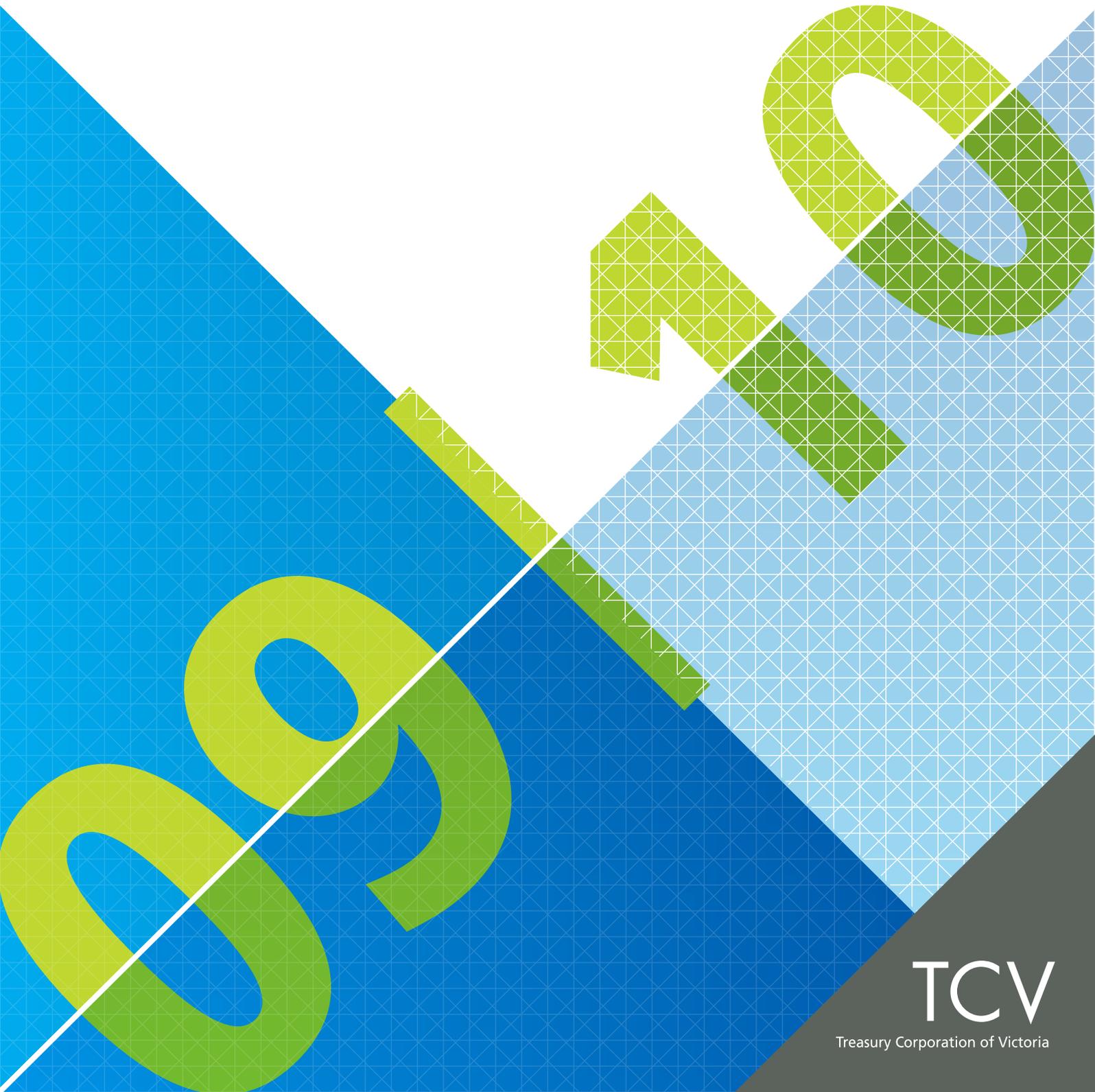


FULL ANNUAL REPORT



TCV

Treasury Corporation of Victoria

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### **Reference to Credit Ratings**

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

## Statement of Corporate Intent

### Our Vision

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

### Our Mission

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

### Our Values

We value the following key skills and knowledge:

- commercial acumen
- 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 2010, there were 87 participating authorities (2009: 86) in addition to the budget sector.

The services we provide include:

- debt portfolio management
- cash management and deposit products
- interest rate, foreign exchange and commodity risk management
- economic services

- financing policies and strategies
- a dedicated financing service
- general treasury and financing advice
- analytical services
- banking arrangements.

### Our Objectives

Established by the TCV Act, TCV is the central financing authority and financial adviser for the State of Victoria.

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 themselves 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 financing 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 and operational risks.

### Our Borrowing Programs

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

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

## Report of the Chairman

I commenced my role as Chairman on 1 January 2010, succeeding Mr Ian Ferres, TCV's founding Chairman.

Ian contributed tirelessly to the Corporation over his 17 years as Chairman, and on behalf of the Corporation and the State I would like to thank him for his significant commitment and contribution.

One of our other Directors, Mr Grant Hehir, renewed his directorship during the year and I also thank him for his continued support of the Corporation. As Secretary of the Department of Treasury and Finance, Grant's whole-of-government perspective is extremely valuable to the Board.

Prior to my appointment I was aware of (and always acknowledged) the excellent reputation of TCV as the principal interface between the financial markets and the funding requirement for the State from those markets.

My early impressions as Chairman of TCV have all been positive and it is clear that the Corporation performs its role effectively and efficiently. The team at TCV, from the Board of Directors, to the executive and employees, form a professional and highly effective unit.

The contribution to the Corporation's achievements over the reporting period has been commendable, and the performance of TCV's executive (ably led by Managing Director Bill Whitford) and all employees, has enabled the Corporation to deliver on its planned objectives over the course of the year.

As Victoria's central borrowing authority, TCV provides effective access to the debt markets, to ensure funding and financing advice is available to support the Victorian Government and its agencies to carry out their planned investment program.

In providing this advice and assistance, TCV is able to develop a clear knowledge of the Government's planned program, as well as knowledge of the individual projects undertaken by its clients. This assists greatly in raising the necessary funds to enable our State to continue its strong progress.

TCV remains focussed on client outcomes, and enhancing financial outcomes for the State.

TCV is fortunate to be provided with a first class balance sheet to present when raising funds from the financial markets, and the Corporation has built up a strong rapport with the banks on the Dealer Panels, and with the domestic and international investment communities.

Looking forward, I see TCV's activities continue to expand as the infrastructure spending plans announced by Treasurer Lenders in the 2010-11 budget are progressively implemented. TCV believes the modest increase in State debt which has been

forecast for the planning period is easily achievable in today's financial markets, and yet is of sufficient volume to maintain TCV's place as a significant player in the Australian financial markets. Further, the strength of the State's finances consolidates the State's AAA rating, this being the cornerstone of the State's investment proposition.

Finally, I would like to take this opportunity to thank the Treasurer, John Lenders, his staff and officers of the Department of Treasury and Finance for their continued strong support of TCV. The Corporation works closely with these individuals, and values the professional working dynamic that has been established over the years.



Rob Hunt  
Chairman

## Report of the Managing Director

The global financial markets remain a challenging environment in which to operate. The year has been one of highs and lows, with early confidence in the retreat of the Global Financial Crisis shattered by the emergence of European country risk.

In the closing months of the financial year, this has prompted investors to focus on sovereign risk, and a number of sovereign and sub-sovereign issuers in Europe found their issuing spreads widening, and investor interest retreating.

Australia, however, was only lightly impacted by those concerns. Strong economic growth, a robust banking system and proactive prudential regime have continued to set us apart from the rest of the world as an investment destination of choice.

Victoria, as a significant part of the Australian economy, has benefited from this investor interest. Domestic and international investors increasingly are questioning the fundamentals of each State's credit before committing to a bond investment, and Victoria's strong, diversified economy, commitment to maintaining a strong fiscal position, and its AAA rating are viewed positively.

This has been reflected in TCV's access to term markets. In May 2009, TCV announced a likely call on markets for the financial year of \$A5.7 billion, and easily raised \$A5.4 billion in term funds that was ultimately required. This was primarily sourced through the issuance of Australian dollar Domestic Inscribed Stock. These funds were raised across the curve, although in response to client requirements were predominately sourced at the longer end. While most debt was issued on a tap basis, the 2020 issue in September 2009 was by syndicated tender, and was heavily oversubscribed.

TCV continues only to issue debt guaranteed by the State of Victoria. While the option to utilise the Commonwealth guarantee remains open to the State, the strength of the State's AAA rating, TCV's ready access to financial markets and modest borrowing requirement have made its use unnecessary.

Against this backdrop, TCV met its performance targets, exceeding the financial target with a net profit for 2009-10 of \$A49.51 million.

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

1. Participating authorities - at 30 June 2010, the number of state and public authorities which have been accepted by TCV as participating authorities was 87 (2009: 86)
2. Client loans - at 30 June 2010, the number of state and public authorities with borrowings was 46 (2009: 48)
3. Lending Growth - at 30 June 2010, loans to participating authorities were \$A21.7 billion, (2009: \$A16.2 billion)

4. Client Deposits - at 30 June 2010, the number of state and public authorities which held deposits with TCV was 149 (2009: 123)
5. Deposit volumes - at 30 June 2010, deposits sourced from state and public authorities totalled \$A5.7 billion (2009: \$A5.2 billion)

These statistics demonstrate the continuing importance of the Corporation to the financing of the State, and we work tirelessly to exceed the expectations of our clients.

TCV invests the short term cash surpluses of the State and a number of state authorities, effectively centralising much of the State's investment risk in a single, well managed and prudentially supervised entity. A new piece of State legislation, *The Public Finance and Accountability Bill* (2010), which might be passed this year, will support this activity. TCV looks forward to developing new relationships that will result from this legislation, and to providing the same level of service and support that we offer our existing clients.

We also maintain a portfolio of liquid assets to ensure our ability to service the ongoing financing requirements of our borrowing clients. At the close of the financial year, these combined investments, cash and cash equivalents totalled around \$A8.1 billion. These investments remain restricted to high end investment grade credits, with a focus on the major Australian banks.

These various activities are managed within a conservative framework. The management of these activities is thoroughly overseen by the TCV Board and by the State through a prudential supervision process.

Victoria continues to utilise the *Partnerships Victoria* (PV) procurement model to build, operate and finance significant infrastructure projects where appropriate.

TCV plays an important role in the assessment of many of these projects, by far the largest of which in 2009 was the Victorian Desalination Plant. TCV supported this project through the bid assessment and financing process, and provided syndication guarantees and lender of last resort facilities.

Throughout this year, our staff, the management team and the Board have continued to demonstrate their capability and diligence, and I take this opportunity to thank them for their efforts.

I look forward to working together with TCV's staff, clients and stakeholders in the year ahead to once more deliver the Corporation's expertise on behalf of the Victorian community.



William (Bill) Whitford  
Managing Director

## Performance Summary

TCV has a number of objectives and performance indicators toward which the Corporation's resources are directed. These are both financial and non-financial in nature.

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

Objective/Indicator	Outcome 2009-10
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 achieved this objective through the year.
Management of market risk within approved parameters	TCV manages market risk within a defined Value at Risk (VaR) parameter which is determined by the Board and approved by the Victorian Treasurer through the TCV Corporate Plan. Over the 2009-10 financial year the Corporation managed its market risk within the approved limit.
Debt program pricing	As one of Australia's significant AAA rated semi-government borrowing authorities, TCV aims to maintain price relativity for its cornerstone Domestic Inscribed Stock debt with that of its peers. This target, as measured by spread to swap, was once again influenced this year by the activities of those States which had utilised the Commonwealth government guarantee, and particularly their actions in issuing new lines of State guaranteed debt. Across the comparative State guaranteed domestic bond curve TCV closed the year with tighter spreads than its peer States, achieving its objective.
Maintenance of 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.
Financial performance targets	TCV recorded a net profit for the financial year of \$A49.51million, considerably in excess of the budgeted target.
Provision of financing advice to <i>Partnership Victoria</i> projects	An important advisory service offered by TCV is the provision of financing advice to projects procured under <i>Partnerships Victoria</i> guidelines. Over the 2009-10 year, TCV had advisory roles in all of <i>Partnerships Victoria</i> projects taken to public tender, with extensive involvement in all projects.
Client satisfaction	Client satisfaction remains at high levels. This indicator is formally measured bi-annually through a Client Survey, and will be formally measured again in 2010-11. There was no indication through the 2009-10 year that the 2008-09 client satisfaction score of 82% had been eroded.
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. While TCV experienced a higher than normal employee departure rate through the latter part of the financial year, succession plans ensured that TCV could successfully maintain its human resource capabilities.
Employee engagement	TCV measures employee engagement, as an indicator of a healthy organisational culture, through data gathered in our annual staff survey. The 2009-10 survey showed a result consistent with our performance objective.
Environmental sustainability	Improving the environmental sustainability of our operations, planning processes, policy and procedural development is a core organisational goal. Over the past 12 months, TCV experienced a significant decrease in the proportion of material disposed to landfill and an increase in recycling levels.

## Financial Summary 2009-10

Income Summary	2009-10 \$ million	2008-09 \$ million	2007-08 \$ million	2006-07 \$ million	2005-06 \$ million
<b>Income</b>					
Net gain on financial assets and liabilities designated at fair value through profit and loss	60.3	59.3	7.6	29.6	23.0
Fees and other income	11.1	7.8	7.6	7.9	7.9
	<b>71.4</b>	<b>67.1</b>	<b>15.2</b>	<b>37.5</b>	<b>30.9</b>
<b>Expenses</b>					
Other borrowing related expenses	4.8	0.8	0.8	0.7	0.8
Other operational expenses	17.1	17.7	15.3	15.1	15.5
	<b>21.9</b>	<b>18.5</b>	<b>16.1</b>	<b>15.8</b>	<b>16.3</b>
<b>Net Profit</b>	<b>49.5</b>	<b>48.6</b>	<b>(0.9)</b>	<b>21.7</b>	<b>14.6</b>
<b>Dividends paid</b>	48.6	0.0	21.7	14.6	15.9
<b>Statement of Financial Position</b>					
	<b>2010</b> \$ million	<b>2009</b> \$ million	<b>2008</b> \$ million	<b>2007</b> \$ million	<b>2006</b> \$ million
Loans to clients	21,750.0	16,248.0	11,783.2	10,144.2	9,272.6
Cash assets	5,555.2	5,320.2	4,586.7	3,058.7	4,576.8
Investments	2,582.8	2,539.3	4,499.4	3,244.7	3,213.7
Derivatives	1,902.8	2,553.4	541.4	646.0	371.2
Other assets	4.9	42.6	173.0	11.5	6.5
<b>Total Assets</b>	<b>31,795.7</b>	<b>26,703.5</b>	<b>21,583.7</b>	<b>17,105.1</b>	<b>17,440.8</b>
Financed by:					
Domestic Inscribed Stock	16,454.9	13,424.6	8,475.7	9,118.1	7,826.8
Domestic other	5,321.1	2,127.8	4,040.6	2,655.5	4,235.0
Offshore	2,104.3	2,893.4	784.8	926.4	712.2
	<b>23,880.3</b>	<b>18,445.8</b>	<b>13,301.1</b>	<b>12,700.0</b>	<b>12,774.0</b>
Deposits from public sector	5,700.9	5,164.8	6,987.6	3,602.2	4,179.3
Derivatives	1,803.7	2,722.1	535.9	641.5	341.4
Other liabilities*	236.1	197.0	633.9	13.6	5.3
<b>Total Liabilities</b>	<b>31,621.0</b>	<b>26,529.7</b>	<b>21,458.5</b>	<b>16,957.3</b>	<b>17,300.0</b>
<b>Equity</b>	<b>174.7</b>	<b>173.8</b>	<b>125.2</b>	<b>147.8</b>	<b>140.8</b>

\* Prior to 2007-08, financial liability transactions were recognised on a settlement date, rather than trade date, basis.

## Client Services

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 provide impartial analysis, portfolio advice and financing outcomes for its clients. This reflects our:

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

We deliver client solutions in a transparent and responsive environment, resulting in a clear focus on client relationships and outcomes. TCV delivers its services through its Treasury Client Services and Project Advisory Services teams.

### 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. We seek to enhance and assist 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.

TCV's Treasury Client Services team has extensive financial markets, portfolio structuring and debt funding experience. We work with clients on a day-to-day basis to gain a comprehensive understanding of their business cash flows and risk preferences. We tailor solutions to meet these needs.

Clients benefit from our established expertise and have access to a full range of treasury products and services. We 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 are for fixed terms, however, the rate of interest is variable
- 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 Solutions

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 a range of commodity risk management arrangements.

TCV works with clients to understand their business cash flows and risk parameters in order to identify which risk management tools best achieve their objectives.

### Treasury Management Services

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

The services offered include:

- financial market updates
- debt, investment and cash management advice and transaction execution
- interest rate, foreign exchange and commodity risk management strategies and transaction execution
- portfolio management, valuations and reporting
- balance sheet analysis and strategies
- portfolio performance monitoring and benchmarking
- interest expense forecasting and scenario analysis
- advice supporting the development of treasury policies.

#### **Treasury Advisory and Outsourcing Services**

TCV offers a treasury advisory service where we work with clients to develop treasury policies and strategies. TCV provides advice directly to management executives and Board members and produces a full suite of portfolio management and strategy reports.

TCV also offers a complete treasury outsourcing service, whereby we manage, maintain and account for a client's portfolio in accordance with policies and strategies approved by their management or Board.

During 2009-10, TCV provided a range of these treasury advisory services to a number of clients, including the Department of Treasury and Finance, Melbourne Water Corporation, Port of Melbourne Corporation, South East Water Limited and Yarra Valley Water Limited. 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 their 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.

In addition to these mandates, TCV also assisted Coliban Region Water Corporation, Grampians Wimmera Mallee Water Corporation, Lower Murray Water Corporation, Melbourne & Olympic Parks Trust and State Electricity Commission of Victoria with their treasury advising requirements.

In the local government sector, we were engaged to review debt arrangements for Glen Eira City and Mornington Peninsula Shire Councils.

#### **Economic Advisory Services**

TCV briefs clients on developments in the global and domestic economies and financial markets, which continue to experience some volatility and

uncertainty. 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, to the preparation of Board and management reports and forecasts, to undertaking specific research and advisory assignments.

TCV maintains a regular schedule of economic presentations to clients, providing a forum for discussion of current and prospective economic events and issues. The schedule of presentations includes a regular program of economic briefings for TCV's metropolitan and regional clients, presentations to client Boards, and an economic luncheon every April and October. These luncheons are excellent networking opportunities for the variety of government authorities and businesses that attend, and in 2009-10, in excess of 175 clients attended.

#### **Relationship Building**

TCV hosted the Treasurer, the Minister for Water and key clients at several dinners in 2009-10, providing an opportunity for discussion of current government policy and key initiatives.

TCV also participated in, sponsored and provided formal presentations at a number of industry events, such as the Victorian Water Industry Associations annual conference and finance managers' workshop, and the annual conferences of FinPro (the peak body representing Local Government finance professionals), AHSFMA (health sector finance professionals) and the Victorian TAFE Association.

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.

#### **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 many 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 2009-10**

### **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. 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.

### **Partnerships Victoria in Schools Project**

In December 2007, the State announced a procurement package for 11 schools in the outer south eastern, northern and western suburbs under the State's *Partnerships Victoria* policy. Financial Close for the project was achieved in December 2008.

TCV remains involved with this project, particularly now services are being delivered providing financial modelling services, to assist the Department of Education and Early Childhood Development with its ongoing contract administration.

### **Peninsula Link Project**

On 31 March 2009, the State announced the procurement of a new freeway as part of the Victorian Transport Plan to provide a freeway link in Melbourne's south eastern suburbs and the Mornington Peninsula under the State's *Partnerships Victoria* policy.

TCV was engaged by the Linking Melbourne Authority (LMA) as a specialist financing advisor for the Project. In 2009-10, TCV completed a detailed engagement with LMA providing advice on all aspects of the financing proposals. This advice included assistance on the development of the request for proposal through to assisting LMA in the financing evaluations and ultimately in successfully refining and benchmarking financial close.

### **Ararat Prison Project**

On 30 July 2008, the State announced the procurement of a new prison to be built in regional Victoria at Ararat under the State's *Partnerships Victoria* policy.

TCV was engaged by the Department of Justice (DOJ) as a specialist financing advisor for the Project. In 2009-10, TCV completed a detailed engagement with DOJ providing advice on all aspects of the financing proposals. TCV's advice included assistance with the development of the Request for Proposal through to providing assistance to DOJ in the financing evaluations and negotiations and ultimately in successfully refining and benchmarking the financial close process.

### **Victorian Desalination Plant**

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

In providing ongoing assistance to the project, TCV provided advice to DSE on the impact of financial market conditions on the project and interest rate risk management. TCV also provided a number of

guarantees in support of the State for the project, including lender of last resort facilities, refinancing and syndication guarantees. Additionally TCV provided support for the related swap transactions entered into and benchmarking of financial close for the project.

#### **Melbourne Convention Centre**

The Melbourne Convention Centre Development delivered under the *Partnerships Victoria* policy opened in mid 2009. TCV remains involved with this project, providing ongoing financial modelling services to assist the Department of Innovation, Industry and Regional Development (DIIRD) with its ongoing contract administration.

#### **Foreign Exchange**

TCV assisted several departments and authorities to develop and execute foreign currency hedging strategies. These include Port of Melbourne Corporation, Melbourne Water Corporation, Tourism Victoria, Museum Board of Victoria, Australian Centre for the Moving Image, Country Fire Authority, Department of Premier & Cabinet, Department of Planning & Community Development, National Gallery of Victoria and the Australian Grand Prix Corporation. In particular, TCV facilitated forward foreign exchange transactions that enabled these authorities and departments to lock in foreign exchange rates when timing and volume certainty were known.

#### **Local Government**

TCV continued to work with the local government sector, aiming to increase its presence and build relationships with the sector over time. During 2009-10, TCV assisted Banyule City Council with the preparation and evaluation of a loan tender for the construction of the Greensborough Project.

Glen Eira City Council also engaged TCV as its mandated finance advisor to assist with the debt funding requirement of the \$A45 million Glen Eira Swimming and Aquatic Centre.

#### **Gateway Project Review Participation**

The State has adopted the Gateway Review process to ensure that major public sector projects, whether procured under the *Partnerships Victoria* policy or using traditional procurement methodology, are appropriate for the identified need and are implemented in a sound and rigorous manner.

TCV actively supports the Gateway Review process by providing staff to participate in, and in some cases lead, review teams.

Participation on review panels provides another opportunity for TCV to share its financial and analytical expertise with a wider cross-section of the public sector beyond its usual client base. It also provides an opportunity to support Government in the implementation of this important initiative to promote continuing improvement in project outcomes.

## Our Clients Include:

### State of Victoria

Budget Sector

### Water - Metropolitan

City West Water Limited

Melbourne Water Corporation

South East Water Limited

Yarra Valley Water Limited

### Water - Regional

Barwon Region Water Corporation

Central Gippsland Region Water Corporation

Central Highlands Region Water Corporation

Coliban Region Water Corporation

East Gippsland Region Water Corporation

Gippsland and Southern Rural Water Corporation

Goulburn-Murray Rural Water Corporation

Goulburn Valley Region Water Corporation

Grampians Wimmera Mallee Water Corporation

Lower Murray Urban and Rural Water Corporation

North East Region Water Corporation

South Gippsland Region Water Corporation

Wannon Region Water Corporation

Western Region Water Corporation

Westernport Region Water Corporation

### Ports and Transport

Gippsland Ports

Linking Melbourne Authority

Port of Melbourne Corporation

Roads Corporation

Rolling Stock Holdings (Victoria) Pty Ltd

Transport Ticketing Authority

Victorian Regional Channels Authority

Victorian Rail Track Corporation

### Health

Austin Health

Bairnsdale Regional Health Service

Banyule Community Health

Barwon Health

Bayside Health Service

Bellarine Community Health Ltd

Castlemaine Health

Cobaw Community Health Services Limited

Cobram District Hospital

Dental Health Services Victoria

Eastern Health

Gateway Community Health

Inner East Community Health Service

Latrobe Community Health Service

Latrobe Regional Hospital

Melbourne Health

Northern Health

Peninsula Health

Peter MacCallum Cancer Institute

Portland District Health

The Royal Women's Hospital

Southern Health

Wimmera Health Care Group

Wodonga Regional Health Service

### Education

Board of the Centre for Adult Education

Leo Cussen Institute

Monash University

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

Mt Baw Baw Alpine Resort Management Board

Museums Board of Victoria

Phillip Island Nature Park Board of Management Incorporated

The Victorian Arts Centre Trust

Tourism Victoria

Zoological Parks and Gardens Board

### Other

Bellarine Bayside Foreshore Committee of Management Inc

Boroondara Cemetery Trust

Country Fire Authority

Director of Housing

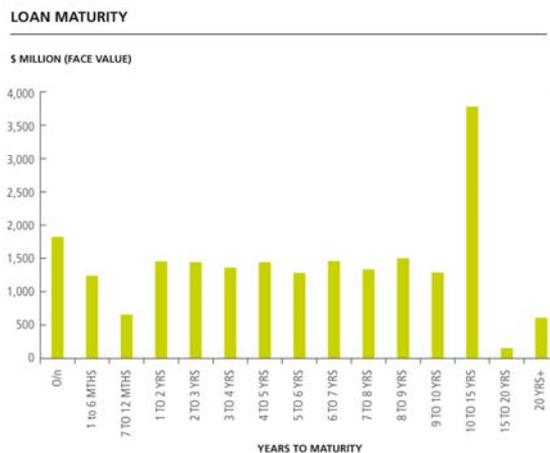
Emergency Services Superannuation Board

Glen Eira City Council  
Melbourne Market Authority  
Metropolitan Fire and Emergency Services Board  
Mornington Peninsula Shire Council  
Rural Finance Corporation of Victoria  
State Electricity Commission of Victoria  
Transport Accident Commission  
The Greater Metropolitan Cemeteries Trust  
The Southern Metropolitan Cemeteries Trust  
VicForests  
Victorian Plantations Corporation  
Victorian Urban Development Authority (VicUrban)

## 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 2010, the maturity profile of these client loans is shown in the chart below:



These loan commitments contribute to TCV's complex balance sheet and require active management and a diversity in funding sources. To meet this requirement, four key funding programs are maintained:

- TCV's Domestic Inscribed Stock program is the cornerstone of the Corporation's funding strategy, incorporating five or more lines of stock with a targeted minimum of \$A2.5 billion issued per line
- \$US3 billion Euro Medium Term Note (EMTN) program
- \$A5 billion Euro Commercial Paper (ECP) program
- \$A5 billion Domestic Promissory Note program.

Activity in each program is predominantly facilitated by a dealer panel. The dealer panels focus on dealing in TCV debt and a variety of other financial market instruments used by TCV in its risk management activities. TCV's dealer panel members, at 30 June 2010, were:

### Domestic Inscribed Stock

Australia and New Zealand Banking Group Limited  
 Citigroup Global Markets Australia  
 Commonwealth Bank of Australia  
 Deutsche Capital Markets Australia Limited  
 JP Morgan Australia Limited  
 National Australia Bank Limited

Nomura International plc  
 Royal Bank of Canada  
 The Royal Bank of Scotland NV (Australia) Branch  
 TD Securities  
 UBS Investment Bank  
 Westpac Banking Corporation

### \$A5 billion Domestic Promissory Note

Australia and New Zealand Banking Group Limited  
 Commonwealth Bank of Australia  
 Deutsche Bank AG, Sydney Branch  
 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 Program (Hong Kong)

Bank of America Securities Limited  
 Barclays Capital  
 Citibank International plc  
 Commonwealth Bank of Australia  
 Credit Suisse Securities (Europe) Limited  
 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 2009-10, TCV focussed its fund raising activities within the Domestic Inscribed Stock program. The bulk of funds was raised from this market, although this issuance was supplemented with non-benchmark issues and increases in our short term outstandings.

Over the year, Domestic Inscribed Stock outstandings increased by \$A5.112 billion (face value), with all outstanding lines increasing through the year.

In September 2009, TCV issued a new benchmark 6.00% due 15 June 2020. TCV was able to successfully launch and price the transaction in a difficult trading environment, without the need to utilise the Commonwealth Government guarantee scheme. Outstandings in this security increased to \$A2.551 billion by year end and form part of TCV's liquid inscribed stock yield curve.

## Domestic Inscribed Stock Outstandings

Maturity	Face Value Outstandings (\$A million)	Face Value Change (\$A million)
6.25% 15/10/2012	2,938.6	261.8
4.75% 15/10/2014	2,939.6	524.4
5.75% 15/11/2016	2,861.0	359.0
5.50% 15/11/2018	2,433.8	762.7
6.00% 15/06/2020	2,551.5	2,551.5
6.00% 17/10/2022	2,347.8	665.3
Total	18,626.5	5,112.0

In addition to the issuance under our core Domestic Inscribed Stock program, TCV issued \$A500 million with a 22 September 2011 maturity. This transaction was completed for risk management purposes and is not a TCV preferred liquidity issue.

Outstandings within the ECP program decreased by \$A770 million and outstandings within the Domestic Promissory Note program increased by \$A16 million, with total outstandings of \$A2.43 billion at year end.

For the year ending 30 June 2011, TCV's net call on markets is estimated to be \$A5.85 billion.

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

## Use of Commonwealth Government Guarantee Scheme

In July 2009, the Commonwealth Government implemented a voluntary Commonwealth Government guarantee scheme for Semi-government issuers.

The scheme allows TCV, on application and subject to the payment of a fee, to access a guarantee of existing and/or future issuance with a maturity of less than 15 years. For existing debt, the fee is 15 basis points, and for new issues the fee is 30 basis points.

Upon the implementation of the scheme, the Treasurer of Victoria and TCV informed the market that the State would not be utilising the guarantee scheme at that time, although the State has reserved the right to utilise the scheme should market conditions deteriorate and the use of the Commonwealth guarantee becomes in Victoria's commercial interest.

TCV did not utilise the guarantee during the year.

The decision not to utilise the guarantee was based on the strength of Victoria's budget, the State's AAA rating, and the moderate financing requirement for the 2009-10 financial year.

This decision was vindicated post the introduction of the scheme with TCV experiencing little difficulty in meeting our funding target for the year. Additionally, TCV debt continued to price competitively against our peer group when adjusted for the cost of the Commonwealth guarantee scheme.

While TCV has not utilised the guarantee scheme, TCV retains access to the guarantee scheme until its closure on 31 December 2010.

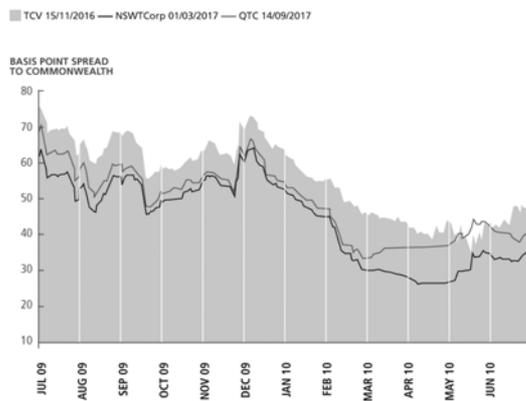
## Business Indicators

### 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 Commonwealth Government guaranteed maturity issue of TCV's peers, New South Wales Treasury Corporation (NSWTCorp) and Queensland Treasury Corporation (QTC) during 2009-10.

Both NSWTCorp and QTC elected to utilise the Commonwealth Governments semi guarantee scheme. When these spreads are adjusted for the guarantee fee payable by both NSWTCorp and QTC, TCV's cost of funds remains lower than our peer group.

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

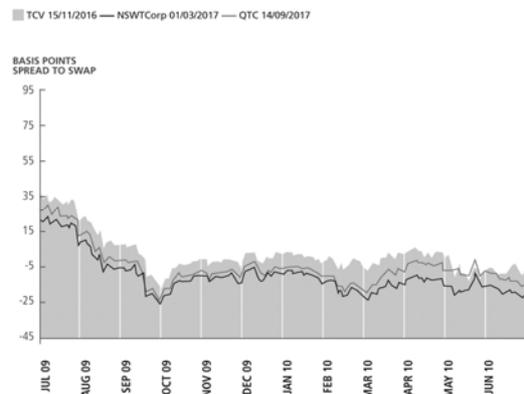


### TCV Margin to Swap

This chart depicts the margin to swap at which a long dated TCV Domestic Inscribed Stock issue traded in the secondary market, relative to the equivalent Commonwealth Government guaranteed State Government issue of TCV's peers, NSWTCorp and QTC during 2009-10.

Both charts show that TCV credit margins improved significantly over the period as the effects of the global financial crisis weakened.

The implementation of the Semi-government guarantee scheme also assisted in the improvement in spreads, although the strengthening domestic economy and strong fiscal position of the State reinforced the positive movements.



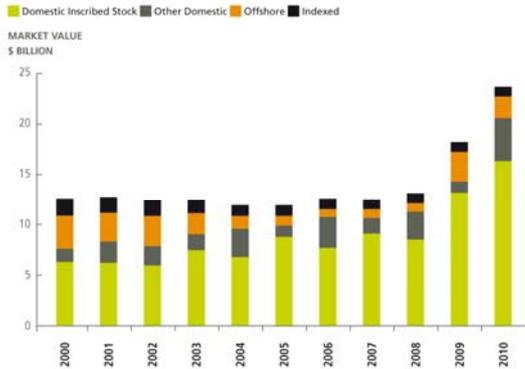
### Credit Ratings of TCV and the State of Victoria

Ratings at 30 June 2010:

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

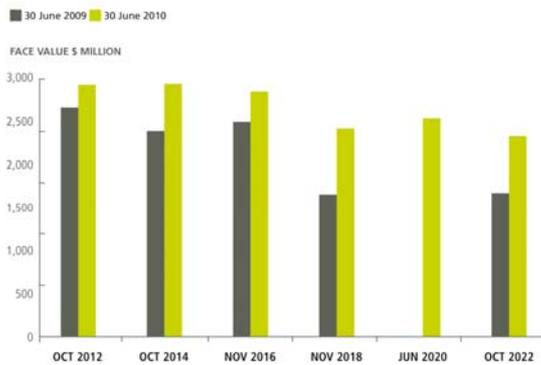
### Total Outstanding Debt

This chart depicts the mix of TCV's total outstanding debt at 30 June 2010, relative to previous periods.



### Domestic Incribed Stock Outstandings

This chart compares Domestic Incribed Stock outstandings by maturity at 30 June 2010 against 30 June 2009.



## 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 over 5.2 million people. It is also the second largest economy in the country, representing 23.8% of national Gross Domestic Product, and is rated AAA by Standard & Poor's and Aaa by Moody's.

### Victorian Economy

The Australian economy withstood the shock of the Global Financial Crisis (GFC) and ensuing downturn remarkably well. Victoria, where state final demand grew by 6.4% in the year to March 2010, mirrored this resilience. In part, this reflected State and Commonwealth stimulus measures, but it was also due to a diversified economy with sound fundamentals and competitive market environment.

Although growth in 2009-10 is expected to be below trend, given the lingering after effects of the global economic downturn, it is projected to strengthen and broaden in 2010-11. After a moderate 2.3% rise over 2009, consumption growth is expected to improve further, underpinned by a recovering labour market and strong population growth. However, amid a generally positive outlook, there is some downside risks. Specifically, predicted interest rate increases will reduce disposable incomes, especially for households with a high debt burden.

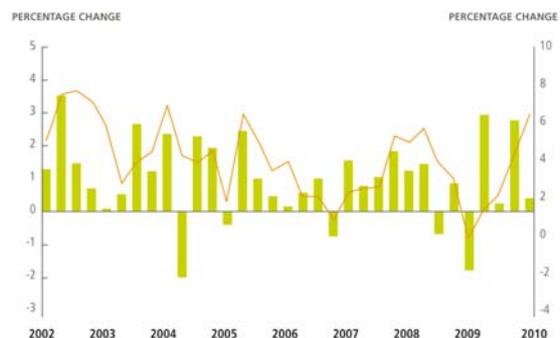
Dwelling investment is expected to continue to grow strongly in 2010-11, given the substantial pipeline of work yet to be done. Meanwhile, the business investment outlook should continue to improve. Business confidence and conditions have recovered to pre-global financial crisis levels and capacity utilisation rates are rising. However, potential obstacles exist for both sectors and these may influence their relative impact on growth. For dwelling investment, rising interest rates will likely temper demand for dwellings beyond 2010-11, while the cost and availability of credit could be a constraint for some businesses.

Apart from the risks highlighted, uncertainty over the sustainability of the global economic recovery and upward pressure on the exchange rate from the relatively strong performance of the Australian economy could also pose challenges. A strong labour market and confidence levels may offset some of these downside risks. Overall, just as the

national economy continues to emerge from the GFC imposed downturn and strengthen, so too should the Victorian economy.

### Victorian Final Demand

■ QUARTERLY (LHS) — ANNUAL (RHS)



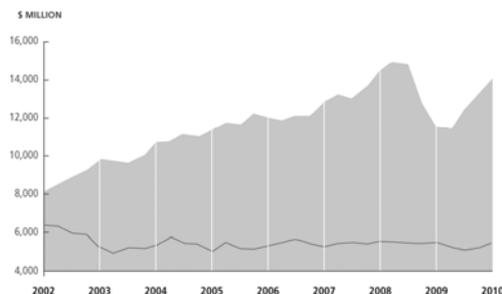
In the year to March quarter 2010, exports fell by 0.2% compared to a rise of 2.3% at the national level, while imports rose by 21.5% compared to a 13.8% increase nationally. The decline in exports reflected the residual impact of the global recession, strength of the Australian dollar and weakness in some agricultural outputs.

These factors are expected to weigh on merchandise exports further in 2009-10. Service exports, such as education are forecast to continue growing although the pace of growth is expected to moderate. Meanwhile, import growth has improved after falling in 2008-09. Looking ahead, growth in imports is expected to be solid, reflecting the positive outlook for the national economy and strong exchange rate.

### Victorian External Position

VICTORIAN EXTERNAL POSITION

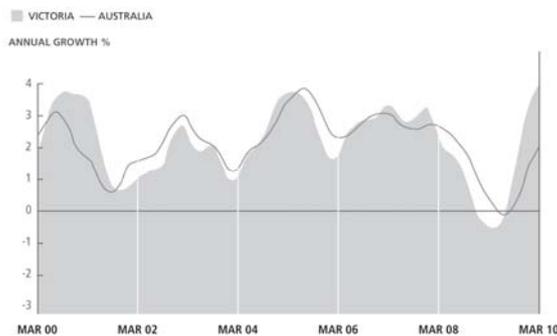
■ Exports — Imports



### Victorian Labour Market

Just as the national labour market proved much more resilient than anticipated throughout the global downturn, so too did the Victorian labour market. Indeed, the Victorian jobs market has been one of the strongest, generating almost 100,000 extra jobs, equivalent to a growth rate of 3.8% over the year to March 2010. Most of the increase in jobs has been in full-time roles. From a peak of 6.0% in mid 2009, the Victorian unemployment rate has fallen to 5.4% as at June 2010.

Looking forward, employment growth is expected to remain solid, with business surveys suggesting an increase in hiring intentions and measures of job advertisements rising. The Budget expects employment growth to remain solid with employment rising by 2.0% in 2010-11, with the unemployment rate likely to remain around current low levels.

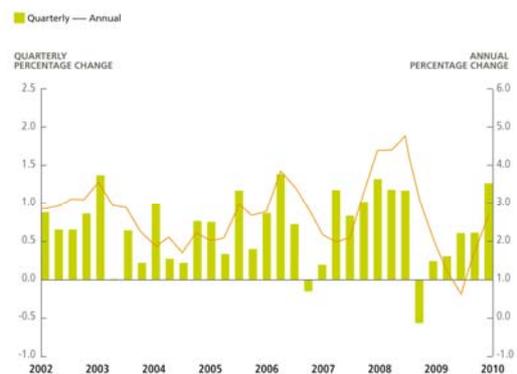


### Inflation

Headline inflationary pressures remained broadly within the RBA's target policy band of 2 to 3 percent over the year to March 2010. Strong rises in transport and housing were partially offset by falls in clothing and footwear prices.

Wages growth slowed in Victoria over the financial year in line with earlier weakness in the labour market. Moderate growth in wages is expected, consistent with an improving economic outlook, with the risk to the upside, reflecting possible 'catch up' increases and emerging skills shortages.

The Reserve Bank of Australia (RBA) expects national underlying inflation to rise, amid declining spare capacity in the economy against the backdrop of stronger global and domestic economic growth. In this context, Melbourne consumer price inflation is expected to average 2.25% in 2010-11 and 2.50% in the three years thereafter.

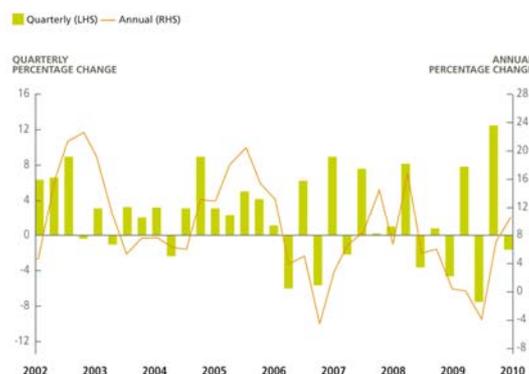


### Private Business Investment

Private business investment intentions were adversely affected by the global recession, with business confidence and conditions deteriorating sharply while lending conditions tightened considerably. Despite these factors, business investment held up better than expected in 2009, reflecting the impact of various government stimulus measures.

Figures for the March quarter 2010 showed a 1.4% drop in business investment that was driven by a fall in non-dwelling construction. This reflects the phasing out of federal government incentives, but the investment outlook appears to have improved.

The 2010-11 Victorian Budget notes that confidence and conditions had returned to pre-crisis levels and there is a strong pipeline of work in engineering construction. Nationally, there has been an upgrade of capital expenditure intentions, driven in particular by the mining sector and capacity utilisation rates are rising.



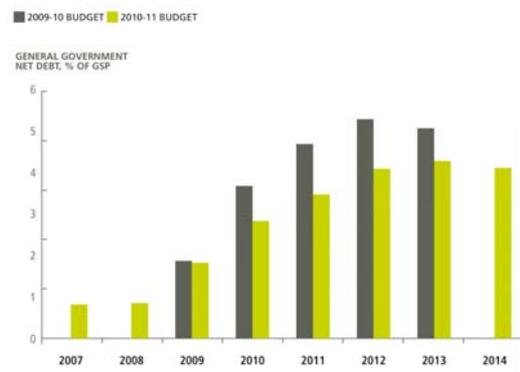
The Victorian Government continues to invest in strategic infrastructure projects to generate jobs in the short term and deliver world class infrastructure assets that generate economic, social and environmental benefits for current and future generations. These projects will help to ensure that Victoria is well positioned to take advantage of opportunities from the economic recovery.

Net infrastructure investment by the general government sector is projected to average \$4.6 billion a year over the forward estimates. This reflects significant investment in transport, hospitals, schools and other major capital projects, including the Regional Rail Link undertaken in partnership with the Commonwealth.

### Victorian Government Fiscal Projections

The Budget 2010-11 confirmed the State's strong fiscal position, despite the global downturn and that the Victorian Government is meeting its revised short-term budget objective of an operating surplus (which is the net result from transactions/net operating balance) of at least \$A100 million each year. Over the longer term, the Government has committed to returning to a 1.0% of revenue target.

For 2010-11, an operating surplus of \$A872 million is forecast, with average surpluses of \$A1.2 billion projected in future years. The Budget also notes that maintaining substantial operating surpluses in future years will allow for the delivery of long-term infrastructure objectives.



The strategy of maintaining high cash operating surpluses to fund infrastructure programs has constrained net debt growth. Net debt, which is calculated by subtracting liquid financial assets from gross debt, is a measure of balance sheet strength. General government net debt is expected to increase from \$A8.7 billion in June 2010 to \$A15.835 billion by June 2013, before declining to \$A15.795 billion in June 2014, or about 4.1% of GDP.

Economic growth is expected to be higher than forecast last year and Victoria has outperformed national benchmarks on a number of economic measures including job creation and dwelling approvals. Nevertheless, the Budget papers reveal economic growth is expected to be below trend in 2009-10 due to the lingering effects of the global financial crisis, but is likely to strengthen and broaden in 2010-11. Victorian gross state product (GSP) is expected to grow by 2.25% in 2009-10 and by 3.25% in 2010-11. After 2010-11, it is expected that growth will return to trend rates of around 3.0% per annum.

## Victorian Government Economic Projections <sup>(1)</sup>

	Actual	Forecasts				
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Real gross state product	0.8	2.25	3.25	3.00	3.00	3.00
Employment growth	0.2	2.25	2.00	1.75	1.75	1.75
Unemployment rate <sup>(2)</sup>	5.1	5.50	5.50	5.25	5.25	5.25
Consumer price index	2.8	1.75	2.25	2.50	2.50	2.50
Wage cost index <sup>(3)</sup>	4.0	3.00	3.25	3.50	3.50	3.50
Population growth <sup>(4)</sup>	2.2	2.10	1.90	1.80	1.70	1.70

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

Notes:

1. Year-average percent change on previous year unless otherwise indicated. All projections apart from population are rounded to the nearest 0.25 percentage point. Projections of population are rounded to the nearest 0.1 percentage point.
2. Year average level, percent
3. Total hourly rate, excluding bonuses
4. June quarter, percent change on previous June quarter

## Corporate Governance

### Board of Directors

#### **Rob Hunt, AM, FAICD** Chairman

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

Mr Hunt retired as Managing Director of 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, but also through opportunities in the development of strategies as a regional and community banking organisation.

As CEO, Mr Hunt oversaw significant growth in BEN to create a genuine banking alternative for more than 1.5 million Australians through 400+ branches across the nation.

Mr Hunt is the architect of the Community Bank<sup>®</sup> 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, the cashflow, capacity and flexibility, to address new economy opportunities and to enhance their own Community Balance Sheet.

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

#### **Michael Hirst, BCom** Deputy Chairman

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

Mr Hirst was appointed as the Managing Director and Chief Executive Officer of Bendigo and Adelaide Bank (BEN) on 3 July 2009. Prior to this appointment, Mr Hirst held the position of Chief Executive, Retail Bank and was responsible for BEN's retail business, group solutions and treasury. He previously held the positions of 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. He joined BEN in July 2001.

Prior to joining BEN, 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 previously 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 Financial Sector Advisory Council and a director of a number of BEN's subsidiary companies including Rural Bank Limited.

#### **William (Bill) Whitford, MBA, GAICD** Managing Director

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

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

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

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

First appointed: 1 February 2005  
Current appointment expires: 31 January 2011

Ms Carter is a professional non-executive Director and consultant in corporate governance and board effectiveness. She is currently a director of AMP Superannuation Ltd, Peter MacCallum Cancer Institute, Private Health Insurance Administration Council and the ANZ Australian Staff Superannuation Fund. She is also a member of the Blackrock Investment Management (Australia) Compliance Committee.

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

#### **Timothy Knott, LLB, FCIS, FCIM**

First appointed: 1 January 2006  
Current appointment expires: 31 December 2011

Mr Knott was Chief Financial Officer and an Executive Director of North Limited from 1998 to 2000. He had previously held several senior executive positions at BHP Limited, including Corporate General Manager and Company

Secretary, Group Treasurer and Group General Manager Finance and Administration BHP Petroleum. He was also founding President of the Corporate Tax Association of Australia.

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

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

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

He retired from the Australia and New Zealand Banking Group Limited in December 2005 after a career of 34 years, where he was a member of ANZ's Group Leadership Team and sat on the Boards of Esanda Ltd, ING Australia Limited and ING (NZ) Limited. 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 included Deputy Secretary, Strategic, Economic and Social Policy, at the Department of Premier and Cabinet and Deputy Secretary, Budget and Financial Management Division at the Department of Treasury and Finance.

**Suzanne Ewart, BEc**

First appointed: 1 February 2008  
Current appointment expires: 31 January 2011

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 Ambulance Victoria, Gippsland & Southern Rural Water and the RSPCA (Victoria).

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

Ms Ewart is a member of the Australian Society of CPAs.

**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*:

- Ian Ferres (appointed to 31 December 2009)
- Rob Hunt (appointed from 1 January 2010)
- Michael Hirst
- Susan Carter
- Timothy Knott
- Peter Hawkins
- Grant Hehir
- Suzanne Ewart

## Responsibilities of Directors

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

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

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

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

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

Charters have been established for the Board and each of its committees. The charters are statements of the purpose and objectives, roles and responsibilities, authority and performance requirements of the Board and its committees. The charters are reviewed annually. An annual review of board performance is also conducted consistent with the *Financial Management Act 1994*. The last review was completed in June 2010.

## 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 2009 - 30 June 2010**

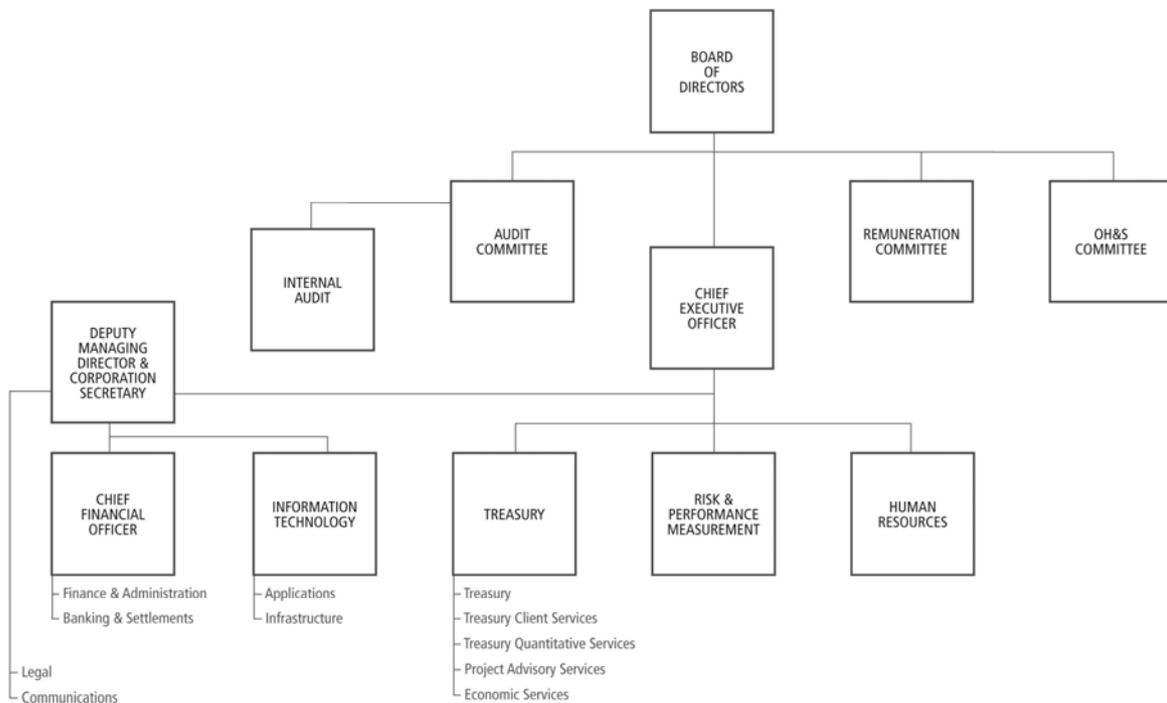
	Board		Audit		Remuneration		Occupational Health & Safety	
	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended
I Ferres <sup>1</sup>	7	6	2	1	5	5	1	1
R Hunt <sup>2</sup>	5	4	2	1	3	2	1	1
W Whitford <sup>3</sup>	12	10	4	3	8	8	2	1
M Hirst	11	9	4	2	8	7	2	2
S Carter	12	11	4	4	8	7	2	1
T Knott	12	12	4	4	8	8	2	2
P Hawkins	11	11	4	4	8	7	2	1
G Hehir <sup>4</sup>	12	11	4	4	8	6	2	2
S Ewart	12	12	4	4	8	8	2	2

Notes:

1. Ian Ferres was appointed as Chairman and a Director until 31 December 2009
2. Rob Hunt was appointed as Chairman and a Director from 1 January 2010
3. Bill Whitford was an attendee at the Remuneration and Audit Committee Meetings
4. Grant Hehir was reappointed to the Board from 17 October 2009

**Management**

**Organisation Structure**



## **Management Team**

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

William (Bill) Whitford, MBA, GAICD

### **Managing Director**

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

Mark W Engeman, BEc, MBA, CPA, GAICD

### **Deputy Managing Director and Corporation Secretary**

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

S Ram Doss, BSc

### **General Manager, Risk & Performance Measurement**

Ram is responsible for TCV's Risk & Performance Measurement function. He provides an overview to the Board, the Prudential Supervisor and the 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

### **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**

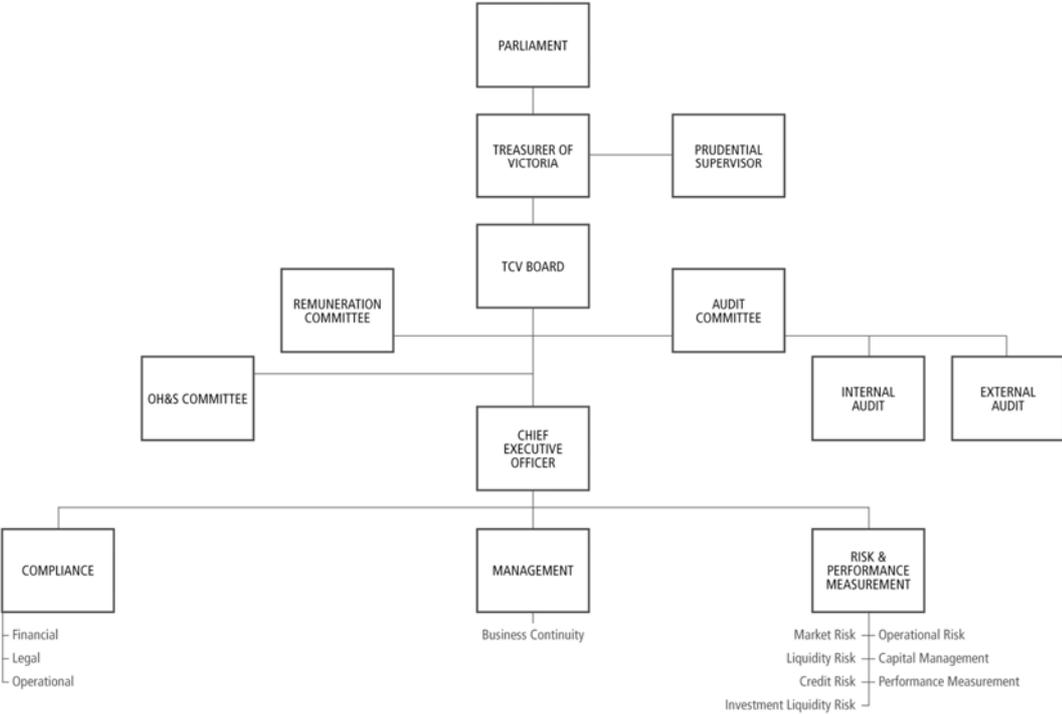
Peter is responsible for TCV's accounting and banking and settlement operations and provision of the Corporation's accounts. He provides advice to the Board on TCV's financial position.

Warren Murray, BAppSc (Comp Sci)

### **General Manager, Information Technology**

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

**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 is commensurate with TCV's business mandate, corporate objectives, business strategies and its risk appetite. TCV's Board has adopted a formal Risk Appetite Statement.

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 control framework to manage 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 scenarios. Risk is managed within an approved control and limit structure, while risk and revenue are 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, key elements of which are as follows:

- operating (or day-to-day) liquidity management: TCV requires that there should be sufficient cash inflows including from maturing assets to fully meet the obligations of maturing liabilities at all times
- 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
- 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 must satisfy certain criteria which provide assurance about their market liquidity.

### Credit Risk

At TCV, credit risk arising from loans to participating authorities 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 outstanding 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 2010.

Standard & Poor's Corporation Rating	Derivatives % of Portfolio	Investments & Loans % of Portfolio	Moody's Investors Service Rating	Derivatives % of Portfolio	Investments & Loans % of Portfolio
Victorian Public Authorities*	6	74	Victorian Public Authorities*	6	74
AAA		3	Aaa	1	2
AA+		1	Aa1	40	17
AA	32	17	Aa2		2
AA-	4	1	Aa3	28	3
A+	56	4	A1	25	1
A	2		A2		
A-			A3		
Not rated by S&P but rated at least Aaa by Moody's			Not rated by Moody's but rated at least AAA by S&P		1
Total	100	100	Total	100	100

\* Considered AAA exposures as they are guaranteed by the State

% based on total credit exposures used to determine capital adequacy in accordance with TCV's Prudential Supervision Policy.

### Operational Risk

The generally accepted definition of operational risk is 'the risk of indirect or direct 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 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.

TCV's chosen operational risk capital measurement methodology is consistent with the Basic Indicator Approach proposed by Basel II for calculating a risk capital charge.

### Prudential Policy on Capital

TCV's risk management framework incorporates a risk-based capital adequacy approach as specified in its Prudential Policy established by the Treasurer of the State of Victoria for TCV. This requirement is based on the principles of the Basel Accord (Basel I) as was 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.

### 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 its 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
- Minister for Finance - Member of Parliament. Monitors TCV's compliance with the State's financial and tax reporting and accountability framework via DTF's annual compliance certification process.

### Risk Attestation Statement

I, Robert Hunt, certify that Treasury Corporation of Victoria has risk management processes in place consistent with the Prudential Supervision Policy and an internal control system is in place that enables the executive to understand, manage and satisfactorily control risk exposures. The Audit Committee verifies this assurance and that the risk profile of Treasury Corporation of Victoria has been critically reviewed within 2009-10.



Robert Hunt

**Chairman**

10 August 2010

## Regulatory Compliance and Disclosures

### Treasury Corporation of Victoria Act 1992 (Victoria)

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

### Borrowing and Investment Powers Act 1987 (Victoria)

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

### Financial Management Act 1994 (Victoria) and Financial Reporting Directions

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

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

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

### Public Administration Act 2004 (Victoria)

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

### Freedom of Information Act 1982 (Victoria)

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

### Equal Opportunity and Anti-Discrimination Legislation

TCV is subject to Commonwealth and State legislation prohibiting unlawful discrimination and harassment. TCV is a proponent of equal opportunity in the workplace and staff selection is based on skills, competence and experience. Equal opportunity policies are regularly updated and a staff 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 staff 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 staff 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 staff are informed of procedures and processes.

TCV has a Risk Management and Occupational Rehabilitation program, developed in consultation with staff. In the event of a work related injury, TCV will endeavour to ensure the injury does not recur. Should a staff member 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 2009-10, 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 staff members of TCV have their privacy respected.

All TCV staff 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 2010

	No. of Disclosures	Types of Disclosures
Disclosures made to TCV during 2009-10	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 (VIPPP)* 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 VIPPP in all tenders over \$A3 million in metropolitan Melbourne and \$A1 million in regional Victoria. In 2009-10, TCV did not tender any projects that met these value thresholds.

### Competition Policies and Taxation

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

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

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

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

### Code of Conduct

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

### Staff Complement

At 30 June 2010, TCV employed 46.9 full-time equivalent (FTE) employees (2009: 50.8 FTE).

### Consultants

TCV employs expert consultants for specific projects to maintain best practice in the finance industry. During 2009-10, one consultancy with fees totalling \$A31,185 was undertaken.

### Environmental Performance

TCV is committed to improving the environmental sustainability of our operations, planning processes, policy and procedural development.

Over the past 12 months, TCV has:

- undertaken bi-annual waste audits which highlighted a significant decrease in office landfill generation
- increased our percentage of Green Power
- participated in the TravelSmart survey
- been accepted as a signatory to the CitySwitch Green Office program, a national tenant energy management program run in partnership with the City of Melbourne and Sustainability Victoria.

## Financial Statements 2010

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## Statement of Income

For the year ended 30 June 2010

	Note	2010 \$000s	2009 \$000s
<b>Revenue</b>			
Net gain on financial assets and liabilities at fair value through profit and loss	3	60,269	59,277
Other fees and income		11,103	7,792
		<b>71,372</b>	<b>67,069</b>
<b>Expenses</b>			
Other borrowing related expenses	4	4,782	834
Other operational expenses	4	17,077	17,664
		<b>21,859</b>	<b>18,498</b>
<b>Net profit / (loss)</b>		<b>49,513</b>	<b>48,571</b>

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

## Statement of Financial Position

As at 30 June 2010

	Note	2010 \$000s	2009 \$000s
<b>Assets</b>			
Cash and cash equivalents	6	5,555,187	5,320,158
Trade receivables and other assets	7	1,753	38,870
Investments	8	2,582,819	2,539,327
Derivative financial instruments	18	1,902,753	2,553,374
Loans to the State of Victoria and participating authorities	9, 15	21,750,090	16,248,017
Property, plant and equipment	10	1,296	1,724
Intangible assets	11	1,857	2,022
<b>Total assets</b>		<b>31,795,755</b>	<b>26,703,492</b>
<b>Liabilities</b>			
Trade and other payables	12	234,787	195,649
Provisions	13	1,368	1,401
Derivative financial instruments	18	1,803,692	2,722,068
Deposits from public sector	14, 15	5,700,878	5,164,803
Interest bearing liabilities – domestic	16	21,776,024	15,552,402
Interest bearing liabilities – offshore	17	2,104,259	2,893,364
<b>Total liabilities</b>		<b>31,621,008</b>	<b>26,529,687</b>
<b>Net assets</b>		<b>174,747</b>	<b>173,805</b>
<b>Equity</b>			
Contributed equity	19	30,000	30,000
Retained earnings		144,747	143,805
<b>Total equity</b>		<b>174,747</b>	<b>173,805</b>

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

## Statement of Changes in Equity

For the year ended 30 June 2010

	Note	Contributed Equity \$000s	Retained Earnings \$000s	Total \$000s
<b>As at 1 July 2009</b>		<b>30,000</b>	<b>143,805</b>	<b>173,805</b>
Net profit for the period		-	49,513	49,513
Dividend paid	19	-	(48,571)	(48,571)
<b>As at 30 June 2010</b>		<b>30,000</b>	<b>144,747</b>	<b>174,747</b>
	Note	Contributed Equity \$000s	Retained Earnings \$000s	Total \$000s
<b>As at July 1 2008</b>		<b>30,000</b>	<b>95,234</b>	<b>125,234</b>
Net profit for the period		-	48,571	48,571
Dividend paid	19	-	-	-
<b>As at 30 June 2009</b>		<b>30,000</b>	<b>143,805</b>	<b>173,805</b>

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

## Statement of Cash Flows

For the year ended 30 June 2010

	Note	2010 \$000s	2009 \$000s
<b>Cash flows from operating activities</b>			
Interest received from the State of Victoria and participating authorities		1,028,734	780,819
Interest paid on borrowings and deposits		(1,432,954)	(1,161,851)
Net cash (paid) - market transactions		(20,265)	(152,022)
Interest received on investments and cash		345,243	384,090
Interest received on derivatives		9,838	9,154
Fees received		10,773	7,786
Cash paid to suppliers and employees		(13,706)	(16,404)
<b>Net cash (outflow) from operating activities</b>	21 (ii)	<b>(72,337)</b>	<b>(148,428)</b>
<b>Cash flows from investing activities</b>			
Increase in loans to the State of Victoria and participating authorities		(4,733,113)	(4,354,625)
(Purchase)/Sale of investments		(30,082)	2,026,944
Payments for property, plant and equipment		(328)	(443)
Payments for intangible assets		(158)	(891)
<b>Net cash (outflow) from investing activities</b>		<b>(4,763,681)</b>	<b>(2,329,015)</b>
<b>Cash flows from financing activities</b>			
(Decrease)/Increase in derivatives		(269,038)	162,986
Increase in borrowings		4,865,160	4,857,567
Increase/(Reduction) in deposits from public sector		523,496	(1,809,648)
Dividend paid		(48,571)	-
<b>Net cash inflow from financing activities</b>		<b>5,071,047</b>	<b>3,210,905</b>
<b>Net increase in cash and cash equivalents</b>		<b>235,029</b>	<b>733,462</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>5,320,158</b>	<b>4,586,696</b>
<b>Cash and cash equivalents at end of year</b>	6	<b>5,555,187</b>	<b>5,320,158</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 by the *Treasury Corporation of Victoria Act 1992* (the TCV Act) and commenced operations on 1 January, 1993. TCV is the State of Victoria's central financing authority.

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

The financial statements of TCV for the year ended 30 June 2010 are authorised for issue in accordance with a resolution of the Board on 10 August 2010.

### Note 2 Summary of Significant Accounting Policies

#### (a) Basis of Accounting

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

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

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

#### (b) Adoption of Accounting Standards

AASB 2009-2 *Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments* was adopted for the year ended 30 June 2010 as required. The Standard, which primarily amends AASB 7 *Financial Instrument Disclosures*, sort to improve financial instrument discloses and introduced a three-level hierarchy for making fair value measurements (refer Note 5). In this first year of adoption, comparative information is not required.

#### (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. 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 and any unsettled trades are recognised on the Statement of Financial Position.

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

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

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

## Note 2 Summary of Significant Accounting Policies (cont.)

### 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 valued to market on a daily basis and the resulting profit and loss recognised in the Statement of Income. Interest rate swaps, in the Statement of Financial Position are shown on a net basis, consistent with the manner in which they are settled.

### Determination of fair value

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

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

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

- the fair value of deposits from participating authorities, and loans guaranteed by the Victorian Government, are based on yield curves commensurate with the market yield curves for similar maturities of securities issued by TCV using standard valuation techniques that involve present value calculations incorporating discounted cash flows
- the fair value of other financial assets and liabilities are determined using standard valuation techniques incorporating discounted cash flows based on appropriate yield curves of similar traded securities (for which an active market exists) taking into account their risk characteristics and correlations. These 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 the fair values for offsetting market risks. 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 Costs

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

### (g) Assets and Liabilities

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

### (h) Debt and Loans Reconstruction

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

### (i) Foreign Currency Translation

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

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

## Note 2 Summary of Significant Accounting Policies (cont.)

### (j) Property, Plant and Equipment

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

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

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired. Impairment losses are recognised in the Statement of Income in the 'Other operational expenses' line item (2010 \$nil, 2009 \$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. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets is recognised in the Statement of Income in the 'Other operational expenses' item.

The carrying values of intangible assets are reviewed for impairment at each reporting date, with recoverable amounts being estimated when events or changes in circumstances indicate that the carrying value may be impaired. Impairment losses are recognised in the Statement of Income in the 'Other operational expenses' line item (2010 \$nil, 2009 \$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.

### (m) Employee leave benefits

#### Salaries, annual leave and sick leave

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

#### Long service leave

Liabilities arising in respect to long service leave are measured at net present value and based on contractual requirements and assessments having regard to staff departures, leave utilisation, future salary increases and appropriate discount factors.

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

### (n) Repurchase Agreements

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

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

## Note 2 Summary of Significant Accounting Policies (cont.)

### (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.

### (s) Comparative Figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

### (t) New Standards and Interpretations Not Yet Adopted

Summarised in the paragraphs below are Australian Accounting Standards that have recently been issued or amended but are not mandatory for the year ended 30 June 2010 and have not been adopted for these financial statements:

#### AASB 2009-5

This standard makes further amendments to Australian Accounting Standards arising from the AASB's annual improvements project and apply to annual reporting periods beginning on or after 1 January 2010. The standard is not expected to have any material impact on the presentation of the financial statements or on the measurement or recognition of amounts disclosed.

#### AASB 2009-9

This standard, which applies to annual reporting periods beginning on or after 1 January 2010, makes amendments to AASB 1 *First-time Adoption of Australian Accounting Standards* and will have no impact on the presentation of the financial statements or on the measurement or recognition of amounts disclosed.

## Note 2 Summary of Significant Accounting Policies (cont.)

### AASB 2009-10

This standard makes amendments to AASB 132 *Financial Instruments Presentation* and applies to annual reporting periods beginning on or after 1 January 2010. It establishes principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities, is not applicable to TCV's operations and will have no impact on the presentation of the financial statements or on the measurement or recognition of amounts disclosed.

### AASB 2009-13

The objective of this Standard, which applies to annual reporting periods beginning on or after 1 July 2010 is to make amendments to AASB 1 *First-time Adoption of Australian Accounting Standards* as a consequence of the issuance of IFRIC Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments by the International Accounting Standards Board in November 2009. It will have no impact on the presentation of the financial statements or on the measurement or recognition of amounts disclosed.

### AASB 124 Related Party Disclosures

The objective of this Standard is to ensure that an entity's financial statements contain the disclosures necessary to draw attention to matters related to related parties. It applies to annual reporting periods beginning on or after 1 January 2011. It will have insignificant impact on the presentation of the financial statements and no impact on the measurement or recognition of amounts disclosed.

### AASB 9 Financial Instruments

The objective of this Standard is to establish principles for the financial reporting of financial assets that will present relevant and useful information to users of financial statements. The Standard results from Phase 1 of the IASB's project to replace IAS 139 *Financial Instruments: Recognition and Measurement* (AASB 139 *Financial Instruments: Recognition and Measurement*) and applies to periods beginning on or after 1 January 2013. The Standard includes requirements for the classification and measurement of financial assets. The Standard is not anticipated to impact on the presentation of the financial statements or on the measurement or recognition of amounts disclosed.

### AASB 2009-11

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

### AASB 2010-4

This standard makes amendments to Australian Accounting Standards arising from the AASB's annual improvements project and apply to annual reporting periods beginning on or after 1 January 2011. The standard is not expected to have a material impact on the presentation of the financial statements or on the measurement or recognition of amounts disclosed.

### Note 3 Income Items

	2010	2009
	\$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	186,308	251,790
Interest income on investments	140,447	196,685
Interest income on loans to participating authorities	1,082,671	810,787
	<hr/> 1,049,426	<hr/> 1,259,262
Realised and unrealised market movements of financial assets	707,544	427,896
<b>Net gain on financial assets designated at fair value through profit and loss</b>	<hr/> <b>2,116,970</b>	<hr/> <b>1,687,158</b>
<b>Financial liabilities designated at fair value through profit and loss</b>		
Interest expense on borrowings	(1,348,972)	(1,216,452)
Realised and unrealised market movements of financial liabilities	(662,510)	(382,141)
<b>Net loss on financial liabilities designated at fair value through profit and loss</b>	<hr/> <b>(2,011,482)</b>	<hr/> <b>(1,598,593)</b>
<b>Net loss on derivatives</b>	<hr/> <b>(45,219)</b>	<hr/> <b>(29,288)</b>
<b>Net gain on financial assets and liabilities at fair value through profit and loss</b>	<hr/> <b>60,269</b>	<hr/> <b>59,277</b>

### Note 4 Expense Items

	2010	2009
	\$000s	\$000s
<b>Other borrowing related expenses</b>		
Syndication fees	3,878	-
Bank and facility fees	147	166
Rating agency fees	452	398
Registry and agency fees	109	96
Other costs	196	174
	<hr/> <b>4,782</b>	<hr/> <b>834</b>
<b>Other operational expenses</b>		
Salaries and related employee expenses	9,490	9,709
Depreciation of property plant and equipment	757	763
Amortisation of intangible assets	322	385
Professional fees and contract services	1,593	2,030
Prudential supervision fee	150	150
Lease payments	601	579
Power and other occupancy costs	156	151
Market information services	989	956
Promotional expenses	257	277
Legal costs	163	176
Insurance	233	198
Information technology	1,734	1,675
Other expenses	632	615
	<hr/> <b>17,077</b>	<hr/> <b>17,664</b>

## Note 5 Financial Instruments Carried at Fair Value

### (a) Fair value determination

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

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

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

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

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

### (b) Valuation techniques

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

#### Floating rate securities

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

#### Short term discounted securities

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

#### Treasurer guaranteed investments

Treasurer guaranteed investments, other than for indexed investments, are valued by discounting instrument cash flows utilising rates derived from the TCV zero curve<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 are valued on a cashflow basis using the swap curve, with the CPI leg being valued at a spread to the corresponding TCV CPI bond.

The cross currency swap, used to hedge the Corporations yen bond exposure, is valued off the JPY swap curve and the TCV zero curve<sup>1</sup>.

In most cases, counterparty credit risk associated the Corporation's derivative positions is mitigated by Credit Support Annexures (CSAs) which provide for 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 2010 had a Standard & Poors long-term rating of A+ to AA. Consequently, a Credit Value Adjustment (provision for counterparty default) has not been provided for in the determination of the value of TCV's derivative positions.

#### 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.

<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 Inscribed Stock, until 2022 and then an extrapolation using a spread to swap based on quotations provided by market makers.

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

### 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 (ECP) is valued through the discounting of the cash flow using a rate derived from the dealt spread and the TCV zero curve<sup>1</sup>.

Other liabilities are valued using the relevant currency's swap curve.

### (c) Fair value hierarchy

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

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

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

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

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 2010.

	Level 1 (quoted prices in active markets) \$000s	Level 2 (inputs other than quoted prices) \$000s	Level 3 (unobservable inputs) \$000s	Total \$000s
<b>Assets</b>				
Investments	1,663,033	850,492	69,294	2,582,819
Derivative financial instruments	1,774	1,871,092	29,887	1,902,753
Loans to the State of Victoria and participating authorities	1,827,128	19,922,962	-	21,750,090
	<b>3,491,935</b>	<b>22,644,546</b>	<b>99,181</b>	<b>26,235,662</b>
<b>Liabilities</b>				
Derivative financial instruments	7	1,802,000	1,685	1,803,692
Deposits from public sector	2,996,145	2,704,733	-	5,700,878
Interest bearing liabilities – domestic	16,712,108	5,063,916	-	21,776,024
Interest bearing liabilities – offshore	-	2,104,259	-	2,104,259
	<b>19,708,260</b>	<b>11,674,908</b>	<b>1,685</b>	<b>31,384,853</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 Inscribed Stock, until 2022 and then an extrapolation using a spread to swap based on quotations provided by market makers.

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

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

The table below summarises Level 3 financial instruments:

	<b>2010</b>
	<b>\$000s</b>
<b>Assets</b>	
Investments	69,294
Derivative financial instruments	<u>29,887</u>
	<b>99,181</b>
<b>Liabilities</b>	
Derivative financial instruments	<u>1,685</u>
	<b>1,685</b>

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

Level 3 derivatives are indexed swaps. 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.

**(e) Level 3 Financial Instruments - reconciliation**

The table below summarises reconciles the change in exposure in the Balance Sheet to financial instruments categorised as Level 3.

	<b>Opening balance \$000s</b>	<b>Total gains or (losses) \$000s</b>	<b>Closing balance \$000s</b>
<b>Assets</b>			
Investments	74,433	(5,139)	69,294
Derivative financial instruments	43,589	(13,702)	29,887
	<u>118,022</u>	<u>(18,841)</u>	<u>99,181</u>
<b>Liabilities</b>			
Derivative financial instruments	(21,437)	19,752	(1,685)
	<u>(21,437)</u>	<u>19,752</u>	<u>(1,685)</u>

During the financial year, there were no purchases, sales, issues, or settlements of Level 3 instruments or transfers into or out of Level 3.

**(e) Level 3 Financial Instruments – sensitivity analysis**

Where the fair value of instruments is determined utilising inputs that are not based on observable market data, a range of reasonably possible alternative assumptions could be used to determine the fair value. Had the corporation utilised alternative valuation assumptions, the total fair value of all the instruments detailed above could have been increased by a net amount as much as \$3.8 million or reduced by a net amount as much as \$3.7 million.

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

## Note 6 Cash and Cash Equivalents

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

Contractual maturity in:	At call	Less than 3 months	Total
	\$000s	\$000s	\$000s
<b>2009</b>			
Cash at bank and on hand	10,313	-	10,313
Deposits with futures clearing house	6,750	-	6,750
Deposits from financial institutions	703,222	12,545	715,767
Short term discounted securities	-	4,587,328	4,587,328
<b>Total Cash and Cash Equivalents</b>	<b>720,285</b>	<b>4,599,873</b>	<b>5,320,158</b>

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

Deposits with futures clearing house earns interest at floating rates.

Deposits from financial institutions are made for varying periods of between one day and three months and earn interest at the respective floating or short-term deposit rates. Deposits include a collateral deposit of \$nil (2009: \$67.95 million) lodged by TCV in respect of derivative transactions.

Short term discounted securities earn a yield determined at time of acquisition.

## Note 7 Trade Receivables and Other Assets

	2010	2009
	\$000s	\$000s
Unsettled trades	-	37,825
Prepayments	766	386
Other receivables	987	659
	<b>1,753</b>	<b>38,870</b>

## Note 8 Investments

Contractual maturity in:	Less than 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Greater than 5 years	Total
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
<b>2010</b>						
Floating rate securities	97,353	269,997	232,095	205,063	-	804,508
Short term discounted securities	-	78,734	-	-	-	78,734
Offshore issued securities	47,758	6,089	-	-	-	53,847
Fixed interest securities	89,518	161,359	82,130	345,431	607,106	1,285,544
Treasurer guaranteed investments <sup>(1)</sup>	6,967	20,419	23,313	55,256	254,231	360,186
Index linked securities	-	-	-	-	-	-
<b>Total Investments</b>	<b>241,596</b>	<b>536,598</b>	<b>337,538</b>	<b>605,750</b>	<b>861,337</b>	<b>2,582,819</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>2009</b>						
Floating rate securities <sup>(1)</sup>	202,769	177,151	283,556	249,592	-	913,068
Short term discounted securities	-	59,384	-	-	-	59,384
Offshore issued securities	-	20,739	-	-	-	20,739
Fixed interest securities <sup>(1)</sup>	25,632	139,550	318,417	249,780	422,719	1,156,098
Treasurer guaranteed investments <sup>(2)</sup>	6,987	20,613	26,409	57,217	251,920	363,146
Index linked securities	-	-	15,865	-	11,027	26,892
<b>Total Investments</b>	<b>235,388</b>	<b>417,437</b>	<b>644,247</b>	<b>556,589</b>	<b>685,666</b>	<b>2,539,327</b>

<sup>(1)</sup> Amended to reflect the correction of fixed rate instruments shown as floating rate securities in 2009.

<sup>(2)</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 2010, this includes investments in Melbourne Cricket Club (\$310.89 million, 2009: \$305.74 million) and St. Vincent's Hospital (Melbourne) Limited (\$48.96 million, 2009: \$57.3 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>2010</b>							
Overnight & short term cash	1,827,128	-	-	-	-	-	1,827,128
Short term discounted loans	-	-	20,404	-	-	-	20,404
Floating rate loans	-	110,216	55,103	84,963	169,129	-	419,411
Fixed interest loans	-	856,441	917,665	1,439,015	4,299,441	11,643,629	19,156,191
Index linked loans	-	-	-	-	-	326,956	326,956
<b>Total Loans to Participating Authorities</b>	<b>1,827,128</b>	<b>996,657</b>	<b>993,172</b>	<b>1,523,978</b>	<b>4,468,570</b>	<b>11,970,585</b>	<b>21,750,090</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>2009</b>							
Overnight & short term cash	1,478,066	-	-	-	-	-	1,478,066
Short term discounted loans	-	10,363	9,221	-	-	-	19,584
Floating rate loans	-	-	15,092	164,685	226,230	14,554	420,561
Fixed interest loans	-	391,284	586,913	1,285,578	3,819,044	7,914,340	13,997,159
Index linked loans	-	-	-	-	-	332,647	332,647
<b>Total Loans to Participating Authorities</b>	<b>1,478,066</b>	<b>401,647</b>	<b>611,226</b>	<b>1,450,263</b>	<b>4,045,274</b>	<b>8,261,541</b>	<b>16,248,017</b>

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

## Note 10 Property, Plant and Equipment

	2010 \$000s	2009 \$000s
<b>Leasehold improvements, office equipment, furniture and fittings</b>	2,471	2,462
Accumulated depreciation	(2,056)	(1,594)
	<u>415</u>	<u>868</u>
<b>Computer equipment</b>	1,872	1,826
Accumulated depreciation	(1,523)	(1,579)
	<u>349</u>	<u>247</u>
<b>Motor vehicles</b>	686	727
Accumulated depreciation	(154)	(118)
	<u>532</u>	<u>609</u>
<b>Written Down Value</b>	<u>1,296</u>	<u>1,724</u>

### Reconciliation of Property, Plant & Equipment

	2010 \$000s	2009 \$000s
<b>Leasehold Improvements, Office Equipment, Furniture and Fittings</b>		
Opening balance	868	1,259
Acquisitions	10	72
Disposals	-	(1)
Depreciation expense	(463)	(462)
Closing balance	<u>415</u>	<u>868</u>
<b>Computer Equipment</b>		
Opening balance	247	155
Acquisitions	250	231
Disposals	-	-
Depreciation expense	(148)	(139)
Closing balance	<u>349</u>	<u>247</u>
<b>Motor Vehicles</b>		
Opening balance	609	631
Acquisitions	332	548
Disposals	(263)	(408)
Depreciation expense	(146)	(162)
Closing balance	<u>532</u>	<u>609</u>
<b>Total</b>	<u>1,296</u>	<u>1,724</u>

Depreciation rates used are 33% in respect of computer equipment and 20% in respect of other classes of Property, Plant and Equipment.

## Note 11 Intangible Assets

	2010	2009
	\$000s	\$000s
Computer software	7,692	8,034
Accumulated amortisation	(5,835)	(6,012)
<b>Written Down Value</b>	<b>1,857</b>	<b>2,022</b>

### Reconciliation of Intangible Assets

	2010	2009
	\$000s	\$000s
<b>Computer Software</b>		
Opening balance	2,022	1,516
Acquisitions	160	891
Disposals	(3)	-
Amortisation expense	(322)	(385)
Closing balance	<b>1,857</b>	<b>2,022</b>

The amortisation rate for computer software is 33%.

## Note 12 Trade and Other Payables

	2010	2009
	\$000s	\$000s
Unsettled trades	224,540	192,688
Other payables	10,247	2,961
	<b>234,787</b>	<b>195,649</b>

## Note 13 Provisions

	2010	2009
	\$000s	\$000s
<b>Employee Long Service Leave Entitlements</b>		
Unconditional entitlements expected to be settled within 12 months	127	135
Unconditional entitlements expected to be settled after 12 months	1,139	1,213
Non-current conditional entitlements	102	53
<b>Total Provisions</b>	<b>1,368</b>	<b>1,401</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:

	At call \$000s	Less than 3 months \$000s	3 months to 1 year \$000s	1 to 2 years \$000s	Total \$000s
<b>2010</b>					
Deposits from public sector	1,487,580	4,006,429	206,869	-	5,700,878
	At call \$000s	Less than 3 months \$000s	3 months to 1 year \$000s	1 to 2 years \$000s	Total \$000s
<b>2009</b>					
Deposits from public sector	2,099,098	3,056,528	6,913	2,264	5,164,803

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

## Note 15 Client Loans and Deposits Outstanding

	2010	2010	2009	2009
	Loans	Deposits	Loans	Deposits
	\$000s	\$000s	\$000s	\$000s
<b>State of Victoria (Department of Treasury and Finance)</b>	12,199,922	(930,726)	8,811,027	(597,306)
<b>Participating Authorities:</b>				
Melbourne Water Corporation	3,298,560	(5,504)	2,391,610	(5,428)
Yarra Valley Water Limited	1,385,025	(2,774)	1,163,925	(3,102)
Rural Finance Corporation of Victoria	1,138,236	-	965,036	-
South East Water Limited	747,297	-	604,095	-
Port of Melbourne Corporation	582,643	(42,294)	410,560	(99,448)
City West Water Limited	574,945	(38)	436,961	-
Coliban Regional Water Corporation	229,275	-	183,156	-
Barwon Regional Water Corporation	195,523	(570)	149,821	(8,051)
Central Gippsland Regional Water Corporation	177,473	(1,000)	174,816	(1,003)
VicUrban	146,291	-	143,032	-
Rolling Stock Holdings (Victoria) P/L	121,145	(1,312)	118,530	(1,265)
Central Highlands Regional Water Corporation	112,466	(2,582)	75,231	(3,961)
Western Region Water Corporation	106,891	(7,003)	70,533	-
Grampians Wimmera Mallee Water Corporation	98,319	(987)	30,064	(502)
Goulburn Valley Regional Water Corporation	84,418	(2,251)	64,095	(1,050)
Wannon Regional Water	82,289	-	60,976	(6,001)
Department of Human Services	-	(767,546)	-	(223,396)
State Electricity Commission of Victoria	-	(356,302)	-	(409,517)
Other participating authorities	342,780	(395,657)	237,638	(232,251)
Forward dated loans	126,592	-	156,911	-
<b>Public Sector Entities:</b>				
Victorian Government Trust Funds	-	(557,235)	-	(435,636)
Residential Tenancies Board	-	(545,117)	-	(494,051)
Emergency Services Superannuation Scheme	-	(445,650)	-	(447,077)
Victorian Property Fund	-	(331,076)	-	(256,842)
Regional Infrastructure Development	-	(178,804)	-	(172,172)
Transport Accident Commission	-	(83,562)	-	(179,846)
Victorian Workcover Authority	-	(14,460)	-	(167,696)
Other public sector entities	-	(890,800)	-	(894,074)
<b>Other</b>	-	(137,628)	-	(525,128)
	<b>21,750,090</b>	<b>(5,700,878)</b>	<b>16,248,017</b>	<b>(5,164,803)</b>

The above are shown at fair values and may 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>2010</b>							
<b>Benchmark Programs</b>							
Domestic Inscribed Stock <sup>(1)</sup>	-	-	-	-	5,999,167	10,455,754	16,454,921
TCV Promissory Notes <sup>(2)</sup>	-	197,489	433,610	-	-	-	631,099
<b>Total Benchmark Programs</b>	<b>-</b>	<b>197,489</b>	<b>433,610</b>	<b>-</b>	<b>5,999,167</b>	<b>10,455,754</b>	<b>17,086,020</b>
<b>Domestic Borrowings – Other</b>							
Payables to market participants <sup>(3)</sup>	5,185	120,968	-	-	-	-	126,153
TCV fixed interest <sup>(4)</sup>	-	2,605,315	22,707	553,223	54,973	360,047	3,596,265
Commonwealth Government loans	-	-	398	191	84	937	1,610
Indexed linked securities	-	-	556	10,378	19,464	935,578	965,976
<b>Total Domestic Borrowings - Other</b>	<b>5,185</b>	<b>2,726,283</b>	<b>23,661</b>	<b>563,792</b>	<b>74,521</b>	<b>1,296,562</b>	<b>4,690,004</b>
<b>Total Domestic Borrowings</b>	<b>5,185</b>	<b>2,923,772</b>	<b>457,271</b>	<b>563,792</b>	<b>6,073,688</b>	<b>11,752,316</b>	<b>21,776,024</b>
<b>2009</b>							
<b>Benchmark Programs</b>							
Domestic Inscribed Stock <sup>(1)</sup>	-	-	-	2,664,388	2,793,914	7,966,258	13,424,560
TCV Promissory Notes <sup>(2)</sup>	-	622,184	-	-	-	-	622,184
<b>Total Benchmark Programs</b>	<b>-</b>	<b>622,184</b>	<b>-</b>	<b>2,664,388</b>	<b>2,793,914</b>	<b>7,966,258</b>	<b>14,046,744</b>
<b>Domestic Borrowings – Other</b>							
Payables to market participants <sup>(3)</sup>	4,784	9,679	-	-	-	-	14,463
TCV fixed interest	-	8,817	16,636	30,819	79,145	330,208	465,625
Commonwealth Government loans	-	-	562	382	258	842	2,044
Indexed linked securities	-	-	-	1,605	46,668	975,253	1,023,526
<b>Total Domestic Borrowings - Other</b>	<b>4,784</b>	<b>18,496</b>	<b>17,198</b>	<b>32,806</b>	<b>126,071</b>	<b>1,306,303</b>	<b>1,505,658</b>
<b>Total Domestic Borrowings</b>	<b>4,784</b>	<b>640,680</b>	<b>17,198</b>	<b>2,697,194</b>	<b>2,919,985</b>	<b>9,272,561</b>	<b>15,552,402</b>

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

- 6.25% coupon with a maturity of 15 October 2012
- 4.75% coupon with a maturity of 15 October 2014
- 5.75% coupon with a maturity of 15 November 2016
- 5.50% coupon with a maturity of 15 November 2018
- 6.00% coupon with a maturity of 15 June 2020
- 6.00% coupon with a maturity of 17 October 2022

<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 \$2.6 billion of ex Domestic Inscribed Stock paying 5.50% coupon with a maturity of 15 September 2010

### 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.

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	
<b>2010</b>						
Euro Commercial Paper	1,300,341	491,012	-	-	-	1,791,353
Eurobonds	-	97,730	-	-	-	97,730
SECV Eurobonds	-	-	84,456	-	-	84,456
Yen bonds	-	-	-	-	130,720	130,720
<b>Total Offshore Borrowings</b>	<b>1,300,341</b>	<b>588,742</b>	<b>84,456</b>	<b>-</b>	<b>130,720</b>	<b>2,104,259</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	
<b>2009</b>						
Euro Commercial Paper	2,487,854	73,768	-	-	-	2,561,622
Eurobonds	-	-	-	112,924	-	112,924
SECV Eurobonds	-	-	94,468	-	-	94,468
Yen bonds	-	-	-	-	124,350	124,350
<b>Total Offshore Borrowings</b>	<b>2,487,854</b>	<b>73,768</b>	<b>94,468</b>	<b>112,924</b>	<b>124,350</b>	<b>2,893,364</b>

Euro Commercial Paper is a negotiable instrument issued by TCV under the AUD5 billion multi-currency Euro Commercial Paper Program with maturities up to one year. The 2010 liability has a face value of USD1.4 billion, SGD35 million (2009: USD1.51 billion, HKD325 million, EUR185 million, GBP30 million, SGD15 million). TCV does not maintain any significant net foreign exchange exposure.

Eurobonds are issued by TCV under the USD3 billion Euro Medium Term Note Program. The bonds were issued in Australian dollars.

SECV Eurobonds, issued by the State Electricity Commission of Victoria 'Shell', were assumed by TCV in 1995. The bonds were issued in Australian dollars.

### Note 18 Derivative Financial Instruments

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

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

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

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

### Note 18 Derivative Financial Instruments (cont.)

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

The fair value of the Corporation's transactions in derivative financial instruments outstanding at 30 June 2009 are as follows:

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>2009</b>						
<b>Derivative Financial Assets</b>						
Interest rate swaps	1,186	3,573	16,719	20,775	62,997	105,250
Cross currency swaps	-	-	-	-	134,189	134,189
Forward foreign exchange contracts	883	699	1,278	410	-	3,270
Exchange traded futures	24	506	-	-	-	530
FX swap position receivable	2,260,525	49,610	-	-	-	2,310,135
<b>Total Derivative Asset</b>	<b>2,262,618</b>	<b>54,388</b>	<b>17,997</b>	<b>21,185</b>	<b>197,186</b>	<b>2,553,374</b>
<b>Derivative Financial Instrument Liabilities</b>						
Interest rate swaps	(130)	(113)	(9,163)	(6,605)	(69,777)	(85,788)
Forward foreign exchange contracts	-	-	-	-	(106,761)	(106,761)
Forward rate agreements	(836)	(695)	(1,270)	(409)	-	(3,210)
Exchange traded futures	(703)	(109)	-	-	-	(812)
FX swap position payable	(2,469,093)	(56,404)	-	-	-	(2,525,497)
<b>Total Derivative Liability</b>	<b>(2,470,762)</b>	<b>(57,321)</b>	<b>(10,433)</b>	<b>(7,014)</b>	<b>(176,538)</b>	<b>(2,722,068)</b>

## Note 19 Equity

### Contributed Equity

	2010	2009
	\$000s	\$000s
<b>Contributed Equity</b>	<b>30,000</b>	<b>30,000</b>

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 2010, no dividend in respect of the year ended 30 June 2010 (2009: nil) has been provided for in the accounts of TCV.

## 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.

	2010	2010	2010	2009	2009	2009
	Fair Value <sup>(1)</sup>	Principal Owing at Maturity <sup>(2)</sup>	Variance	Fair Value <sup>(1)</sup>	Principal Owing at Maturity <sup>(2)</sup>	Variance
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Deposits from public sector	5,700,878	5,683,544	17,334	5,164,803	5,159,536	5,267
Interest bearing liabilities – domestic <sup>(3)</sup>	21,776,024	21,355,453	420,571	15,552,402	15,708,568	(156,166)
Interest bearing liabilities – offshore	2,104,259	2,082,131	22,128	2,893,364	2,884,547	8,817

(1) Fair value is inclusive of interest due at 30 June 2010.

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

(3) Interest bearing liabilities – domestic includes indexed linked securities. For the purposes of this note, the principal owing for indexed linked securities is assumed to equal the principal owing at 30 June 2010.

## 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

	2010	2009
	\$000s	\$000s
Net profit/(loss)	49,513	48,571
Net unrealised (expense)/income from financial assets and liabilities	(128,830)	(225,198)
Depreciation of property, plant and equipment	757	763
Amortisation of intangible assets	322	385
(Increase)/Decrease in trade receivables and other assets	(708)	356
Increase in trade and other payables	6,642	26,451
(Decrease)/Increase in accrued employee benefits	(33)	244
<b>Net Cash from Operating Activities</b>	<b>(72,337)</b>	<b>(148,428)</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 gain of \$406 million (2009: loss of \$178 million) and cumulatively \$228 million (2009: loss of \$178 million).

The change in fair value attributable to changes in credit risk, for the current year, of interest bearing liabilities amounts to a loss of \$407 million (2009: gain of \$154 million) and cumulatively \$253 million (2009: gain of \$154 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 in 2010. Over 2010, however, the TCV yield curve spread to Commonwealth Bonds narrowed in the order of 36 to 45 basis points (for 2012 and 2022 maturities respectively). The change in spreads reflect a number of factors in addition to the markets evaluation of credit risk including, for example liquidity risk. The values disclosed above, therefore, do not only represent the change in the fair value of the relevant assets or liabilities to changes in credit risk.

## Note 23 Risk Management

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

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

The risk management framework comprises the following key components:

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

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

### (a) Credit risk

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

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

## Note 23 Risk Management (cont.)

### 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>2010</b>					
Cash and cash equivalents	-	4,418,895	1,038,807	97,485	5,555,187
Trade receivables and other assets	-	-	-	987	987
Investments	1,216,196	1,136,525	230,099	-	2,582,820
Derivative financial instrument assets <sup>(1)</sup>	777	61,659	129,681	-	192,117
Loans to the State of Victoria and participating authorities <sup>(2)</sup>	21,750,090	-	-	-	21,750,090
<b>Total credit risk exposure</b>	<b>22,967,063</b>	<b>5,617,079</b>	<b>1,398,587</b>	<b>98,472</b>	<b>30,081,201</b>

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

(2) Rating reflects the State of Victoria's rating as guarantor.

	AAA \$000s	AA+/ AA/AA- \$000s	A+/A/A- \$000s	Other \$000s	Total \$000s
<b>2009</b>					
Cash and cash equivalents	253,956	4,150,792	818,789	96,621	5,320,158
Trade receivables and other assets	647	36,871	954	12	38,484
Investments	1,266,798	1,008,502	253,000	11,027 <sup>(1)</sup>	2,539,327
Derivative financial instrument assets <sup>(2)</sup>	3,529	65,034	67,933	-	136,496
Loans to the State of Victoria and participating authorities <sup>(3)</sup>	16,248,017	-	-	-	16,248,017
<b>Total credit risk exposure</b>	<b>17,772,947</b>	<b>5,261,199</b>	<b>1,140,676</b>	<b>107,660</b>	<b>24,282,482</b>

(1) Although these securities are not rated by Standard & Poor's Corporation, they are rated Aaa by Moody's Investors Service.

(2) Reflects the net credit exposure of derivatives.

(3) 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
2010	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Cash and cash equivalents	-	-	5,555,187	-	-	-	5,555,187
Trade receivables and other assets	-	-	-	-	965	22	987
Investments	998,399	61,635	1,038,669	123,931	360,186	-	2,582,820
Derivative financial instrument assets <sup>(2)</sup>	-	-	191,340	-	777	-	192,117
Loans to the State of Victoria and participating authorities	-	-	-	-	21,750,090	-	21,750,090
<b>Total exposure</b>	<b>998,399</b>	<b>61,635</b>	<b>6,785,196</b>	<b>123,931</b>	<b>22,112,018</b>	<b>22</b>	<b>30,081,201</b>

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

(2) Reflects the net credit exposure of derivatives.

	Australian Common'th and other State Government	Foreign Government supported <sup>(1)</sup>	Banks	Non-Bank Financial Intermediaries	Other Victorian Public Authorities	Other	Total
2009	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Cash and cash equivalents	-	-	5,153,767	166,391	-	-	5,320,158
Trade receivables and other assets	-	-	36,871	954	647	12	38,484
Investments	732,589	99,094	1,157,967	186,531	363,146	-	2,539,327
Derivative financial instrument assets <sup>(2)</sup>	-	-	132,967	-	3,529	-	136,496
Loans to the State of Victoria and participating authorities	-	-	-	-	16,248,017	-	16,248,017
<b>Total exposure</b>	<b>732,589</b>	<b>99,094</b>	<b>6,481,572</b>	<b>353,876</b>	<b>16,615,339</b>	<b>12</b>	<b>24,282,482</b>

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

(2) Reflects the net credit exposure of derivatives.

## Note 23 Risk Management (cont.)

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

At 30 June 2010 there were no amounts past due (30 June 2009 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, bank Negotiable Certificates of Deposit, bank Floating Rate Notes, bank Transferable Certificates of Deposit and the securities of supranationals, foreign governments and government agencies.

The minimum level of prudential liquidity assets was exceeded throughout 2010 and 2009.

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:

	2010	2009
	%	%
30 June	169	168
Average during the year	188	196
Highest	231	264
Lowest	143	148

#### 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>2010</b>							
Liabilities	(2,135,222)	(8,271,964)	(2,253,037)	(1,639,343)	(8,364,700)	(14,153,599)	(36,817,865)
Derivatives - net settled	-	2,028	(308,948)	(1,250)	(23,240)	227,715	(103,695)
Derivatives - gross settled - inflows	-	1,212,068	542,274	75,497	225,800	163,738	2,219,377
Derivatives - gross settled - (outflows)	-	(1,143,273)	(555,667)	(78,731)	(275,258)	(248,758)	(2,301,687)
	<b>(2,135,222)</b>	<b>(8,201,141)</b>	<b>(2,575,378)</b>	<b>(1,643,827)</b>	<b>(8,437,398)</b>	<b>(14,010,904)</b>	<b>(37,003,870)</b>
<b>2009</b>							
Liabilities	(2,100,121)	(6,289,769)	(875,308)	(3,508,681)	(4,832,869)	(11,759,186)	(29,365,934)
Derivatives - net settled	-	1,189	2,208	(3,283)	(21,262)	(112,962)	(134,110)
Derivatives - gross settled - inflows	-	2,336,780	64,813	20,964	19,449	162,249	2,604,255
Derivatives - gross settled - (outflows)	-	(2,549,594)	(75,335)	(24,298)	(29,472)	(254,723)	(2,933,422)
	<b>(2,100,121)</b>	<b>(6,501,394)</b>	<b>(883,622)</b>	<b>(3,515,298)</b>	<b>(4,864,154)</b>	<b>(11,964,622)</b>	<b>(29,829,211)</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.

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

- Historic Simulation based VaR
- 1000 days of immediate past historical data on rates
- one-day holding period for portfolio limits
- at 99% confidence level
- Measurement to include 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 are detailed below. VaR related to exchange rate risk is not material as TCV has a policy of not allowing any significant foreign currency exposure.

## Note 23 Risk Management (cont.)

	<b>2010</b>	<b>2009</b>
	<b>\$000</b>	<b>\$000</b>
30 June	2,996	2,723
Average daily during the year	2,398	2,511
Highest	4,661	3,622
Lowest	1,810	1,631

The increased levels of VaR in 2010, compared to 2009, primarily reflect the growth in the Statement of Financial Position and the issue of certain large domination loans. A peak level of \$4,661,000 was reached in the management of a new Domestic Inscribed Stock issue.

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

## Note 24 Capital

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

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

	<b>Actual</b>	<b>Required</b>	<b>Actual</b>	<b>Required</b>
	<b>2010</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>
	<b>\$000s</b>	<b>\$000s</b>	<b>\$000s</b>	<b>\$000s</b>
Total capital	174,747	63,023	173,805	68,943
Risk weighted assets	787,786	787,786	861,782	861,782
Capital ratio	22.2%	8.0%	20.2%	8.0%

## Note 25 Superannuation

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

	<b>Contributions Made</b>	<b>Contributions Made</b>
	<b>2010</b>	<b>2009</b>
<b>Name of Fund</b>	<b>\$000s</b>	<b>\$000s</b>
TCV Superannuation Plan (Mercer Superannuation Trust)	772	904
Emergency Services Superannuation Scheme	19	18
Other superannuation funds	133	179

Superannuation contributions were made at least equivalent to the minimum 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:

	2010	2009
	\$000s	\$000s
Auditor-General	251	240

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

## Note 27 Related Party Information

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

Details of loan and deposit facilities provided as at 30 June 2010 are set out in Notes 9, 14 and 15. All transactions are priced in accordance with TCV's policies.

For the purposes of Part 9.4 of the Directions of the Minister for Finance under the *Financial Management Act* 1994, the following Directors together with the Honourable John Lenders MP are or have been the responsible persons of TCV:

- Rob Hunt AM, Chairman (Appointment effective from 1 January 2010 to 31 December 2012)
- Ian Ferres, Chairman (Retired 31 December 2009)
- William Whitford (Appointment effective from 28 July 2003 to 27 July 2013)
- Michael Hirst (Appointment effective from 4 September 2002 to 3 September 2011. Appointed Deputy Chairman 22 November 2006 to 3 September 2011)
- Susan Carter (Appointment effective from 1 February 2005 to 31 January 2011)
- Timothy Knott (Appointment effective from 1 January 2006 to 31 December 2011)
- Peter Hawkins (Appointment effective from 1 May 2006 to 30 April 2012)
- Grant Hehir<sup>3</sup> (Appointment effective from 17 October 2006 to 16 October 2012)
- Suzanne Ewart (Appointment effective from 1 February 2008 to 31 January 2011)

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

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

### **Robert Hunt**

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

<sup>3</sup> Refer to Note 15 for details of loans to the related party, the Department of Treasury and Finance.

**Note 27 Related Party Information (cont.)**

***Ian Ferres***

Consultant to TressCox Lawyers  
Chairman, Australian Healthcare Investment Company Limited  
Chairman, TDI Limited  
Chairman, Investment Advisory Committee, Vianova Asset Management  
Director, Australian Unity Limited  
Director, Contango MicroCap Limited  
Director, St Vincent's Health (Melb)  
Director, Committee for Economic Development Australia  
Member of The Australia Day (Victoria) Committee

***Michael Hirst***

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

***William Whitford***

Deputy Chairman, Market Governance Committee, Australian Financial Markets Association

***Susan Carter***

Director, AMP Superannuation Ltd  
Director, Peter MacCallum Cancer Institute  
Director, ANZ Staff Superannuation (Australia) P/L  
Council Member, Private Health Insurance Administration Council  
Compliance Committee Member, BlackRock Investment Management (Australia)

***Peter Hawkins***

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

***Timothy Knott***

Nil

***Grant Hehir***

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

## Note 27 Related Party Information (cont.)

### Suzanne Ewart

Director, Ambulance Victoria

Director, Gippsland & Southern Rural Water

Director, RSPCA (Victoria)

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

## Note 28 Compensation

The total compensation paid or payable to key management personnel for the year was \$2,439,165 (2009: \$2,005,075) consisting of short-term benefits.

### Directors

The total compensation paid or payable to Directors for the year is \$854,610 (2009: \$813,556). 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	2010	2009
	No. of Directors	No. of Directors
\$510,000 to \$519,999	1	-
\$490,000 to \$499,999	-	1
\$80,000 to \$89,999	-	1
\$40,000 to \$49,999	7	5
\$0	1	1

### Executive Officers

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

Income Paid	Total Compensation		Base Compensation	
	2010 No. of Executive Officers	2009 No. of Executive Officers	2010 No. of Executive Officers	2009 No. of Executive Officers
\$440,000 to \$449,999	1	-	-	-
\$370,000 to \$379,999	1	-	-	-
\$360,000 to \$369,999	-	1	-	-
\$350,000 to \$359,999	-	1	-	-
\$320,000 to \$329,999	-	-	-	1
\$310,000 to \$319,999	-	-	2	-
\$300,000 to \$309,999	-	-	-	1
\$280,000 to \$289,999	2	-	-	-
\$270,000 to \$279,999	-	1	-	-
\$240,000 to \$249,999	-	-	1	-
\$230,000 to \$239,999	-	-	1	1
\$190,000 to \$199,999	1	-	-	-
\$180,000 to \$189,999	-	1	-	-
\$160,000 to \$169,999	-	-	-	1
\$150,000 to \$159,999	-	-	1	-

The total compensation paid to the above personnel for the year is \$1,584,554 (2009: \$1,191,519).

## 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 Markets Operator Limited (AEMO) (formerly National Electricity Market Management Company Limited) 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 2010 (\$147.4 million as at 30 June 2009) 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.

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.

## Note 29 Contingencies/Commitments (cont.)

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

Commitments in respect of non-cancellable operating leases due:

	2010	2009
	\$000s	\$000s
Not later than 1 year	427	597
Later than 1 year but not more than 5 years	-	406
	<b>427</b>	<b>1,003</b>

Operating lease commitments relate to the Corporation's tenancy at 1 Collins Street Melbourne. The lease has an expiry within 1 year with an option to extend for a further 4 years. The lease contains market review clauses.

#### Other

Commitments in respect of the purchase of computer hardware and software (including implementation costs which are capitalised) are \$786,753 (2009: \$849,482).

## Note 30 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 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 2010 and financial position of Treasury Corporation of Victoria as at 30 June 2010.

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: 11 August 2010



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William Whitford  
**Managing Director**  
Date: 11 August 2010



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Peter Wyatt  
**Chief Financial Officer**  
Date: 11 August 2010

# Independent Auditor's Report

## To the Board Members , Treasury Corporation of Victoria

### The Financial Report

The accompanying financial report for the year ended 30 June 2010 of the Treasury Corporation of Victoria which comprises the statement of income, statement of financial position, statement of changes in equity, statement of cash flows, a summary of significant accounting policies and other explanatory notes to and forming part of the financial report, and the certification of financial statements, has been audited.

### The Board Member's 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 the Australian Accounting Standards (including the Australian Accounting Interpretations) and the financial reporting requirements of the *Financial Management Act 1994*. This responsibility includes:

- establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error
- selecting and applying appropriate accounting policies
- making accounting estimates that are reasonable in the circumstances.

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. These Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance 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 judgment, 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 internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used, and the reasonableness of accounting estimates made by the Board Members, as well as evaluating the overall presentation of the financial report.

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

### Matters Relating to the Electronic Presentation of the Audited Financial Report

The auditor's report relates to the financial report published in both the annual report and on the website of the Treasury Corporation of Victoria for the year ended 30 June 2010. The Board Members of the Treasury Corporation of Victoria are responsible for the integrity of the web site. I have not been engaged to report on the integrity of the web site. The auditor's report refers only to the statements named above. An opinion is not provided on any other information which may have been hyperlinked to or from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications, they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on the Treasury Corporation of Victoria web site.

### 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.

### Auditor's 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 2010 and its financial performance and cash flows for the year then ended in accordance with applicable Australian Accounting Standards (including the Australian Accounting Interpretations), and the financial reporting requirements of the *Financial Management Act 1994*.
2. The financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).

MELBOURNE  
11 August 2010



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.

Requirement	Requirement	Page Reference
<b>Financial Reporting Directions</b>		
FRD10	Disclosure index	73
FRD11	Disclosure of ex-gratia payments	n/a
FRD21A	Responsible person and executive officer disclosures	65-67
FRD22B	Occupational health and safety	30
FRD22B	Manner of establishment and the relevant Ministers	2, 30
FRD22B	Objectives, functions, powers and duties	2
FRD22B	Nature and range of services provided	2, 7-10
FRD22B	Organisational structure	24
FRD22B	Statement of workforce data and employment and conduct principles	32
FRD22B	Summary of the financial results	6
FRD22B	Significant changes in financial position	n/a
FRD22B	Operational and budgetary objectives	4, 5
FRD22B	Subsequent events	n/a
FRD22B	Discussion on operating result and financial position	4
FRD22B	Details of consultancies over \$100,000	n/a
FRD22B	Details of consultancies under \$100,000	32
FRD22B	Application of Freedom of Information Act 1982	30
FRD22B	Compliance with building and maintenance provisions of the Building Act 1993	n/a
FRD22B	Application and operation of the Whistleblowers Protection Act 2001	31
FRD22B	Statement re availability of FRD 15B information	n/a
FRD22B	Statement on National Competition Policy	32
FRD22B	Summary of environmental performance	5
FRD25	Victorian Industry Participation Policy disclosures	32
FRD30	Standard requirements for the design and print of annual reports	complies
<b>Standing Directions</b>		
SD4.2(c)	Compliance with Australian accounting standards and other authoritative pronouncements	38
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<b>Legislation</b>		
Freedom of Information Act 1982		30
Building Act 1983		n/a
Whistleblowers Protection Act 2001		31
Victorian Industry Participation Policy Act 2003		32

## Contact Details

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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.	