	**31,795.7**	**26,703.5**	**21,583.7**	**17,105.1**
Financed by:					
Domestic Inscribed Stock	23,036.9	16,454.9	13,424.6	8,475.7	9,118.1
Domestic other	2,355.4	5,321.1	2,127.8	4,040.6	2,655.5
Offshore	2,352.8	2,104.3	2,893.4	784.8	926.4
	27,745.1	23,880.3	18,445.8	13,301.1	12,700.0
Deposits from public sector	5,858.5	5,700.9	5,164.8	6,987.6	3,602.2
Derivatives	2,217.3	1,803.7	2,722.1	535.9	641.5
Other liabilities	931.3	236.1	197.0	633.9	13.6
Total Liabilities	**36,752.2**	**31,621.0**	**26,529.7**	**21,458.5**	**16,957.3**
Equity	191.1	174.7	173.8	125.2	147.8

Solutions for Clients

TCV's clients include the State, statutory authorities, government business enterprises and agencies. As the State's central financing authority and financing adviser, TCV is uniquely positioned to deliver financing, investment and risk management solutions to our clients.

The provision of best practice financing outcomes, impartial analysis and portfolio advice for clients reflects our:

- knowledge of State and client objectives, policies and operating environment
- knowledge of, and involvement in, global financial markets
- long standing and sophisticated relationships within the financing sector
- focus on client goals rather than profit
- professional staff who are experienced in dealing with government departments, agencies and enterprises
- highly regarded risk management and quantitative analysis expertise.

TCV delivers client solutions in a transparent and responsive environment, resulting in a clear focus on client relationships and outcomes.

Treasury Client Services

TCV recognises that effective treasury management is critical to our clients' overall profitability and viability, and that today's complex financial market environment requires specialist skills. TCV's Treasury Client Services team has extensive financial markets, portfolio structuring and debt funding experience and is dedicated to the delivery of treasury management products and services.

Our team seeks to assist and enhance clients' funding, deposit and risk management decisions through a collaborative philosophy, supported by innovative and flexible products, outstanding financing advice and a sophisticated financial markets presence. We work with clients on a day-to-day basis to gain a comprehensive understanding of their business cash flows and risk preferences, and tailor solutions to meet these needs.

Tailored Products, Services and Advice

Clients benefit from our established expertise and have access to a full range of treasury products and services. We also advise on all aspects of treasury strategy and operations. This advice is provided as part of our core function of delivering lending, investment and risk management products and services to clients.

Loan Facilities

TCV offers a broad range of loan facilities to our clients. The loan options available encompass:

- short term loans, as short as one day and up to one year, including an 11am facility
- term floating rate loans for fixed terms with a variable rate of interest
- fixed rate loans for periods longer than one year, including fixed interest, amortising and structured loans.

Term to maturity, frequency of rate set, repayment schedule options and settlement date can all be tailored to suit the requirements of the client's cash flows.

Deposit Facilities

TCV offers deposit facilities to assist departments, authorities, government business enterprises and agencies with their cash management activities. The deposit facilities include:

- an 11am cash facility, a highly liquid short term facility for investing daily surplus cash balances
- term deposits for the investment of short term cash surpluses for periods up to 365 days
- fixed interest deposits that pay a fixed rate of interest regularly for a short or medium term
- term floating rate deposits that pay a floating rate of interest for a short or medium term
- structured deposits that can be tailored to return principal and income in accordance with an agreed schedule
- the Guaranteed Bill Index Deposit (GBID) which provides returns determined by reference to the daily rate of change of the UBS Australia Bank Bill Index.

TCV advises clients on their short term investment options and can assist clients to structure investment portfolios to meet their specific needs.

Risk Management Products

TCV offers a suite of risk management products that provides clients with the flexibility to manage their interest rate, foreign exchange and commodity exposures in line with their strategic objectives. These include interest rate forwards, forward rate agreements, interest rate and foreign exchange options, spot and forward foreign exchange rate contracts, and commodity risk management arrangements.

Treasury Management Services and Advice

TCV has developed a comprehensive range of treasury management services that can be tailored to suit clients' individual needs, removing the requirement to maintain these specialist skills in-house. The services offered include:

- financial market updates
- debt, investment and cash management advice and transaction execution

- interest rate, foreign exchange and commodity risk management strategies and transaction execution
- portfolio management, valuations and reporting
- balance sheet analysis and strategies
- portfolio performance monitoring and benchmarking
- interest expense forecasting and scenario analysis
- advice supporting the development or ongoing review of treasury policies.

TCV also offers a treasury advisory service where clients seeking a formal advisory relationship can engage TCV as their treasury adviser. Our team works with such clients to develop treasury policies and strategies, attend the relevant risk management and Board committee meetings as an adviser, and provide comprehensive portfolio management and strategy reports. We also provide specific research and advice as required.

Economic Advisory Services

TCV briefs clients on developments in the global and domestic economies and financial markets. This information can provide valuable input into business and project planning and treasury strategy development. The services range from the provision of regular economic commentary and the preparation of Board and management reports and forecasts, to undertaking specific research and advisory assignments.

TCV maintains a regular schedule of economic presentations to clients, providing a forum for discussion of current and prospective economic events and issues. The schedule of presentations includes a regular program of economic briefings for TCV's metropolitan and regional clients, presentations to client Boards, and an economic luncheon every April and October. These luncheons are excellent networking opportunities for the variety of government authorities and businesses that attend, and in 2010-11, 245 clients attended.

Client Relationship Building

TCV manages its client relationships across the breadth of an organisation. Our Treasury Client Services team is dedicated to managing the ongoing financial, investment and risk management needs of our clients and has strong relationships with their finance teams. TCV's Chairman, Managing Director and executives build relationships with the Boards and executives of our client organisations through functions, presentations and conferences.

A number of key client initiatives and programs also support TCV's client relationship management.

TCV undertakes a regional visitation program in order to meet our clients that reside outside the metropolitan area. The program has been designed to service Victorian regional water authorities that borrow from TCV and an increasing number of regional investors that have commenced depositing with TCV. These meetings are an excellent opportunity for our Treasury Client Services team to further develop regional client relationships and our knowledge of their local environments, business opportunities and challenges. These insights allow TCV to better service the unique financing, investment and risk management needs of regional Victoria.

TCV also hosted the Treasurer, the Minister for Water and key clients at several dinners in 2010-11, providing an opportunity for discussion of current government policy and key initiatives.

TCV participated in, sponsored and provided formal presentations at a number of industry events, such as the Victorian Water Industry Association's annual conference and finance managers' workshop, the Institute of Water Administration's annual conference and the Victorian TAFE Association's business managers' forum.

These dinners, workshops and conferences provided a valuable opportunity for TCV to demonstrate support to our major clients, while building a greater understanding of our clients' operating environment.

Treasury Client Services 2010-11 Highlights

Department of Treasury and Finance

TCV has a very strong relationship with the Department of Treasury and Finance (DTF). We provide advice and support to DTF's Executive Risk Management Committee regarding financial risk management and work closely with Financial Risk Management, the branch responsible for managing the State's budget sector debt requirements and treasury management framework.

Importantly, the management of the budget sector debt portfolio has been outsourced to TCV, allowing us to directly align a significant part of the State's funding requirement with the management of our bond programs and market activities.

TCV provided DTF treasury advice and assistance on the policies relevant to the treasury operations of government business enterprises and departments. We also continued to facilitate client understanding of DTF's processes and sought to increase client awareness of the State's treasury risk management philosophy.

Treasury Advisory Appointments

During 2010-11, TCV provided a range of treasury advisory services to a number of clients, including the Department of Treasury and Finance, Melbourne Water Corporation, South East Water Limited and Yarra Valley Water Limited. In addition to these established assignments, TCV was also appointed as the mandated treasury adviser to City West Water, Barwon Region Water Corporation and Coliban Region Water Corporation. These clients engaged TCV as their debt portfolio adviser. Under this arrangement, TCV works closely with each client to develop a comprehensive understanding of their business and subsequent debt portfolio management requirements. For some engagements, TCV staff regularly attended and presented to the clients' risk management committees, further strengthening the partnership approach to the clients' debt management needs.

TCV also assisted Port of Melbourne Corporation, Rural Finance Corporation, Goulburn-Murray Rural Water, Grampians Wimmera Mallee Water, Lower Murray Water, Melbourne and Olympic Parks Trust, State Electricity Commission of Victoria, Australian Grand Prix Corporation, Ambulance Victoria, Southern Rural Water and Glen Eira City Council with general treasury advisory and service requirements, as well as treasury policy reviews.

Foreign Exchange Risk Management

The Department of Treasury and Finance has a foreign exchange risk management policy that requires agencies and authorities to hedge any material foreign exchange exposures with TCV. TCV actively communicates the parameters of this policy in its financial risk management discussions with clients. We then work closely with clients to understand their business cash flows and risk parameters and identify which foreign exchange risk management tools best achieve their objectives.

In 2010-11, we assisted Australian Centre for the Moving Image, Melbourne Water Corporation, Department of Planning & Community Development, Australian Grand Prix Corporation, Metropolitan Fire and Emergency Services Board and Vic Roads with the development and execution of foreign exchange hedging strategies.

Commodity Risk Management

The State Electricity Commission of Victoria (SECV) manages contracts with an exposure to the aluminum price. During the year, SECV and TCV worked together to develop a hedging strategy, which was successfully implemented and executed by TCV in the market place. This hedging arrangement illustrates the partnerships that TCV develops with its clients, where we seek to fully share with our clients the benefit of our financial markets expertise and established domestic and international market relationships.

In 2010-11, TCV also worked closely with DTF to understand and quantify the commodity risk exposures for the State and the possible hedging arrangements for exposures to petrol and diesel prices. In addition to liaising with DTF on the development of a commodity risk management policy, TCV has also held preliminary discussions with clients about their respective commodity risk exposures and the requirements to implement a suitable hedging strategy.

Centralisation of Investments

In 2009, DTF reviewed the State's treasury management framework, seeking to centralise the State's investments. DTF's centralised treasury and investment policy requires State agencies and authorities to undertake their wholesale short-term investments with TCV.

Since the introduction of the centralised investments policy, our investor client base has grown significantly. There has been a $1 billion increase in client deposits and in excess of 40 new clients have opened investment accounts with TCV.

Project Advisory Services

TCV's Project Advisory Services team provides support for clients in the development of infrastructure financing proposals. The team provides analysis and advice on financing options for publicly funded projects and assists clients to evaluate and select infrastructure proposals submitted by the private sector. Our services focus on financial evaluation and risk management.

Investment Evaluation

TCV provides investment evaluation assistance to clients, utilising a full suite of financial analysis tools including cash flow modelling, discounted cash flow analysis, and risk and sensitivity analysis.

Financing Options

TCV assists clients to determine the most appropriate funding solution for their project. In many cases, standard loan facilities are appropriate where the asset being financed is integrated into the core operating business. In other cases, the asset may be managed and operated independently of the core business. In these instances, project or structured financing solutions may provide a better funding outcome. TCV is able to provide advice on available funding options and the appropriate financing solution for a particular project.

Business Planning

TCV's knowledge and experience in risk analysis, valuation and cash flow modelling can assist clients in business planning and development. We assist with capital structure analysis, asset and liability valuations, valuation of contingent assets and liabilities, financial risk analysis such as interest rate or currency exposure and credit risk assessment.

Partnerships Victoria

The Victorian Government's *Partnerships Victoria* policy brings a rigorous financial and commercial framework to project evaluation for public sector entities. TCV assists clients in applying the policy to projects including development of project financial models, review of financial models prepared by other advisers, identification and management of financial risks, evaluation of private sector financing proposals, advice on termination and refinancing terms included in project agreements and benchmarking financing arrangements.

Through the year, TCV has played a significant role in the assessment of these projects, and contributed extensively to the State's examination of alternative funding methodologies.

Financial Close Benchmarking

Government and public sector agencies participate in a range of complex financial arrangements with the private sector. The financial impact of these arrangements is often based on financial market parameters. TCV assists Government to specify market related parameters and then benchmark their application consistent with financial market convention and conditions. This is a key part of the advice we provide for *Partnerships Victoria* projects, but is also provided in respect of a range of other transactions.

Key Advisory Assignments in 2010-11

Department of Treasury and Finance

TCV provided DTF with treasury advice and assistance on the policies relevant to the treasury operations of government business enterprises and departments. In particular, we provided DTF with analysis of recent financial market conditions, including the implications for the financing of State infrastructure projects, and reviewing the effectiveness of financing of *Partnerships Victoria* projects. In this respect, we provided a detailed review report on the financing of recent *Partnerships Victoria* projects examining the impact of the Global Financial Crisis on the financing costs and terms of recent transactions.

We also continued to facilitate client understanding of DTF's processes and sought to increase client awareness of the State's treasury risk management philosophy.

Contract Management of Partnerships Victoria Projects

TCV offers assistance to departments and agencies in the Public Private Partnership (PPP) invoicing and contract management of *Partnerships Victoria* projects. Key services include financial audits of PPP invoicing models and regular verification of monthly/quarterly invoices as received, amendments for modifications and contractual adjustments, abatements and refinancing provisions.

In 2010-11, TCV offered these services to a number of clients including the:

- Department of Health (Casey, Royal Women's and Royal Children's Hospital Projects)
- Department of Justice (Victorian County Court and Victorian Correctional Facilities Projects)
- Department of Business and Innovation (Melbourne Convention Centre)
- Department of Education and Early Childhood Development (Partnerships Victoria in Schools Project).

In addition, we performed an abatement modelling and calibration audit for the Emergency Services Telecommunications Authority (Mobile Data Network Project).

Victorian Comprehensive Cancer Centre Project

In November 2009, the State announced the procurement of the Victorian Comprehensive Cancer Centre to be built in Parkville in partnership with the Peter MacCallum Cancer Centre, Ludwig Institute for Cancer Research, Melbourne Health, the University of Melbourne, Walter and Eliza Hall Institute of Medical Research, the Royal Women's Hospital and the Royal Children's Hospital. This project will be procured under the *Partnerships Victoria* procurement framework.

TCV has been engaged by the Department of Health as a specialist financing advisor for the project. In 2010-11, TCV undertook a detailed engagement including providing DTF and the Department of Health with advice on the Request for Proposal (RFP) preparation, participation in interactive tender financing workshops, and assistance with the evaluation of financing proposals received at RFP and Best and Final Offer (BAFO) stage.

Victorian Desalination Plant

During 2008-09, TCV was engaged by the Department of Sustainability and Environment (DSE) to provide specialist financing advice for the Victorian Desalination Plant.

In providing ongoing assistance to the project, in 2010-11, TCV provided advice to DSE and DTF on the impact of financial market conditions on the project and on interest rate risk management strategies.

Business Case Development

TCV offers financial modelling and business case development services to departments and agencies. In 2010-11, TCV provided financial modelling services to DTF and Major Projects Victoria on the Melbourne Markets Relocation Project. In addition, we provided Business Case development and financial modelling services to the Royal Children's Hospital to support its acquisition of the revenue rights associated with the car park at the New Royal Children's Hospital to be commissioned in 2011.

Our Current Active Participating Authorities Include:

State of Victoria

Budget Sector

Water - Metropolitan

City West Water Limited

Melbourne Water Corporation

South East Water Limited

Yarra Valley Water Limited

Water - Regional

Barwon Region Water Corporation

Central Gippsland Region Water Corporation

Central Highlands Region Water Corporation

Coliban Region Water Corporation

East Gippsland Region Water Corporation

Gippsland and Southern Rural Water Corporation

Goulburn-Murray Rural Water Corporation

Goulburn Valley Region Water Corporation

Grampians Wimmera Mallee Water Corporation

Lower Murray Urban and Rural Water Corporation

North East Region Water Corporation

South Gippsland Region Water Corporation

Wannon Region Water Corporation

Western Region Water Corporation

Westernport Region Water Corporation

Ports and Transport

Gippsland Ports

Linking Melbourne Authority

Port of Melbourne Corporation

Roads Corporation

Rolling Stock Holdings (Victoria) Pty Ltd

Transport Ticketing Authority

Victorian Regional Channels Authority

Victorian Rail Track Corporation

Health

Alfred Health

Austin Health

Bairnsdale Regional Health Service

Banyule Community Health

Castlemaine Health

Cobaw Community Health Services Limited

Dental Health Services Victoria

Eastern Health

Inner East Community Health Service

Northern Health

Peter MacCallum Cancer Institute

Portland District Health

The Royal Women's Hospital

The Royal Children's Hospital

Southern Health

Wimmera Health Care Group

Wodonga Regional Health Service

Education

Board of the Centre for Adult Education

Sunraysia Institute of TAFE

Sports and Recreation

Australian Centre for the Moving Image

Australian Grand Prix Corporation

Council of Trustees of the National Gallery of Victoria

Falls Creek Alpine Resort Management Board

Fed Square Pty Ltd

Lake Mountain Alpine Resort Management Board

Melbourne and Olympic Parks Trust

Mount Buller and Mount Stirling Resort Management Board

Mount Hotham Alpine Resort Management Board

Museums Board of Victoria

Tourism Victoria

Zoological Parks and Gardens Board

Other

Bellarine Bayside Foreshore Committee of Management Inc

Country Fire Authority

Director of Housing

Emergency Services Superannuation Board

Glen Eira City Council

Melbourne Market Authority

Metropolitan Fire and Emergency Services Board

Rural Finance Corporation of Victoria

State Electricity Commission of Victoria

VicForests

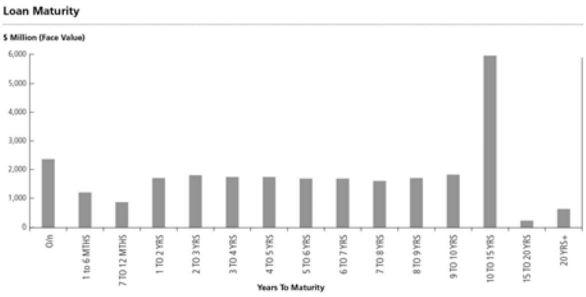
Victorian Urban Development Authority (VicUrban)

VITS LanguageLink

Funding Activities

TCV provides tailored loans to clients which are available on demand and provided at wholesale rates. Client loan facilities can extend from short term at call facilities to long term commitments of 20 years or more.

At 30 June 2011, the maturity profile of these client loans is shown in the chart below:



These loan commitments require active management and diversity in funding sources. Four key funding programs are maintained to meet this need:

- TCV's Domestic Inscribed Stock program is the cornerstone of the Corporation's funding strategy, incorporating seven or more lines of stock with a targeted minimum of $A3 billion issued per line
- $US3 billion Euro Medium Term Note (EMTN) program
- $A5 billion Euro Commercial Paper (ECP) program
- $A5 billion Commercial Paper program (Domestic Promissory Notes).

Activity in each program is facilitated through our dealer panels. The dealer panels distribute TCV's debt and support TCV's access to financial market instruments used by TCV in its risk management activities. TCV's dealer panel members, at 30 June 2011, were:

Domestic Inscribed Stock

Australia and New Zealand Banking Group Limited

Barclays Bank PLC Australia Branch

Citigroup Global Markets Australia Pty Ltd

Commonwealth Bank of Australia

Deutsche Bank AG, Sydney Branch

J.P. Morgan Australia Limited

Merrill Lynch International (Australia) Ltd

National Australia Bank Limited

Nomura International plc

Royal Bank of Canada

The Royal Bank of Scotland plc, Australia Branch

The Toronto-Dominion Bank

UBS AG, Australia Branch

Westpac Banking Corporation

$A5 billion Domestic Commercial Paper

Australia and New Zealand Banking Group Limited

Commonwealth Bank of Australia

Deutsche Bank AG

Macquarie Bank Limited

National Australia Bank Limited

Westpac Banking Corporation

$US3 billion Euro Medium Term Note

Morgan Stanley & Co. International Limited

Nomura International plc

UBS Limited

$A5 billion Euro Commercial Paper (Hong Kong)

Bank of America Securities Limited

Barclays Capital

Citibank International plc

Commonwealth Bank of Australia

Credit Suisse

Deutsche Bank AG London

National Australia Bank Limited, Hong Kong Branch

Royal Bank of Canada

The Royal Bank of Scotland

UBS Investment Bank

Funding Targets

In 2010-11, TCV focused its fund raising activities within the Domestic Inscribed Stock program. The bulk of funds were raised from this market, although this issuance was supplemented with non-benchmark issues and increases in our short term outstandings.

Over the year, TCV's Domestic Inscribed Stock on issue increased by $A6.6 billion (face value), with all benchmark maturities increasing through the year.

Two new long term benchmark lines were issued during the year.

In October 2010, TCV issued a new benchmark 5.5% 17 December 2024 maturity. Outstandings in this security increased to $A2.3 billion by year end and form part of TCV's liquid inscribed stock yield curve.

Additionally, in June 2011 a new line was established with the issuance of $A354 million of a November 2026 maturity. This line will form part of our benchmark issuance program going forward.

Domestic Inscribed Stock Outstandings

Maturity	Face Value Outstandings ($A million)	Face Value Change ($A million)
6.25% 15/10/2012	3,038.3	99.6
4.75% 15/10/2014	3,943.6	1,004.0
5.75% 15/11/2016	3,559.8	698.8
5.50% 15/11/2018	3,057.5	623.7
6.00% 15/06/2020	3,348.2	796.7
6.00% 17/10/2022	3,084.8	736.9
5.50% 17/12/2024	2,323.2	2,323.2
5.50% 17/11/2026	354.0	354.0
Total	22,709.4	6,636.9

In addition to the issuance under our core Domestic Inscribed Stock program, TCV issued $A475 million (face value) in securities through the Euro Medium Term Note program.

Outstandings within the ECP program increased by $A130 million to $1.9 billion, while outstandings within the Domestic Commercial Paper program decreased by $A363 million to $278 million as at year end.

For the year ending 30 June 2012, TCV's net call on markets is estimated to be $A6.6 billion.

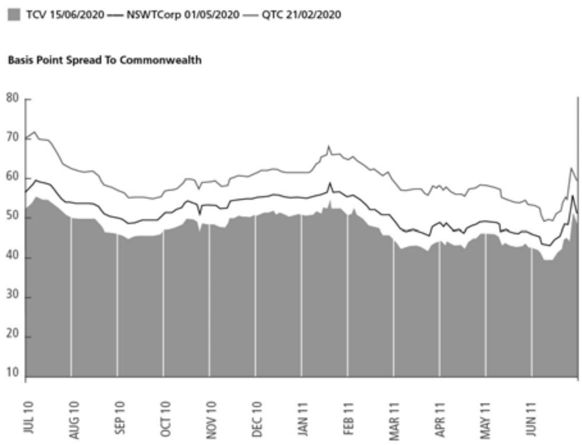
It is expected that the majority of this financing will continue to be undertaken through the Domestic Inscribed Stock program, although TCV will consider opportunities to issue into offshore markets as they arise.

Business Indicators

Margin to Commonwealth Government Bond

This chart depicts a 12 month comparison of the margin at which a 10 year equivalent State Government security issued by TCV traded in the secondary market against a similar Commonwealth security, relative to the equivalent State guaranteed maturity issue of TCV's peers, New South Wales Treasury Corporation (NSWTCorp) and Queensland Treasury Corporation (QTC).

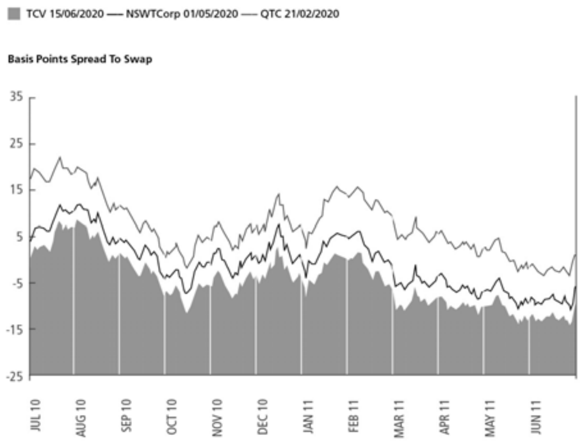
The chart shows that TCV's margin to Commonwealth bond improved over the period.



TCV Margin to Swap

This chart depicts the margin to swap at which a long dated TCV Domestic Inscribed Stock issue traded in the secondary market, relative to TCV's peers, NSWTCorp and QTC during 2010-11.

Both charts show that TCV credit margins continue to trade at a premium to our peers, predominantly due to the superior credit fundamentals of the State of Victoria.



Credit Ratings of TCV and the State of Victoria

Ratings at 30 June 2011:

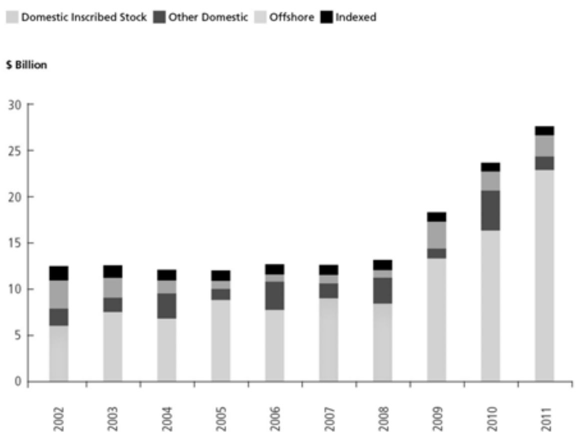
Agency	Long Term Rating Domestic	Long Term Rating Foreign Currency	Short Term Rating
Standard & Poor's	AAA	AAA	A-1+
Moody's Investors Service	Aaa	Aaa	P-1

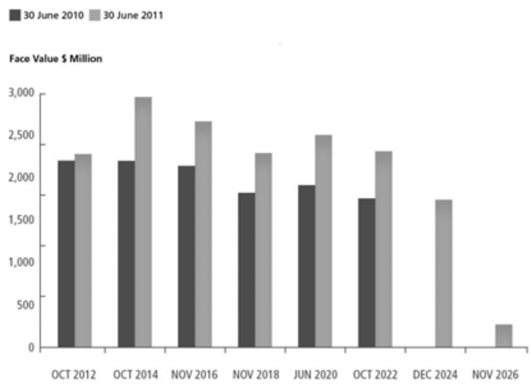
Total Outstanding Debt

This chart depicts the mix of TCV's total outstanding debt at 30 June 2011, relative to previous periods.

Domestic Inscribed Stock Outstandings

This chart compares Domestic Inscribed Stock outstandings by maturity at 30 June 2011 against 30 June 2010.





Economic Environment

TCV's funding needs and debt management strategies are significantly influenced by the financial position of the State and State-related entities. In turn, these positions are influenced by the Government's budget strategy and the state of the Victorian economy.

The State of Victoria

The State of Victoria is Australia's second largest state by population, with close to 5.6 million people. It is also the second largest economy in the country, representing around 22.8 percent of national Gross Domestic Product, and is rated AAA by Standard & Poor's and Aaa by Moody's.

Victorian Economy

Compared with most other advanced economies, the Australian economy has performed well over the past two years. Similarly, Victoria has also performed relatively well since the Global Financial Crisis. Victorian state final demand rose by 1.6 percent in the March quarter 2011, after a modest growth in the December quarter 2010 of 0.1 percent (revised down from 0.2 percent). This was driven by positive contributions from all components: business investment, household consumption, dwelling and public investment and public consumption.

Looking forward, weaker than expected business investment and revisions to historical Gross State Product (GSP) data have led to a lower expected growth rate of 2.5 percent in 2010-11. Forecast GSP growth for 2011-12 has been maintained at 3.00 percent, with an expected return to solid growth in business investment partially offset by the rundown of the fiscal stimulus. In the out-years, annual GSP growth is expected to decline to a trend rate of 2.75 percent.

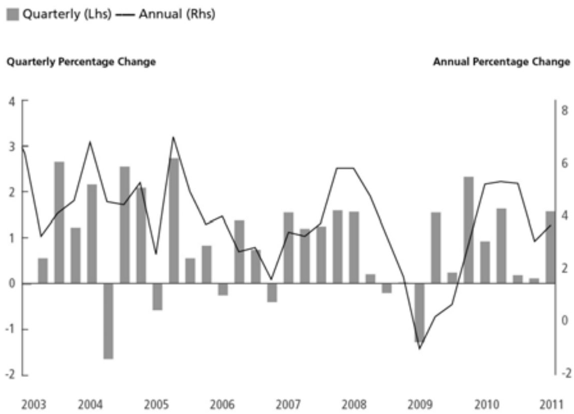
After rising by 0.5 percent in the March quarter 2011, private consumption is expected to grow moderately in future quarters and return to trend growth from 2011-12. Ongoing consumer caution would represent some downside risk to the forecasts.

Dwelling investment strengthened by 2.7 percent in the March quarter and the short-term outlook remains upbeat with above average approvals pointing to a substantial pipeline of work yet to be completed. Private business investment in Victoria increased by 6.2 percent in the March quarter, driven by a strong increase in machinery and equipment of 18.2 percent, but offset by a fall in non dwelling construction investment of 3.7 percent.

The 2011-12 Victorian Budget notes business investment is expected to recover over the rest of 2010-11 and in 2011-12, though there remain downside risks from structural changes in the Victorian economy. This is because conditions in industries that have traditionally contributed significantly to Victorian investment, such as manufacturing, may continue to be challenging in an economic environment influenced by a strong Australian dollar and national capacity constraints.

Apart from those risks already highlighted, uncertainty over the global economic recovery and rising oil prices pose downside risks to the outlook. Continued strength of the labour market and the return of stronger net overseas migration could pose some upside risks to these forecasts.

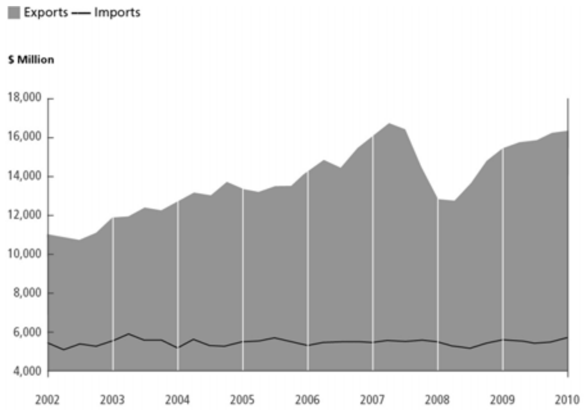
Victorian Final Demand



In the year to March quarter 2011, exports rose by 2.4 percent compared to a fall of 3.8 percent at the national level, while imports rose by 5.9 percent compared to an 8.9 percent increase nationally.

Net international trade is expected to detract from growth in 2011-12 and the out-years with the high Australian dollar and increased international competition expected to weigh on manufactured exports. However, this may be offset by positive contributions from net interstate trade, as the resource-rich states and territories buy goods and services from other parts of Australia, including Victoria.

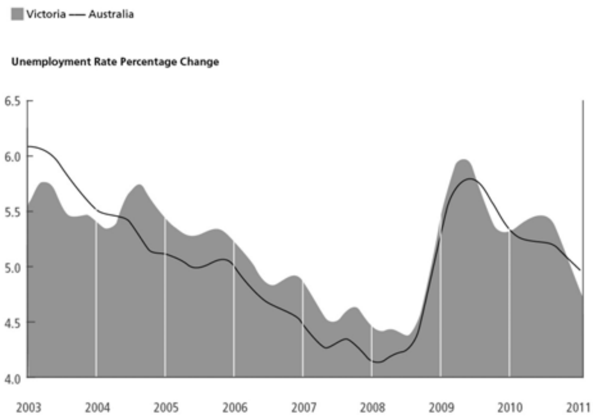
Victorian External Position



Victorian Labour Market

Since July 2010, the national unemployment rate has edged steadily lower, moving from 5.3% to 4.9% as at March 2011. Employment has continued to increase strongly in Victoria over the same timeframe with 3.5 percent growth over the year to March 2011, representing close to an additional 100,000 jobs. Over the past year, job increases were greatest in the health care and social assistance, construction and professional, technical and scientific services industries.

Employment is likely to continue to grow over the rest of 2010-11 and into 2011-12, but the rate of growth will moderate towards trend. The recent increase in the participation rate is expected to be partially unwound over the forward estimates period, as the effect of an ageing population depresses the overall participation rate. As this is expected to result in employment growth outstripping growth in the labour force, the unemployment rate is likely to edge lower over the forecast period.

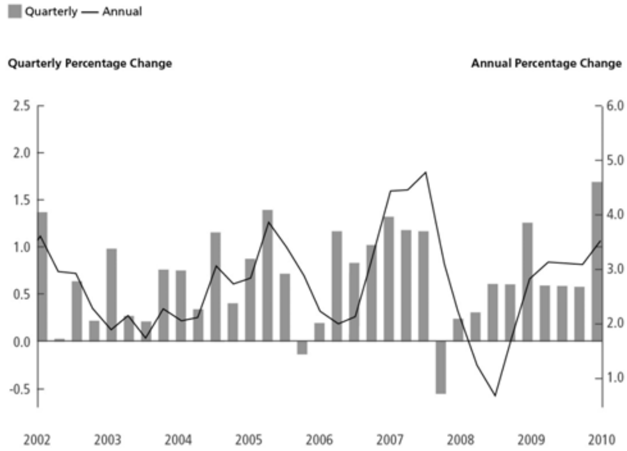


Inflation

After a string of subdued results, headline inflation spiked higher in the March 2011 quarter. The rise was attributable to some one-off factors due to the effects of natural disasters over the period and rising fuel and utility prices.

Year-ended underlying inflation (the average of the Reserve Bank of Australia's measures) edged higher in the March quarter 2011 to 2.3 percent, but remains around the lowest rate recorded over the past decade. Nonetheless, the RBA expects underlying inflation to rise to the top of its target band by the end of 2011, amid a tightening of the labour market and waning disinflationary effect of the recent appreciation of the Australian dollar.

In this context, Melbourne headline consumer price inflation is expected to increase to 3.00% in 2010-11 but thereafter gradually decline over the next four years. Wages growth is anticipated to accelerate to 3.75 percent in 2010-11, given some labour shortages before gradually falling to 3.50 percent in the out-years.

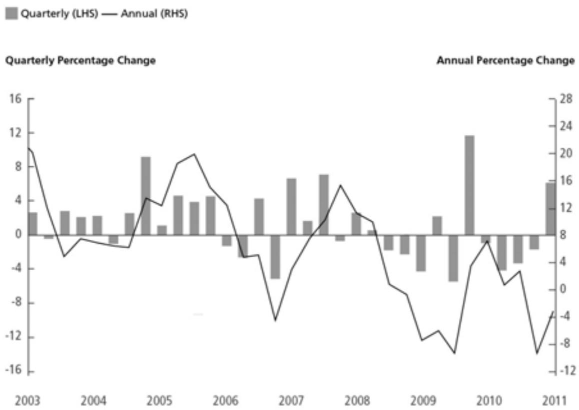


Private Business Investment

Business investment declined substantially over the course of 2010, following a peak in the December quarter 2009. This was partly driven by the impact of temporary tax concessions for investment which ended in December 2009 and the unwinding over 2010 of private sector activity associated with the Commonwealth Government's Building the Education Revolution program.

Figures for the March quarter 2011 show that private business investment in Victoria increased by 6.2 percent, driven by a strong increase in machinery and equipment of 18.2 percent, but offset by a fall in non dwelling construction investment of 3.7 percent. With interest rates expected to rise later this year, global uncertainty and a high exchange rate, business investment growth may soften over the coming quarters.

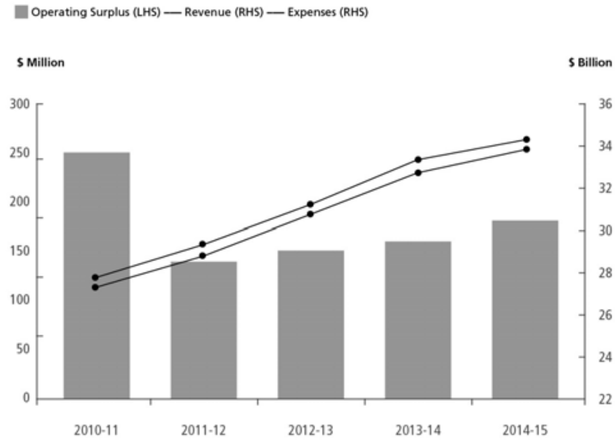
Nonetheless, overall conditions for future business investment in Victoria are positive, particularly with the improved affordability of imported machinery and equipment as a result of the high Australian dollar. Recovery is expected over the rest of 2010-11 and in 2011-12, though there remain downside risks.



Victorian Government Fiscal Projections

The 2011-12 Victorian Budget shows that the State expects to maintain general government sector operating surpluses. The net result from transactions for 2011-12 is expected to be $140 million, followed by average surpluses of $164 million in the out years. These forecasts meet the Government's target of a $100 million surplus in each year.

Operating surpluses are not as high as originally forecast, reflecting a reduction in goods and services tax (GST) revenue over five years. The Budget notes that there will be a need to rebuild surpluses to fund necessary infrastructure and provide a buffer for future economic and fiscal shocks over the medium term.



In the short-term, the GST shock is similar to that observed during the Global Financial Crisis. In this context, the Budget notes an increase in general government sector net debt. This is forecast to rise to 5.9 percent of GSP at 30 June 2013 and remain at that level to 30 June 2015. The rise in net debt is attributable to the reduction in GST grants, cost pressures on existing projects in the order of $2 billion and new infrastructure investment.

Economic growth is expected to be moderate over the next four years. Growth of 2.5 percent is anticipated for 2010-11 with weaker than expected business investment and historical data revisions the primary drivers of the lower forecast. However, forecast GSP growth of 3.0 percent is projected for 2011-12 before growth resumes at a trend rate of 2.75 percent in the out-years.

Victorian Government Economic Projections (1)

	Actual	Forecasts				
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Real gross state product	2.0	2.50	3.00	2.75	2.75	2.75
Employment growth	2.8	3.50	1.75	1.75	1.75	1.75
Unemployment rate (2)	5.5	5.25	5.00	5.00	4.75	4.75
Consumer price index	2.1	3.00	2.75	2.50	2.50	2.50
Wage cost index (3)	2.8	3.75	3.75	3.50	3.50	3.50
Population growth (4)	1.8	1.70	1.50	1.50	1.50	1.50

Source: Australian Bureau of Statistics: Victorian Department of Treasury and Finance
Notes:

(1) Year-average percent change on previous year unless otherwise indicated. All projections apart from population are rounded to the nearest 0.25 percentage point. Projections of population are rounded to the nearest 0.1 percentage point.

(2) Year average level, percent

(3) Total hourly rate, excluding bonuses

(4) June quarter, percent change on previous June quarter

Corporate Governance

Board of Directors

Rob Hunt, AM, FAICD

Chairman

First appointed: 1 January 2010
Current appointment expires: 31 December 2012

Mr Hunt retired as Managing Director of the Bendigo and Adelaide Bank (BEN) on 3 July 2009 after 21 years as Chief Executive Officer. During his 36 years with the organisation, Mr Hunt guided BEN through many challenges, and - as CEO - oversaw significant growth.

Mr Hunt is the architect of the Community Bank® model and has been instrumental in the development of a range of Community Enterprise and Engagement models now utilised by communities across Australia to provide key infrastructure and essential services through local commercial structures. These Community Enterprises provide communities with a framework, and the cashflow, capacity and flexibility, to address new economic opportunities and to enhance their own Community Balance Sheet.

Mr Hunt continues his involvement in a number of community organisations and enterprises on behalf of BEN and is passionate about the capacity of local Australian communities to contribute to improved local, state and national economic outcomes.

Michael Hirst, BCom

Deputy Chairman

First appointed: 4 September 2002
Current appointment expires: 3 September 2011

Mr Hirst was appointed as the Managing Director and Chief Executive Officer of the Bendigo and Adelaide Bank (BEN) on 3 July 2009. He had previously held the position of Chief Executive, Retail Bank and had been responsible for BEN's retail business, group solutions and treasury. He had also been the bank's Chief Operating Officer, responsible for the group's retail banking business and product and service delivery, and Chief General Manager Group Product Development & Management and Strategy.

Prior to joining BEN in July 2001, he had worked for 11 years in senior executive and management positions with Colonial Ltd. He also worked with Chase AMP Bank for 3 years and with Westpac for 7 years in branch banking and finance and planning roles.

Mr Hirst has extensive experience in banking, treasury, funds management and financial markets. He has held directorships with Colonial First State Investment Managers and Austraclear Ltd. He is a member of the Australian Bankers Association, the Business Council of Australia and the Financial Sector Advisory Council and a director of a number of BEN's subsidiary companies including Rural Bank Limited.

William (Bill) Whitford, MBA, GAICD

Managing Director

First appointed: 28 July 2003
Current appointment expires: 27 July 2013

Mr Whitford joined TCV in September 2002 as Executive Manager and was appointed Managing Director on 28 July 2003. He has considerable experience in financial markets, including roles with Banque National de Paris and the State Bank of South Australia and in the financing of public infrastructure with the South Australian Government.

Mr Whitford is a member of the Australian Institute of Company Directors and is Deputy Chairman of the Australian Financial Markets Association Market Governance Committee.

Susan Carter, BA (Hons), Grad Dip (App Fin & Invest), MAppSci, ACA, FAICD

First appointed: 1 February 2005
Current appointment expires: 31 January 2012

Ms Carter is a professional non-executive Director and consultant in corporate governance and board effectiveness. She is currently a Director of the ANZ Australian Staff Superannuation Fund, Horticulture Australia Limited and Australian Psychological Society Ltd. She is also Chairman of the BlackRock Investment Management (Australia) Compliance Committee.

Previously, Ms Carter was ASIC Regional Commissioner for Victoria (1999–2001), Acting CEO of the Queen Victoria Women's Centre Trust (1998), and the Chief Financial Officer of ANZ Funds Management (1994–1998). Prior to those appointments she held numerous roles within ANZ, The CharterGroup Partnership PLC (UK) and KPMG Peat Marwick (UK).

Peter Hawkins, BCA (Hons), FAICD, SSFin, FAIM ACA (NZ)

First appointed: 1 May 2006
Current appointment expires: 30 April 2012

Mr Hawkins is a non-executive Director of Westpac Banking Corporation, Mirvac Limited Group, Liberty Financial Pty Limited, Clayton Utz, Murray Goulburn Co-Operative Co. Limited and a Director of Camberwell Grammar School.

He retired from the Australia and New Zealand Banking Group Limited in December 2005 after a career of 34 years, where he had been a member of ANZ's Group Leadership Team and sat on the Boards of Esanda Ltd, ING Australia Limited and

ING (NZ) Limited. His roles included Group Managing Director, Group Strategic Development, Group Managing Director, Personal Financial Services, Managing Director ANZ (NZ) Ltd and a number of other senior management positions within the ANZ.

Grant Hehir

First appointed: 17 October 2006
Current appointment expires: 16 October 2012

Prior to being appointed as Secretary of the Victorian Department of Treasury & Finance in July 2006, Mr Hehir was Secretary of the Department of Education and Training from May 2003. As Secretary of the Department of Treasury & Finance, Mr Hehir leads the Department in the provision of advice on economic and financial policy and resource allocation decisions. Mr Hehir's other roles have included Deputy Secretary, Strategic, Economic and Social Policy, at the Department of Premier and Cabinet and Deputy Secretary, Budget and Financial Management Division at the Department of Treasury and Finance.

Suzanne Ewart, BEc, CPA

First appointed: 1 February 2008
Current appointment expires: 31 January 2012

Ms Ewart is a non-executive Director and principal of her own consulting company, providing specialist consulting services to the corporate and government sectors, specialising in financial and strategic solutions. She is currently a Director of Gippsland & Southern Rural Water and the RSPCA (Victoria).

Ms Ewart has extensive senior operational and financial experience having previously held positions including Vice President Group Treasury with Fosters Group Limited, Chief Financial Officer of the O2-e Group at National Australia Bank, and General Manager - Mergers & Acquisitions at Telstra Corporation Limited.

Appointment of Directors

The TCV Act provides for a Board of Directors consisting of the Chief Executive Officer (the Managing Director) and between five and seven other Directors appointed by Victoria's Governor in Council on the recommendation of the Treasurer of Victoria.

The Managing Director of the Corporation cannot be appointed Chairperson or Deputy Chairperson of the Board. Officers of the Corporation, other than the Managing Director, are not eligible to be directors.

Under the TCV Act, the Managing Director is appointed by the Board with the approval of the Treasurer of Victoria for a term not exceeding five years, but is eligible for reappointment. Directors are appointed for a maximum period of three years, but are also eligible for reappointment.

The Governor in Council determines Directors' remuneration, other than that of the Managing Director or a Director who is also an officer of the public service. Details regarding the remuneration of Directors and senior management are given in Note 28 of the financial statements.

The following TCV Directors met the State's independent directors' criteria under the *Financial Management Act* 1994:

- Rob Hunt
- Michael Hirst
- Susan Carter
- Timothy Knott (retired on 31 December 2010)
- Peter Hawkins
- Grant Hehir
- Suzanne Ewart.

Responsibilities of Directors

Under the TCV Act, the Board is responsible for the management of the affairs of the Corporation. The Board reviews and approves strategic plans annually, monitors the performance of the Corporation and of the Managing Director throughout the year, assesses and monitors business risks and the achievement of financial objectives and provides overall policy guidance.

The Board also approves key policies in relation to risk management activities and monitors the management of the Corporation's business within the prudential framework established by the Treasurer of Victoria. The Board meets monthly and directors may meet with senior management between Board meetings to review specific issues or matters of concern.

The TCV Act requires a director who has a pecuniary interest in a matter being considered by the Board to declare the nature of the interest at a meeting, as soon as practicable after the relevant facts have come to their knowledge. It is required that such a declaration is recorded in the minutes. The TCV Act also provides that, unless the Board (excluding the director) resolves otherwise, the director must not be present during any deliberations with respect to the matter. The director is not entitled to vote on the matter and, if the director does vote on the matter, the TCV Act requires the vote to be disallowed.

TCV directors are also bound by the *Victorian Public Entity Directors' Code of Conduct* 2006 (the Code) issued by the Victorian Public Sector Standards Commissioner to promote adherence to public sector values by directors of Victorian public entities.

The Code requires directors to act with honesty and integrity, be open and transparent, to use power responsibly, not to place themselves in a position of conflict of interest and to strive to earn and sustain public trust at a high level. The Code also requires directors to act in good faith, in the best interests of the public entity, fairly and impartially, to use information or their position as directors appropriately, to act in a financially responsible manner, to exercise due care, diligence and skill, to comply with establishing legislation and to demonstrate leadership and stewardship.

Charters have been established for the Board and each of its committees. The charters are statements of the purpose and objectives, roles and responsibilities, authority and performance requirements of the Board and its committees. The charters are reviewed annually. An annual review of board performance is also conducted consistent with the *Financial Management Act* 1994. That review was completed in June 2011.

Board Committees

Audit Committee

All of the Corporation's Directors are members of the Audit Committee with the exception of the Managing Director, who is invited to attend committee meetings. The Audit Committee is chaired by Ms Susan Carter.

Meetings of the committee are held quarterly, or as required. The purpose of the committee, as defined by the Audit Committee Charter, is 'to assist the TCV Board to discharge its responsibility to exercise due care, diligence and skill in relation to the oversight of TCV's governance, accountability and financial reporting obligations'.

Remuneration Committee

All of the Corporation's Directors are members of the Remuneration Committee, with the exception of the Managing Director, who is invited to attend committee meetings. The Remuneration Committee is chaired by Mr Rob Hunt and meets bi-annually, or as required. The primary objectives are to ensure that TCV has appropriate processes to determine remuneration, to review remuneration strategy and budgetary costs, to approve remuneration terms for senior management and to set the terms and conditions of the Managing Director's appointment.

Occupational Health and Safety Committee

All of the Corporation's Directors are members of the Occupational Health & Safety Committee, which is chaired by Mr Rob Hunt and meets bi-annually, or as required. The primary objectives are to oversee TCV's occupational health and safety policies and procedures, ensuring compliance with the *Occupational Health and Safety Act* 2004 (Victoria) and fostering and maintaining a safe working environment throughout the Corporation.

TCV Treasury Corporation of Victoria

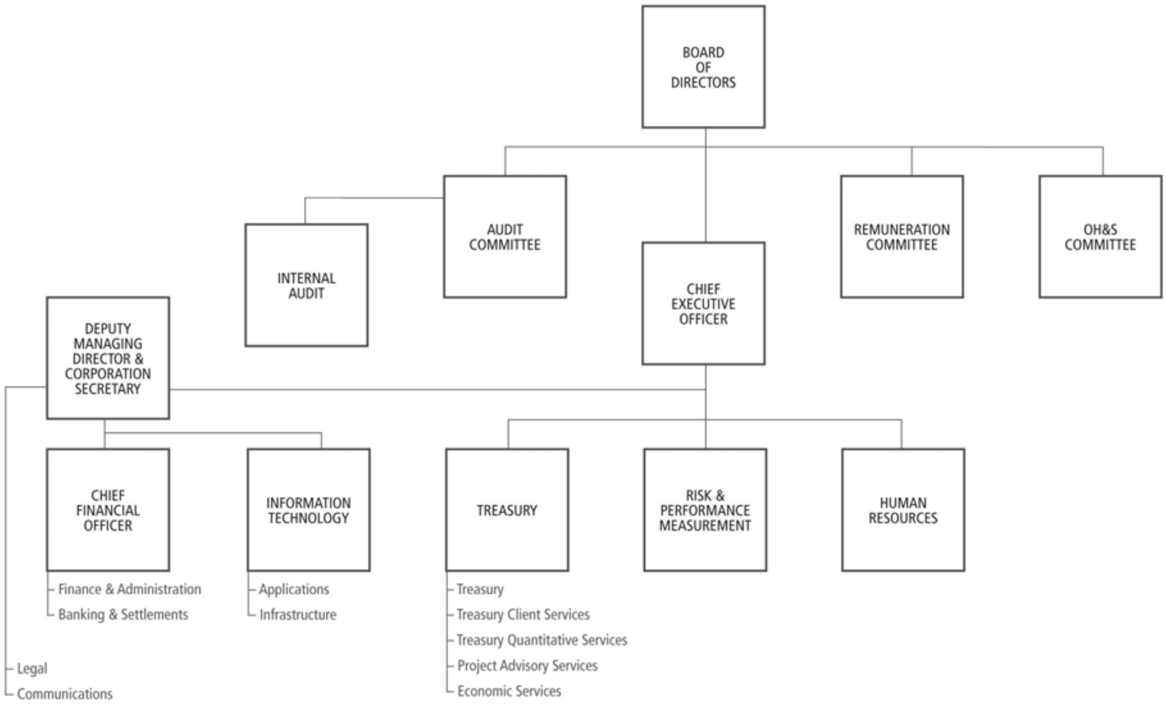
Attendance by Directors at Directors' Meetings 1 July 10 - 30 June 11

	Board		Audit		Remuneration		Occupational Health & Safety	
	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended
R Hunt	11	11	5	5	8	8	2	2
W Whitford[1]	11	11	5	5	8	8	2	2
M Hirst	11	9	5	2	8	5	2	2
S Carter[2]	11	11	5	5	8	8	2	2
T Knott[3]	6	5	3	2	4	3	1	1
P Hawkins	11	10	5	5	8	8	2	1
G Hehir	11	10	5	4	8	7	2	2
S Ewart[4]	11	11	5	5	8	8	2	2

Notes:
1. William Whitford was an attendee at the Remuneration and Audit Committee Meetings
2. Susan Carter was reappointed to the Board from 1 February 2011
3. Tim Knott retired from the Board effective 31 December 2010
4. Suzanne Ewart was reappointed to the Board from 1 February 2011

Management

Organisation Structure



Management Team

The TCV Management Team comprises the Managing Director and six senior managers:

William (Bill) Whitford, MBA, GAICD
Managing Director

Bill has been Managing Director of TCV since July 2003 and is responsible to the Board for the management of TCV.

Mark W Engeman, BEc, MBA, CPA, GAICD
Deputy Managing Director and Corporation Secretary

Mark is responsible for the oversight of TCV's accounting, information technology, legal, communications, audit and settlement operations.

S Ram Doss, BSc, GAICD
General Manager, Risk & Performance Measurement

Ram is responsible for TCV's Risk & Performance Measurement function. He provides an overview to the Board, the Prudential Supervisor and DTF that operations are functioning in line with strategic intent and policy, and that the level of risk and associated return are within guidelines.

Justin Lofting, BBus (Banking & Finance)
General Manager, Treasury

Justin is responsible for TCV's treasury and dealing room functions including balance sheet management, debt capital markets program management, client and project advisory services and economic services.

Judy Utley, MCom (Human Resources)
General Manager, Human Resources

Judy is responsible for the development and implementation of TCV's human capital strategy and the coordination and implementation of training and development and human resources policies and procedures.

Peter Wyatt, BBus, GradDipAppFin, CPA, SA Fin
Chief Financial Officer

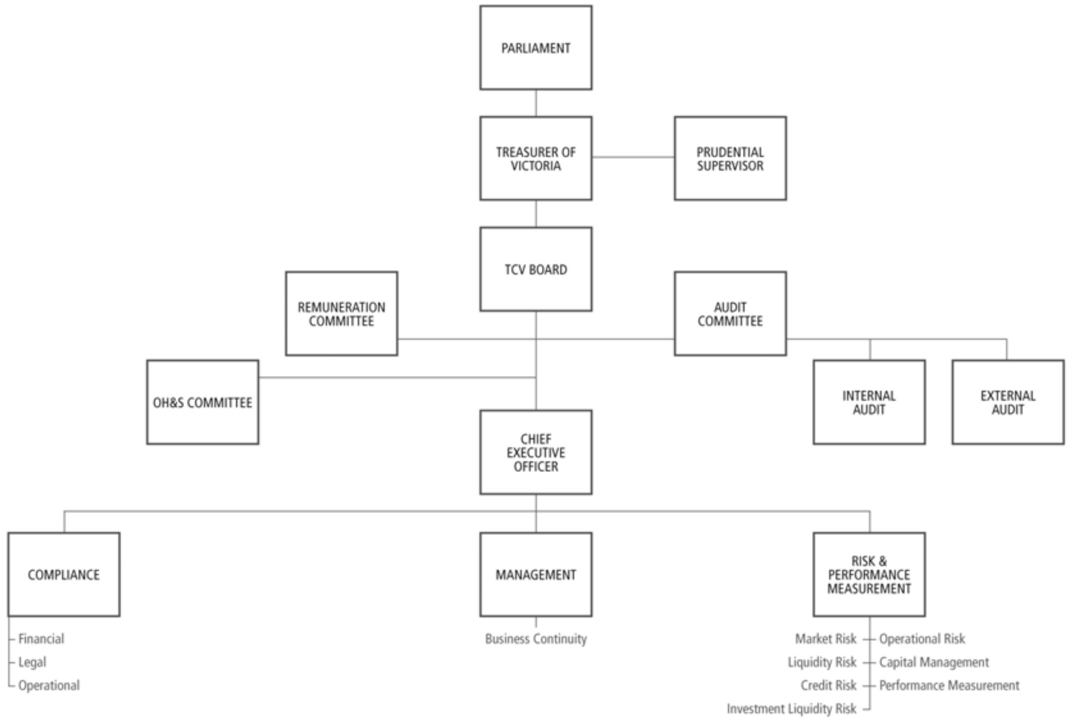
Peter is responsible for TCV's accounting and banking and settlement operations and provision of the Corporation's financial statements. He provides advice to the Board on TCV's financial position.

Warren Murray, BAppSc (Comp Sci)
General Manager, Information Technology

Warren has been with TCV since June 1999 and is responsible for applications, infrastructure and technology.

Treasury Corporation of Victoria

TCV's Risk Management and Control Structure



Internal Risk Management and Control

TCV's operations expose the Corporation to financial and operational risks. Management of these risks is therefore a core element of organisational objectives. In this respect, TCV's principal objective is to provide a robust and consistent risk management, performance measurement and capital management framework commensurate with TCV's business mandate, corporate objectives, business strategies and its risk appetite.

TCV's risk appetite is articulated by a formal Risk Appetite Statement adopted by the Board.

This risk management framework has been developed consistent with the Prudential Policy requirements established by the Treasurer and is monitored by the Board and the Prudential Supervisor appointed by the Treasurer. The risk management framework of TCV includes a dedicated and independent Risk and Performance Measurement business unit and established internal risk management policies and controls set by the Board and senior management. In addition, TCV maintains an Internal Audit function (an activity outsourced to PricewaterhouseCoopers) to monitor compliance with TCV's risk management requirements.

Interest Rate Risk

Interest rate risk is the principal market risk for TCV. It is the risk of a loss due to adverse movements in market prices or interest rates of financial instruments and their derivatives. TCV has a comprehensive measurement and limits framework to manage and control interest rate risk.

Interest rate risk is quantified daily using both Value at Risk and other portfolio level risk measures. These assess the potential loss that TCV might incur under various market price/rate movement scenarios. Risk is managed within an approved limit and control structure and monitored daily, with breaches or excesses being reported to the Managing Director and the Board. This is supported by a set of comprehensive interest rate risk management policies that clearly identify delegations, responsibilities and authorities.

Funding Liquidity Risk

Liquidity risk is the risk that TCV may not be able to raise funds to meet its financial obligations as and when they fall due.

TCV has a comprehensive internal policy on liquidity risk management, the key elements of which follow:

- operating (or day-to-day) liquidity management: within a rolling 12 month period, liquid investments and time weighted cash inflows cover at least 100% of time weighted cash outflows
- Prudential Liquid Assets holding: TCV requires that a minimum level of high quality, readily liquefiable assets is held at all times to meet any emerging liquidity requirements
- balance sheet mismatches and sources of funding are monitored to be within acceptable parameters to ensure diversification of sources and maturities
- a liquidity crisis action plan that is reviewed and updated periodically.

The size of the minimum Prudential Liquid Assets holding requirement is assessed periodically through liquidity stress simulation.

Investment Liquidity Risk

Investment liquidity risk relates to the risk that TCV may not be able to dispose of an investment when required at fair value because of a lack of market liquidity. To manage this, TCV investments are of high quality and satisfy certain criteria about their market liquidity.

Credit Risk

At TCV, credit risk arising from loans to participating authorities (state entities) is offset, in all instances, by a guarantee from the Treasurer of Victoria. Exposure to credit risk arises mainly through investment in financial assets and through derivative transactions with market counterparties. TCV's comprehensive risk management framework covers management of credit risk and has set conservative limits both in terms of the quality and amount of credit exposure TCV can hold, based on external credit ratings and in-house credit analysis. Generally, TCV requires long term ratings of at least A-/A3/A- by Standard & Poor's/Moody's/Fitch for exposures up to 12 months and progressively higher minimum ratings for longer term exposures. Credit limits must be approved by the Board or the Managing Director (under powers delegated by the Board). Management actively monitors credit exposures both in terms of internally set limits as well as in terms of credit quality changes.

The table over the page shows the distribution, by counterparty credit rating, of TCV's total credit risk exposures due to its loans, derivative and investment portfolios at 30 June 2011.

Standard & Poor's Rating	Derivatives % of Portfolio	Investments & Loans % of Portfolio	Moody's Investors Service Rating	Derivatives % of Portfolio	Investments & Loans % of Portfolio
Victorian Public Authorities*	19	81	Victorian Public Authorities*	19	81
AAA		3	Aaa		2
AA+		2	Aa1	1	2
AA	28	11	Aa2	28	11
AA-	4		Aa3	36	2
A+	49	3	A1	16	1
A			A2		
A-			A3		
Not rated by S&P but rated at least Aaa by Moody's			Not rated by Moody's but rated at least AAA by S&P		1
Total	100	100	Total	100	100

* Considered AAA exposures as they are guaranteed by the State
% based on total credit exposures used to determine capital adequacy in accordance with TCV's Prudential Supervision Policy.

Operational Risk

The generally accepted definition of operational risk is 'the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, and systems or from external events'. TCV uses a scorecard approach to regularly map and evaluate its operational risk profile, assessing the likelihood and consequence of identified risks. Plans are then developed to manage these risks and actions are monitored regularly.

The Operational Risk Management Committee meets at least quarterly to address operational risk management issues and to review actual operational risk incidents. A report on operational risk management is presented to the Board quarterly, while any significant operational risk or near loss events are reported to the Board monthly. Details on such events are captured in an internal operational risk database.

Prudential Policy on Capital

TCV's risk management framework incorporates a risk-based capital adequacy approach as specified in its Prudential Supervision Policy established by the Treasurer of the State of Victoria for TCV. This requirement is based on the principles of the Basel Accord as adopted by the Australian Prudential Regulatory Authority (APRA) for the prudential supervision of the Australian banking sector and covers interest rate and credit risks. Under this requirement, the Corporation is required to hold a minimum capital adequacy ratio of 8% of risk weighted assets. The Corporation aims to maintain a capital ratio of at least 10% of risk weighted assets.

TCV's Prudential Supervision Policy is scheduled to be replaced by the Treasurer's Prudential Standard with effect from 1 October, 2011.

The Standard updates the Prudential Supervision Policy to incorporate the Basel II features considered appropriate for TCV.

Business Continuity

Business continuity is critical to TCV's ability to achieve its objectives. TCV has in place detailed business continuity and information technology disaster recovery plans to ensure that:

- the safety of TCV's staff is prioritised above all else
- all aspects of the business are addressed, with particular emphasis on information technology and the front and back office operations
- all critical TCV business operations are safeguarded in all situations
- key resources are available and effectively managed.

These plans are reviewed quarterly and tested annually.

In addition, TCV commissions an annual penetration test of its internet and firewall arrangements, ensuring the ongoing integrity of these information systems.

Occupational Health & Safety (OH&S)

TCV manages risks to the personal safety of its staff and visitors to its premises through a comprehensive occupational health and safety program. An OH&S Board committee was formed in 2002-03 and in 2004-05, an OH&S staff committee was formed to involve a broader cross-section of TCV staff in order to thoroughly capture and address OH&S issues. This committee consists of two employer appointed and two staff elected representatives.

External Controls and Compliance

TCV is subject to an extensive compliance monitoring regime consistent with the State's financial management principles and financial risk management framework. Several external entities are responsible for monitoring, supervising and reporting on TCV's activities including:

- Treasurer of Victoria - Member of Parliament and TCV's sole shareholder
- Prudential Supervisor - reports to the Treasurer. Oversees TCV's risk framework and provides independent advice to the Treasurer on the financial health, risks and risk management policies of TCV's operations. The Treasurer has currently appointed KPMG as TCV's Prudential Supervisor
- Department of Treasury and Finance - reports to the Treasurer. Maintains a shareholder monitoring role and manages the Prudential Supervision relationship with TCV
- Prudential Auditor - reports to the Prudential Supervisor and DTF. Ensures information reported to the Prudential Supervisor by TCV is accurate and that prudential requirements have been met. The Treasurer has currently appointed PricewaterhouseCoopers to undertake this role
- Auditor-General - reports to Parliament. Provides an independent audit of TCV's financial report and expresses an opinion on it to the Members of the Parliament of Victoria, the responsible Ministers and TCV's Board, as required by the *Audit Act* 1994. The Victorian Auditor-General's Office has currently appointed Ernst & Young as its agent for 2010-11
- Minister for Finance - Member of Parliament. Monitors TCV's compliance with the State's financial and tax reporting and accountability framework via DTF's annual compliance certification process.

Risk Attestation Statement

I, Robert Hunt, certify that Treasury Corporation of Victoria has risk management processes in place consistent with the Prudential Supervision Policy and an internal control system is in place that enables the executive to understand, manage and satisfactorily control risk exposures. The Audit Committee verifies this assurance and that the risk profile of Treasury Corporation of Victoria has been critically reviewed within 2010-11.

Robert Hunt
Chairman

9 August 2011

Regulatory Compliance and Disclosures

Treasury Corporation of Victoria Act 1992 (Victoria)

The TCV Act establishes TCV and sets out its objectives, functions and powers.

Borrowing and Investment Powers Act 1987 (Victoria)

TCV's power to borrow, invest and undertake financial arrangements is conferred under this Act.

Financial Management Act 1994 (Victoria) and Financial Reporting Directions

This annual report has been prepared in accordance with this Act.

Information in respect of Financial Reporting Direction 22B (FRD22B) of the Minister for Finance under the Act which is not contained in this annual report has been prepared and is available to the Treasurer, Members of Parliament and the public on request, subject to the provisions of the *Freedom of Information Act* 1982.

In terms of FRD22B, there have been no significant events subsequent to balance date.

Public Administration Act 2004 (Victoria)

The Corporation is a 'public entity' as defined in the *Public Administration Act* 2004. As a public entity, TCV is required to observe the public sector values and employment principles contained in the Act and to comply with codes of conduct and certain whole-of-government policies established by the Act. TCV must also keep and make readily available to its Directors documents required to be kept by standard entities under the Act.

Freedom of Information Act 1982 (Victoria)

Pursuant to section 40 of the TCV Act, TCV is not and is not eligible to be declared to be, an agency or prescribed authority within the meaning of the *Freedom of Information Act* 1982.

Equal Opportunity and Anti-Discrimination Legislation

TCV is subject to Commonwealth and State legislation prohibiting unlawful discrimination and harassment. TCV is a proponent of equal opportunity in the workplace and staff selection is based on skills, competence and experience. Equal opportunity policies are regularly updated and an employee awareness program is in place. All employees and potential employees are entitled to be treated with dignity, free from discrimination of any kind.

TCV considers sexual harassment, harassment, bullying and discrimination unacceptable forms of behaviour that will not be tolerated under any circumstances. TCV believes that all people have the right to work in an environment that is free of harassment and discrimination.

Occupational Health and Safety and Accident Compensation Legislation

TCV is subject to the obligations contained in the *Occupational Health and Safety Act* 2004 *(Victoria)*.

TCV has in place occupational health and safety policies and procedures to ensure it complies with its obligations under the Act. TCV has an active Occupational Health and Safety Committee, comprising management and employee representatives, which facilitates consultation on health and safety matters.

TCV is committed to providing a safe and healthy workplace. As part of this commitment, TCV provides a health and fitness program with a focus on education, prevention and participation. The program is available to all employees and addresses issues of interest and relevance to the working environment.

TCV is also required to comply with the *Accident Compensation (WorkCover Insurance) Act* 1993 and the *Accident Compensation Act* 1985. TCV has in place a current WorkCover policy and maintains a register of injuries and WorkCover related issues, ensuring that employees are informed of procedures and processes.

TCV has a Risk Management and Occupational Rehabilitation program, developed in consultation with employees. In the event of a work related injury, TCV will endeavour to ensure the injury does not recur. Should an employee incur a work related injury that means they are unable to continue their normal work, TCV will provide the necessary assistance for them to remain at work, or return to work as soon as it is safely possible.

During 2010-11, TCV received no workers' compensation claims and there were no managed cases relating to risk management and occupational rehabilitation.

Information Privacy Act 2000 (Victoria) and Health Records Act 2001 (Victoria)

TCV is subject to the *Information Privacy Act* 2000 which aims to protect personal information and promote the transparent handling of personal information in the public sector. TCV is also subject to the *Health Records Act* 2001 which aims to protect personal information contained in health records.

TCV supports the individual's right to privacy by:

- ensuring that the privacy of those members of the public who deal with TCV is assured
- ensuring that all employees of TCV have their privacy respected.

All TCV employees receive training to ensure compliance with the *Information Privacy Act* 2000.

Whistleblowers Protection Act 2001 (Victoria)

The Corporation is subject to the *Whistleblowers Protection Act* 2001. The purpose of the Act is to encourage and facilitate the making of disclosures of improper conduct by public officers and public bodies. The Act provides protection to whistleblowers who make disclosures in accordance with the Act and establishes a system for the matters disclosed to be investigated and rectifying action to be taken.

TCV is committed to the aims and objectives of the Act. TCV does not tolerate improper conduct by its employees, officers or members, nor the taking of reprisals against those who come forward to disclose such conduct. TCV recognises the value of transparency and accountability in its administrative and management practices and supports the making of disclosures that reveal corrupt conduct or conduct involving mismanagement of public resources. TCV will take all reasonable steps to protect people who make such disclosures from any detrimental action in reprisal for making the disclosure. TCV will also afford natural justice to the person who is the subject of the disclosure.

TCV has established procedures, based on guidelines issued by the Ombudsman, to deal with disclosures of improper conduct or detrimental action by the Corporation, its Directors or its employees. The detailed procedures have been communicated to all employees and Directors and posted on TCV's internal intranet site which is accessible by all employees. A copy of the procedures is available for public inspection at TCV's offices, Level 12, 1 Collins Street, Melbourne, Victoria or via the TCV website www.tcv.vic.gov.au. All enquiries should be directed to the Corporation Secretary.

Report of Disclosures under the Whistleblowers Protection Act to 30 June 2011

	No. of Disclosures	**Types of Disclosures**
Disclosures made to TCV during 2010-11	Nil	_
Disclosures referred by TCV to the Ombudsman for determination as to whether they are public interest	Nil	_
Disclosed matters referred to TCV by the Ombudsman	Nil	_
Disclosed matters referred by TCV to the Ombudsman for investigation	Nil	_
Investigations of disclosed matters taken over by the Ombudsman from TCV	Nil	_
Requests made under section 74 to the Ombudsman to investigate disclosed matters	Nil	_
Disclosed matters that TCV has declined to investigate	Nil	_
Disclosed matters that were substantiated upon investigation and the action taken on completion of the investigation	Nil	_
Recommendations made by the Ombudsman that relate to TCV	Nil	_

Victorian Industry Participation Policy Act 2003 (Victoria)

TCV is subject to the *Victorian Industry Participation Policy* (VIPP) which aims to provide opportunities for participation by local industry in projects, developments, procurements and other initiatives undertaken or funded, whether wholly or partially, by the State. Public bodies are required to apply VIPP in all tenders over $A3 million in metropolitan Melbourne and $A1 million in regional Victoria. In 2010-11, TCV did not tender any projects that met these value thresholds.

Competition Policies and Taxation

The *Competition and Consumer Act* 2010 (formerly known as the *Trade Practices Act* 1974) *(Commonwealth)*, *Fair Trading Act* 1999 *(Victoria)* and regulations thereunder apply to TCV. The Competitive Neutrality Policy of Victoria is also applicable to the Corporation. The Corporation is, however, excluded from the National Tax Equivalent Regime.

With the exception of income and certain withholding tax exemptions, the Corporation is subject to the usual Commonwealth and State taxes, charges and fees (e.g. Goods and Services Tax, Payroll Tax, Fringe Benefits Tax, Transport Accident Corporation registration fees, Accident Compensation levy and Stamp duty).

Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Commonwealth)

TCV is subject to the suspicious matters reporting requirement of the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Act). TCV has designated an AML/CTF compliance officer and implemented an AML/CTF Program which is subject to oversight by the Board. The Program is risk-based and sets out TCV's approach to activities including training of employees, employee due diligence, reporting of suspicious matters and ongoing customer/transaction monitoring and customer identification processes and procedures.

Code of Conduct

TCV has in place codes of conduct for all staff. These codes are based on the code of ethics and code of conduct developed by the Australian Financial Markets Association, the financial code of practice required under the *Financial Management Act* 1994, and the *Code of Conduct for Victorian Public Sector Employees*. Compliance with these codes is a condition of each employee's employment and all staff are encouraged to use the codes as a frame of reference in their daily activities.

Staff Complement

At 30 June 2011, TCV employed 48.6 full-time equivalent (FTE) employees (2010: 46.9 FTE).

Consultants

TCV employs expert consultants for specific projects where the required expertise does not reside within the Corporation. During 2010-11, two consultancies with fees totalling $21,848 were undertaken.

Environmental Performance

TCV is committed to improving our environmental awareness and the sustainability of our operations and business model. During the year, we have worked with Sustainability Victoria to establish our baseline data which, for the 2010 calendar year, includes:

- total Greenhouse Gas Emissions of 400.4 tonnes per year from our energy, waste generation and air travel activities
- landfill waste generation equivalent to 19.67kg per employee per year.

TCV's Environmental Strategic Plan sets a benchmark of improving all areas of TCV's Environmental Performance over the 2011-2013 period.

In addition, over the past 12 months, TCV has:

- continued our involvement with Sustainability Victoria's ResourceSmart program and the City of Melbourne's Cityswitch program
- undertaken a NABERS audit with the aim of significantly improving our future energy ratings
- obtained a NABERS accredited energy rating of 4 stars for our tenancy
- undertaken bi-annual waste audits which showed a significant decrease in office landfill due to enhanced recycling programs
- facilitated employee participation in the TravelSmart survey
- enhanced our purchasing and disposal policies, including recycling all surplus electronic equipment
- instigated electronic distribution of Board and committee material and related communication.

Financial Statements 2011

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Statement of Income

For the year ended 30 June 2011

	Note	2011 $000s	2010 $000s
Revenue			
Net gain on financial assets and liabilities at fair value through profit and loss	3	61,625	60,269
Other fees and income		10,725	11,103
		72,350	**71,372**
Expenses			
Other borrowing related expenses	4	1,457	4,782
Other operational expenses	4	18,285	17,077
		19,742	**21,859**
Net profit / (loss)		**52,608**	**49,513**

This statement should be read in conjunction with the accompanying notes.

Statement of Financial Position

As at 30 June 2011

	Note	2011 $000s	2010 $000s
Assets			
Cash and cash equivalents	6	4,118,412	5,555,187
Trade receivables and other assets	7	367,023	1,753
Investments	8	2,815,593	2,582,819
Derivative financial instruments	18	2,176,128	1,902,753
Loans to the State of Victoria and participating authorities	9, 15	27,462,702	21,750,090
Property, plant and equipment	10	1,039	1,296
Intangible assets	11	2,389	1,857
Total assets		**36,943,286**	**31,795,755**
Liabilities			
Trade and other payables	12	929,856	234,787
Provisions	13	1,479	1,368
Derivative financial instruments	18	2,217,251	1,803,692
Deposits from public sector	14, 15	5,858,496	5,700,878
Interest bearing liabilities – domestic	16	25,392,259	21,776,024
Interest bearing liabilities – offshore	17	2,352,837	2,104,259
Total liabilities		**36,752,178**	**31,621,008**
Net assets		**191,108**	**174,747**
Equity			
Contributed equity	19	30,000	30,000
Retained earnings		161,108	144,747
Total equity		**191,108**	**174,747**

This statement should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the year ended 30 June 2011

	Note	Contributed Equity $000s	Retained Earnings $000s	Total $000s
As at 1 July 2010		30,000	144,747	174,747
Net profit for the period		-	52,608	52,608
Dividend paid	19	-	(36,247)	(36,247)
As at 30 June 2011		**30,000**	**161,108**	**191,108**

	Note	Contributed Equity $000s	Retained Earnings $000s	Total $000s
As at 1 July 2009		30,000	143,805	173,805
Net profit for the period		-	49,513	49,513
Dividend paid	19	-	(48,571)	(48,571)
As at 30 June 2010		**30,000**	**144,747**	**174,747**

This statement should be read in conjunction with the accompanying notes.

Statement of Cash Flows

For the year ended 30 June 2011

	Note	2011 $000s	2010 $000s
Cash flows from operating activities			
Interest received from the State of Victoria and participating authorities		1,294,576	1,028,734
Interest paid on borrowings and deposits		(1,919,224)	(1,432,954)
Net cash (paid) - market transactions		(31,428)	(20,265)
Interest received on investments and cash		340,684	345,243
Interest received on derivatives		61	9,838
Fees received		10,784	10,773
Cash paid to suppliers and employees		(25,834)	(13,706)
Net cash (outflow) from operating activities	21(ii)	**(330,381)**	**(72,337)**
Cash flows from investing activities			
Increase in loans to the State of Victoria (Department of Treasury and Finance)		(4,015,756)	(2,926,034)
Increase in loans to participating authorities		(1,132,213)	(1,807,079)
(Purchase)/Sale of investments		(348,275)	(30,082)
Payments for property, plant and equipment		(424)	(328)
Payments for intangible assets		(846)	(158)
Net cash (outflow) from investing activities		**(5,497,514)**	**(4,763,681)**
Cash flows from financing activities			
(Decrease)/Increase in derivatives		136,470	(269,038)
Increase in borrowings		4,131,901	4,865,160
Increase/(Reduction) in deposits from the State of Victoria (Department of Treasury and Finance)		194,154	332,000
Increase/(Reduction) in deposits from other public sector agencies		(35,158)	191,496
Dividend paid		(36,247)	(48,571)
Net cash inflow from financing activities		**4,391,120**	**5,071,047**
Net (decrease)/increase in cash and cash equivalents		**(1,436,775)**	**235,029**
Cash and cash equivalents at beginning of year		5,555,187	5,320,158
Cash and cash equivalents at end of year	6	**4,118,412**	**5,555,187**

This statement should be read in conjunction with the accompanying notes.

Notes to and Forming Part of the Financial Statements

Note 1 Corporate Information

Treasury Corporation of Victoria (TCV or the Corporation) was established by the *Treasury Corporation of Victoria Act* 1992 (the TCV Act) and commenced operations on 1 January, 1993. TCV is the State of Victoria's central financing authority.

TCV operates and transacts in the domestic and international financial market business segment, for the benefit of the State of Victoria, its participating authorities and other government entities. TCV's products and services predominantly incorporate financial market instruments, including loan and deposit facilities, securities, foreign exchange and associated risk management transactions, together with advisory and portfolio services.

Loans are made by TCV to the State of Victoria, its participating authorities and other government entities, subject to limits set by the Treasurer of the State of Victoria, on the basis of advice received from the Department of Treasury and Finance.

The financial statements of TCV for the year ended 30 June 2011 are authorised for issue in accordance with a resolution of the Board on 9 August 2011.

Note 2 Summary of Significant Accounting Policies

(a) Basis of Accounting

This report is a general-purpose financial statement, prepared in accordance with Australian Accounting Standards, the requirements of the Financial Management Act 1994, including Standing Direction 4.2 and applicable Financial Reporting Directions, and other mandatory professional reporting requirements.

The financial statements have been prepared in accordance with the historical cost convention, except for financial assets and liabilities which are reported at fair value (refer Note 2(d)). The presentation currency is Australian dollars and all values are rounded to the nearest thousand dollars, unless otherwise indicated.

The financial statements comply with Australian Accounting Standards, as issued by the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board.

(b) Adoption of Accounting standards

AASB 2009-5 *Non-current Assets Held for Sale and Discontinued Operations,* AASB 2009-9 *re: Amendments to AASB 1 First-time Adoption of Australian Accounting Standards,* AASB 2009-10 *re: Amendments to AASB 132 Financial Instruments Presentation,* AASB 2009-13 *re: Amendments to AASB 1 First-time Adoption of Australian Accounting Standards, and* AASB 124 *Related Party Disclosures* were adopted for the year ended 30 June 2011 as required. These standards did not have any material impact on the presentation of the financial statements or on the measurement or recognition of amounts disclosed.

(c) Significant Accounting Judgements, Estimates and Assumptions

Where the fair value of financial assets and liabilities recorded on the Statement of Financial Position cannot be sourced from active markets, they are determined using valuation models, whereby appropriate direct market inputs are used to benchmark, extrapolate or otherwise derive a fair value based on the instrument's risk characteristics and correlations, and quotes from market makers and established brokers. The assessment by management of the relevant risk characteristics and correlations may have a material impact on the fair value derived and the results of the Corporation.

(d) Financial Instruments

Date of recognition

Financial asset and liability transactions are recognised at trade date. Amounts receivable for transactions executed but not yet settled, including forwarded dated borrowings, are included in the Statement of Financial Position under 'Trade receivables and other assets'. Amounts payable for transactions executed but not yet settled, including forward dated loans, are included in the Statement of Financial Position under Trade and other payables.

Note 2 Summary of Significant Accounting Policies (cont.)

Financial assets and liabilities designated at fair value through profit and loss

All financial assets and liabilities, on recognition, are designated at fair value through profit and loss and, consequently, there is no variance between fair value and carrying value in the Statement of Financial Position. The designation is determined on the basis that TCV manages and evaluates the performance of its financial assets and liabilities on a fair value basis in accordance with documented risk management strategies.

In the Statement of Income, 'Net gain on financial assets and liabilities at fair value through profit and loss' reflects changes in the fair value of financial assets and liabilities and interest earned on assets or paid on liabilities (refer Note 3).

Derivative financial instruments

TCV enters into derivative financial instruments, as outlined in Note 18, to manage the market risks inherent in its asset and liability management activities.

Derivative instruments used to manage market risk are recognised in the Statement of Financial Position at fair value and the resulting profit and loss recognised in the Statement of Income. Interest rate swaps are shown on a net basis in the Statement of Financial Position, consistent with the manner in which they are settled.

Determination of fair value

Fair value is defined as the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value of financial assets and liabilities that are traded in an active market are determined with reference to appropriate market sourced rates.

Where the fair value cannot be sourced directly from active markets, it is determined as follows:

- the fair value of deposits from participating authorities, and loans guaranteed by the Victorian Government, are based on yield curves commensurate with the market yield curves for similar maturities of securities issued by TCV using standard valuation techniques that involve present value calculations incorporating discounted cash flows
- the fair value of other financial assets and liabilities are determined using standard valuation techniques incorporating discounted cash flows based on appropriate yield curves of similar traded securities (for which an active market exists) taking into account their risk characteristics and correlations or by obtaining quotes from market makers and established brokers. The valuation techniques are periodically reassessed by reference to price makers in financial markets.

Where assets and liabilities have offsetting market risks, mid market prices are utilised for establishing their fair values. Bid-offer spreads are applied to net open positions.

Refer to Note 5 for further detail.

(e) Income Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured. Fee income includes fees charged for advisory and administrative services together with recoveries from the State Government's budget sector and participating authorities and are used to contribute towards the other operational expenses incurred by the Corporation. Fee income and recoveries are recognised as income on an accruals basis.

(f) Borrowing related expenses

Borrowing related expenses are recognised as an expense when incurred. Borrowing costs generally include bank fees, rating agency fees and registry costs, but may also include costs associated with syndicating Domestic Inscribed Stock or other issues.

(g) Assets and Liabilities

Assets and liabilities are classified according to their nature and presented on the Statement of Financial Position in an order that reflects relative liquidity. Transactions involving financial instruments sold, but not yet purchased, entail an obligation to purchase a financial instrument at a future date.

(h) Debt and Loans Reconstruction

TCV debt securities may be repurchased from the market and cancelled. Similarly, loans to authorities may be repaid before maturity and replaced with new loans. Gains and losses associated with these repurchases/prepayments are recognised immediately in the Statement of Income.

Note 2 Summary of Significant Accounting Policies (cont.)

(i) Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are initially converted at the rate of exchange ruling at the date of the transaction and are translated using rates of exchange applicable at the end of the financial year.

Net unrealised gains and losses arising from translation of foreign currency assets and liabilities are brought to account in the Statement of Income.

(j) Property, Plant and Equipment

Property, plant and equipment are stated at fair value, which is taken to be cost less accumulated depreciation and impairment.

Depreciation of property, plant and equipment is calculated on a straight line basis using rates designed to allocate the cost over the expected useful life of the asset. Property, plant and equipment are, in general, depreciated over five years (2010 – 5 years), except for computer hardware which is depreciated over the estimated useful life of three years (2010 – 3 years). The depreciation expense on property, plant and equipment is recognised in the Statement of Income in the 'Other operational expenses' item.

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired. Impairment losses are recognised in the Statement of Income in the 'Other operational expenses' line item (2011 $nil, 2010 $nil).

(k) Intangible Assets

Intangible assets represent purchased software and are stated at fair value, which is taken to be cost less accumulated amortisation and impairment.

Amortisation of intangible assets is calculated on a straight line basis using rates designed to allocate the cost over the expected useful life of the asset. Software costs are amortised over the estimated useful life of three years (2010 – 3 years). Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets is recognised in the Statement of Income in the 'Other operational expenses' item.

The carrying values of intangible assets are reviewed for impairment at each reporting date, with recoverable amounts being estimated when events or changes in circumstances indicate that the carrying value may be impaired. Impairment losses are recognised in the Statement of Income in the 'Other operational expenses' line item (2011 $nil, 2010 $nil).

(l) Provisions

Provisions are recognised when the Corporation has a present obligation (legal or constructive) as a result of a past event, when it is probable that an expense will be incurred and a reliable estimate can be made of the amount of the expenditure.

An obligation to pay a dividend arises in respect of the Corporation's net profit in the previous financial year after consultation between the Board and the Treasurer. Following this consultation a formal determination is made by the Treasurer (refer Note 19).

(m) Employee leave benefits

Salaries, annual leave and sick leave

The liability for salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. The liabilities are measured at the amount expected to be paid when they are settled. Liabilities for sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave

Liabilities arising in respect to long service leave are measured based on contractual requirements and assessments having regard to staff departures, leave utilisation, future salary increases and appropriate discount factors. The components of liability expected to be paid or settled within 12 months are measured at their nominal amounts and the components of liability that are expected to be paid or settled beyond 12 months are measured at net present value.

Long service leave is payable, pro-rata, to employees with more than seven completed years of recognised service.

Note 2 Summary of Significant Accounting Policies (cont.)

(n) Repurchase Agreements

Financial assets sold under repurchase agreements continue to be recognised as financial assets as TCV retains the contractual right to receive the cash flows of the financial assets sold and substantially retains the risks and rewards of ownership. Market securities purchased under repurchase agreements are not recognised as financial assets as TCV does not receive the contractual right to receive cash flows or carries the risk or reward of ownership. However, the repurchase agreement is recognised as a financial asset under cash and cash equivalents.

Interest on the counterparty loan/deposit is recognised in the Statement of Income.

(o) Cash and Cash Equivalents

Cash and cash equivalents include 11am deposits with financial institutions and liquid investments maturing in less than three months that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(p) Receivables and payables

Receivables

Trade receivables include amounts due in respect of the provision of services, which generally have 30 day terms, and unsettled financial market transactions that have varying terms. Trade receivables are recognised and carried at the original amount owing.

Financial assets are measured at fair value through profit and loss. The fair value determined will therefore reflect, if applicable, any impairment.

Payables

Trade and other payables are carried at cost and represent liabilities for goods and services provided to TCV prior to the end of the financial year that are unpaid or unsettled financial market transactions. The liabilities arise when the Corporation becomes obliged to make future payments in respect of these transactions.

(q) Taxation

Income Tax

TCV is not a tax payer under the *Income Tax Assessment Act* 1936, accordingly income tax is not applicable. TCV is also not subject to the Victorian Taxation under State Owned Enterprises Tax Equivalent system.

Goods and Services Tax

TCV predominantly provides input taxed supplies and as such the majority of Goods and Services Tax credit claims are in line with regulation 70-5.02 (acquisitions that attract reduced input tax credits). TCV also makes some taxable supplies of financial advisory services and some GST-free supplies in respect of offshore issuances which gives rise to input tax credits in accordance with section 11-15 of the *A New Tax System (Goods and Services Tax) Act* 1999.

Expense items disclosed, where appropriate, are inclusive of non recoverable GST.

(r) Leases

Operating Leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis.

Note 2 Summary of Significant Accounting Policies (cont.)

(s) New Standards and Interpretations Not Yet Adopted

Summarised in the paragraphs below are Australian Accounting Standards that have recently been issued or amended but are not mandatory for the year ended 30 June 2011 and have not been adopted for these financial statements:

AASB 9 Financial Instruments

The objective of this Standard is to establish principles for the financial reporting of financial assets that will present relevant and useful information to users of financial statements. The Standard results from Phase 1 of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* (AASB 139 *Financial Instruments: Recognition and Measurement)* and applies to periods beginning on or after 1 January 2013. The revised version of AASB 9 issued in December 2010 deals with the recognition, classification, measurement and derecognition of financial assets and financial liabilities. The Standard is not anticipated to impact on the presentation of the financial statements or on the measurement or recognition of amounts disclosed. However, it is uncertain as to what impact the completion of the IASB project will have on this standard and therefore its impact on the financial statements.

AASB 2009-11

The Standard applies to annual reporting periods beginning on or after 1 January 2013 and shall be applied when AASB 9 is applied. The standard makes consequential amendments resulting arsing from AASB 9 Financial Instruments to other standards and Interpretations 10 and 12. The Standard is not anticipated to impact on the measurement or recognition of amounts disclosed nor impact significantly on the presentation of the financial statements.

AASB 2010-4

This Standard makes amendments to Australian Accounting Standards AASB 1 *First-time Adoption of Australian Accounting Standards,* AASB 7 *Financial Instruments:Disclosures,* AASB 101 *Presentation of Financial Statements and* AASB 134 *Interim Financial Reporting and Interpretation 13* arising from the AASB's Annual Improvements Project and apply to annual reporting periods beginning on or after 1 January 2011. The standard is not expected to have a material impact on the presentation of the financial statements or on the measurement or recognition of amounts disclosed.

AASB 2010-5

This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations and apply to annual reporting periods beginning on or after 1 January 2011. The standard is not expected to have a material impact on the presentation of the financial statements or on the measurement or recognition of amounts disclosed.

AASB 2010-6

This Standard makes amendments to AASB 1 *First-time Adoption of Australian Accounting Standards* and AASB 7 *Financial Instruments*: Disclosures. The amendments increase the disclosure requirements for transactions involving transfers of financial assets, including in respect of the nature of the financial assets involved and the risks associated with them and applies to annual reporting periods beginning on or after 1 July 2011. The standard is not expected to have a material impact on the presentation of the financial statements or on the measurement or recognition of amounts disclosed.

AASB 2010-7

This standard makes amendments to a number of standards that arise from the issuance of AASB 9 Financial Instruments in December 2010. The release of these standards arises from the completion of phase 1 of the International Accounting Standards Board's project to replace the requirements currently contained in AASB 139 *Financial Instruments: Recognition and Measurement*. Adoption is not mandatory until annual reporting periods beginning on or after 1 January 2013. The Standard is not anticipated to impact materially on the presentation of the financial statements or on the measurement or recognition of amounts disclosed.

AASB 2010-8

This Standard makes amendments to Australian Accounting Standard AASB 112 Income Taxes. The standard will not have any impact on the presentation of the financial statements or on the measurement or recognition of amounts disclosed.

Note 2 Summary of Significant Accounting Policies (cont.)

AASB 2010-9

This Standard makes amendments to Australian Accounting Standard AASB 1 *First-time Adoption of Australian Accounting Standards* and is applicable to annual reporting periods beginning on or after 1 July 2011. These amendments arise from the issuance of Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments to IFRS 1) by the International Accounting Standards Board in December 2010. The standard is not expected to have a material impact on the presentation of the financial statements or on the measurement or recognition of amounts disclosed.

AASB 2010-10

The amendments provide relief for first-time adopters of Australian Accounting Standards from having to reconstruct transactions that occurred before their date of transition to Australian Accounting Standards. The standard, which applies to annual reporting periods beginning on or after 1 January 2013, is not anticipated to have any impact on the presentation of the financial statements or on the measurement or recognition of amounts disclosed.

AASB 2011-1

This Standard makes amendments to a number of Australian Accounting Standards and Interpretation 112 and 113 arising from AASB's Trans-Tasman Convergence project and is applicable to annual reporting periods beginning on or after 1 July 2011. The standard is not expected to have a material impact on the presentation of the financial statements or on the measurement or recognition of amounts disclosed.

AASB 2011-2

This Standard makes amendments to Australian Accounting Standards AASB 101 *Presentation of financial statements,* AASB 1054 *Australian Additional Disclosures* arising from the AASB's Trans-Tasman Convergence project and apply to annual reporting periods beginning on or after 1 July 2013. The standard makes amendments to the application of the revised disclosures to Tier 2 entities (Reduced disclosure requirements category) and hence is not applicable to TCV.

AASB 2011-3

The objective of this Standard is to make amendments to AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, including clarifying the definition of the ABS GFS (Australian Bureau of Statistics publication Government Finance Statistics) and hence is not applicable to TCV).

International Financial Reporting Standards

The financial statements, in addition to Australian Accounting Standards, as issued by the Australian Accounting Standards Board, comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Summarised below are International Financial Reporting Standards that have recently been issued or amended, have not been adopted as an Australian Accounting Standard, are not mandatory for the year ended 30 June 2011 and have not been adopted by for these financial statements:

IFRS13

IFRS13 *Fair Value Measurement* establishes a single source of guidance for determining the fair value of assets and liabilities that defines fair value and requires disclosures. The standard is to be applied for annual reporting periods beginning on or after 1 January 2013. While the standard is not expected to have a material impact on the amounts disclosed, it will require additional disclosures.

Note 3 Income Items

	2011 $000s	2010 $000s
Net gain on financial assets and liabilities at fair value through profit and loss		
Financial assets designated at fair value through profit and loss		
Interest income on cash assets	198,557	186,308
Interest income on investments	149,240	140,447
Interest income on loans to participating authorities	1,321,631	1,082,671
	1,669,428	**1,409,426**
Realised and unrealised market movements of financial assets	(11,529)	707,544
Net gain on financial assets designated at fair value through profit and loss	**1,657,899**	**2,116,970**
Financial liabilities designated at fair value through profit and loss		
Interest expense on borrowings	(1,627,901)	(1,348,972)
Realised and unrealised market movements of financial liabilities	37,018	(662,510)
Net loss on financial liabilities designated at fair value through profit and loss	**(1,590,883)**	**(2,011,482)**
Net loss on derivatives	(5,391)	(45,219)
Net gain on financial assets and liabilities at fair value through profit and loss	**61,625**	**60,269**

Note 4 Expense Items

	2011 $000s	2010 $000s
Other borrowing related expenses		
Syndication fees	438	3,878
Bank and facility fees	170	147
Rating agency fees	506	452
Registry and agency fees	95	109
Other costs	248	196
	1,457	**4,782**
Other operational expenses		
Salaries and related employee expenses	9,944	9,379
Temporary contracted resources	712	111
Depreciation of property plant and equipment	681	757
Amortisation of intangible assets	313	322
Professional fees and contract services	1,703	1,593
Prudential supervision fee	160	150
Lease payments	605	601
Power and other occupancy costs	125	156
Market information services	978	989
Promotional expenses	325	257
Legal costs	149	163
Insurance	252	233
Information technology	1,825	1,734
Other expenses	513	632
	18,285	**17,077**

Note 5 Financial Instruments Carried at Fair Value

(a) Fair value determination

Fair values are determined by Middle Office (Risk & Performance Management) independent of Treasury dealing staff and consistent with the requirements of the TCV Portfolio Market Valuation Policy.

Instruments for which active markets exist are valued using quoted prices.

Industry standard valuation techniques are used to determine the fair value of instruments that are not in active markets. Valuation techniques include the use of indicative quotes for prices directly from, or interpolated or extrapolated from, prices for like instruments in active markets, and the use of quotes from market makers and established brokers.

Where the valuation technique requires adjustments that cannot be sourced directly from active markets, they are determined from inputs from market makers/brokers.

Where assets and liabilities have offsetting market risks, mid market prices are utilised for establishing the fair values for offsetting market risks. Bid-offer spreads, determined from market makers/brokers are applied to net open positions.

(b) Valuation techniques

The paragraphs below summarise the Corporation's valuation techniques used to determine the fair value of financial instruments. These valuation techniques have been developed to determine the fair value of instruments that are not in active markets.

Floating rate securities

Floating rate securities are valued using market data, including quoted weighted average life data for mortgage backed securities.

Short term discounted securities

Short term discounted securities are valued by discounting the full face value of the securities using yields interpolated off curves derived from market data.

Treasurer guaranteed investments

Treasurer guaranteed investments, other than for indexed investments, are valued by discounting instrument cash flows utilising rates derived from the TCV zero curve[1]. Indexed investments are valued off a curve derived from market quotes for index linked securities.

Index linked securities

Index linked securities are valued using yields derived from market quotes for like instruments.

Loans to the State of Victoria and Participating Authorities

Loans to the State of Victoria and Participating Authorities have the benefit of the guarantee of the Government of Victoria pursuant to Section 32 of the TCV Act and are valued by discounting the instrument cash flows utilising yields derived from the TCV zero curve[1].

Derivatives

Over the counter derivatives such as interest rate swaps, forward rate agreements and foreign currency swaps are valued on a cash flow basis off the appropriate swap curves.

The nominal leg of index swaps is valued on a cashflow basis using the swap curve, with the CPI leg being valued at a spread to the corresponding TCV CPI bond.

The cross currency swap, used to hedge the Corporation's yen bond exposure, is valued off the JPY swap curve and the AUD swap curve and reflects the cross currency basis on both the JPY and AUD swap legs.

The fair value of Aluminium over-the-counter (OTC) options is determined by reference to the average valuation provided by counterparties who are London Metal Exchange brokers Category 1 and 2.

In most cases, counterparty credit risk associated with the Corporation's derivative positions is mitigated by Credit Support Annexures (CSAs) which require the provision of collateral to cover the credit risk arising from "in the money" derivative exposures. Any derivative counterparties not subject to a CSA agreement at 30 June 2011 had a Standard & Poors long-term rating of A+ to AA. Consequently, a Credit Value Adjustment (provision for counterparty default) has not been provided for in the determination of the value of TCV's derivative positions.

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[1] The TCV zero curve is constructed by the boot strapping of market data, primarily derived from market quotes for TCV's Domestic Inscribed Stock, until 17 November 2026 (2010: until 17 October 2022) and then an extrapolation using a spread to swap based on quotations provided by market makers.

Note 5 Financial Instruments Carried at Fair Value (cont.)

Deposits from public sector

Deposits at call are valued at account balance. Maturities to six months are determined from the Bank Accepted Bills market, with longer maturities to one year valued by discounting the instruments cash flows utilising interpolated rates between six month bills and the one year swap rate and beyond one year, yields derived from the swap curve.

Interest bearing liabilities – domestic

With the exception of index linked securities, instruments are valued by discounting the instrument cash flows utilising rates derived from the TCV zero curve[1]. Index linked securities are valued using market quotes.

Interest bearing liabilities – offshore

Euro Commercial Paper is valued through the discounting of the cash flows using the relevant currency's swap curve.

AUD-denominated Eurobonds and AUD-denominated Euro Medium Term Notes (EMTNs) are valued through the discounting of the cash flows using the TCV zero curve [1].The JPY-denominated EMTN is valued through the discounting of cash flows using JPY AAA global curve.

(c) Fair value hierarchy

All financial assets and liabilities, on recognition, are designated at fair value through profit and loss. The nature of the inputs for the determination of fair value determines the hierarchical level into which they fall.

Level 1 instruments are valued utilising quoted prices (unadjusted) in active markets for identical assets or liabilities. This includes investments such as Commonwealth and State Government Bonds, exchange traded derivatives and liabilities such as TCV's Domestic Inscribed Stock.

Level 2 instruments are valued utilising significant inputs other than quoted prices included within Level 1 that are observable, either directly (i.e. as prices) or indirectly (i.e. derived from prices) . Typically these apply to loans to the State Government and participating authorities and liabilities other than Domestic Inscribed Stock (for which an active market exists).

Level 3 instruments are valued utilising inputs that are not based on observable market data. This includes indexed swaps, some indexed investment loans and Aluminium OTC options.

The table below summaries the fair value of the financial instruments and the appropriate fair value hierarchy into which they fall as at 30 June:

	Level 1 (quoted prices in active markets) $000s	Level 2 (inputs other than quoted prices) $000s	Level 3 (unobservable inputs) $000s	Total $000s
2011				
Assets				
Investments	1,549,609	1,203,157	62,827	2,815,593
Derivative financial instruments	1,225	2,102,105	72,798	2,176,128
Loans to the State of Victoria and participating authorities	2,355,213	25,107,489	-	27,462,702
	3,906,047	**28,412,751**	**135,625**	**32,454,423**
Liabilities				
Derivative financial instruments	69	2,181,410	35,772	2,217,251
Deposits from public sector	3,796,436	2,062,060	-	5,858,496
Interest bearing liabilities – domestic	23,189,399	2,202,860	-	25,392,259
Interest bearing liabilities – offshore	-	2,352,837	-	2,352,837
	26,985,904	**8,799,167**	**35,772**	**35,820,843**

[1] The TCV zero curve is constructed by the boot strapping of market data, primarily derived from market quotes for TCV's Domestic Inscribed Stock, until 17 November 2026 (2010: until 17 October 2022) and then an extrapolation using a spread to swap based on quotations provided by market makers.

Note 5 Financial Instruments Carried at Fair Value (cont.)

	Level 1 (quoted prices in active markets) $000s	Level 2 (inputs other than quoted prices) $000s	Level 3 (unobservable inputs) $000s	Total $000s
2010				
Assets				
Investments	1,663,033	850,492	69,294	2,582,819
Derivative financial instruments	1,774	1,871,092	29,887	1,902,753
Loans to the State of Victoria and participating authorities	1,827,128	19,922,962	-	21,750,090
	3,491,935	**22,644,546**	**99,181**	**26,235,662**
Liabilities				
Derivative financial instruments	7	1,802,000	1,685	1,803,692
Deposits from public sector	2,996,145	2,704,733	-	5,700,878
Interest bearing liabilities – domestic	16,712,108	5,063,916	-	21,776,024
Interest bearing liabilities – offshore	-	2,104,259	-	2,104,259
	19,708,260	**11,674,908**	**1,685**	**31,384,853**

(d) Level 3 Financial Instruments - fair value determined from valuation techniques utilising significant unobservable inputs

The table below summarises Level 3 financial instruments:

	2011 $000s	2010 $000s
Assets		
Investments	62,827	69,294
Derivative financial instruments – index swaps	37,506	29,887
– Aluminium OTC options	35,292	-
	135,625	**99,181**
Liabilities		
Derivative financial instruments – index swaps	480	1,685
– Aluminium OTC options	35,292	-
	35,772	**1,685**

Level 3 investments are indexed investments, valued off a curve derived from market quotes for index linked securities.

For indexed swaps derivatives, the nominal credit foncier leg is valued off the AUD swap curve and the real leg is valued applying spreads derived from the nominal market to market based curves.

The fair value of Aluminium OTC options is determined by reference to the average valuation provided by counterparties who are London Metal Exchange brokers Category 1 and 2.

Note 5 Financial Instruments Carried at Fair Value (cont.)

(e) Level 3 Financial Instruments – reconciliation

The table below summarises the reconciliation of change in exposure in the Statement of Financial Position to financial instruments categorised as Level 3 as at 30 June:

	Opening balance $000s	Total gains or (losses)[1] $000s	Purchases $000s	Sales $000s	Settlements[2] $000s	Closing balance $000s
2011						
Assets						
Investments	69,294	(4,429)	-	-	(2,038)	62,827
Derivative financial instruments						
- Index swaps	29,887	(8,038)	156,962	(141,576)	271	37,506
- Aluminium OTC options	-	(7,500)	42,792	-	-	35,292
	99,181	**(19,967)**	**199,754**	**(141,576)**	**(1,767)**	**135,625**
Liabilities						
Derivative financial instruments						
- Index swaps	(1,685)	1,504	6,686	(3,346)	(3,639)	(480)
- Aluminium OTC options	-	7,500	-	(42,792)	-	(35,292)
	(1,685)	**9,004**	**6,686**	**(46,138)**	**(3,639)**	**(35,772)**

	Opening balance $000s	Total gains or (losses)[1] $000s	Purchases $000s	Sales $000s	Settlements[2] $000s	Closing balance $000s
2010						
Assets						
Investments	74,433	(5,444)	-	-	305	69,294
Derivative financial instruments						
- Index swaps	43,589	(1,978)	43,245	(50,000)	(4,969)	29,887
	118,022	**(7,422)**	**43,245**	**(50,000)**	**(4,664)**	**99,181**
Liabilities						
Derivative financial instruments						
- Index swaps	(21,437)	27,083	(15,826)	7,915	580	(1,685)
	(21,437)	**27,083**	**(15,826)**	**7,915**	**580**	**(1,685)**

(1) Total net gains (or losses) include realised and unrealised fair value movements.
(2) For investments, Settlements includes principal on maturity, principal amortisation and principal repayments.

(f) Level 3 Financial Instruments – sensitivity analysis

Where the fair value of instruments is determined utilising inputs that are not based on observable market data, a range of reasonably possible alternative assumptions could be used to determine the fair value. Had the Corporation utilised alternative valuation assumptions, the total fair value of all the instruments detailed above could increase by a net amount of as much as $3.0 million (2010 $3.8 million) or reduced by a net amount as much as $3.0 million (2010 $3.7 million). This range of possible alternative valuations is not considered to have a significant impact on the fair value position of these instruments as at 30 June 2011.

Alternative valuations for indexed investments were determined by applying a 10 basis point adjustment to the curve used to value the instruments on an individual basis. For indexed swaps, a 10 basis point adjustment was applied to TCV index annuity benchmark bond yields that are inputs to the valuation model used to value the investments on an individual basis.

Note 5 Financial Instruments Carried at Fair Value (cont.)

The Aluminium OTC options are "back-to-back" as the Corporation acts as a financial intermediary and the market risks are offset. Notwithstanding that the Aluminium OTC options are "back-to-back", based on the valuations provided by counterparties who are London Metal Exchange brokers Category 1 and 2, the range of valuations received could increase gross asset and liability positions by an amount of as much as $0.9 million or reduced by an amount as much as $0.5 million. This range is not considered to be significant with respect to the fair value impact on gross assets and liabilities at the reporting date and these reasonably possible alternative valuations have no impact on the Statement of Income and net assets of the Corporation. For the Corporation, credit risk arises only on the purchased option from the participating authority and this credit risk is fully supported by a guarantee from the Treasurer of Victoria.

Note 6 Cash and Cash Equivalents

Contractual maturity in:	**At call**	**Less than 3 months**	**Total**
	$000s	**$000s**	**$000s**
2011			
Cash at bank and on hand	9,625	-	9,625
Deposits with futures clearing house	5,725	-	5,725
Deposits from financial institutions	141,457	235	141,692
Short term discounted securities	-	3,961,370	3,961,370
Total Cash and Cash Equivalents	**156,807**	**3,961,605**	**4,118,412**

Contractual maturity in:	**At call**	**Less than 3 months**	**Total**
	$000s	**$000s**	**$000s**
2010			
Cash at bank and on hand	10,816	-	10,816
Deposits with futures clearing house	1,987	-	1,987
Deposits from financial institutions	226,434	138	226,572
Short term discounted securities	-	5,315,812	5,315,812
Total Cash and Cash Equivalents	**239,237**	**5,315,950**	**5,555,187**

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Deposits with futures clearing house earns interest at floating rates.

Deposits from financial institutions are made for varying periods of between one day and three months and earn interest at the respective floating or short-term deposit rates. Short term discounted securities earn a yield determined at time of acquisition.

Note 7 Trade Receivables and Other Assets

	2011	**2010**
	$000s	**$000s**
Unsettled trades (refer note 2(d))	365,528	-
Prepayments	567	766
Other receivables	928	987
	367,023	**1,753**

Note 8 Investments

Contractual maturity in:	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Greater than 5 years	Total
	$000s	$000s	$000s	$000s	$000s	$000s
2011						
Floating rate securities	17,178	126,671	303,122	310,481	15,912	773,364
Short term discounted securities	-	362,117	-	-	-	362,117
Offshore issued securities	-	-	-	-	-	-
Fixed interest securities	27,467	146,677	32,850	540,892	596,067	1,343,953
Treasurer guaranteed investments(1)	7,026	17,638	20,608	55,595	235,292	336,159
Total Investments	**51,671**	**653,103**	**356,580**	**906,968**	**847,271**	**2,815,593**

Contractual maturity in:	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Greater than 5 years	Total
	$000s	$000s	$000s	$000s	$000s	$000s
2010						
Floating rate securities	97,353	269,997	232,095	205,063	-	804,508
Short term discounted securities	-	78,734	-	-	-	78,734
Offshore issued securities	47,758	6,089	-	-	-	53,847
Fixed interest securities	89,518	161,359	82,130	345,431	607,106	1,285,544
Treasurer guaranteed investments(1)	6,967	20,419	23,313	55,256	254,231	360,186
Total Investments	**241,596**	**536,598**	**337,538**	**605,750**	**861,337**	**2,582,819**

(1) TCV's investment powers, approved by the Governor in Council provide, inter alia, that an approved manner of investment is 'the making or acquisition of a loan or advance to any Corporation where such loan or advance is at all times guaranteed as to both principal and interest by the Treasurer of the State of Victoria or the government of either the Commonwealth, a state or territory'. At 30 June 2011, this includes investments in Melbourne Cricket Club ($294.49 million, 2010: $310.89 million) and St. Vincent's Hospital (Melbourne) Limited ($39.68 million, 2010: $48.96 million).

Note 9 Loans to the State of Victoria and Participating Authorities

Section 8(1) of the TCV Act states that one of the functions of the Corporation is to provide financial accommodation to a participating authority or the State of Victoria. Loans to participating authorities are guaranteed as to both principal and interest by the Treasurer of the State of Victoria. All the loans and advances are conducted in the ordinary course of TCV's business and are entered into upon commercial terms and conditions. Outstanding loans at balance date, by contractual maturity, are categorised as follows:

	At call	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Greater than 5 years	Total
	$000s	$000s	$000s	$000s	$000s	$000s	$000s
2011							
Overnight & short term cash	2,355,210	-	-	-	-	-	2,355,210
Short term discounted loans		20,707	63,567	-	-	-	84,274
Floating rate loans		-	85,100	114,619	54,841	-	254,560
Fixed interest loans		975,822	981,369	1,654,204	5,427,521	15,396,290	24,435,206
Index linked loans		-	-	-		333,452	333,452
Total Loans to Participating Authorities	**2,355,210**	**996,529**	**1,130,036**	**1,768,823**	**5,482,362**	**15,729,742**	**27,462,702**

	At call	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Greater than 5 years	Total
	$000s	$000s	$000s	$000s	$000s	$000s	$000s
2010							
Overnight & short term cash	1,827,128	-	-	-	-	-	1,827,128
Short term discounted loans	-	-	20,404	-	-	-	20,404
Floating rate loans	-	110,216	55,103	84,963	169,129	-	419,411
Fixed interest loans	-	856,441	917,665	1,439,015	4,299,441	11,643,629	19,156,191
Index linked loans	-	-	-	-	-	326,956	326,956
Total Loans to Participating Authorities	**1,827,128**	**966,657**	**993,172**	**1,523,978**	**4,468,570**	**11,970,585**	**21,750,090**

Refer to Note 15 for additional details of loans by client.

Note 10 Property, Plant and Equipment

	2011 $000s	2010 $000s
Leasehold improvements, office equipment, furniture and fittings	2,667	2,471
Accumulated depreciation	(2,416)	(2,056)
	251	**415**
Computer equipment	1,472	1,872
Accumulated depreciation	(1,128)	(1,523)
	344	**349**
Motor vehicles	593	686
Accumulated depreciation	(149)	(154)
	444	**532**
Written Down Value	**1,039**	**1,296**

Reconciliation of Property, Plant & Equipment

	2011 $000s	2010 $000s
Leasehold Improvements, Office Equipment, Furniture and Fittings		
Opening balance	415	868
Acquisitions	196	10
Disposals	-	-
Depreciation expense	(360)	(463)
Closing balance	**251**	**415**
Computer Equipment		
Opening balance	349	247
Acquisitions	191	250
Disposals	-	-
Depreciation expense	(196)	(148)
Closing balance	**344**	**349**
Motor Vehicles		
Opening balance	532	609
Acquisitions	286	332
Disposals	(249)	(263)
Depreciation expense	(125)	(146)
Closing balance	**444**	**532**
Total	**1,039**	**1,296**

The annual rates of depreciation are 33% (2010 – 33%) in respect of computer equipment and 20% (2010 – 20%) in respect of other classes of Property, Plant and Equipment.

Note 11 Intangible Assets

	2011	2010
	$000s	$000s
Computer software	8,345	7,692
Accumulated amortisation	(5,956)	(5,835)
Written Down Value	**2,389**	**1,857**

Reconciliation of Intangible Assets

	2011	2010
	$000s	$000s
Computer Software		
Opening balance	1,857	2,022
Acquisitions	845	160
Disposals	-	(3)
Amortisation expense	(313)	(322)
Closing balance	**2,389**	**1,857**

The amortisation rate for computer software is 33% (2010 – 33%).

Note 12 Trade and Other Payables

	2011	2010
	$000s	$000s
Unsettled trades (refer note 2(d))	926,599	224,540
Other payables	3,257	10,247
	929,856	**234,787**

Note 13 Provisions

	2011	2010
	$000s	$000s
Employee Long Service Leave Entitlements		
Current: Unconditional entitlements expected to be settled within 12 months	129	127
Current: Unconditional entitlements expected to be settled after 12 months	1,158	1,139
Non-current conditional entitlements	192	102
Total Provisions	**1,479**	**1,368**

Note 14 Deposits from Public Sector

Deposits from the public sector consist of short term deposit takings from Victorian State Government sector departments and agencies with maturities as detailed below. Deposits at balance date, by contractual maturity, are categorised as follows:

	At call	Less than 3 months	3 months to 1 year	1 to 2 years	Total
	$000s	$000s	$000s	$000s	$000s
2011					
Deposits from public sector	1,870,768	3,842,978	141,449	3,301	5,858,496

	At call	Less than 3 months	3 months to 1 year	1 to 2 years	Total
	$000s	$000s	$000s	$000s	$000s
2010					
Deposits from public sector	1,487,580	4,006,429	206,869	-	5,700,878

Refer to Note 15 for additional details of deposits by client.

Note 15 Client Loans and Deposits Outstanding

	2011 Loans $000s	2011 Deposits $000s	2010 Loans $000s	2010 Deposits $000s
State of Victoria (Department of Treasury and Finance)	16,936,567	(1,123,988)	12,199,922	(930,726)
Participating Authorities:				
Melbourne Water Corporation	3,749,837	(5,854)	3,298,560	(5,504)
Yarra Valley Water Limited	1,545,851	(5,581)	1,457,894	(2,774)
Rural Finance Corporation of Victoria	1,137,477	-	1,138,236	-
South East Water Limited	879,530	-	790,838	-
Port of Melbourne Corporation	508,191	(34,086)	582,643	(42,294)
City West Water Limited	646,406	(5,731)	585,127	(38)
Coliban Regional Water Corporation	269,358	-	229,275	-
Barwon Regional Water Corporation	311,554	(8,214)	195,523	(570)
Central Gippsland Regional Water Corporation	191,547	(9,258)	177,473	(1,000)
VicUrban	185,794	(8,602)	146,291	-
Rolling Stock Holdings (Victoria) P/L	116,177	(1,701)	121,145	(1,312)
Central Highlands Regional Water Corporation	130,078	(1,048)	112,466	(2,582)
Western Region Water Corporation	134,219	(4,004)	106,891	(7,003)
Grampians Wimmera Mallee Water Corporation	113,927	(1)	98,319	(987)
Goulburn Valley Regional Water Corporation	92,829	(3,701)	84,418	(2,251)
Goulbourn Murray Regional Water Corporation	97,663	(10,104)	24,043	-
Wannon Regional Water	82,720	-	82,289	-
Lower Murray Regional Water Authority	53,350	(737)	43,874	-
Department of Human Services	-	(468,928)	-	(767,546)
State Electricity Commission of Victoria	-	(442,033)	-	(356,302)
Country Fire Authority	-	(136,734)	-	-
Other participating authorities	279,627	(295,429)	274,863	(395,657)
Public Sector Entities:				
Residential Tenancies Board	-	(610,132)	-	(545,117)
Emergency Services Superannuation Scheme	-	(509,549)	-	(445,650)
Victorian Government Trust Funds	-	(414,056)	-	(557,235)
Victorian Property Fund	-	(324,477)	-	(331,076)
Victoria Fund Management Corporation Cash Trust	-	(249,985)	-	(25,307)
Regional Infrastructure Development	-	(197,362)	-	(178,804)
Environment Protect Fund	-	(129,360)	-	-
Other public sector entities	-	(790,010)	-	(865,493)
Other	-	(67,831)	-	(235,650)
	27,462,702	**(5,858,496)**	**21,750,090**	**(5,700,878)**

The above loans and deposits are shown at fair value with loans inclusive of forwarded dated loans. This disclosure may therefore differ from the disclosure by individual participating authorities and public sector bodies depending on their accounting basis.

Note 16 Interest Bearing Liabilities – Domestic

The amounts detailed below at fair value have the benefit of the guarantee of the Government of Victoria pursuant to Section 32 of the TCV Act.

Contractual maturity in:	At call	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Greater than 5 years	Total
	$000s	$000s	$000s	$000s	$000s	$000s	$000s
2011							
Benchmark Programs							
Domestic Inscribed Stock[1]	-	-	-	3,129,457	3,943,274	15,964,118	23,036,849
TCV Promissory Notes[2]	-	267,456	9,599	-	-	-	277,055
Total Benchmark Programs	**-**	**267,456**	**9,599**	**3,129,457**	**3,943,274**	**15,964,118**	**23,313,904**
Domestic Borrowings – Other							
Payables to market participants[3]	5,047	11,016	-	-	-	-	16,063
TCV fixed interest	-	917,057	35,433	27,169	55,493	134,644	1,169,796
Commonwealth Government loans	-	-	200	88	-	36	324
Indexed linked securities	-	208	4,213	11,804	55,693	820,254	892,172
Total Domestic Borrowings - Other	**5,047**	**928,281**	**39,846**	**39,061**	**111,186**	**954,934**	**2,078,355**
Total Domestic Borrowings	**5,047**	**1,195,737**	**49,445**	**3,168,518**	**4,054,460**	**16,919,052**	**25,392,259**

Contractual maturity in:	At call	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Greater than 5 years	Total
	$000s	$000s	$000s	$000s	$000s	$000s	$000s
2010							
Benchmark Programs							
Domestic Inscribed Stock[1]	-	-	-	-	5,999,167	10,455,754	16,454,921
TCV Promissory Notes[2]	-	197,489	433,610	-	-	-	631,099
Total Benchmark Programs	**-**	**197,489**	**433,610**	**-**	**5,999,167**	**10,455,754**	**17,086,020**
Domestic Borrowings – Other							
Payables to market participants[3]	5,185	120,968	-	-	-	-	126,153
TCV fixed interest	-	2,605,315	22,707	553,223	54,973	360,047	3,596,265
Commonwealth Government loans	-	-	398	191	84	937	1,610
Indexed linked securities	-	-	556	10,378	19,464	935,578	965,976
Total Domestic Borrowings - Other	**5,185**	**2,726,283**	**23,661**	**563,792**	**74,521**	**1,296,562**	**4,690,004**
Total Domestic Borrowings	**5,185**	**2,923,772**	**457,271**	**563,792**	**6,073,688**	**11,752,316**	**21,776,024**

(1) Domestic Inscribed Stock pay a fixed interest coupon with varying maturities:
6.25% coupon with a maturity of 15 October 2012
4.75% coupon with a maturity of 15 October 2014
5.75% coupon with a maturity of 15 November 2016
5.50% coupon with a maturity of 15 November 2018
6.00% coupon with a maturity of 15 June 2020
6.00% coupon with a maturity of 17 October 2022
5.50% coupon with a maturity of 17 December 2024
5.50% coupon with a maturity of 17 November 2026

(2) TCV Promissory Notes are promissory notes issued under the AUD$5 billion Commercial Paper Program with maturities up to one year.

(3) Consists of non public sector short-term deposit takings with maturities up to three months.

Note 17 Interest Bearing Liabilities - Offshore

The amounts detailed below at fair value have the benefit of the guarantee of the Government of Victoria pursuant to Section 32 of the TCV Act. Exposures are hedged and TCV does not maintain any significant net foreign exchange exposure (refer Note 18).

Contractual maturity in:	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Greater than 5 years	Total
	$000s	$000s	$000s	$000s	$000s	$000s
2011						
Euro Commercial Paper	1,043,821	877,915	-	-	-	1,921,736
Eurobonds	88,497	-	-	-	-	88,497
Euro Medium Term Notes	-	-	-	-	342,604	342,604
Total Offshore Borrowings	**1,132,318**	**877,915**	**-**	**-**	**342,604**	**2,352,837**

Contractual maturity in:	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Greater than 5 years	Total
	$000s	$000s	$000s	$000s	$000s	$000s
2010						
Euro Commercial Paper	1,300,341	491,012	-	-	-	1,791,353
Eurobonds	-	-	84,456	-	-	84,456
Euro Medium Term Notes	-	-	-	-	130,720	130,720
SECV Eurobonds	-	97,730	-	-	-	97,730
Total Offshore Borrowings	**1,300,341**	**588,742**	**84,456**	**-**	**130,720**	**2,104,259**

Under the AUD 5 billion multi-currency Euro Commercial Paper Program, TCV has issued Euro Commercial Paper. The 2011 liability balance includes face value of USD 1.7 billion, NZD 20 million, CHF 35 million, and CAD 17 million (2010: USD 1.4 billion, SGD 35 million).

Under a stand-alone program, the Victoria Public Authorities Finance Agency (VicFin) has issued Eurobonds in Australian dollars. TCV is the successor in law to VicFin. The 2011 liability balance includes face value of $ 89.2 million (2010: $ 89.2 million).

Under the USD 3 billion Euro Medium Term Note Program, TCV has issued Medium Term Notes. The 2011 liability balance comprise face value of $475.0 million (2010: Nil) for Medium Term Notes issued in Australian dollars and JPY 7.5 billion (2010: JPY 7.5 billion).

SECV Eurobonds, issued by the State Electricity Commission of Victoria ‘Shell’ in Australian dollars, were assumed by TCV in 1995. The bonds matured on 11 January 2011.

Note 18 Derivative Financial Instruments

TCV enters into derivative financial instruments such as exchange traded futures and options, forward rate agreements, swaps and forward foreign exchange contracts to manage the interest rate and currency risk inherent in the borrowing and asset management activities of the Corporation.

Interest rate swap contracts include fixed, floating and indexed cashflows. These net cashflows may occur monthly, quarterly, semi annually and annually. The maturity dates of outstanding swaps are summarised below.

Cross currency swaps, forward foreign exchange contracts and foreign exchange swaps are used in the management of TCV’s offshore borrowings and client requirements. Outstanding cross currency swaps, forward foreign exchange contracts and foreign exchange swaps have maturity dates as summarised below. TCV does not maintain any significant net foreign exchange exposure.

TCV also enters into Aluminium over-the-counter (OTC) options where the specific terms are tailored to the requirements of a client.

Note 18 Derivative Financial Instruments (Cont)

The fair value of the Corporation's transactions in derivative financial instruments outstanding at the year end is as follows:

Contractual maturity in:	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Greater than 5 years	Total
	$000s	$000s	$000s	$000s	$000s	$000s
2011						
Derivative Financial Instrument Assets						
Interest rate swaps	278	382	11,423	4,060	56,174	72,317
Cross currency swaps	-	-	-	-	104,740	104,740
Forward foreign exchange contracts	8	7,664	7,016	12,632	-	27,320
Forward rate agreements	-	5	-	-	-	5
Exchange traded futures	1,225	-	-	-	-	1,225
FX swap position receivable	1,034,287	900,063	-	-	-	1,934,350
FX options receivable	-	-	-	507	372	879
Aluminium OTC options	1,292	4,159	5,944	21,763	2,134	35,292
Total Derivative Asset	**1,037,090**	**912,273**	**24,383**	**38,962**	**163,420**	**2,176,128**
Derivative Financial Instrument Liabilities						
Interest rate swaps	(1,141)	(1,305)	(5,745)	(7,296)	(47,867)	(63,354)
Cross currency swaps	-	-	-	-	(106,134)	(106,134)
Forward foreign exchange contracts	(8)	(7,624)	(6,965)	(12,531)	-	(27,128)
Forward rate agreements	-	-	-	-	-	-
Exchange traded futures	(69)	-	-	-	-	(69)
FX swap position payable	(1,069,245)	(915,149)	-	-	-	(1,984,394)
FX options payable	-	-	-	(508)	(372)	(880)
Aluminium OTC options	(1,292)	(4,159)	(5,944)	(21,763)	(2,134)	(35,292)
Total Derivative Liability	**(1,071,755)**	**(928,237)**	**(18,654)**	**(42,098)**	**(156,507)**	**(2,217,251)**

Note 18 Derivative Financial Instruments (cont.)

The fair value of the Corporation's transactions in derivative financial instruments outstanding at 30 June 2010 is as follows:

Contractual maturity in:	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Greater than 5 years	Total
	$000s	$000s	$000s	$000s	$000s	$000s
2010						
Derivative Financial Instrument Assets						
Interest rate swaps	5,930	959	1,677	23,098	43,100	74,764
Cross currency swaps	-	-	-	-	130,979	130,979
Forward foreign exchange contracts	1,299	2,517	2,223	6,329	-	12,368
Exchange traded futures	1,571	203	-	-	-	1,774
FX swap position receivable	1,205,024	473,997	-	-	-	1,679,021
FX options receivable	-	-	-	1,168	2,679	3,847
Total Derivative Asset	**1,213,824**	**477,676**	**3,900**	**30,595**	**176,758**	**1,902,753**
Derivative Financial Instrument Liabilities						
Interest rate swaps	(1,634)	(2,274)	(643)	(9,525)	(56,894)	(70,970)
Cross currency swaps	-	-	-	-	(106,761)	(106,761)
Forward foreign exchange contracts	(1,291)	(2,479)	(2,186)	(6,185)	-	(12,141)
Forward rate agreements	(36)	(17)	-	-	-	(53)
Exchange traded futures	(7)	-	-	-	-	(7)
FX swap position payable	(1,132,464)	(477,449)	-	-	-	(1,609,913)
FX options payable	-	-	-	(1,168)	(2,679)	(3,847)
Total Derivative Liability	**(1,135,432)**	**(482,219)**	**(2,829)**	**(16,878)**	**(166,334)**	**(1,803,692)**

Note 19 Equity

Contributed Equity

	2011	2010
	$000s	$000s
Contributed Equity	30,000	30,000

The contributed equity of the Corporation is in accordance with Clause 36 'Initial Capital of Corporation' of the TCV Act which states that "The Treasurer may, in respect of the financial year ending on 30 June 1993, pay to the Corporation as initial capital such amount, not exceeding $30 million as the Treasurer determines".

Dividend

Under Section 31 of the TCV Act, TCV is required to pay to the Government of Victoria, from its net profit in the previous financial year, such dividend as the Treasurer shall determine after consultation with the Corporation. At 30 June 2011, no dividend in respect of the year ended 30 June 2011 (2010: nil) has been provided for in the accounts of TCV. In respect of the prior year's surplus, a dividend of $ 36.2 million (2010: $ 48.6 million) was declared and paid after the relevant reporting date.

Note 20 Contractual Obligations and Financial Liabilities at Fair Value

The difference between financial liabilities carrying amount (fair value) and the amount contractually required to be paid at maturity is detailed below.

	2011 Fair Value[(1)]	2011 Principal Owing at Maturity[(2)]	2011 Variance	2010 Fair Value[(1)]	2010 Principal Owing at Maturity[(2)]	2010 Variance
	$000s	$000s	$000s	$000s	$000s	$000s
Deposits from public sector	5,858,496	5,842,540	15,956	5,700,878	5,683,544	17,334
Interest bearing liabilities – domestic[(3)]	25,392,259	25,074,591	317,668	21,776,024	21,355,453	420,571
Interest bearing liabilities – offshore	2,352,837	2,574,878	(222,041)	2,104,259	2,082,131	22,128

(1) Fair value is inclusive of interest due at 30 June 2011.

(2) Principal owing at maturity is the amount TCV is contractually required to pay at maturity, to the holder of the obligation, exclusive of interest due.

(3) Interest bearing liabilities – domestic includes indexed linked securities. For the purposes of this note, the principal owing for indexed linked securities is assumed to equal the principal owing at 30 June 2011.

Note 21 Notes Supporting Statement of Cash Flows

(i) Cash flows presented on a net basis

Cash flows arising from:

- Payments for/sales of investment securities
- Loans granted to/repaid from public authorities
- Deposits accepted from/repaid to authorities
- Proceeds from issuance of borrowings/repayment of borrowings
- Derivative financial instruments

are, consistent with AASB 107 *Statement of Cash Flows*, presented on a net basis in the Statement of Cash Flows as they have rapid turnover and high volumes.

(ii) Reconciliation of Net Cash from Operating Activities to Net Profit

	2011	2010
	$000s	$000s
Net profit/(loss)	52,608	49,513
Net unrealised (expense)/income from financial assets and liabilities	(379,892)	(128,830)
Depreciation of property, plant and equipment	681	757
Amortisation of intangible assets	313	322
(Increase)/Decrease in trade receivables and other assets	258	(708)
(Decrease)/Increase in trade and other payables	(4,460)	6,642
(Decrease)/Increase in accrued employee benefits	111	(33)
Net Cash from Operating Activities	**(330,381)**	**(72,337)**

Note 22 Change in the fair value attributable to credit risk

AASB 7 *Financial Instruments: Disclosures* requires the disclosure of the amount of change in the fair value of:

- a loan or receivable (or group of loans or receivables) that is attributable to changes in the credit risk; and
- the financial liability that is attributable to changes in the credit risk.

The change in fair value attributable to changes in credit risk, for the current year, of loans to the State of Victoria, loans to participating authorities and Treasurer guaranteed investments amounts to a gain of $287 million (2010: gain of $406 million) and cumulatively a gain of $514 million (2010: gain of $228 million).

The change in fair value attributable to changes in credit risk, for the current year, of interest bearing liabilities amounts to a loss of $278 million (2010: loss of $407 million) and cumulatively a loss of $531 million (2010: loss of $253 million).

The aforementioned current year change in fair values attributable to changes in credit risk have been calculated by determining the change in the difference in the net present value of the relevant contracted cash flows at the end of the period between using the Commonwealth Bonds market yield curve and the market yield curve for similar maturities of securities issued by TCV (the TCV yield curve).

TCV and the State of Victoria remained AAA rated by Standard and Poor's and Aaa by Moody's during 2011. Over 2011, however, the TCV yield curve spread to Commonwealth Bonds narrowed in the order of 3 to 21 basis points (for maturities ranging from 2012 to 2026). The change in spreads reflects a number of factors in addition to the markets evaluation of credit risk including, for example liquidity risk. The values disclosed above, therefore, do not only represent the change in the fair value of the relevant assets or liabilities due to changes in credit risk.

Note 23 Risk Management

TCV's operations expose the Corporation to financial risks, with the major financial risks inherent in TCV's asset and liability management activities being interest rate, liquidity and credit risk.

TCV's risk management framework was developed consistent with the Prudential Policy, established by the Treasurer of the State of Victoria for TCV and adopted from the standards of the Australian Prudential Regulatory Authority (APRA) for financial institutions in Australia. The Treasurer has appointed an independent Prudential Supervisor to monitor compliance with the Prudential Policy requirements.

The risk management framework comprises the following key components:

- the TCV Board is responsible for ensuring that TCV's risk management framework is sound and for approving TCV's Risk Appetite Statement and key risk policies and overall levels of risk for TCV consistent with the Prudential Policy requirements
- the Managing Director is responsible for the setting up and maintenance of the risk management framework and the risk management policies and ensuring that the risks are well controlled and within Board approved levels
- the TCV Audit Committee assists the TCV Board in discharging its responsibility with oversight of the implementation and operation of the risk management framework and risk management policies
- Internal Audit provides an independent and objective risk assurance and advisory service to assist TCV in the evaluation and improvement of the effectiveness of its risk control and governance processes
- the Treasury staff are responsible for day-to-day management of the Corporation's assets and liabilities, funding and liquidity risks within established risk policies and controls
- the Asset and Liability Committee is an executive committee comprising the Managing Director, members of his executive management team and certain other managers and is responsible for ensuring the Statement of Financial Position is managed prudently and efficiently
- the Risk & Performance Measurement department is responsible for developing and maintaining appropriate risk management policies relating to risk identification, measurement, control and reporting, and their actual implementation. The department also ensures that risk management policies are consistent with the guidelines of the Board and the requirements of the Prudential Policy.

The CEO and TCV executive are required to promptly advise the Board, Prudential Supervisor, Prudential Auditor and the Treasurer, via the Department of Treasury and Finance (DTF), and relevant stakeholders of any breach by the Corporation of the prudential standards set by the Treasurer or the Board.

(a) Credit risk

Credit risk refers to the possibility that TCV may suffer financial loss due to the inability of its counterparties to honour their financial obligations as and when they fall due.

The type of counterparties with which TCV may invest and the type of securities TCV may hold are set out in TCV's Investment Powers. These powers are approved by the Governor in Council on the recommendation of the Treasurer of Victoria and are based on external ratings. TCV's powers to enter into derivative transactions are subject to the approval of the Treasurer of Victoria. These approvals do not prescribe the individual counterparties with which TCV may transact.

Within the framework established by these powers, responsibility for establishing credit policy rests with the Board of TCV. For the purpose of the day to day management of the credit risk, however, the Board has delegated a number of its powers to the Managing Director. Subject to certain restrictions, these powers relate to the establishment and maintenance of credit exposure limits and to the taking of such action as necessary to ensure that TCV's exposures are managed in a prudent manner.

In respect of loans to the State of Victoria and repayment of loans by participating authorities (which are fully guaranteed by the State as long as the conditions incorporated in the Treasurer's approval of the borrowing are complied with) the ultimate credit exposure is to the State. The principal focus of TCV's credit risk analysis and monitoring is therefore the risk that arises through investment of funds in financial assets and through derivative transactions with market counterparties. Under TCV's risk management framework, this credit risk is controlled by:

- external credit ratings based maximum exposure limits consistent with the Investment Powers

Note 23 Risk Management (cont.)

- internal risk assessment based individual exposure limits to counterparties and investments approved by the Board or the Managing Director (under powers delegated by the Board)
- periodic credit reviews and on-going monitoring of the credit quality of investments and exposures to market counterparties to ensure that any diminution of credit quality of a counterparty or investment occurring subsequent to the establishment of a limit is addressed promptly.

Concentration of Credit Risk - by credit rating (Standard & Poor's)

The following table details the credit ratings of the Corporation's primary financial assets. The amounts shown are recorded at fair value.

	AAA $000s	AA+/AA/AA- $000s	A+/A/A- $000s	Other $000s	Total $000s
2011					
Cash and cash equivalents	124,474	2,843,558	918,483	231,897	4,118,412
Trade receivables and other assets	917	169,146	196,382	11	366,456
Investments	1,251,770	1,503,594	45,239	14,990	2,815,593
Derivative financial instrument assets (1)	62,611	35,066	40,009	-	137,686
Loans to the State of Victoria and participating authorities(2)	27,462,702	-	-	-	27,462,702
Total credit risk exposure	**28,902,474**	**4,551,364**	**1,200,113**	**246,898**	**34,900,849**

(1) Reflects the net credit exposure of derivatives. At 30 June 2011, TCV held $10.9 million (2010: $34.9 million) in cash deposits pursuant to Credit Support Annexures which provide for the provision of collateral to cover the credit risk arising from "in the money" derivative exposures.
(2) Rating reflects the State of Victoria's rating as guarantor.

	AAA $000s	AA+/AA/AA- $000s	A+/A/A- $000s	Other $000s	Total $000s
2010					
Cash and cash equivalents	-	4,418,895	1,038,807	97,485	5,555,187
Trade receivables and other assets	965	-	-	22	987
Investments	1,216,196	1,136,525	230,098	-	2,582,819
Derivative financial instrument assets(1)	777	61,659	129,681	-	192,117
Loans to the State of Victoria and participating authorities(2)	21,750,090	-	-	-	21,750,090
Total credit risk exposure	**22,968,028**	**5,617,079**	**1,398,586**	**97,507**	**30,081,200**

(1) Reflects the net credit exposure of derivatives. At 30 June 2010, TCV held $34.9 million (2009: nil) in cash deposits pursuant to Credit Support Annexures which provide for the provision of collateral to cover the credit risk arising from "in the money" derivative exposures.
(2) Rating reflects the State of Victoria's rating as guarantor.

Note 23 Risk Management (cont.)

Concentration of Credit Risk - by type of counterparty

The following table details the types of counterparties with whom the Corporation has exposure to through holdings in financial assets. The amounts shown are recorded at fair value and therefore represent the credit risk at balance date.

	Australian Common'th and other State Government	Foreign Government supported [1]	Banks	Non-Bank Financial Intermediaries	Other Victorian Public Authorities	Other	Total
	$000s	$000s	$000s	$000s	$000s	$000s	$000s
2011							
Cash and cash equivalents	199,182	-	3,919,230	-	-	-	4,118,412
Trade receivables and other assets	-	-	365,528	-	917	11	366,456
Investments	864,799	96,245	1,292,880	225,510	336,159	-	2,815,593
Derivative financial instrument assets[2]	-	-	75,075	-	62,611	-	137,686
Loans to the State of Victoria and participating authorities	-	-	-	-	27,462,702	-	27,462,702
Total exposure	**1,063,981**	**96,245**	**5,652,713**	**225,510**	**27,862,389**	**11**	**34,900,849**

(1) Includes supranationals and financial institutions guaranteed or indemnified by foreign sovereign governments.
(2) Reflects the net credit exposure of derivatives.

	Australian Common'th and other State Government	Foreign Government supported [1]	Banks	Non-Bank Financial Intermediaries	Other Victorian Public Authorities	Other	Total
	$000s	$000s	$000s	$000s	$000s	$000s	$000s
2010							
Cash and cash equivalents	-	-	5,555,187	-	-	-	5,555,187
Trade receivables and other assets	-	-	-	-	965	22	987
Investments	998,399	61,635	1,038,669	123,931	360,185	-	2,582,819
Derivative financial instrument assets[2]	-	-	191,340	-	777	-	192,117
Loans to the State of Victoria and participating authorities	-	-	-	-	21,750,090	-	21,750,090
Total exposure	**998,399**	**61,635**	**6,785,196**	**123,931**	**22,112,017**	**22**	**30,081,200**

(1) Includes supranationals and financial institutions guaranteed or indemnified by foreign sovereign governments.
(2) Reflects the net credit exposure of derivatives.

Note 23 Risk Management (cont.)

Aging analysis of past due but not impaired loans

At 30 June 2011 there were no amounts past due (30 June 2010 nil).

(b) Liquidity Risk

Liquidity risk arises where an organisation has an inability to meet its financial obligations as and when they fall due. In the context of TCV this inability could arise due to factors such as a mismatch in the timing of the maturities of TCV's assets and liabilities.

TCV's liquidity management policy has three components:

- short-term liquidity management and control
- long-term liquidity monitoring
- managing a liquidity crisis.

Short-term Liquidity Management

On a daily basis, the required level of prudential liquidity assets is at least 3% of total liabilities, subject to a minimum of $500 million. At least 60% of the minimum prudential liquidity requirement must comprise primary liquidity assets with the remainder comprising secondary liquidity assets. Primary liquidity assets comprise cash, Commonwealth Government paper and Semi-government paper. Secondary liquidity assets comprise Bank Accepted Bills, Negotiable Certificates of Deposit, Floating Rate Notes, Transferable Certificates of Deposit and the securities of supranationals, foreign governments and government agencies.

The minimum level of prudential liquidity assets was exceeded throughout 2011 and 2010.

In addition, TCV's short term liquidity requirement is that primary and secondary liquidity assets are required to be, at a minimum, equal to the daily liquidity requirement determined by time-weighting cashflows (both interest and principal) for a six month time horizon. During the financial year, expressed as a percentage (with 100% being the minimum), the level of short term liquidity was:

	2011	2010
	%	%
30 June	158	169
Average during the year	180	188
Highest	222	231
Lowest	122	143

Long-term Liquidity Management

Long-term management of liquidity within TCV primarily focuses on the diversification of funding sources and maturities. The table below summarises the maturity profile of the Corporation's liabilities and derivatives based on contracted undiscounted repayment obligations.

Note 23 Risk Management (cont.)

Contractual maturity in:	At call	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Greater than 5 years	Total
	$000s	$000s	$000s	$000s	$000s	$000s	$000s
2011							
Liabilities	(3,812,499)	(6,209,423)	(2,434,221)	(4,371,843)	(7,287,115)	(21,241,984)	(45,357,085)
Derivatives - net settled	-	875,547	(413,063)	215,900	(14,261)	(886,461)	(222,338)
Derivatives - gross settled - inflows	-	1,034,431	968,212	73,532	146,772	307,163	2,530,110
Derivatives - gross settled – (outflows)	-	(1,069,390)	(990,055)	(80,279)	(167,063)	(485,584)	(2,792,371)
	(3,812,499)	**(5,368,835)**	**(2,869,127)**	**(4,162,690)**	**(7,321,667)**	**(22,306,866)**	**(45,841,684)**

Contractual maturity in:	At call	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Greater than 5 years	Total
	$000s	$000s	$000s	$000s	$000s	$000s	$000s
2010							
Liabilities	(2,135,222)	(8,271,964)	(2,253,037)	(1,639,343)	(8,364,700)	(14,153,599)	(36,817,865)
Derivatives - net settled	-	2,028	(308,948)	(1,250)	(23,240)	227,715	(103,695)
Derivatives - gross settled - inflows	-	1,212,068	542,274	75,497	225,800	163,738	2,219,377
Derivatives - gross settled - (outflows)	-	(1,143,273)	(555,667)	(78,731)	(275,258)	(248,758)	(2,301,687)
	(2,135,222)	**(8,201,141)**	**(2,575,378)**	**(1,643,827)**	**(8,437,398)**	**(14,010,904)**	**(37,003,870)**

Crisis Management

In the event of a liquidity crisis, crisis management plans approved by the Board would be used by TCV to manage liquidity. The liquidity crisis management plans are a set of protocols established to respond to specific conditions during a crisis.

(c) Interest Rate Risk

Interest rate risk (including credit spread risk and basis risk) arises on interest-bearing financial instruments recognised in the Statement of Financial Position.

Interest rate risk (the main component of market risk for TCV) is monitored and controlled using Value at Risk (VaR) methodology complimented by scenario based modelling and stress testing. VaR is a measure of the potential loss - within a certain level of confidence - faced by TCV on its risk positions over a given holding period under normal market conditions. VaR in TCV is based on historical movement of prices, yields and spreads that could contribute to a potential loss.

The Prudential Policy requires the methodology used by TCV to measure market risk is consistent with the APRA's Prudential Standard "Capital Adequacy: Market Risk" (APS 116) for banks. VaR is calculated daily on the following basis:

- historic simulation based VaR
- 1000 days of immediate past historical data on rates
- one-day holding period
- 99% confidence level
- measurement includes capture of significant issuer-specific or idiosyncratic risks within the portfolios.

The TCV Board determines the maximum acceptable level of VaR.

Note 23 Risk Management (cont.)

The Corporation's VaR measure related to market risk is detailed below. VaR related to exchange rate risk is not material as TCV has a policy of not allowing any significant net foreign currency exposure.

	2011	2010
	$000	$000
30 June	3,020	2,996
Average daily during the year	2,764	2,398
Highest	3,699	4,661
Lowest	2,234	1,810

The increased average levels of VaR in 2011, compared to 2010, primarily reflect the growth in the Statement of Financial Position.

As TCV's VaR model relies on historical data and assumes normal market conditions, it may not always accurately predict the size of potential losses. TCV therefore uses other controls such as limits on exposures based on factor sensitivity measurements covering interest rate, yield curve and basis spread movement scenarios and monitors exposures to plausible extreme market movements through stress testing.

Note 24 Capital

TCV's risk management framework incorporates a risk-based capital adequacy approach as specified in its Prudential Policy established by the Treasurer of the State of Victoria for TCV. This requirement is based on the principles of the Basel Accord as adopted by APRA for the prudential supervision of the Australian banking sector. Under this requirement, the Corporation is required to hold a minimum capital adequacy ratio of 8% of risk weighted assets. The Corporation aims to maintain a capital ratio of at least 10% of risk weighted assets. Under the Prudential Policy, TCV is currently not required to set aside capital to cover operational risk.

The capital of the Corporation consists of the capital contributed by the State and any residual retained earnings.

	Actual 2011	Required 2011	Actual 2010	Required 2010
	$000	$000	$000	$000
Total capital	191,108	62,967	174,747	63,023
Risk weighted assets	787,082	787,082	787,786	787,786
Capital ratio	24.3%	8.0%	22.2%	8.0%

Risk weighted assets decreased marginally between 30 June 2011 and 30 June 2010 with reduction in credit risk weighted assets partially offset by an increase in risk weighted assets held for market risk.

Note 25 Superannuation

TCV made contributions to the following superannuation funds for staff and Directors:

	Contributions Made 2011	Contributions Made 2010
Name of Fund	$000s	$000s
TCV Superannuation Plan (Mercer Superannuation Trust)	731	772
Emergency Services Superannuation Scheme	19	19
Other superannuation funds	133	133

Superannuation contributions were made at least equivalent to the minimum 9% (2010 – 9%) Superannuation Guarantee Charge contribution level. A number of staff elected to have a greater proportion of their remuneration paid as superannuation on a salary sacrifice basis.

TCV has made all payments to cover its liability for members of the superannuation funds. All payments due for employees and directors who are members of other funds have also been made.

Note 26 Auditor's Remuneration

Amounts received or due and receivable by the Auditor-General in relation to the audit of the TCV financial statements for the year ended 30 June:

	2011	2010
	$000s	$000s
Auditor-General	269	251

No other amounts have been paid or are payable to the Auditor-General.

Note 27 Related Party Information

TCV is the central financing authority and financial markets adviser for the State of Victoria. TCV provides treasury services to the budget sector and participating authorities in the non budget sector. TCV also provides financial advice and analytical services to participating authorities, government departments and agencies and other parties at the direction of the Treasurer.

Details of loan and deposit facilities provided as at 30 June 2011 are set out in Notes 9, 14 and 15. All transactions are priced in accordance with TCV's policies.

For the purposes of Part 9.4 of the Directions of the Minister for Finance under the *Financial Management Act* 1994*,* the following Directors together with the Honourable John Lenders MP (to December 2010) and the Honourable Kim Wells MP (from December 2010) are or have been the responsible persons of TCV:

- Rob Hunt AM, Chairman (Appointment effective from 1 January 2010 to 31 December 2012)
- William Whitford (Appointment effective from 28 July 2003 to 27 July 2013)
- Michael Hirst (Appointment effective from 4 September 2002 to 3 September 2011. Appointed Deputy Chairman 22 November 2006 to 3 September 2011)
- Susan Carter (Appointment effective from 1 February 2005 to 31 January 2012)
- Timothy Knott (Retired 31 December 2010)
- Peter Hawkins (Appointment effective from 1 May 2006 to 30 April 2012)
- Grant Hehir[1] (Appointment effective from 17 October 2006 to 16 October 2012)
- Suzanne Ewart (Appointment effective from 1 February 2008 to 31 January 2012)

TCV may enter into commercial arrangements with parties related to TCV Directors. These arrangements are conducted in the ordinary course of business and are entered into under normal commercial terms and conditions.

The following are appointments held during the year by the Directors whilst being Directors of TCV:

Robert Hunt
Bendigo and Adelaide Bank Limited:
Director (chair) - Bendigo Community Telco Limited
Director - Community Telco Australia Pty Ltd
Director - Community Sector Enterprises Pty Ltd
Director - Community Sector Banking Pty Ltd
Director - Community Developments Australia Pty Ltd
Director - Community Solutions Pty Ltd
Director - Community Energy Pty Ltd
Director - Community Exchanges Pty Ltd
Director - Community Bank® Strategic Advisory Board

[1] Grant Hehir is the Secretary of the Department of Treasury and Finance (DTF). Refer to Note 15 for details of loans to the related party, DTF, the Statement of Cash Flows and Note 1 regarding DTF's role.

Note 27 Related Party Information (cont.)

Michael Hirst
Managing Director & Chief Executive Officer, Bendigo and Adelaide Bank Limited
Director, Elders Rural Bank Limited
Member of Australian Bankers Association
Member of Business Council of Australia
Member of Financial Sector Advisory Council

William Whitford
Deputy Chairman, Market Governance Committee, Australian Financial Markets Association

Susan Carter
Compliance Committee Chairman, BlackRock Investment Management (Australia)
Director, ANZ Staff Superannuation (Australia) Pty Limited
Director, Horticulture Australia Limited
Director, Australian Psychological Society Limited
Director, Peter MacCallum Cancer Institute
Director, AMP Superannuation
Council Member, Private Health Insurance Administration Council

Peter Hawkins
Director, Westpac Banking Corporation
Director, Mirvac Limited Group
Director, Liberty Financial Pty Limited.
Director, Clayton Utz
Director, Murray Goulburn Co-Operative Co. Limited
Director, Camberwell Grammar School

Timothy Knott
Nil

Grant Hehir
Secretary, Department of Treasury & Finance
Director, Victorian Funds Management Corporation

Suzanne Ewart
Director, Ambulance Victoria
Director, Gippsland & Southern Rural Water
Director, RSPCA (Victoria)

TCV Directors have the benefit of indemnities given by the Treasurer of Victoria pursuant to the *Financial Management Act* 1994 and by Victorian Managed Insurance Authority pursuant to the *Victorian Managed Insurance Authority Act* 1996.

Note 28 Compensation

The total compensation paid or payable to responsible persons/key management personnel for the year was $2,544,237 (2010: $2,439,165) consisting of short-term benefits.

Directors

The total compensation paid or payable to Directors for the year is $850,782 (2010: $854,610). These amounts include salary and payments made to superannuation funds on behalf of Directors. In respect of the Managing Director, total compensation is also inclusive of any bonus payment.

The following analysis of Directors' compensation is provided:

Total Compensation	**2011**	**2010**
Income Band	**No. of Directors**	**No. of Directors**
$520,000 to $529,999	1	-
$510,000 to $519,999	-	1
$90,000 to $99,999	1	-
$40,000 to $49,999	4	7
$20,000 to $29,999	1	-
$0	1	1

Amounts relating to ministers are reported in the financial statements of the Department of Premier and Cabinet.

Note 28 Compensation (cont.)

Executive Officers

The following analysis of compensation received or receivable by Executive Officers (excluding the Managing Director) is provided. Executive Officers are those with the delegated authority to manage the Corporation's business activities. Total compensation includes salary, performance bonuses, superannuation, fringe benefits (cars and car parking) and FBT paid by TCV in relation to those benefits. Base compensation is exclusive of bonus payments, long service leave payments, redundancy payments and retirement benefits.

	Total Compensation		Base Compensation	
	2011	2010	2011	2010
Income Paid	No. of Executive Officers	No. of Executive Officers	No. of Executive Officers	No. of Executive Officers
$520,000 to $529,999	1	-	-	-
$440,000 to $449,999	-	1	-	-
$380,000 to $389,999	1	-	-	-
$370,000 to $379,999	-	1	-	-
$330,000 to $339,999	-	-	1	-
$320,000 to $329,999	-	-	1	-
$310,000 to $319,999	-	-	-	2
$290,000 to $299,999	1	-	-	-
$280,000 to $289,999	1	2	-	-
$240,000 to $249,999	-	-	2	1
$230,000 to $239,999	-	-	-	1
$200,000 to $209,999	1	-	-	-
$190,000 to $199,999	-	1	-	-
$160,000 to $169,999	-	-	1	-
$150,000 to $159,999	-	-	-	1

The total compensation paid to the above personnel for the year is $1,693,455 (2010: $1,584,554).

Note 29 Contingencies/Commitments

Contingencies

From time to time, TCV has incurred contingent liabilities as part of its general function to engage in activities relating to the finances of the Victorian public sector, as is prescribed by its enabling legislation and approved by the Treasurer.

State Electricity Commission of Victoria

In order for the State Electricity Commission of Victoria (SECV) to participate in the national electricity market administered by Australian Energy Market Operator Limited (AEMO), a guarantee must be provided to AEMO by an acceptable financial institution. TCV has provided such a guarantee whereby it undertakes to pay to AEMO on demand any and all amounts to an aggregate amount not exceeding $147.4 million as at 30 June 2011 ($147.4 million as at 30 June 2010) as security for the obligations of SECV to AEMO. The guarantee is issued pursuant to section 9 (1) of the TCV Act and is approved by the Treasurer. The guarantee is fully supported by an indemnity from SECV and by non-withdrawable deposits which SECV is obliged to maintain with TCV at an amount of 101% of the amount guaranteed.

Note 29 Contingencies/Commitments (cont.)

Port of Melbourne Corporation

On 14 December 2007, the Minister for Environment and Climate Change approved the Channel Deepening Project under the Coastal Management Act 1995. The approval was subject to a number of conditions, including the Port of Melbourne Corporation (PoMC) providing a $100 million environmental performance bond. The potential impact from this arrangement is that, in the event the bond is called upon, the Minister for Environment and Climate Change (being the beneficiary of the bond) will receive funds up to an amount of $100 million, which are to be used for remedial or recovery works as agreed with the Minister for Roads and Ports.

The Treasurer gave notice to TCV under section 8(1)(k) of the TCV Act that its functions include to carry out such functions or provide financial or other services in relation to the liabilities or financial assets of PoMC by way of the issue of a bank guarantee of up to $100 million. TCV issued a guarantee containing an unconditional undertaking, effective from 1 February 2008, to pay the Minister for Environment and Climate Change, or the Secretary of the Department of Sustainability and Environment, on demand any amounts payable in respect of any remedial action or post dredging recovery works relating to the Channel Deepening Project to an aggregate amount not exceeding $100 million. The guarantee expires on the earlier of 31 December 2012, the receipt of a notice from the Minister for Environment and Climate Change that the guarantee is no longer required or when an aggregate amount of $100 million has been paid. The guarantee is fully supported by an indemnity from PoMC. PoMC has agreed it will increase its borrowings from TCV to meet its liabilities, if any, to TCV under the indemnity.

Victorian Desalination Project - Underground Transmission Line

The Victorian Desalination Project (Project) for the construction and operation of a desalination plant is being delivered as a public private partnership under the Government's Partnerships Victoria framework. The Government announced on 30 July 2009, that the AquaSure consortium was the successful tenderer for the Project. Financial close occurred on 2 September 2009.

As part of the contract between the State and AquaSure, AquaSure is required to design, construct, commission and fund, among other things, a high voltage alternating current underground transmission line (HVAC). The HVAC will be returned to the State upon successful commissioning. The State, in turn, is to find an Electricity Operator who will take over the operations and maintenance.

AquaSure, in return for funding the construction are entitled to a reimbursement of costs for the HVAC once they deliver a fully functioning desalination facility, including the HVAC underground transmission line.

In order to provide security to AquaSure that the agreed asset cost will be reimbursed the Treasurer gave notice to TCV dated 31 August 2009 under section 8(1)(k) of the TCV Act that TCV's functions include to carry out such functions or provide such financial or other services for the State of Victoria in relation to the State's liabilities or financial assets in relation to the Project, among other things, by way of:

- the provision of facilities to AquaSure Finance Pty Ltd in connection with the Project, including the SFP HVAC Financing Facility and SFP HVAC Guarantee Facility
- the giving of a guarantee (backed by the Treasurer) of, an indemnity in relation to, the obligations of AquaSure Finance Co. No.2 in favour of certain beneficiaries pursuant to the SFP HVAC Guarantee Facility.

TCV issued the SFP HVAC facilities dated 1 September 2009 in favour of two banks pursuant to the approval of the Treasurer under section 9(1)(c) of the TCV Act dated 31 August 2009. The maturity date for the facility under this agreement is 31 March 2013 or earlier. The maximum amount to be provided by TCV is $350,000,000.

If TCV is required to make a payment under the SFP HVAC Guarantee and Indemnity the amount paid will be deemed to be an advance to AquaSure Finance Pty Ltd under the SFP HVAC Financing Facility.

The Treasurer of Victoria has provided a Guarantee and Indemnity in favour of TCV dated 31 August 2009 in respect of all liabilities owed to or incurred by TCV under various transaction documents for the Project.

Note 29 Contingencies/Commitments (cont.)

Commitments

Lease Commitments

Future commitments under non-cancellable operating leases are due:

	2011	2010
	$000s	$000s
Not later than 1 year	462	427
Later than 1 year but not more than 5 years	2,770	-
Later than 5 years	462	-
	3,694	**427**

Operating lease commitments relate to the Corporation's tenancy at 1 Collins Street Melbourne. The lease expires in 2017 and has an option to extend for a further 4 years. The lease provides for capped Consumer Price Index rental increases.

Other

Capital expenditure commitments mainly in respect of computer hardware and software amounted to $605,440 (2010: $786,753).

Note 30 Subsequent Events

The Corporation had no material or significant events occurring after the reporting date.

Treasury Corporation of Victoria

Certification of Financial Statements

We certify that the attached financial statements for Treasury Corporation of Victoria have been prepared in accordance with Standing Direction 4.2 of the *Financial Management Act* 1994, applicable Financial Reporting Directions, Australian accounting standards and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the Statement of Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and notes to and forming part of the financial statements, presents fairly the financial transactions during the year ended 30 June 2011 and financial position of Treasury Corporation of Victoria as at 30 June 2011.

We are not aware of any circumstance which would render any particulars included in the financial statements to be misleading or inaccurate.

Robert Hunt
Chairman
9 August 2011

William Whitford
Managing Director
9 August 2011

Peter Wyatt
Chief Financial Officer
9 August 2011

Independent Auditor's Report

VAGO

Victorian Auditor-General's Office

INDEPENDENT AUDITOR'S REPORT

To the Board Members, Treasury Corporation of Victoria

The Financial Report

The accompanying financial report for the year ended 30 June 2011 of the Treasury Corporation of Victoria which comprises the statement of income, statement of financial position, statement of changes in equity, statement of cash flows, notes comprising a summary of significant accounting policies and other explanatory information, and the certification of financial statements, has been audited.

The Board Members' Responsibility for the Financial Report

The Board Members of the Treasury Corporation of Victoria are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, including the Australian Accounting Interpretations, and the financial reporting requirements of the *Financial Management Act 1994*, and for such internal control as the Board Members' determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In Note 2(a), the Board Members also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit, which has been conducted in accordance with Australian Auditing Standards. Those Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The audit procedures selected depend on judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, consideration is given to the internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Board Members, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised. In conducting the audit, the Auditor-General, his staff and delegates complied with all applicable independence requirements of the Australian accounting profession.

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VAGO

Victorian Auditor-General's Office

Independent Auditor's Report (continued)

Opinion

In my opinion:

1. The financial report presents fairly, in all material respects, the financial position of the Treasury Corporation of Victoria as at 30 June 2011 and of its financial performance and its cash flows for the year then ended in accordance with applicable Australian Accounting Standards, including the Australian Accounting Interpretations, and the financial reporting requirements of the *Financial Management Act 1994*
2. The financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the financial report of the Treasury Corporation of Victoria for the year ended 30 June 2011 included both in the Treasury Corporation of Victoria's annual report and on the website. The Board Members of the Treasury Corporation of Victoria are responsible for the integrity of the Treasury Corporation of Victoria's website. I have not been engaged to report on the integrity of the Treasury Corporation of Victoria's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in the website version of the financial report.

MELBOURNE
11 August 2011

D D R Pearson
Auditor-General

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Auditing in the Public Interest

Treasury Corporation of Victoria

Appendix 1 – Disclosure Index

The Annual Report of Treasury Corporation of Victoria (TCV) is prepared in accordance with all relevant Victorian legislation and statutory disclosure requirements. This index has been prepared to facilitate identification of TCV's compliance with statutory disclosure requirements.

Requirement	Requirement	Page Reference
Financial Reporting Directions		
FRD10	Disclosure index	74
FRD11	Disclosure of ex-gratia payments	n/a
FRD21A	Responsible person and executive officer disclosures	67-68
FRD22B	Manner of establishment and the relevant Ministers	2, 28
FRD22B	Objectives, functions, powers and duties	2
FRD22B	Nature and range of services provided	2, 7-10
FRD22B	Organisational structure	22
FRD22B, SD 4.(k)	Operational and budgetary objectives	5
FRD22B	Employment and conduct principles	28-30
FRD22B	Occupational health and safety	28
FRD22B	Summary of the financial results	6
FRD22B	Significant changes in financial position	n/a
FRD22B	Major changes or factors affecting performance	3-4
FRD22B	Subsequent events	70
FRD22B	Application of Freedom of Information Act 1982	28
FRD22B	Compliance with building and maintenance provisions of the Building Act 1993	n/a
FRD22B	Statement on National Competition Policy	30
FRD22B	Application and operation of the Whistleblowers Protection Act 2001	29
FRD22B	Details of consultancies over $100,000	30
FRD22B	Details of consultancies under $100,000	30
FRD25A	Victorian Industry Participation Policy disclosures	32
FRD30A	Standard for design and print of annual reports	complies
FRD102	Inventories	n/a
FRD103D	Non-current physical assets	38
FRD104	Foreign currency	36
FRD106	Impairment of assets	38
FRD109	Intangible assets	38
FRD107	Investment properties	n/a
FRD110	Cash flow statements	35
FRD119	Contributions by owners	n/a
Standing Directions		
SD4.2 (a) and (b)	Financial statements	32-36
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SD4.2(c)	Compliance with Ministerial Directions	36
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Victorian Industry Participation Policy Act 2003		30
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Contact Details

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	+61 3 9651 4843	Settlements
Facsimile	+61 3 9651 4880	General
	+61 3 9650 7557	Dealing room
	+61 3 9651 4899	Settlements
Registry of Inscribed Stock	Inscribed stock registries are operated by Computershare Investor Services Pty Ltd, located at Yarra Falls, 452 Johnston Street, Abbotsford, Victoria, 3067 Telephone: +61 3 9415 5000 Facsimile: +61 3 9473 2500.	
Government Bonds of Victoria	Freecall number 1800 628 008	
Designated Investment Bonds	For information on Designated Investment Bonds issued under the Australian Department of Immigration and Citizenship, please email tcv@tcv.vic.gov.au or telephone +61 3 9650 7577.	