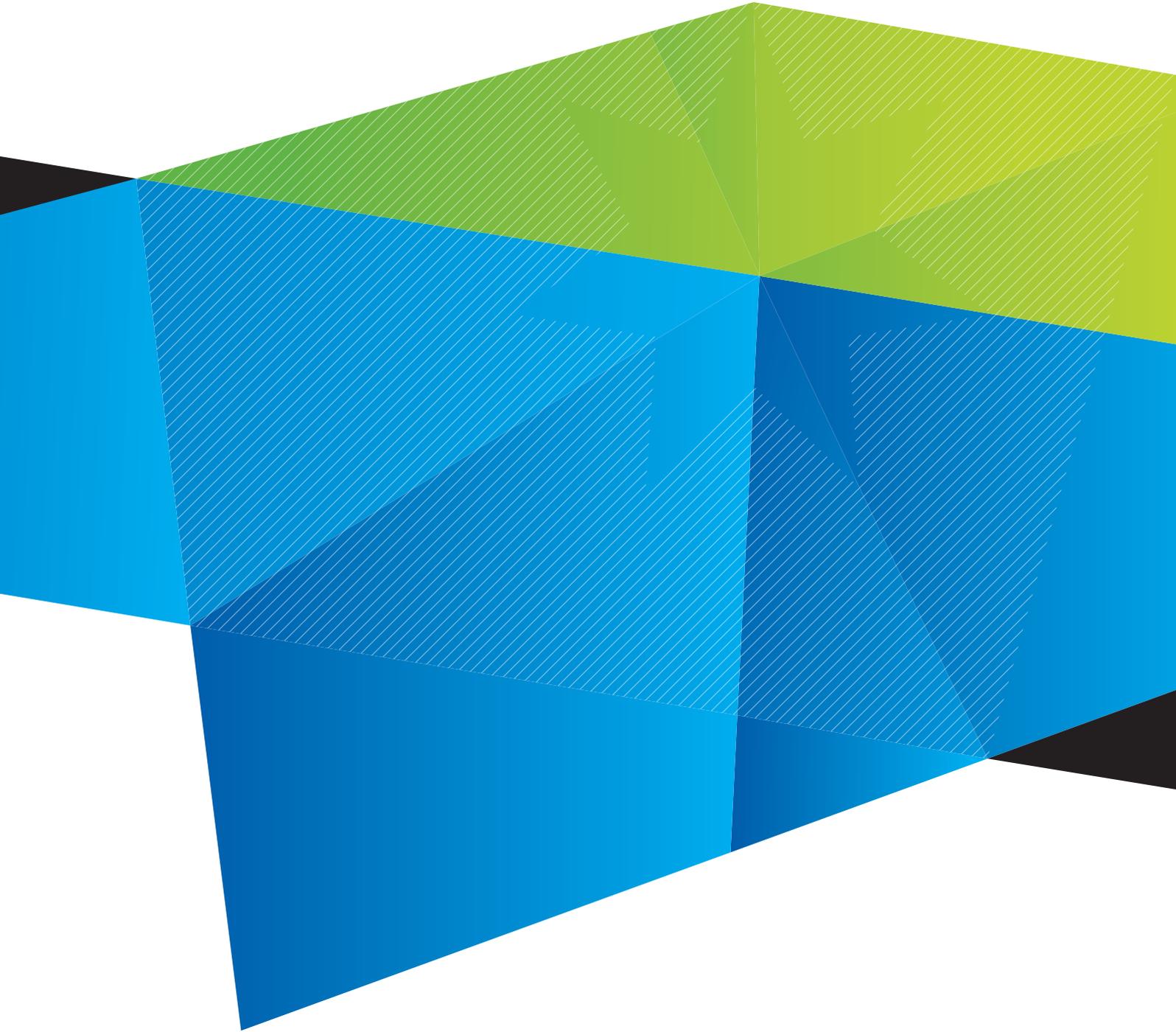


**2011/12**  
**ANNUAL REPORT**



## **Table of Contents**

Statement of Corporate Intent.....	2
Report of the Chairman and Managing Director .....	3
Performance Summary .....	5
Financial Summary 2011-12 .....	6
Solutions for Clients .....	7
Funding Activities .....	13
Business Indicators .....	14
Economic Environment .....	16
Corporate Governance.....	20
Regulatory Compliance and Disclosures .....	29
Financial Statements 2012.....	32
Appendix 1 – Disclosure Index.....	74
Contact Details.....	74

## **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
- relationship management
- proactivity
- empathy
- communication
- management effectiveness
- problem solving
- 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 2012, there were 93 participating authorities (2011: 89) 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 policy advice
- 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 which supports the whole-of-state liquidity management strategic objectives.

## Report of the Chairman and Managing Director

TCV contributes to Victoria through our financing, investment, risk management and advisory activities.

The 2011-12 Annual Report demonstrates the strength of this contribution, through our return on capital and dividend, our focus on conservative risk management and our ongoing support of the businesses of government. Importantly, the report also highlights 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, assist the government in maintaining access to financing, minimising financing costs and promote the State of Victoria in the global arena.

Once again, TCV has provided its services to Victoria against a turbulent global backdrop. Financial markets remain focused on sovereign debt problems in Europe, on the continuity of Chinese economic growth and on the longevity of the first fragile bloom of US recovery.

Australia has not been immune from these global issues. Indeed, the Reserve Bank of Australia has been concerned enough about these global headwinds to lower the Official Cash Rate to levels last seen during the Global Financial Crisis. At time of writing, 10 year Commonwealth Government bond yields are at a level last seen immediately post WWII.

The Victorian State Budget, released in May 2012, highlighted a slowing economy and lower projected revenue growth. Nevertheless, Treasurer Wells delivered a budget that forecast an ongoing surplus, once again 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.

Despite the global backdrop, Australia remains a strong economy and has grown through the year as an investment destination of choice for the international investor. The foreign holdings of Commonwealth Government Bonds has increased to over 80% and TCV's 2011-12 Investor Roadshow program has identified a number of new international investors in State Government bonds.

This investor confidence is reflected in TCV's ability to access term markets. TCV's 2011-12 call on markets of \$A6.62 billion has been raised successfully, and some pre-financing of the 2012-13 program has been undertaken. These funds were primarily raised through

TCV's Domestic Benchmark Bond program, and in response to client requirements, across the longer end of the yield curve.

TCV has therefore successfully 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 is offering our clients financing at levels not seen in the lifetime of the Corporation.

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

Participating Authorities - at 30 June 2012, the number of state and public authorities which have been accepted by TCV as participating authorities was 93 (2011: 89)

Lending growth - at 30 June 2012, loans to participating authorities were (face value) \$A31.1 billion (2011: \$A26.6 billion)

Deposit volumes - at 30 June 2012, deposits sourced from state and public authorities totalled (face value) \$A6.6 billion (2011: \$A5.8 billion).

This steady growth in client requirement continues to demonstrate the important role the Corporation plays in facilitating 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 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 \$A7.1 billion. These investments remain restricted to high end investment grade credit.

Risk 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 development in the areas of whole-of-state liquidity, prudential supervision and in the development of alternative financing strategies for PV projects.

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 welcomed several new employees, and farewelled Mr Ram Doss, TCV's General Manager Risk and Performance Measurement, who retired after more than seven years of service.

We would like to thank all of our people for their contribution and dedication. We particularly thank Mr Doss for his significant contribution to the Corporation, and wish him well in retirement.

During the year three of our Directors, Ms Susan Carter, Ms Suzanne Ewart and Mr Peter Hawkins had their directorships renewed and Mr Mike Hirst renewed his role as Deputy Chairman. We also welcomed a new Director, Mr John Blight, to the Board and look forward to his contribution.

We would like to thank these Directors for their continued dedication and guidance to the operations of the Corporation.

Our relationship with the officers of the Department of Treasury and Finance remains 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 and enthusiastic support of the Corporation. More than ever before, our clients are finding reasons to engage with TCV, and this only serves to increase our capacity to provide relevant services.

The strength of these relationships produces whole-of-state benefits that cannot be measured through financing costs alone – the ability for Victoria to retain its leading edge and remain a competitive place to do business is supported by the combined efforts of TCV and these organisations.

Finally, we would like to take this opportunity to thank Treasurer Wells and his staff for their support of TCV. The competing priorities of government are considerable, and he continues to be 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 2011-12
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 2011-12 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 Benchmark Bonds with the domestic debt of its peers. This target, as a spread to swap, was achieved and TCV closed the year with equivalent or 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 \$A54.7 million, in excess of these targets.
Client satisfaction	TCV measures client satisfaction bi-annually through an independent Client Survey. This survey was last 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 2011-12, TCV has identified a number of new international investors with strong interest in TCV's bonds.
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 <i>Partnerships Victoria</i> projects	An important TCV advisory service is the provision of financing advice to projects procured under <i>Partnerships Victoria</i> guidelines. Over the 2011-12 year, TCV provided advisory services to all <i>Partnerships Victoria</i> 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. The 2011-12 survey indicated acceptable levels of employee engagement and alignment.
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.

## Financial Summary 2011-12

Income Summary	2011-12	2010-11	2009-10	2008-09	2007-08
	\$ million				
<b>Income</b>					
Net gain on financial assets and liabilities designated at fair value through profit and loss	67.0	61.7	60.3	59.3	7.6
Fees and other income	6.5	10.7	11.1	7.8	7.6
<b>Total Income</b>	<b>73.5</b>	<b>72.4</b>	<b>71.4</b>	<b>67.1</b>	<b>15.2</b>
<b>Expenses</b>					
Borrowing related expenses	0.9	1.5	4.8	0.8	0.8
Other operational expenses	17.9	18.3	17.1	17.7	15.3
<b>Total Expenses</b>	<b>18.8</b>	<b>19.8</b>	<b>21.9</b>	<b>18.5</b>	<b>16.1</b>
<b>Net Profit</b>	<b>54.7</b>	<b>52.6</b>	<b>49.5</b>	<b>48.6</b>	<b>(0.9)</b>
<b>Dividends paid</b>	52.6	36.2	48.6	0.0	21.7
<b>Statement of Financial Position</b>					
	2012	2011	2010	2009	2008
	\$ million				
Loans to clients	34,568.2	27,462.7	21,750.0	16,248.0	11,783.2
Cash and cash equivalents	3,453.8	4,118.4	5,555.2	5,320.2	4,586.7
Investments	4,684.4	2,815.6	2,582.8	2,539.3	4,499.4
Derivatives	1,554.1	2,176.1	1,902.8	2,553.4	541.4
Other assets	280.4	370.5	4.9	42.6	173.0
<b>Total Assets</b>	<b>44,540.9</b>	<b>36,943.3</b>	<b>31,795.7</b>	<b>26,703.5</b>	<b>21,583.7</b>
Financed by:					
Domestic Benchmark Bonds	28,593.7	23,036.9	16,454.9	13,424.6	8,475.7
Domestic other	5,301.3	2,355.4	5,321.1	2,127.8	4,040.6
Offshore	1,602.0	2,352.8	2,104.3	2,893.4	784.8
	35,497.0	27,745.1	23,880.3	18,445.8	13,301.1
Deposits from public sector	6,566.8	5,858.5	5,700.9	5,164.8	6,987.6
Derivatives	1,625.8	2,217.3	1,803.7	2,722.1	535.9
Other liabilities	656.0	931.3	236.1	197.0	633.9
<b>Total Liabilities</b>	<b>44,345.6</b>	<b>36,752.2</b>	<b>31,621.0</b>	<b>26,529.7</b>	<b>21,458.5</b>
<b>Equity</b>	195.3	191.1	174.7	173.8	125.2

## 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 extensive 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. In 2011-12, the Treasury Clients Services team undertook 3,600 client term lending, deposit and risk management transactions.

DTF's centralised treasury and investment policy requires state agencies and authorities to undertake their cash and short-term investment transactions with TCV. Accordingly, TCV's investor base

continued to grow in this period and an additional 10 agencies commenced investing with TCV, primarily from the education sector. TCV currently assists approximately 150 public sector investors with their cash management and short-term investment requirements.

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 advice 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. In 2011-12, 220 clients attended.

TCV also provides economic presentations at client industry events such as Rural Finance Corporation's Lending Managers Conference held in Shepparton in March 2012.

### 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. Members of TCV's Executive and Treasury Client Services team met with clients on approximately 200 occasions in 2011-12.

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 and in 2011-12, a number of meetings were held in Central and East Gippsland, Ballarat and Horsham. We also met with some of our client Boards in Bendigo, Maffra and Sunbury. 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. This knowledge allows 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 2011-12, 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' conference, Institute of Water Administration finance workshops and Committee for Economic Development of Australia (CEDA) forums on ports infrastructure and the Loddon Mallee region.

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 2011-12 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 also manages on behalf of DTF the daily funding of the State's Public Account. This involves TCV liaising directly with each of the portfolio departments and agencies needing funding and managing the net requirement efficiently and economically, as part of TCV's daily call on markets.

TCV provided DTF with 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.

TCV also participated in a review of the State's Cash and Banking contract and worked closely with DTF and portfolio departments on the implementation of the cash module of the State Resource Information Management System.

### Treasury Advisory Appointments

During 2011-12, TCV provided a range of treasury advisory services to a number of clients, including Barwon Region Water Corporation, City West Water, Coliban Water, 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 Goulburn-Murray Rural Water. 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 a number of regional water, port infrastructure, health sector and local government clients 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 2011-12, we assisted a number of clients in the areas of event management and promotion, the arts, infrastructure, protective and emergency services, and the water sector with the development and execution of foreign exchange hedging strategies.

### Commodity Risk Management

The Department of Treasury and Finance has a commodity risk management policy, which requires consideration of hedging commodity risk with TCV where it is considered this risk could have a material impact on the business. Accordingly, TCV continued to assist the State Electricity Commission of Victoria (SECV) with the requirement to hedge an ongoing exposure to the aluminum price. This primarily involved monitoring the aluminum market for opportunities to reduce SECV's exposure to movements in the price of aluminum.

### Client Education Seminar

TCV held the first Client Education Seminar in September 2011, with approximately 50 clients attending an informal luncheon followed by an education presentation. The topic presented was understanding bond markets and TCV's participation in those markets. Another seminar on financial market economics was held in March 2012. The Client Education Seminars will form part of TCV's ongoing initiatives to engage with and assist clients.

### Essential Services Commission

TCV held preliminary discussions with the Essential Services Commission (ESC) on current debt funding conditions and the cost of funds for TCV's clients. The ESC will make a pricing determination in June 2013 for Victorian water corporations and a key part of the determination will be the risk free rate and debt margin components of the weighted average cost of capital for the third regulatory period commencing 1 July 2013.

TCV will be undertaking ongoing work in 2012-13.

## 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 2011-12

#### 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, TCV provided advice on alternative interest rate risk management approaches for *Partnerships Victoria* projects.

#### 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 undertaking 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 2011-12, 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 provided contract modelling assistance for the Department of Primary Industries in relation to the Biosciences Research Centre Project in anticipation of its expected completion in mid-2012.

### **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, Melbourne Health (including The Royal Melbourne Hospital), The University of Melbourne, the Walter and Eliza Hall Institute of Medical Research, The Royal Women's Hospital, The Royal Children's Hospital, Western Health and St Vincent's Hospital Melbourne. This project was procured under the *Partnerships Victoria* procurement framework.

TCV was engaged by the Department of Health as a specialist financing advisor for the project. In 2011-12, TCV completed our engagement including providing DTF and the Department of Health with assistance with the evaluation of financing proposals received at the Exclusive Negotiation Phase (ENP) as well as assisting with the Financial Close processes for the project.

### **Victorian Desalination Plant**

In 2011-12, TCV provided advice to the Department of Sustainability and Environment and DTF on the impact of financial market conditions on the project and advice on interest rate risk management strategies to provide value for money solutions to the State.

### **Business Case Development**

TCV offers financial modelling and business case development services to departments and agencies. In 2011-12, TCV provided financial modelling services to DTF and Major Projects Victoria on the Melbourne Markets Relocation Project. In addition, we also provided business case development and financial modelling services for both the Royal Children's Hospital (revenue and rights acquisition) and Austin Hospital car park projects.

**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

Rolling Stock Holdings (Victoria) Pty Ltd

Transport Accident Commission

Transport Ticketing Authority

VicRoads

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

Eastern Health

Northern Health

Peninsula Health

Portland District Health

The Royal Women's Hospital

The Royal Children's Hospital

Southern Health

Wimmera Health Care Group

**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**

Country Fire Authority

Director of Housing

Emergency Services Superannuation Board

Energy Safe Victoria

Melbourne Market Authority

Metropolitan Fire and Emergency Services Board

Places Victoria (formerly VicUrban)

Rural Finance Corporation of Victoria

State Electricity Commission of Victoria

VicForests

Victorian Funds Management Corporation

VITS LanguageLink

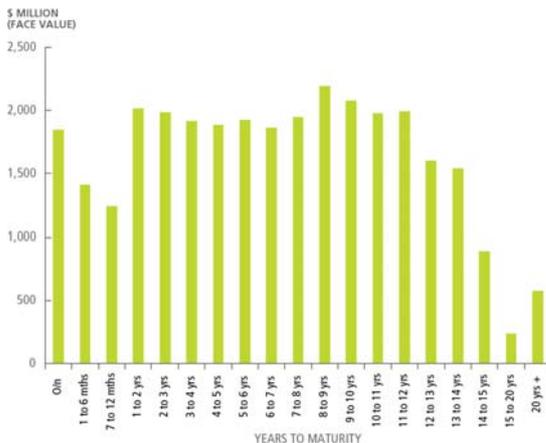
WorkSafe Victoria

Victorian Managed Insurance Authority

## 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 2012, the maturity profile of these client loans is shown in the chart below:



These loan commitments require active management and diversity in funding sources. During the year, TCV established a formal Australian Dollar Domestic Debt Issuance Program to facilitate future domestic issuance of a full range of notes including benchmark bonds.

TCV now maintains four key funding programs to meet our financing needs:

- Australian Dollar Domestic Debt Issuance program, the cornerstone of the Corporation's funding strategy, which incorporates seven or more lines of stock with a targeted minimum of \$A4 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 Note).

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 2012, were:

### Australian Dollar Domestic Debt Issuance Program

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 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 2011-12, TCV focused its fund raising activities within the Domestic Benchmark Bond program. The bulk of funds were raised from our benchmark lines, although this issuance was supplemented with non-benchmark issues.

Over the year, TCV's Domestic Benchmark Bond outstandings increased by \$A5.1 billion (face value). All long-term benchmark maturities increased through the year, however the 2012 maturity was reduced by \$A791 million.

## Domestic Benchmark Bond Outstandings

Maturity	Face Value Outstandings (\$A million)	Face Value Change (\$A million)
6.25% 15/10/2012	2,246.7	-791.6
4.75% 15/10/2014	4,216.7	+273.0
5.75% 15/11/2016	4,107.3	+547.5
5.50% 15/11/2018	3,409.4	+351.9
6.00% 15/06/2020	4,129.0	+780.8
6.00% 17/10/2022	4,105.6	+1,020.8
5.50% 17/12/2024	3,696.3	+1,373.1
5.50% 17/11/2026	1,908.4	+1,554.36
<b>Total</b>	<b>27,819.4</b>	<b>+5,109.9</b>

In addition to our benchmark lines, TCV issued \$A1.32 billion (face value) in non-benchmark lines:

- \$500 million Dec 2013 Floating Rate Note
- \$450 million Dec 2013 Fixed Rate
- \$370 million Oct 2014 Floating Rate Note

Outstandings within the ECP program decreased by \$A738 million to \$A1.186 billion, while outstandings within the Domestic Commercial Paper program increased by \$A260 million to \$A538 million as at year end.

For the year ending 30 June 2013, TCV's net call on markets is estimated to be \$A6.97 billion.

It is expected that the majority of the 2012-13 debt raisings will once again be undertaken through the Domestic Benchmark Bond program, although opportunities to issue into offshore markets will be considered.

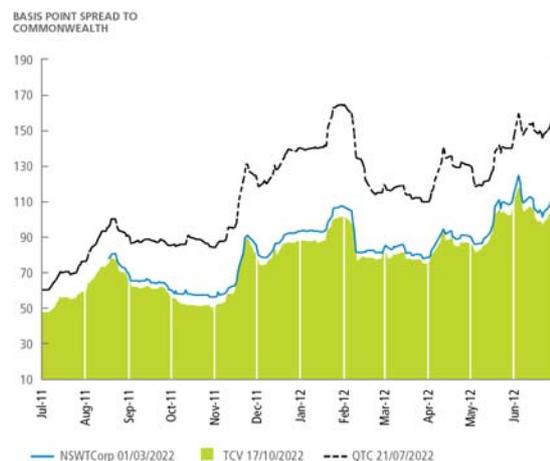
TCV will continue to selectively use short-term programs to manage short-term cash flows. Together, these programs provide domestic and international investors the opportunity to invest across a credit consistent and liquid State Government guaranteed curve.

## 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).

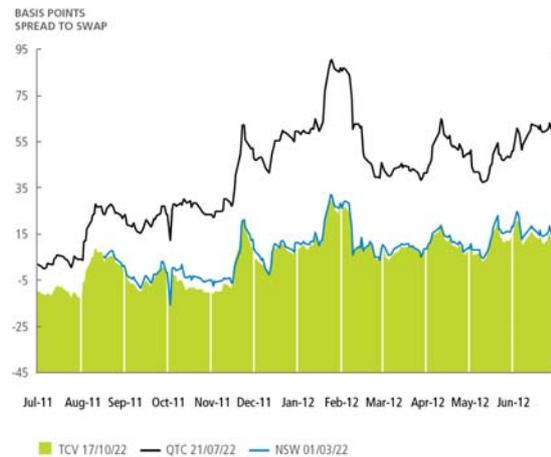
The chart shows that TCV's margin to Commonwealth bond widened over the period, consistent with our peer group.



### TCV Margin to Swap

This chart depicts the margin to swap at which a long dated TCV Domestic Benchmark Bond issue traded in the secondary market, relative to TCV's peers, NSWTCorp and QTC during 2011-12.

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



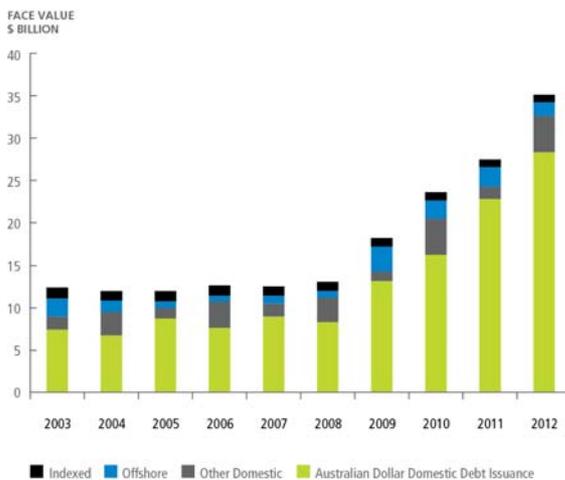
### Credit Ratings of TCV and the State of Victoria

Ratings at 30 June 2012:

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 2012, relative to previous periods.



### Domestic Benchmark Bond Outstandings

This chart compares Domestic Benchmark Bond outstandings by maturity at 30 June 2012 against 30 June 2011.



## 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 just over 23 percent of national Gross Domestic Product, and is rated AAA by Standard & Poor's and Aaa by Moody's.

### Victorian Economy

Australia's economic performance has been generally stronger than other advanced countries, but the recovery from the Global Financial Crisis has been slower than expected. In a similar vein, the Victorian economy has shown considerable resilience, but faces significant challenges.

Household deleveraging, subdued labour market conditions and international economic uncertainty have resulted in lower growth outcomes in the short-run. The likely persistence of these factors is also expected to continue to weigh on growth expectations into 2012-13. Thereafter, Gross State Product (GSP) is expected to rise from 1.75 percent to 2.75 percent amid a recovery in consumption and population growth, which is also anticipated to drive an increase in business investment in future periods.

In the March quarter 2012, Victorian State Final Demand rose by 1.8 percent. This result followed a modest fall in the December quarter 2011 of 0.2 percent. The positive outcome in the first quarter of 2012 was largely driven by growth in household consumption, machinery and equipment investment and public investment.

After rising by 1.2 percent in the March quarter 2012, private consumption is expected to grow moderately in future quarters and return to trend growth in 2013-14, in light of an expected recovery in labour market conditions. Ongoing consumer caution reflected in subdued confidence levels would represent some downside risk to this forecast.

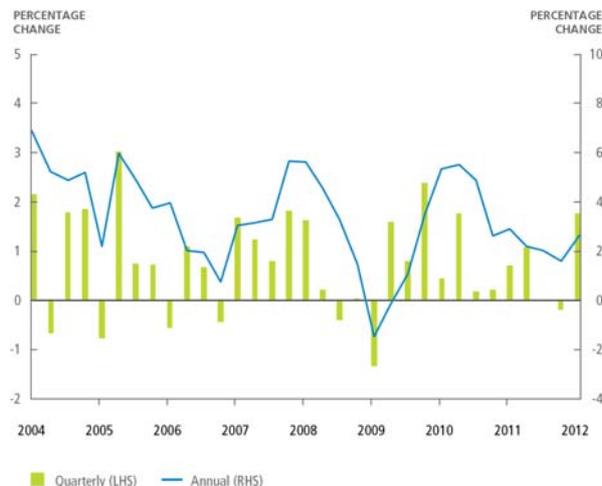
Dwelling investment fell for the second consecutive quarter, with both alterations and additions and the construction of new dwellings contributing to the contraction. While leading indicators of dwelling investment, such as finance commitments and dwelling approvals have fallen over the past year suggesting a weaker pipeline of activity, continued solid population growth and the

presence of unmet demand will support recovery to the long-term average growth rate.

Private business investment in Victoria increased by 3.1 percent in the March quarter, driven primarily by a solid increase in new engineering construction. Structural change in the Victorian economy affecting industries that have traditionally contributed significantly to investment, such as manufacturing, may continue to challenge in an economic environment influenced by a strong Australian dollar and national capacity constraints. On the upside, strong demand for professional and business services should work to support other forms of investment over coming years.

Apart from those noted already, other downside risks to the Victorian outlook stem from international economic developments. Ongoing uncertainty could prolong low business and household confidence, deferring discretionary consumer spending as well as business and dwelling investment. Upside risks include productivity improvements that drive increased profitability and efficiency and higher population growth.

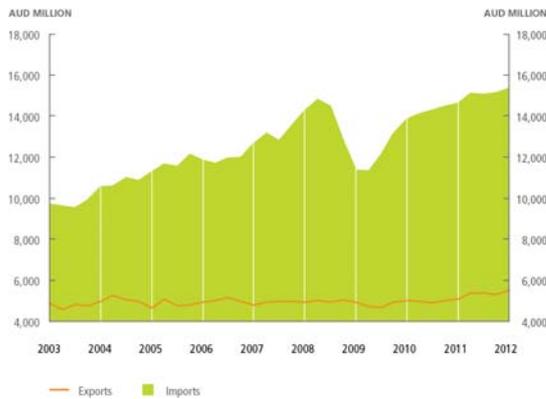
### Victorian Final Demand



In the year to March quarter 2012, exports rose by 9.0 percent compared to a rise of 8.2 percent at the national level, while imports rose by 5.1 percent compared to an 11.4 percent increase nationally.

Net international trade is expected to detract from growth but by less than envisaged in late 2011. In the near term, growth in imports is being constrained by sluggish household and business demand. Meanwhile, exports, such as tourism, education and manufactures face headwinds from a high exchange rate and increased competition. However, there are signs that exports will continue to improve modestly over 2012-13 and beyond.

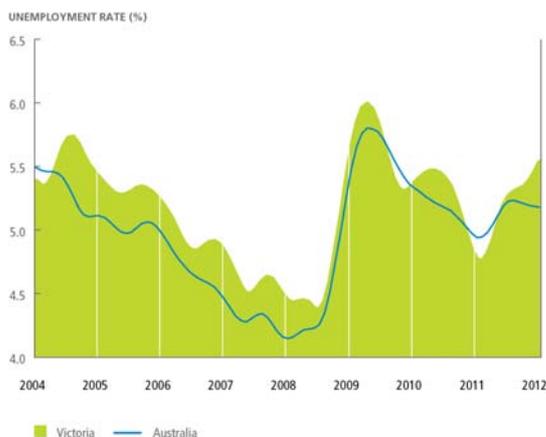
### Victorian External Position



### Victorian Labour Market

The national unemployment rate remained largely steady from July 2011 to the quarter ending March 2012 at 5.2 percent. In comparison, Victorian labour market conditions softened over the same period, with the unemployment rate rising from 5.2 percent to 5.8 percent. As at May 2012, the unemployment rate had improved to 5.4 percent.

In the near term, the unemployment rate in Victoria is expected to rise a little further with the Victorian Budget 2012-13 projecting a peak in the unemployment rate of 5.75 percent. Thereafter labour market conditions are forecast to gradually improve, although employment growth is expected to be only slightly above its long-term average pace over the next two years. In the medium term, the unemployment rate is projected to ease back to around 5.0 percent.

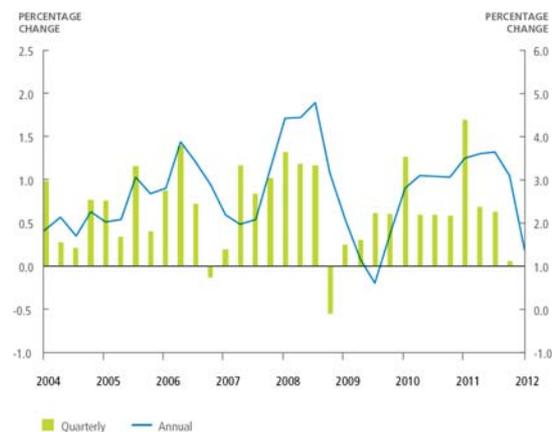


### Inflation

From running at around 3.6 percent in June 2011, headline inflation eased to 1.6 percent by the quarter ending March 2012. The drop was mainly due to a sharp fall in fruit prices that followed previous increases due to floods and natural disasters. It also reflected broad based easing in non-tradables and tradables inflation.

Year-ended underlying inflation (the average of the Reserve Bank of Australia's (RBA) measures) edged lower in the March quarter 2012 to 2.2 percent, and remained around the lowest rate recorded over the past decade. Looking forward, the RBA expects underlying inflation to stay close to this rate over the next year before picking up a little later over its forecast period.

In this context, Melbourne headline consumer price inflation is expected to fall to around 2.25 percent in 2011-12. Thereafter the introduction of the Commonwealth Government's carbon tax will boost inflation in 2012-13 and 2013-14 before it eases back to 2.50 percent in the out-years. Wages growth is anticipated to ease to 3.00 percent in 2012-13, before gradually picking up to 3.50 percent in 2014-15.

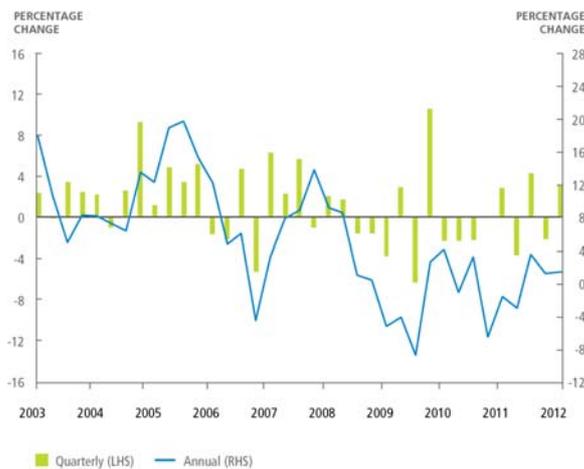


### Private Business Investment

Over the year, business investment conditions have been difficult, reflecting subdued business confidence and low levels of capacity utilisation in key industries, such as manufacturing, retail trade and construction. Structural factors have influenced demand for investment, with competitiveness challenges and lower profitability in manufacturing leading to lower plant and equipment investment. In addition, changes in retail industry supply chains and inventory management are leading to less demand for warehousing facilities.

While private business investment in Victoria rose by 3.1 percent in the March quarter 2012, driven primarily by a solid increase in new engineering construction, continued global uncertainty and tight credit market conditions suggest that there may be softness in the near future.

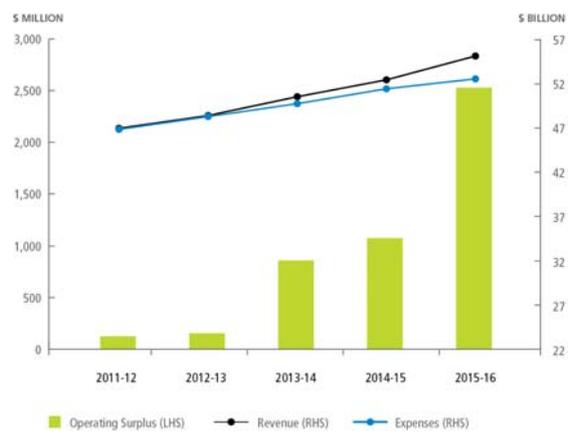
A recovery in household and export demand is expected to gradually increase business investment growth over the forward estimates period, leading to its share of economic activity rising.



### Victorian Government Fiscal Projections

The 2012-13 Victorian Budget projects an operating surplus in every year over the forward estimates. The net result from transactions for 2012-13 is expected to be \$A155 million. After deteriorating in the short-term, an expected recovery in State tax revenue and GST grants is projected to help grow the surplus to \$A2.5 billion by 2015-16. These forecasts meet the Government's target of at least a \$A100 million surplus in each year.

The cash generated by these surpluses will go towards funding infrastructure. In 2012-13, net infrastructure investment will be \$A5.8 billion and average 1.4 percent of GSP over the five years to 2015-16, which exceeds the Government's parameter of investing an average 1.3 percent of GSP on a rolling five year basis.



Net debt is projected to increase to 6.5 percent of GSP at June 2014, largely due to recent revenue shocks and the Government's ongoing infrastructure program. However, by June 2016, net debt will reduce to 6.0 percent of GSP, given an expected return to trend growth and the full impact of the Government's fiscal strategies being realised.

In the short-term, the Victorian economic outlook is moderate, reflecting a weaker international economic outlook, structural adjustments in the Australian economy and subdued conditions in the household sector. In the medium term, growth is expected to pick up amid a recovery in household consumption and dwelling and business investment.

## Victorian Government Economic Projections <sup>(a)(b)(c)</sup>

	Actual	Forecasts				
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Real gross state product	2.50	1.50	1.75	2.75	2.75	2.75
Employment growth	3.50	0.00	0.25	2.00	1.75	1.75
Unemployment rate <sup>(d)</sup>	5.10	5.50	5.75	5.50	5.25	5.00
Consumer price index	3.30	2.25	2.75	2.50	2.50	2.50
Consumer price index (excluding carbon price)	3.30	2.25	2.25	2.25	2.50	2.50
Wage cost index <sup>(e)</sup>	3.80	3.50	3.00	3.25	3.50	3.50
Population growth <sup>(f)</sup>	1.50	1.60	1.60	1.60	1.60	1.60

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

Notes:

- (a) 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.
- (b) all economic projections, except where otherwise indicated, include the impact from the Commonwealth Government's carbon price scheme commencing in 2012-13.
- (c) key assumptions underlying the economic projections include interest rates that follow the forecasts prepared by the Treasury Corporation of Victoria up to the December quarter 2012 and held constant thereafter, constant exchange rates, and oil prices that follow the path suggested by oil futures.
- (d) year average level, percent.
- (e) total hourly rate, excluding bonuses.
- (f) 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.

Mr Hunt is Director of Apollo Bay & District Community Enterprises Limited

#### Michael Hirst, BCom

##### Deputy Chairman

First appointed: 4 September 2002

Current appointment expires: 3 September 2014

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, FAICD

##### 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 Fellow of the Australian Institute of Company Directors, Deputy Chairman of the Australian Financial Markets Association Market Governance Committee, and a non-executive Director of the Rural Finance Corporation of Victoria.

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

First appointed: 1 February 2005

Current appointment expires: 31 January 2014

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  
 Appointment expired: 30 April 2012  
 Appointed: 13 June 2012  
 Current appointment expires: 12 June 2015

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

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.

Grant is currently a Director of Victorian Funds Management Corporation, Chairman of CenITex and Victorian Leadership Development Centre. Grant is also a Member of Financial Reporting Council and Centre for Market Design

**Suzanne Ewart, BEc, CPA, GAICD**

First appointed: 1 February 2008  
 Current appointment expires: 31 January 2014

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, Peter MacCallum Cancer Center and Deputy Chair of 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.

**John Blight, FCA, FFIN, BBus**

First appointed: 6 March 2012  
 Current appointment expires: 5 March 2015

Mr Blight is a Partner and Board Member of Grant Thornton Australia Limited and a committee member, Treasurer and Chair of the Risk and Compliance Sub-Committee of Moonee Valley Racing Club Incorporated.

Mr Blight has recently joined Grant Thornton Australia following its acquisition of BDO (NSW-VIC) Pty Ltd where he was a member of the firm's Executive as well as the Corporate Finance Leader and Advisory Leader of the firm's Melbourne office.

**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
- Peter Hawkins
- Grant Hehir
- Suzanne Ewart
- John Blight

### 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 2012.

### 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.

**Attendance by Directors at Directors' Meetings 1 July 11 - 30 June 12**

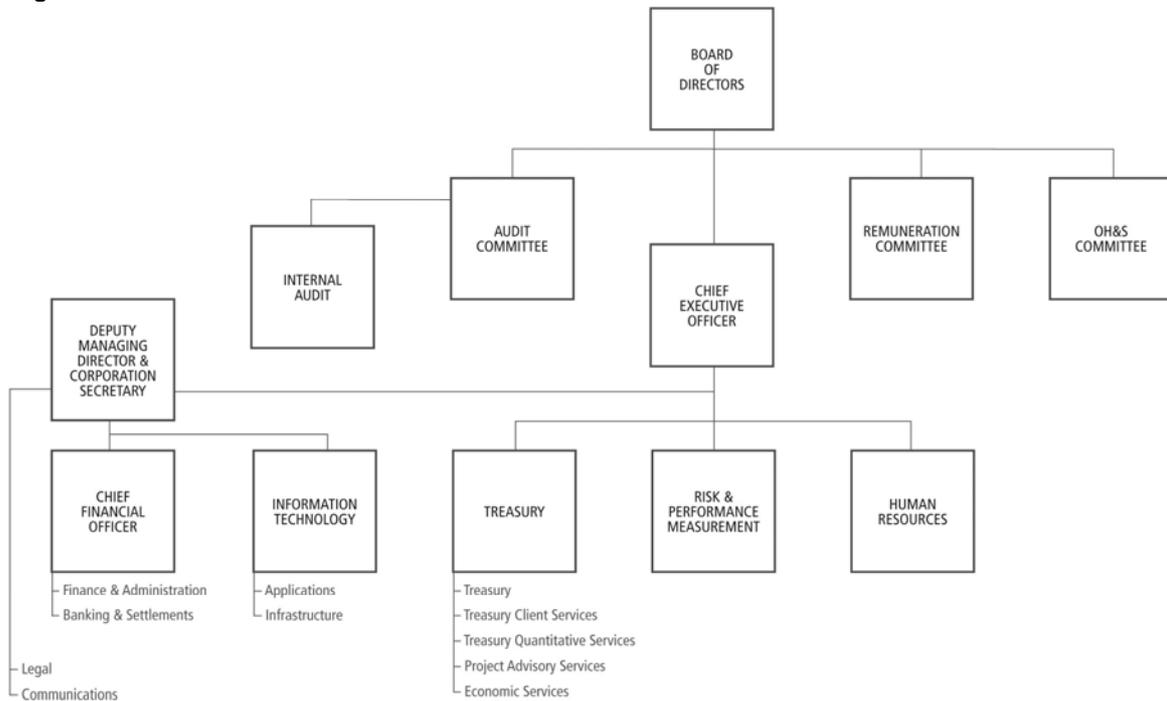
	Board		Audit		Remuneration		Occupational Health & Safety	
	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended
R Hunt	11	11	4	4	5	5	2	2
W Whitford <sup>1</sup>	11	11	4	4	5	5	2	2
M Hirst <sup>2</sup>	11	10	4	2	5	4	2	1
S Carter <sup>3</sup>	11	11	4	4	5	5	2	2
P Hawkins <sup>4</sup>	10	9	3	3	4	4	2	2
G Hehir	11	10	4	4	5	5	2	2
S Ewart <sup>5</sup>	11	11	4	4	5	5	2	2
J Blight <sup>6</sup>	3	3	1	1	2	2	1	1

Notes:

1. William Whitford was an attendee at the Remuneration and Audit Committee Meetings.
2. Michael Hirst was reappointed to the Board from 4 September 2011.
3. Susan Carter was reappointed to the Board from 1 February 2012.
4. Peter Hawkins' appointment expired on 30 April 2012. He was an attendee at the May meeting of the Board, Audit and Remuneration Committees. He was reappointed to the Board from 13 June 2012.
5. Suzanne Ewart was reappointed to the Board from 1 February 2012.
6. John Blight was appointed to the Board from 6 Mar 2012.

**Management**

**Organisation Structure**



## Management Team

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

**William (Bill) Whitford, MBA, FAICD**  
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.

**Mike van de Graaf, MSc, FRM, CertITM**  
General Manager, Risk & Performance Measurement

Mike 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.

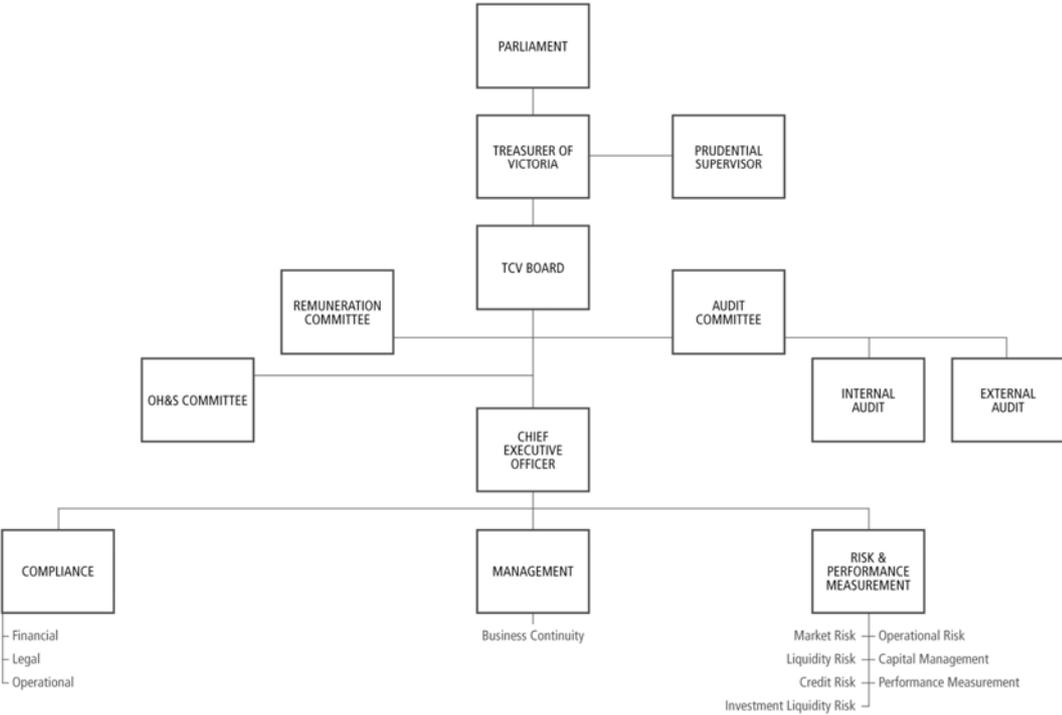
**Peter Wyatt, BBus, GradDipAppFin, CPA, SA Fin**  
Chief Financial Officer

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 is responsible for TCV's technology platforms, applications, infrastructure, and Business Continuity. His role bridges the gap between technology and business needs.

**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 2012.

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	23	82	Victorian Public Authorities	23	82
AAA		2	Aaa		3
AA+		2	Aa1		1
AA		1	Aa2	29	10
AA-	30	11	Aa3		1
A+	17	2	A1	1	1
A	30		A2	23	1
A-			A3	24	
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

### 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.

The Prudential Supervision Policy incorporates 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 2011-12
- 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

The Board of Directors of the Treasury Corporation of Victoria certify that for the year ended 30 June 2012:

the Treasury Corporation of Victoria has established and maintained appropriate prudential policies and procedures consistent with the Victorian Government's TCV Prudential Standard and that the Treasury Corporation of Victoria has complied with its policies and procedures and the TCV Prudential Standard. The Board verifies this assurance and that compliance with the standard has been subject to critical review within the last twelve months.



Robert Hunt  
**Chairman**



William (Bill) Whitford  
**Managing Director**

14 August 2012

## 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 and the TCV 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 22C (FRD22C) 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 FRD22C, 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 2011-12, 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](http://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 2012

	No. of Disclosures	Types of Disclosures
Disclosures made to TCV during 2011-12	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 2011-12, 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 employees. 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 employees are encouraged to use the codes as a frame of reference in their daily activities.

### **Employee Numbers**

At 30 June 2012, TCV employed 50.25 full-time equivalent (FTE) employees (2011: 48.6 FTE).

### **Consultants**

TCV employs expert consultants for specific projects where the required expertise does not reside within the Corporation. During 2011-12, TCV employed two consultants. Infact Consulting Pty Ltd were employed to conduct a project implementation review. The appointment cost was \$A20,405 (exclusive of GST). KPMG were employed to benchmark specific credit risk methodology analysis, the cost for which was \$A21,049 (exclusive of GST). In both cases the expenditure is included in the 2011-12 financial result. TCV has no ongoing commitments to these entities for other consulting services. The Treasurer, however, has appointed KPMG as TCV's Prudential Supervisor.

### **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 renew our Environmental Strategic Plan, setting a benchmark of improving all areas of TCV's Environmental Performance over the 2011-13 period.

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

- continued our involvement with the City of Melbourne's Cityswitch program including recognition of TCV's environmental achievement being a finalist at the Cityswitch Awards in 2011
- obtained a NABERS accredited energy rating of 4 stars for our tenancy
- conducted a water audit to estimate our water use and identify areas of improvement in water use efficiency
- undertaken half-yearly waste audits which showed a continued decrease in official landfill. Enhanced recycling programs have resulted in a 63% landfill reduction and a 20% increase in recycling rates since March 2009
- continued our green purchasing and disposal policies including recycling all surplus electronic equipment, and environmental considerations in purchasing decisions.

## Financial Statements 2012

### Table of Contents

Statement of Comprehensive Income.....	33
Statement of Financial Position .....	34
Statement of Changes in Equity .....	35
Statement of Cash Flows.....	36
Notes to and Forming Part of the Financial Statements .....	37
Note 1 Corporate Information .....	37
Note 2 Summary of Significant Accounting Policies .....	37
Note 3 Income Items.....	42
Note 4 Expense Items .....	42
Note 5 Financial Instruments Carried at Fair Value .....	43
Note 6 Cash and Cash Equivalents .....	47
Note 7 Trade Receivables and Other Assets.....	48
Note 8 Investments.....	48
Note 9 Loans to the State of Victoria and Participating Authorities.....	49
Note 10 Property, Plant and Equipment .....	50
Note 11 Intangible Assets.....	51
Note 12 Trade and Other Payables .....	51
Note 13 Provisions.....	51
Note 14 Deposits from Public Sector .....	52
Note 15 Client Loans and Deposits Outstanding .....	53
Note 16 Interest Bearing Liabilities – Domestic .....	54
Note 17 Interest Bearing Liabilities - Offshore .....	55
Note 18 Derivative Financial Instruments .....	55
Note 19 Equity .....	58
Note 20 Contractual Obligations and Financial Liabilities at Fair Value.....	58
Note 21 Notes Supporting Statement of Cash Flows.....	59
Note 22 Change in the fair value attributable to credit risk .....	59
Note 23 Risk Management .....	60
Note 24 Capital .....	65
Note 25 Superannuation.....	65
Note 26 Auditor's Remuneration.....	66
Note 27 Related Party Information.....	66
Note 28 Compensation .....	68
Note 29 Contingencies/Commitments .....	69
Note 30 Segment Information.....	70
Note 31 Subsequent Events .....	70
Certification of Financial Statements .....	71

## Statement of Comprehensive Income

For the year ended 30 June 2012

	Note	2012 \$000s	2011 \$000s
Net gain on financial assets and liabilities at fair value through profit and loss	3	66,964	61,625
Other fees and income		6,558	10,725
		<b>73,522</b>	<b>72,350</b>
Borrowing related expenses	4	899	1,457
Other operational expenses	4	17,887	18,285
		<b>18,786</b>	<b>19,742</b>
<b>Net Profit</b>		<b>54,736</b>	<b>52,608</b>
<b>Other Comprehensive Income</b>			
Revaluation of property, plant and equipment	19	2,059	-
<b>Other Comprehensive Income</b>		<b>2,059</b>	<b>-</b>
<b>Total Comprehensive Income</b>		<b>56,795</b>	<b>52,608</b>

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

## Statement of Financial Position

As at 30 June 2012

	Note	2012 \$000s	2011 \$000s
<b>Assets</b>			
Cash and cash equivalents	6	3,453,780	4,118,412
Trade receivables and other assets	7	275,373	367,023
Investments	8	4,684,351	2,815,593
Derivative financial instruments	18	1,554,084	2,176,128
Loans to the State of Victoria and participating authorities	9, 15	34,568,234	27,462,702
Property, plant and equipment	10	3,045	1,039
Intangible assets	11	1,998	2,389
<b>Total assets</b>		<b>44,540,865</b>	<b>36,943,286</b>
<b>Liabilities</b>			
Trade and other payables	12	653,757	929,422
Deposits from public sector	14, 15	6,566,805	5,858,496
Derivative financial instruments	18	1,625,803	2,217,251
Interest bearing liabilities – domestic	16	33,894,943	25,392,259
Interest bearing liabilities – offshore	17	1,602,068	2,352,837
Provisions	13	2,194	1,913
<b>Total liabilities</b>		<b>44,345,570</b>	<b>36,752,178</b>
<b>Net assets</b>		<b>195,295</b>	<b>191,108</b>
<b>Equity</b>			
Contributed equity	19	30,000	30,000
Reserves	19	2,059	-
Retained earnings		163,236	161,108
<b>Total equity</b>		<b>195,295</b>	<b>191,108</b>

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

## Statement of Changes in Equity

For the year ended 30 June 2012

	Note	Contributed Equity \$000s	Revaluation Reserve \$000s	Retained Earnings \$000s	Total \$000s
As at 1 July 2011		30,000	-	161,108	191,108
Net profit for the period		-	-	54,736	54,736
Other comprehensive income	19	-	2,059	-	2,059
Dividend paid	19	-	-	(52,608)	(52,608)
<b>As at 30 June 2012</b>		<b>30,000</b>	<b>2,059</b>	<b>163,236</b>	<b>195,295</b>

	Note	Contributed Equity \$000s	Reserves \$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)
<b>As at 30 June 2011</b>		<b>30,000</b>	<b>-</b>	<b>161,108</b>	<b>191,108</b>

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

## Statement of Cash Flows

For the year ended 30 June 2012

	2012	2011
Note	\$000s	\$000s
<b>Cash flows from operating activities</b>		
Interest received from the State of Victoria and participating authorities	1,590,242	1,294,576
Interest paid on borrowings and deposits	(1,353,279)	(1,919,224)
Net cash (paid) - market transactions	(245,313)	(31,428)
Interest received on investments and cash	331,289	340,684
Interest received on derivatives	(10,897)	61
Fees received	6,829	10,784
Cash paid to suppliers and employees	(17,293)	(25,834)
<b>Net cash (outflow) from operating activities</b>	<b>21(ii) 301,578</b>	<b>(330,381)</b>
<b>Cash flows from investing activities</b>		
Increase in loans to the State of Victoria (Department of Treasury and Finance)	(3,692,399)	(4,015,756)
Increase in loans to participating authorities	(1,057,404)	(1,132,213)
(Purchase)/Sale of investments	(1,643,090)	(348,275)
Payments for property, plant and equipment	(396)	(424)
Payments for intangible assets	(578)	(846)
<b>Net cash (outflow) from investing activities</b>	<b>(6,393,867)</b>	<b>(5,497,514)</b>
<b>Cash flows from financing activities</b>		
(Decrease)/Increase in derivatives	29,683	136,470
Increase in borrowings	4,738,231	4,131,901
Increase/(Reduction) in deposits from the State of Victoria (Department of Treasury and Finance)	811,846	194,154
Increase/(Reduction) in deposits from other public sector agencies	(99,495)	(35,158)
Dividend paid	(52,608)	(36,247)
<b>Net cash inflow from financing activities</b>	<b>5,427,657</b>	<b>4,391,120</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(664,632)</b>	<b>(1,436,775)</b>
Cash and cash equivalents at beginning of year	4,118,412	5,555,187
<b>Cash and cash equivalents at end of year</b>	<b>6 3,453,780</b>	<b>4,118,412</b>

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 in Australia 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 which operates out of Level 12, 1 Collins Street, Melbourne, Victoria.

TCV is an individual entity which operates and transacts in the domestic and international financial markets 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 2012 are authorised for issue in accordance with a resolution of the Board on 14 August 2012. The Board has the power to amend and reissue the financial statements.

### Note 2 Summary of Significant Accounting Policies

#### (a) Basis of Accounting

This report is a general-purpose financial report, 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)) and fixed assets, which have been revalued. 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. TCV is a for-profit entity for the purposes of preparing the financial statements.

#### (b) Adoption of Accounting standards

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2011 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. The standards did not have any material impact on the presentation of the financial statements.

#### (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 Comprehensive 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 Comprehensive 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 securities 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 Benchmark Bonds 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.

### (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 Comprehensive 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 Comprehensive Income.

### (j) Property, Plant and Equipment

Property, plant and equipment are measured initially at cost and subsequently stated at fair value 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 to eight years (2011 – 5 years), except for computer hardware which is depreciated over the estimated useful life of three years (2011 – 3 years). The depreciation expense on property, plant and equipment is recognised in the Statement of Comprehensive 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 Comprehensive Income in the 'Other operational expenses' line item (2012\$nil, 2011\$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 (2011– 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 Comprehensive 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 Comprehensive Income in the 'Other operational expenses' line item (2012\$nil, 2011\$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

The liability for salaries, including non-monetary benefits, is 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.

#### Long service leave, annual leave and sick 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.

The liability for annual leave is measured at the amounts expected to be paid when the liabilities are settled. Liabilities for sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

## 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 Comprehensive 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 relevant to TCV that have recently been issued or amended but are not mandatory for the year ended 30 June 2012 and have not been adopted for these financial statements:

#### *AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*

AASB 9 *Financial Instruments* and the related Amendments address the classification, measurement and derecognition of financial assets and financial liabilities. The Standards are not applicable until 1 January 2013 but are available for early adoption. In December 2012, the IASB delayed the application of IFRS 9 to 1 January 2015 and the AASB is expected to make an equivalent amendment to AASB 9 shortly. The derecognition rules have been transferred from AASB139 *Financial Instruments: Recognition and Measurement* and have not been changed. The Standards are not anticipated to impact on the presentation or on the measurement or recognition of amounts disclosed, however TCV will continue assessing the impact on the financial statements.

#### *AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13*

AASB 13 defines fair value, sets out a single framework for measuring fair value and requires related disclosures.

TCV has yet to determine the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will enhance disclosures relating to fair value measurements in the notes. The Standard applies to annual reporting periods beginning on or after 1 January 2013.

#### *AASB 2011- 9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income*

This standard requires entities to group items presented in Other Comprehensive Income on the basis of whether they are potentially reclassifiable to profit or loss subsequently when specific conditions are met. This standard applies to annual reporting periods beginning on or after 1 July 2012 and will require additional disclosure in the notes.

#### *AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*

This standard principally amends AASB 7 *Financial Instruments: Disclosures* to require disclosure of information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. This Standard applies to annual reporting periods beginning on or after 1 January 2013 and may require additional disclosure where master netting agreements or similar agreements exist.

#### *AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities*

This standard adds application guidance to AASB 132 *Financial Instruments: Presentation* to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. This Standard applies to annual reporting periods beginning on or after 1 January 2014 and is not anticipated to impact materially on the presentation of the financial statements or on the measurement of amounts disclosed.

There are no other standards that are not yet effective that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

### Note 3 Income Items

	2012	2011
	\$000s	\$000s
<b>Net gain on financial assets and liabilities at fair value through profit and loss</b>		
<b>Financial assets designated at fair value through profit and loss</b>		
Interest income on cash assets	197,810	198,557
Interest income on investments	155,571	149,240
Interest income on loans to participating authorities	1,607,255	1,321,631
	<b>1,960,636</b>	<b>1,669,428</b>
Realised and unrealised market movements of financial assets	2,642,409	(11,529)
<b>Net gain on financial assets designated at fair value through profit and loss</b>	<b>4,603,045</b>	<b>1,657,899</b>
<b>Financial liabilities designated at fair value through profit and loss</b>		
Interest expense on borrowings	(1,854,610)	(1,627,901)
Realised and unrealised market movements of financial liabilities	(2,601,889)	37,018
<b>Net loss on financial liabilities designated at fair value through profit and loss</b>	<b>(4,456,499)</b>	<b>(1,590,883)</b>
Net loss on derivatives	(79,582)	(5,391)
<b>Net gain on financial assets and liabilities at fair value through profit and loss</b>	<b>66,964</b>	<b>61,625</b>

### Note 4 Expense Items

	2012	2011
	\$000s	\$000s
<b>Borrowing related expenses</b>		
Syndication fees	188	438
Bank and facility fees	116	170
Rating agency fees	459	506
Registry and agency fees	110	95
Other costs	26	248
	<b>899</b>	<b>1,457</b>
<b>Other operational expenses</b>		
Salaries and related employee expenses	10,014	9,944
Temporary contracted resources	80	712
Depreciation of property plant and equipment	450	681
Amortisation of intangible assets	969	313
Professional fees and contract services	1,220	1,703
Prudential supervision fee	109	160
Lease payments	659	605
Power and other occupancy costs	249	125
Market information services	1,038	978
Promotional expenses	236	325
Legal costs	299	149
Insurance	326	252
Information technology	1,630	1,825
Other expenses	608	513
	<b>17,887</b>	<b>18,285</b>

## Note 5 Financial Instruments Carried at Fair Value

### (a) Fair value determination

Fair values are determined by the Risk & Performance Measurement Department 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<sup>1</sup>. 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<sup>1</sup>.

#### 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 appropriate 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 cross currency and single currency basis adjustments.

The single currency basis adjustment, also applied to interest swaps, was added in 2011-2012 to reflect current market practice. The impact of the change in estimation technique resulted in a net increase in the valuation of the cross currency and interest swaps as at 30 June 2012 of \$3.2m.

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 2012 had a Standard & Poor's long-term rating of A+ to AA-. The Credit Value Adjustment (provision for

<sup>1</sup> The TCV zero curve is constructed by the boot strapping of market data, primarily derived from market quotes for TCV's Domestic Benchmark Bonds, until 17 November 2026 (2011: until 17 November 2026) 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.)

counterparty default) has been calculated in the determination of TCV's derivative positions and assessed as not significant and, as such, has not been provided for.

### 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<sup>1</sup>. 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 Euro Medium Term Notes (EMTNs) are valued through the discounting of the cash flows using the TCV zero curve<sup>1</sup>. In the current year the JPY-denominated EMTN is valued through the discounting of cash flows using the JPY sovereign curve. In the prior year the JPY AAA global curve was used, however this curve is no longer available.

### (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 Benchmark Bonds.

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 Benchmark Bonds (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
<b>2012</b>				
<b>Assets</b>				
Investments	1,747,079	2,881,253	56,019	4,684,351
Derivative financial instruments	1,406	1,481,626	71,052	1,554,084
Loans to the State of Victoria and participating authorities	1,854,594	32,713,640	-	34,568,234
	<b>3,603,079</b>	<b>37,076,519</b>	<b>127,071</b>	<b>40,806,669</b>
<b>Liabilities</b>				
Derivative financial instruments	1,748	1,610,873	13,182	1,625,803
Deposits from public sector	3,557,019	3,009,786	-	6,566,805
Interest bearing liabilities – domestic	28,795,112	5,099,831	-	33,894,943
Interest bearing liabilities – offshore	-	1,602,068	-	1,602,068
	<b>32,353,879</b>	<b>11,322,558</b>	<b>13,182</b>	<b>43,689,619</b>

<sup>1</sup> The TCV zero curve is constructed by the boot strapping of market data, primarily derived from market quotes for TCV's Domestic Benchmark Bonds, until 17 November 2026 (2011: until 17 November 2026) 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
<b>2011</b>				
<b>Assets</b>				
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
	<b>3,906,047</b>	<b>28,412,751</b>	<b>135,625</b>	<b>32,454,423</b>
<b>Liabilities</b>				
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
	<b>26,985,904</b>	<b>8,799,167</b>	<b>35,772</b>	<b>35,820,843</b>

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

The table below summarises Level 3 financial instruments:

	2012 \$000s	2011 \$000s
<b>Assets</b>		
Investments	56,019	62,827
Derivative financial instruments – Index swaps	61,389	37,506
– Aluminium OTC options	9,663	35,292
	<b>127,071</b>	<b>135,625</b>
<b>Liabilities</b>		
Derivative financial instruments – Index swaps	3,519	480
– Aluminium OTC options	9,663	35,292
	<b>13,182</b>	<b>35,772</b>

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

For indexed swap 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) <sup>(1)</sup> \$000s	Purchases \$000s	Sales \$000s	Settlements <sup>(2)</sup> \$000s	Closing balance \$000s
<b>2012</b>						
<b>Assets</b>						
Investments	62,827	1,245	-	-	(8,053)	56,019
Derivative financial instruments						
- Index swaps <sup>(3)</sup>	37,506	10,105	7,890	(4,453)	10,341	61,389
- Aluminium OTC options	35,292	(25,998)	369	-	-	9,663
	<b>135,625</b>	<b>(14,648)</b>	<b>8,259</b>	<b>(4,453)</b>	<b>2,288</b>	<b>127,071</b>
<b>Liabilities</b>						
Derivative financial instruments						
- Index swaps <sup>(3)</sup>	(480)	(8,226)	17,534	(9,899)	(2,448)	(3,519)
- Aluminium OTC options	(35,292)	25,998	-	(369)	-	(9,663)
	<b>(35,772)</b>	<b>17,772</b>	<b>17,534</b>	<b>(10,268)</b>	<b>(2,448)</b>	<b>(13,182)</b>
<b>2011</b>						
<b>Assets</b>						
Investments	69,294	(4,429)	-	-	(2,038)	62,827
Derivative financial instruments						
- Index swaps <sup>(3)</sup>	29,887	(8,038)	156,962	(141,576)	271	37,506
- Aluminium OTC options	-	(7,500)	42,792	-	-	35,292
	<b>99,181</b>	<b>(19,967)</b>	<b>199,754</b>	<b>(141,576)</b>	<b>(1,767)</b>	<b>135,625</b>
<b>Liabilities</b>						
Derivative financial instruments						
- Index swaps <sup>(3)</sup>	(1,685)	1,504	6,686	(3,346)	(3,639)	(480)
- Aluminium OTC options	-	7,500	-	(42,792)	-	(35,292)
	<b>(1,685)</b>	<b>9,004</b>	<b>6,686</b>	<b>(46,138)</b>	<b>(3,639)</b>	<b>(35,772)</b>

<sup>(1)</sup> Total net gains (or losses) include realised and unrealised fair value movements.

<sup>(2)</sup> For investments, 'Settlements' includes principal on maturity, principal amortisation and principal repayments. For derivatives all cashflows are presented in 'Settlements' including payments/receipts of option premium paid/received upfront.

<sup>(3)</sup> For index swaps, 'Purchases' and 'Sales' present nominal values of individual legs of the swap instrument.

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

### (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. The alternative valuations for indexed investments were determined by applying a 10 basis point adjustment to the curve used to value the instruments. 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.

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 \$3.3 million (2011 \$3.0 million) or reduced by a net amount as much as \$3.4 million (2011 \$3.0 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 2012.

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 \$0.4 million (2011: \$0.9 million) or reduced by an amount as much as \$0.5 million (2011: \$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 Comprehensive 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
<b>2012</b>			
Cash at bank and on hand <sup>(1)</sup>	11,636	-	11,636
Deposits with futures clearing house <sup>(2)</sup>	3,402	-	3,402
Deposits from financial institutions <sup>(3)</sup>	563,708	-	563,708
Short term discounted securities <sup>(4)</sup>	-	2,875,034	2,875,034
<b>Total Cash and Cash Equivalents</b>	<b>578,746</b>	<b>2,875,034</b>	<b>3,453,780</b>
<b>2011</b>			
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
<b>Total Cash and Cash Equivalents</b>	<b>156,807</b>	<b>3,961,605</b>	<b>4,118,412</b>

<sup>(1)</sup> Cash at bank earns interest at floating rates based on daily bank deposit rates.

<sup>(2)</sup> Deposits with futures clearing house earns interest at floating rates. Deposits can be called when futures contracts are closed out or the value of the futures contracts diminishes.

<sup>(3)</sup> 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.

<sup>(4)</sup> Short term discounted securities earn a yield determined at time of acquisition.

## Note 7 Trade Receivables and Other Assets

	2012 \$000s	2011 \$000s
<b>Current:</b>		
Unsettled trades (refer Note 2(d))	273,832	365,528
Prepayments	882	567
Other receivables	659	928
	<b>275,373</b>	<b>367,023</b>

## Note 8 Investments

Contractual maturity in:	Less than 3 months \$000s	3 months to 1 year \$000s	1 to 2 years \$000s	2 to 5 years \$000s	Greater than 5 years \$000s	Total \$000s
<b>2012</b>						
Floating rate securities	145,850	159,940	155,201	184,356	11,593	656,940
Short term discounted securities	-	1,534,267	-	-	-	1,534,267
Fixed interest securities	254,391	283,593	-	1,108,436	501,135	2,147,555
Treasurer guaranteed investments <sup>(1)</sup>	5,515	16,279	21,125	82,123	220,547	345,589
<b>Total Investments</b>	<b>405,756</b>	<b>1,994,079</b>	<b>176,326</b>	<b>1,374,915</b>	<b>733,275</b>	<b>4,684,351</b>
<b>2011</b>						
Floating rate securities	17,178	126,671	303,122	310,481	15,912	773,364
Short term discounted securities	-	362,117	-	-	-	362,117
Fixed interest securities	27,467	146,677	32,850	540,892	596,067	1,343,953
Treasurer guaranteed investments <sup>(1)</sup>	7,026	17,638	20,608	55,595	235,292	336,159
<b>Total Investments</b>	<b>51,671</b>	<b>653,103</b>	<b>356,580</b>	<b>906,968</b>	<b>847,271</b>	<b>2,815,593</b>

<sup>(1)</sup> 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 2012, this includes investments in Melbourne Cricket Club (\$310.86 million, 2011: \$294.49 million) and St. Vincent's Hospital (Melbourne) Limited (\$33.05 million, 2011: \$39.68 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
<b>2012</b>							
Overnight & short term cash	1,854,594	-	-	-	-	-	1,854,594
Short term discounted loans	-	31,536	65,687	-	-	-	97,223
Floating rate loans	-	90,100	324,677	39,987	14,936	-	469,700
Fixed interest loans	-	1,145,624	1,075,677	2,094,039	6,367,772	21,097,189	31,780,301
Index linked loans	-	-	-	-	-	366,416	366,416
<b>Total Loans to Participating Authorities</b>	<b>1,854,594</b>	<b>1,267,260</b>	<b>1,466,041</b>	<b>2,134,026</b>	<b>6,382,708</b>	<b>21,463,605</b>	<b>34,568,234</b>

	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
<b>2011</b>							
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
<b>Total Loans to Participating Authorities</b>	<b>2,355,210</b>	<b>996,529</b>	<b>1,130,036</b>	<b>1,768,823</b>	<b>5,482,362</b>	<b>15,729,742</b>	<b>27,462,702</b>

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

## Note 10 Property, Plant and Equipment

	2012 \$000s	2011 \$000s
<b>Leasehold Improvements, Office Equipment, Furniture and Fittings</b>	2,424	2,667
Accumulated depreciation	(147)	(2,416)
	<b>2,277</b>	<b>251</b>
<b>Computer Equipment</b>	1,243	1,472
Accumulated depreciation	(824)	(1,128)
	<b>419</b>	<b>344</b>
<b>Motor Vehicles</b>	409	593
Accumulated depreciation	(60)	(149)
	<b>349</b>	<b>444</b>
<b>Written Down Value</b>	<b>3,045</b>	<b>1,039</b>

### Reconciliation of Property, Plant & Equipment

	2012 \$000s	2011 \$000s
<b>Leasehold Improvements, Office Equipment, Furniture and Fittings</b>		
Opening balance	251	415
Acquisitions	59	196
Revaluations <sup>(1)</sup>	2,059	-
Depreciation expense	(92)	(360)
Closing balance	<b>2,277</b>	<b>251</b>
<b>Computer Equipment</b>		
Opening balance	344	349
Acquisitions	330	191
Depreciation expense	(255)	(196)
Closing balance	<b>419</b>	<b>344</b>
<b>Motor Vehicles</b>		
Opening balance	444	532
Acquisitions	332	286
Disposals	(324)	(249)
Depreciation expense	(103)	(125)
Closing balance	<b>349</b>	<b>444</b>
<b>Total</b>	<b>3,045</b>	<b>1,039</b>

<sup>(1)</sup> An independent valuation of Leasehold Improvements, Furniture and Fittings was provided by Valuer General Victoria during the year. The valuation was determined based on the depreciated replacement cost of the assets. The effective date of the valuation was 30 June 2012.

The annual rates of depreciation are 33% (2011 – 33%) in respect of computer equipment and 12%-20% (2011 – 20%) in respect of other classes of Property, Plant and Equipment.

## Note 11 Intangible Assets

	2012	2011
	\$000s	\$000s
Computer Software	6,383	8,345
Accumulated amortisation	(4,385)	(5,956)
<b>Written Down Value</b>	<b>1,998</b>	<b>2,389</b>

### Reconciliation of Intangible Assets

	2012	2011
	\$000s	\$000s
<b>Computer Software</b>		
Opening balance	2,389	1,857
Acquisitions	578	845
Amortisation expense	(969)	(313)
Closing balance	<b>1,998</b>	<b>2,389</b>

The amortisation rate for computer software is 33% (2011 – 33%).

## Note 12 Trade and Other Payables

	2012	2011
	\$000s	\$000s
<b>Current:</b>		
Unsettled trades (refer Note 2(d))	647,224	926,599
Other payables	6,533	2,823
	<b>653,757</b>	<b>929,422</b>

## Note 13 Provisions

	2012	2011
	\$000s	\$000s
<b>Employee Long Service Leave Entitlements</b>		
Current: Unconditional entitlements expected to be settled within 12 months	142	129
Current: Unconditional entitlements expected to be settled after 12 months	1,282	1,158
Non-current conditional entitlements	283	192
<b>Employee Annual Leave Entitlements</b>		
Current: Unconditional entitlements expected to be settled within 12 months	487	434
<b>Total Provisions</b>	<b>2,194</b>	<b>1,913</b>

## 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:

	<b>At call</b>	<b>Less than 3 months</b>	<b>3 months to 1 year</b>	<b>1 to 2 years</b>	<b>2 to 5 years</b>	<b>Total</b>
	<b>\$000s</b>	<b>\$000s</b>	<b>\$000s</b>	<b>\$000s</b>	<b>\$000s</b>	<b>\$000s</b>
<b>2012</b>						
Deposits from public sector	1,867,245	4,627,141	70,866	-	1,553	6,566,805

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

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

## Note 15 Client Loans and Deposits Outstanding

	2012 Loans \$000s	2012 Deposits \$000s	2011 Loans \$000s	2011 Deposits \$000s
State of Victoria (Department of Treasury and Finance)	22,396,424	(1,936,839)	16,936,567	(1,123,988)
<b>Participating Authorities:</b>				
Melbourne Water Corporation	4,226,518	(5,993)	3,749,837	(5,854)
Yarra Valley Water Limited	1,822,599	(8,485)	1,545,851	(5,581)
Rural Finance Corporation of Victoria	1,221,405	-	1,137,477	-
South East Water Limited	1,054,905	-	879,530	-
City West Water Limited	839,827	(7)	646,406	(5,731)
Port of Melbourne Corporation	504,832	(47,132)	508,191	(34,086)
Barwon Regional Water Corporation	470,456	(23,935)	311,554	(8,214)
Coliban Regional Water Corporation	334,296	-	269,358	-
Central Gippsland Regional Water Corporation	217,451	(9,606)	191,547	(9,258)
Places Victoria (previously VicUrban)	197,710	(22,918)	185,794	(8,602)
Western Region Water Corporation	165,494	(11,318)	134,219	(4,004)
Central Highlands Regional Water Corporation	150,682	(1,094)	130,078	(1,048)
Goulbourn Murray Regional Water Corporation	141,525	(31,089)	97,663	(10,104)
Grampians Wimmera Mallee Water Corporation	129,582	(7,593)	113,927	(1)
Rolling Stock Holdings (Victoria) P/L	124,593	(1,673)	116,177	(1,701)
Goulburn Valley Regional Water Corporation	110,371	(6,506)	92,829	(3,701)
Wannon Regional Water	96,623	(4)	82,720	-
Lower Murray Regional Water Authority	66,487	-	53,350	(737)
Emergency Services Superannuation Scheme	-	(620,039)	-	(509,549)
State Electricity Commission of Victoria	-	(475,613)	-	(442,033)
Department of Human Services	-	(297,504)	-	(468,928)
Country Fire Authority	-	(238,536)	-	(136,734)
Other participating authorities	296,454	(368,001)	279,627	(295,429)
<b>Public Sector Entities:</b>				
Residential Tenancies Board	-	(681,110)	-	(610,132)
Victorian Property Fund	-	(348,170)	-	(324,477)
Victorian Government Trust Funds	-	(260,860)	-	(414,056)
Regional Infrastructure Development	-	(219,331)	-	(197,362)
Environment Protect Fund	-	(189,350)	-	(129,360)
Victorian Fund Management Corporation Cash Trust	-	(170)	-	(249,985)
Other public sector entities	-	(715,394)	-	(790,010)
<b>Other</b>	-	(38,535)	-	(67,831)
	<b>34,568,234</b>	<b>(6,566,805)</b>	<b>27,462,702</b>	<b>(5,858,496)</b>

The above loans and deposits are shown at fair value with loans inclusive of forward 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
<b>2012</b>							
<b>Benchmark Programs</b>							
Domestic Benchmark Bonds <sup>(1)</sup>	-	-	-	-	8,937,478	19,656,171	28,593,649
TCV Promissory Notes <sup>(2)</sup>	-	536,788	-	-	-	-	536,788
<b>Total Benchmark Programs</b>	<b>-</b>	<b>536,788</b>	<b>-</b>	<b>-</b>	<b>8,937,478</b>	<b>19,656,171</b>	<b>29,130,437</b>
<b>Domestic Borrowings – Other</b>							
Payables to market participants <sup>(3)</sup>	52,520	617	-	-	-	-	53,137
TCV fixed interest <sup>(4)</sup>	-	5,925	2,314,518	483,914	78,004	165,627	3,047,988
TCV floating interest	-	-	-	502,262	271,929	-	774,191
Commonwealth Government loans	-	210	109	14	14	45	392
Indexed linked securities	-	11,955	-	3,288	45,555	828,000	888,798
<b>Total Domestic Borrowings - Other</b>	<b>52,520</b>	<b>18,707</b>	<b>2,314,627</b>	<b>989,478</b>	<b>395,502</b>	<b>993,672</b>	<b>4,764,506</b>
<b>Total Domestic Borrowings</b>	<b>52,520</b>	<b>555,495</b>	<b>2,314,627</b>	<b>989,478</b>	<b>9,332,980</b>	<b>20,649,843</b>	<b>33,894,943</b>
<b>2011</b>							
<b>Benchmark Programs</b>							
Domestic Benchmark Bonds	-	-	-	3,129,457	3,943,274	15,964,118	23,036,849
TCV Promissory Notes <sup>(2)</sup>	-	267,456	9,599	-	-	-	277,055
<b>Total Benchmark Programs</b>	<b>-</b>	<b>267,456</b>	<b>9,599</b>	<b>3,129,457</b>	<b>3,943,274</b>	<b>15,964,118</b>	<b>23,313,904</b>
<b>Domestic Borrowings – Other</b>							
Payables to market participants <sup>(3)</sup>	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
<b>Total Domestic Borrowings - Other</b>	<b>5,047</b>	<b>928,281</b>	<b>39,846</b>	<b>39,061</b>	<b>111,186</b>	<b>954,934</b>	<b>2,078,355</b>
<b>Total Domestic Borrowings</b>	<b>5,047</b>	<b>1,195,737</b>	<b>49,445</b>	<b>3,168,518</b>	<b>4,054,460</b>	<b>16,919,052</b>	<b>25,392,259</b>

<sup>(1)</sup> Domestic Benchmark Bonds pay a fixed interest coupon with varying maturities:

4.75% coupon with a maturity of 15 October 2014	6.00% coupon with a maturity of 17 October 2022
5.75% coupon with a maturity of 15 November 2016	5.50% coupon with a maturity of 17 December 2024
5.50% coupon with a maturity of 15 November 2018	5.50% coupon with a maturity of 17 November 2026
6.00% coupon with a maturity of 15 June 2020	

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

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

<sup>(4)</sup> Includes \$2.3 billion of ex Domestic Benchmark Bonds paying a 6.25% coupon with a maturity of 15 October 2012.

## 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
<b>2012</b>						
Euro Commercial Paper	316,838	867,125	-	-	-	1,183,963
Eurobonds	-	-	-	-	-	-
Euro Medium Term Notes	-	-	-	-	418,105	418,105
<b>Total Offshore Borrowings</b>	<b>316,838</b>	<b>867,125</b>	<b>-</b>	<b>-</b>	<b>418,105</b>	<b>1,602,068</b>

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
<b>2011</b>						
Euro Commercial Paper	1,043,821	877,915	-	-	-	1,921,736
Eurobonds	88,497	-	-	-	-	88,497
Euro Medium Term Notes	-	-	-	-	342,604	342,604
<b>Total Offshore Borrowings</b>	<b>1,132,318</b>	<b>877,915</b>	<b>-</b>	<b>-</b>	<b>342,604</b>	<b>2,352,837</b>

Under the AUD 5 billion multi-currency Euro Commercial Paper Program, TCV has issued Euro Commercial Paper. The 2012 liability balance includes face value of USD 1.1 billion, NZD 15 million and GBP 50 million. (2011: USD 1.7 billion, NZD 20 million, CHF 35 million, and CAD 17 million).

Under the USD 3 billion Euro Medium Term Note Program, TCV has issued Medium Term Notes. The 2012 liability balance comprises face value of \$475 million (2011: 475 million) for Medium Term Notes issued in Australian dollars and JPY 7.5 billion (2011: JPY 7.5 billion).

In 2011, TCV as the successor in law to Victoria Public Authorities Finance Agency (VicFin) held Eurobonds in Australian Dollars issued under a stand-alone program by VicFin. The bonds matured on 31 August 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. Under Foreign currency risk policy TCV does not maintain net foreign exchange exposures over AUD 0.25m.

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
<b>2012</b>						
<b>Derivative Financial Instrument Assets</b>						
Interest rate swaps	-	7,770	1,794	28,995	175,424	213,983
Cross currency swaps	-	-	-	-	125,016	125,016
Forward foreign exchange contracts	1,334	6,141	7,813	6,624	-	21,912
Exchange traded futures	1,406	-	-	-	-	1,406
FX swap position receivable	298,821	882,716	-	-	-	1,181,537
FX options receivable	-	-	-	567	-	567
Aluminium OTC options	2	461	1,688	7,512	-	9,663
<b>Total Derivative Asset</b>	<b>301,563</b>	<b>897,088</b>	<b>11,295</b>	<b>43,698</b>	<b>300,440</b>	<b>1,554,084</b>
<b>Derivative Financial Instrument Liabilities</b>						
Interest rate swaps	(98)	(9,765)	(7,990)	(43,582)	(201,052)	(262,487)
Cross currency swaps	-	-	-	-	(137,792)	(137,792)
Forward foreign exchange contracts	(1,325)	(6,091)	(7,755)	(6,572)	-	(21,743)
Exchange traded futures	(1,746)	-	-	-	-	(1,746)
FX swap position payable	(295,252)	(896,553)	-	-	-	(1,191,805)
FX options payable	-	-	-	(567)	-	(567)
Aluminium OTC options	(2)	(461)	(1,688)	(7,512)	-	(9,663)
<b>Total Derivative Liability</b>	<b>(298,423)</b>	<b>(912,870)</b>	<b>(17,433)</b>	<b>(58,233)</b>	<b>(338,844)</b>	<b>(1,625,803)</b>

## Note 18 Derivative Financial Instruments (cont.)

The fair value of the Corporation's transactions in derivative financial instruments outstanding at 30 June 2011 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
<b>2011</b>						
<b>Derivative Financial Instrument Assets</b>						
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
<b>Total Derivative Asset</b>	<b>1,037,090</b>	<b>912,273</b>	<b>24,383</b>	<b>38,962</b>	<b>163,420</b>	<b>2,176,128</b>
<b>Derivative Financial Instrument Liabilities</b>						
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)
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)
<b>Total Derivative Liability</b>	<b>(1,071,755)</b>	<b>(928,237)</b>	<b>(18,654)</b>	<b>(42,098)</b>	<b>(156,507)</b>	<b>(2,217,251)</b>

## Note 19 Equity

### Contributed Equity

	2012	2011
	\$000s	\$000s
<b>Contributed Equity</b>	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 2012, no dividend in respect of the year ended 30 June 2012 (2011: nil) has been provided for in the accounts of TCV. In respect of the prior year's surplus, a dividend of \$ 52.6 million (2011: \$ 36.2 million) was declared and paid after the relevant reporting date.

### Reserves

	2012	2011
	\$000s	\$000s
<b>Asset Revaluation Reserve</b>		
Opening balance	-	-
Revaluation of property, plant and equipment	2,059	-
<b>Closing balance</b>	<b>2,059</b>	<b>-</b>

### Nature and purpose of the Asset Revaluation Reserve

The Asset Revaluation Reserve is used to record increments and decrements on the revaluation of property, plant and equipment. In the event of a disposal of a revalued asset, any balance in the reserve in relation to the asset is transferred to retained earnings.

## 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.

	2012	2012	2012	2011	2011	2011
	Fair Value <sup>(1)</sup>	Principal Owning at Maturity <sup>(2)</sup>	Variance	Fair Value <sup>(1)</sup>	Principal Owning at Maturity <sup>(2)</sup>	Variance
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Deposits from public sector	6,566,805	6,554,891	11,914	5,858,496	5,842,540	15,956
Interest bearing liabilities – domestic <sup>(3)</sup>	33,894,943	30,728,412	3,166,531	25,392,259	25,074,591	317,668
Interest bearing liabilities – offshore	1,602,068	1,753,357	(151,289)	2,352,837	2,574,878	(222,041)

<sup>(1)</sup> Fair value is inclusive of interest due at financial year-end.

<sup>(2)</sup> 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.

<sup>(3)</sup> 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 financial year-end.

## 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

	2012	2011
	\$000s	\$000s
Net profit	54,736	52,608
Net unrealised (expense)/income from financial assets and liabilities	241,478	(379,892)
Depreciation of property, plant and equipment	450	681
Amortisation of intangible assets	969	313
(Increase)/Decrease in trade receivables and other assets	(46)	258
Increase/(Decrease) in trade and other payables	3,710	(4,460)
Increase in accrued employee benefits	281	111
<b>Net Cash from Operating Activities</b>	<b>301,578</b>	<b>(330,381)</b>

## 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 loss of \$1,148 million (2011: gain of \$287 million) and cumulatively a loss of \$634 million (2011: gain of \$514 million).

The change in fair value attributable to changes in credit risk, for the current year, of interest bearing liabilities amounts to a gain of \$1,104 million (2011: loss of \$278 million) and cumulatively a gain of \$573 million (2011: loss of \$531 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 2012. However, the TCV yield curve spread to Commonwealth Bonds widened significantly during the current year, ranging from 33 basis points at the short end of the curve (for 2014 maturities) to 57 basis points at the long end (for 2026 maturities). In comparison, last year the spread 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 introduction of AAA rated covered bonds, issued by Australian major banks during the financial year, was a specific market event that drove up the pricing of AAA rated non-Commonwealth Government debt. In addition, increased global risk events in Europe caused a flight to quality and increased demand for Commonwealth Government issued debt. 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 is consistent with TCV Prudential Standard (which replaced Prudential Policy effective 1 October 2011) 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 Standard 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 Standard 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 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 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 Standard.

The Managing Director and TCV executives are required to promptly advise the Board, Prudential Supervisor 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
<b>2012</b>					
Cash and cash equivalents	-	2,372,151	981,937	99,692	3,453,780
Trade receivables and other assets	638	214,986	58,846	20	274,490
Investments	1,250,989	3,229,021	178,293	26,048	4,684,351
Derivative financial instrument assets <sup>(1)</sup>	67,024	70,124	114,481	-	251,629
Loans to the State of Victoria and participating authorities <sup>(2)</sup>	34,568,234	-	-	-	34,568,234
<b>Total credit risk exposure</b>	<b>35,886,885</b>	<b>5,886,282</b>	<b>1,333,557</b>	<b>125,760</b>	<b>43,232,484</b>

<sup>(1)</sup> Reflects the net credit exposure of derivatives. At 30 June 2012, TCV held \$47.0 million (2011: \$10.9 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.

<sup>(2)</sup> Rating reflects the State of Victoria's rating as guarantor.

	AAA \$000s	AA+/AA/AA- \$000s	A+/A/A- \$000s	Other \$000s	Total \$000s
<b>2011</b>					
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 <sup>(1)</sup>	62,611	35,066	40,009	-	137,686
Loans to the State of Victoria and participating authorities <sup>(2)</sup>	27,462,702	-	-	-	27,462,702
<b>Total credit risk exposure</b>	<b>28,902,474</b>	<b>4,551,364</b>	<b>1,200,113</b>	<b>246,898</b>	<b>34,900,849</b>

<sup>(1)</sup> 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.

<sup>(2)</sup> 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 <sup>(1)</sup>	Banks	Non-Bank Financial Intermediaries	Other Victorian Public Authorities	Other	Total
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
<b>2012</b>							
Cash and cash equivalents	-	-	3,453,780	-	-	-	3,453,780
Trade receivables and other assets	-	-	273,832	-	638	20	274,490
Investments	1,577,102	41,372	2,541,334	178,954	345,589	-	4,684,351
Derivative financial instrument assets <sup>(2)</sup>	-	-	184,605	-	67,024	-	251,629
Loans to the State of Victoria and participating authorities	-	-	-	-	34,568,234	-	34,568,234
<b>Total exposure</b>	<b>1,577,102</b>	<b>41,372</b>	<b>6,453,551</b>	<b>178,954</b>	<b>34,981,485</b>	<b>20</b>	<b>43,232,484</b>

<sup>(1)</sup> Includes supranationals and financial institutions guaranteed or indemnified by foreign sovereign governments.

<sup>(2)</sup> Reflects the net credit exposure of derivatives.

	Australian Common'th and other State Government	Foreign Government supported <sup>(1)</sup>	Banks	Non-Bank Financial Intermediaries	Other Victorian Public Authorities	Other	Total
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
<b>2011</b>							
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 <sup>(2)</sup>	-	-	75,075	-	62,611	-	137,686
Loans to the State of Victoria and participating authorities	-	-	-	-	27,462,702	-	27,462,702
<b>Total exposure</b>	<b>1,063,981</b>	<b>96,245</b>	<b>5,652,713</b>	<b>225,510</b>	<b>27,862,389</b>	<b>11</b>	<b>34,900,849</b>

<sup>(1)</sup> Includes supranationals and financial institutions guaranteed or indemnified by foreign sovereign governments.

<sup>(2)</sup> Reflects the net credit exposure of derivatives.

## Note 23 Risk Management (cont.)

### Ageing analysis of past due but not impaired loans

At 30 June 2012 there were no amounts past due (30 June 2011 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 2012 and 2011.

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:

	2012	2011
	%	%
30 June	204	158
Average during the year	213	180
Highest	383	222
Lowest	163	122

From 1 June 2012 TCV introduced an enhanced liquidity policy to assist the Government manage the Whole of Victorian Government liquidity strategy and improve TCV's operational and medium to long-term liquidity management. The new policy introduces daily measurement of the Whole of Victorian Government liquidity ratio and daily 'going concern' net and cumulative cash flow limits to manage short-term liquidity exposures during normal operating liquidity conditions. The Whole of Victorian Government liquidity ratio measures TCV's liquid assets (after discounting to reflect potential loss of value in the event of a quick sale) versus twelve months of debt and interest obligations. The new policy also introduces monitoring of 'going concern' cash flows out to twelve months and monitoring of cash flows under a 'liquidity stress' scenario.

These liquidity measures will replace the existing liquidity measures from 1 July 2012. As at 30 June 2012, the Whole of Victorian Government liquidity ratio stood at 104% against a limit of 80%.

#### 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
<b>2012</b>							
Liabilities	(1,918,481)	(5,288,760)	(4,810,462)	(2,519,110)	(12,581,331)	(23,607,480)	(50,725,624)
Derivatives - net settled	-	3,710	(56,457)	(46,392)	(74,990)	(155,450)	(329,579)
Derivatives - gross settled - inflows	-	15,039	609,859	37,235	37,757	147,997	847,887
Derivatives - gross settled - (outflows)	-	(16,819)	(643,412)	(50,420)	(57,649)	(236,827)	(1,005,127)
	<b>(1,918,481)</b>	<b>(5,286,830)</b>	<b>(4,900,472)</b>	<b>(2,578,687)</b>	<b>(12,676,213)</b>	<b>(23,851,760)</b>	<b>(51,212,443)</b>

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
<b>2011</b>							
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)
	<b>(3,812,499)</b>	<b>(5,368,835)</b>	<b>(2,869,127)</b>	<b>(4,162,690)</b>	<b>(7,321,667)</b>	<b>(22,306,866)</b>	<b>(45,841,684)</b>

### 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 TCV Prudential Standard requires the methodology used by TCV to measure market risk is consistent with the APRA's Prudential Standard "Capital Adequacy: Market Risk" (APS 116) and "Capital Adequacy: Interest Rate Risk in the Banking Book (Advanced ADIs)" (APS 117) 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.

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.

## Note 23 Risk Management (cont.)

	<b>2012</b>	<b>2011</b>
	<b>\$000</b>	<b>\$000</b>
30 June	2,268	3,020
Average daily during the year	2,816	2,764
Highest	3,586	3,699
Lowest	1,891	2,234

The decrease in the actual VaR level is mainly attributable to improved matching of benchmark bond funding to longer dated client loans and general level of lower interest rates.

As TCV's VaR model relies on historical data and assumes recent historic 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 the TCV Prudential Standard 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. During the current financial year, as required under the TCV Prudential Standard, TCV commenced setting aside capital to cover operational risk.

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

	<b>Actual 2012</b>	<b>Required 2012</b>	<b>Actual 2011</b>	<b>Required 2011</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Total capital	193,236	65,600	191,108	62,967
Risk weighted assets	819,995	819,995	787,082	787,082
Capital ratio	23.6%	8.0%	24.3%	8.0%

Risk weighted assets increased marginally between 30 June 2012 and 30 June 2011 with addition of operational risk regulatory capital during the current year partially offset by a reduced level of risk weighted assets attributable to market risk.

## Note 25 Superannuation

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

<b>Name of Fund</b>	<b>Contributions Made 2012</b>	<b>Contributions Made 2011</b>
	<b>\$000s</b>	<b>\$000s</b>
TCV Superannuation Plan (Mercer Superannuation Trust)	763	731
Emergency Services Superannuation Scheme	-	19
Other superannuation funds	112	133

Superannuation contributions were made at least equivalent to the minimum 9% (2011 – 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:

	2012	2011
	\$000s	\$000s
Auditor-General	285	269

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.

Other fees and income includes \$6.2 million received from the Department of Treasury and Finance (2011: \$10.4 million) for the provision of treasury services with the balance of \$0.4 million (2011: \$0.3 million) received from other participating authorities, government departments and agencies.

Details of loan and deposit facilities provided as at 30 June 2012 are set out in Notes 9, 14 and 15. All transactions are priced in accordance with TCV's policies. Transactions during the year included loans to the department of Treasury and Finance with a net face value of \$3.6 billion (2011: \$3.5 billion) in addition to short term deposits (refer to Note 15).

The following Directors together with the Honourable Kim Wells MP 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, Managing Director (Appointment effective from 28 July 2003 to 27 July 2013)
- Michael Hirst, Deputy Chairman (Appointed Director effective from 4 September 2002 to 3 September 2014. Appointed Deputy Chairman 22 November 2006 to 3 September 2014)
- Susan Carter (Appointment effective from 1 February 2005 to 31 January 2014)
- Peter Hawkins (First appointment effective from 1 May 2006 to 30 April 2012. Re-appointment effective 13 June 2012 to 12 June 2015)
- Grant Hehir<sup>1</sup> (Appointment effective from 17 October 2006 to 16 October 2012)
- Suzanne Ewart (Appointment effective from 1 February 2008 to 31 January 2014)
- John Blight (Appointment effective from 6 March 2012 to 5 March 2015)
- Timothy Knott (Retired 31 December 2010).

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**

Entities associated with Bendigo and Adelaide Bank Limited:

Director (Chairman) - Bendigo Community Telco Limited  
 Director (Chairman) - Community Telco Australia Pty Ltd  
 Director - Community Sector Enterprises Pty Ltd  
 Director - Community Sector Banking Pty Ltd  
 Director - Community Bank® Strategic Advisory Board  
 Director - Apollo Bay & District Community Enterprises Limited

<sup>1</sup> 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, Rural Bank Limited  
 Councillor 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  
 Director, Rural Finance Corporation

### **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

### **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

### **John Blight**

Partner & Board Member, Grant Thornton Australia Limited  
 Committee Member, Treasurer & Chair of Risk & Compliance Sub-Committee of Moonee Valley Racing Club Incorporated

### **Grant Hehir**

Secretary, Department of Treasury & Finance  
 Director, Victorian Funds Management Corporation  
 Chairman, CenITex  
 Chairman, Victorian Leadership Development Centre  
 Member, Financial Reporting Council  
 Member, Centre for Market Design

### **Suzanne Ewart**

Director, Peter MacCallum Cancer Institute  
 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 \$2,579,200 (2011: \$2,544,237) consisting of short-term benefits.

### Directors

The total compensation paid or payable to Directors for the year is \$836,313 (2011: \$850,782). 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 Income Band	2012	2011
	No. of Directors	No. of Directors
\$520,000 to \$529,999	1	1
\$90,000 to \$99,999	1	1
\$50,000 to \$59,999	4	-
\$40,000 to \$49,999	-	4
\$20,000 to \$29,999	-	1
\$10,000 to \$19,999	1	-
\$0	1	1

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

### Executive Officers

The following analysis of compensation received or receivable by Executive Officers (excluding the Managing Director) is provided and it includes relevant disclosures related to an Executive Officer appointed during the year. 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.

Income Paid	Total Compensation		Base Compensation	
	2012 No. of Executive Officers	2011 No. of Executive Officers	2012 No. of Executive Officers	2011 No. of Executive Officers
\$530,000 to \$539,999	1	-	-	-
\$520,000 to \$529,999	-	1	-	-
\$400,000 to \$409,999	1	-	-	-
\$380,000 to \$389,999	-	1	-	-
\$330,000 to \$339,999	-	-	2	1
\$320,000 to \$329,999	-	-	-	1
\$290,000 to \$299,999	2	1	-	-
\$280,000 to \$289,999	-	1	-	-
\$240,000 to \$249,999	-	-	2	2
\$230,000 to \$239,999	1	-	-	-
\$200,000 to \$209,999	1	1	-	-
\$190,000 to \$199,999	-	-	1	-
\$170,000 to \$179,999	-	-	1	-
\$160,000 to \$169,999	-	-	-	1
\$60,000 to \$69,999	1	-	1	-

The total compensation paid to the above personnel for the year is \$2,042,511 (2011: \$1,693,455). The total annualised employee equivalent (AEE) of 6.1 for 2012 (2011: 4.9) provides a measure of full-time equivalent executive officers over the reporting period based on working 38 ordinary hours per week.

## 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 2012 (\$147.4 million as at 30 June 2011) 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.

#### 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.

## Note 29 Contingencies/Commitments (cont.)

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.

### Commitments

#### Lease Commitments

Future commitments under non-cancellable operating leases are due:

	2012	2011
	\$000s	\$000s
Not later than 1 year	714	462
Later than 1 year but not more than 5 years	2,618	2,770
Later than 5 years	-	462
	<b>3,332</b>	<b>3,694</b>

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 \$140,173 (2011: \$605,440).

## Note 30 Segment Information

TCV is Victoria's central financing authority and operates mainly within the domestic financial markets apart from a portion of funds raised in the international markets. It has a single reportable operating segment. TCV's major customer is the Government of Victoria, its participating authorities and other government entities which are considered under common control. All relevant financial information is presented in the notes to the financial statements.

## Note 31 Subsequent Events

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

## 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 Comprehensive 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 2012 and financial position of Treasury Corporation of Victoria as at 30 June 2012.

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



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Robert Hunt  
**Chairman**  
Date: 14 August 2012



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William Whitford  
**Managing Director**  
Date: 14 August 2012



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Peter Wyatt  
**Chief Financial Officer**  
Date: 14 August 2012

## Independent Auditor's Report



Victorian Auditor-General's Office

Level 24, 35 Collins Street  
Melbourne VIC 3000  
Telephone 61 3 8601 7000  
Facsimile 61 3 8601 7010  
Email [comments@audit.vic.gov.au](mailto:comments@audit.vic.gov.au)  
Website [www.audit.vic.gov.au](http://www.audit.vic.gov.au)

### INDEPENDENT AUDITOR'S REPORT

#### To the Members of Treasury Corporation of Victoria

##### *The Financial Report*

The accompanying financial report for the year ended 30 June 2012 of the Treasury Corporation of Victoria which comprises the statement of comprehensive 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 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.

**Independent Auditor's Report (continued)**

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.

*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 2012 and of its financial performance and its cash flows for the year then ended in accordance with applicable Australian Accounting Standards 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 2012 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  
14 August 2012



D D R Pearson  
Auditor-General

## 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.

Victorian Legislation and Pronouncements	Requirement	Page Reference
<b>Financial Reporting Directions</b>		
FRD10	Disclosure index	74
FRD11	Disclosure of ex-gratia payments	n/a
FRD21B	Responsible person and executive officer disclosures	66-68
FRD22C	Manner of establishment and the relevant Ministers	2, 29
FRD22C	Objectives, functions, powers and duties	2
FRD22C	Nature and range of services provided	2, 7-11
FRD22C	Organisational structure	23
FRD22C	Operational and budgetary objectives	5
FRD22C	Employment and conduct principles	29-31
FRD22C	Occupational health and safety	29
FRD22C	Summary of the financial results	6
FRD22C	Significant changes in financial position	n/a
FRD22C	Major changes or factors affecting performance	3-4
FRD22C	Subsequent events	70
FRD22C	Application of <i>Freedom of Information Act 1982</i>	29
FRD22C	Compliance with building and maintenance provisions of the <i>Building Act 1993</i>	n/a
FRD22C	Statement on National Competition Policy	31
FRD22C	Application and operation of the <i>Whistleblowers Protection Act 2001</i>	30
FRD22C	Details of consultancies over \$10,000	31
FRD22C	Details of consultancies under \$10,000	31
FRD25A	Victorian Industry Participation Policy disclosures	31
FRD102	Inventories	n/a
FRD103D	Non-current physical assets	39
FRD104	Foreign currency	37
FRD106	Impairment of assets	39
FRD109	Intangible assets	39
FRD107	Investment properties	n/a
FRD110	Cash flow statements	36
FRD119	Contributions by owners	n/a
<b>Standing Directions</b>		
SD4.2 (a) and (b)	Financial statements	33-36
SD4.2(c)	Compliance with Australian accounting standards and other authoritative pronouncements	37
SD4.2(c)	Compliance with Ministerial Directions	37
SD4.2(d)	Rounding of amounts	37
SD4.2(c)	Accountable officer's declaration	72
SD4.2(g)	General information requirements	3-5
SD4.2(j)	Sign off requirements	4
SD4.5.5	Risk attestation	28
<b>Legislation</b>		
<i>Freedom of Information Act 1982</i>		29
<i>Building Act 1983</i>		n/a
<i>Whistleblowers Protection Act 2001</i>		30
<i>Victorian Industry Participation Policy Act 2003</i>		31
<i>Financial Management Act 2004</i>		29

## Contact Details

Address	Level 12, 1 Collins Street, Melbourne, Victoria, 3000	
Internet	<a href="http://www.tcv.vic.gov.au">www.tcv.vic.gov.au</a>	
Email	<a href="mailto:tcv@tcv.vic.gov.au">tcv@tcv.vic.gov.au</a>	
Telephone	+61 3 9651 4800	General
	+61 3 9650 7577	Dealing room
	+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 <a href="mailto:tcv@tcv.vic.gov.au">tcv@tcv.vic.gov.au</a> or telephone +61 3 9650 7577.	