



Treasury Corporation of Victoria



ENHANCING FINANCIAL  
OUTCOMES FOR VICTORIA

ANNUAL REPORT  
**2016/17**

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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

Treasury Corporation of Victoria's (TCV or the Corporation) vision is to be a respected central funding authority and financing adviser, optimising the benefits for, and protecting the interests of, the State of Victoria and our clients.

### Our Mission

Our mission is to serve the State of Victoria and its component businesses, working to fill their need for financing, investment and advisory services. Our employees are united in their commitment to deliver the best and most appropriate products and services, and are supported by a culture that motivates them to act with integrity and professionalism.

### Our Values and Behaviours

Our behavioural framework supports our performance through commercial acumen, communication, relationship management, management effectiveness, proactivity, problem solving, empathy and technical skills.

In addition, TCV 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 behavioural framework 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 relationship with the Treasurer of Victoria

The Treasurer of Victoria (Treasurer) is responsible for the administration of the *Treasury Corporation of Victoria Act 1992* (TCV Act).

In the exercise of its powers and performance of its functions under the TCV Act, TCV is subject to the general direction, control and specific approvals, requests, and determinations of the Treasurer.

Each year, TCV must pay from its surpluses to the Consolidated Fund of the Government of Victoria a dividend in such amount as the Treasurer determines.

The Treasurer's interests are monitored by the Department of Treasury and Finance. Our Chairman, on behalf of the Board of Directors, reports 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 TCV Act and, at the request of the Treasurer, to other Victorian entities.

At 30 June 2017, there were 104 Participating Authorities (2016: 101) in addition to the budget sector.

### Our Objectives

TCV has the following objectives:

- to act as a financial institution for the benefit of the State and participating authorities
- to enhance the financial position of the State, the Corporation and Participating Authorities
- to provide our services in an effective, efficient and competitive manner
- to give advice to the Treasurer in respect to the State's liabilities or financial assets.

### 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 also 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, short-term investment and advisory activities through the:

- provision of a single interface to financial markets
- maintenance and enhancement of the State's profile and reputation in financial markets
- assumption and management of financing and short-term investment risk that would otherwise reside with the State or its authorities
- attraction and retention of expert employees who have the experience, skills and knowledge to meet our obligations and customer support needs
- provision of expert advice to the State and its authorities to their financing and investment arrangements
- management of Whole of State liquidity arrangements
- adoption of prudent risk management policies and processes in relation to interest rate, refinancing, credit, liquidity, foreign currency, commodity and enterprise risks.

### Our Borrowing Programs

Our borrowing programs provide financing liquidity for the State and its authorities.

We maintain a range of borrowing programs that facilitate access to long and short-term funding in domestic and international debt capital markets, and allow us to maintain a diverse investor base.

We are active managers of those programs, which assists us to provide sufficient funding at acceptable and competitive pricing in all market conditions.

## Report of the Chairperson and Managing Director

2016-17 has been an active and successful year for the Corporation.

Our success can be measured by both quantitative and qualitative metrics through our KPIs, our financial return, the effectiveness of our operations and the value that we provide our customers.

We have performed strongly against each of these indicators in this financial year.

A significant focus for the year was the management of cash flows from the lease of the operations of Port of Melbourne Corporation (PoMC). Having spent much of the previous year shaping the debt portfolio to efficiently manage the funds, the receipt of the \$9.729 billion payment on 31 October 2016 was managed seamlessly. TCV was able to add additional value to this transaction through subsequent active management activities.

Our fund raising requirements through the year have been met, and our funding programs remain competitively priced to our peers.

In July 2016, TCV issued our inaugural Green Bond. This transaction, \$300 million for a five year term, was the first such issue by a state government in Australia and has paved the way for other states to access this market. Green bonds enhance the diversity of our investor base, provide important support to the State's sustainability objectives and are in demand by the investment community. We were pleased to receive recognition by the Climate Bond Initiatives Green Bond Pioneer Awards, winning the Regional Sub-Sovereign category for the Asia Pacific Region.

We have worked extensively with our clients, engaging across their organisations to better understand their requirements. This enables us to improve our products and services and enhance the value we provide to each organisation. Our most recent client survey indicates that we continue to exceed their expectations, and we thank our clients for their constructive engagement.

Through the year we have maintained strong relationships with Australian and International Financial Markets, and these relationships allow us to promote both Victoria and TCV. Our interactions indicate our investors remain impressed with the State's fiscal outlook and TCV's professional management approach to our capital market activities.

Our success demonstrates the value of the TCV business model, and reflects the commitment and dedication of our team and the success of our employee proposition.

Our Employee Engagement and Alignment Survey, conducted biannually, shows both engagement and alignment are top decile – unheard of in the public sector and a rarity in the private sector.

We are proud of the workplace culture and environment that we have developed and nurtured at TCV. As a result of our offering of stimulating, rigorous and varied work, coupled with flexible work arrangements, positive engaged culture, and an at-risk reward for outperformance, we have created a workplace that is highly engaged and where employees perform at an optimal level. This is evident in our results, our low employee turnover and our reputation within financial markets.

We would like to thank all of our people for their contribution and dedication - the Corporation could not add the value it does without them.

We would like to thank the Board who bring important experience to the governance and effectiveness of the Corporation. Our Directors have provided support and contribution to TCV and the State and we thank them for their dedication and commitment.

This year we farewelled two long standing Directors. Suzie Ewart, Chair of our Audit Committee and Rob Hunt, TCV's Chairman, who retired at the end of this financial year after three terms. Rob has made an outstanding contribution to TCV and Victoria and we would like to take this opportunity to thank him for his longstanding leadership and guidance.

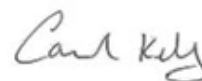
We have welcomed two new Directors'; Pamela Hauser was appointed to the role of Audit Chair in February 2017 and Helen Thornton was appointed as Deputy Chair in July 2017. Both Pamela and Helen have immediately made valuable contributions and we look forward to working with them through the term of their appointments.

The Treasurer has elevated our current Deputy Chair, Cassandra Kelly, to be the new TCV Chairperson.

The management team look forward to continuing our work with Cassandra and the Board over the coming years.

Finally, our thanks to Treasurer Tim Pallas, his staff and the team at the Department of Treasury and Finance for their ongoing support. Their trust and proactive engagement enhances our ability to assist the Government pursue their vision for the State.

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



Cassandra Kelly  
Chairperson



William (Bill) Whitford  
Managing Director

## Performance

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

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

Objective/Indicator	Outcome 2016-17
Delivery of the State's financing requirements	A key part of TCV's business model is to provide financing to participating authorities in the volume and maturity which they require to support their businesses. TCV once again achieved this objective through the year, adding diversity to the investor portfolio through the Green Bond issue.
Management of market risk within approved parameters	TCV employs a number of risk measures to manage its market risk. Principal amongst these is a Value at Risk (VaR) parameter, determined by the Board and approved by the Victorian Treasurer through the TCV Corporate Plan. Over the 2016-17 financial year, TCV managed market risk within approved limits.
Financial performance	TCV seek to generate a positive return, representing the financial value added of our risk management activities, and the adherence to our approved operating budgets. This is measured through a 'Return from at risk revenue on adjusted Equity' calculation (ROE). For 2016-17, TCV delivered a ROE of 36.8%, significantly in excess of budget.
Victoria's AAA rating	TCV ensures that its interactions and activities assist the Government to maintain a AAA rating. TCV's actions through the year supported the maintenance of this rating.  On 7 July 2016 S&P assigned an Outlook Negative to Australia's AAA rating, and in October 2016, TCV and the Treasurer met with a number of domestic and international investors to discuss the implications of that assessment.
Client satisfaction	TCV measures client satisfaction bi-annually through an independent Client Survey. This survey was undertaken in May 2017, and produced a client overall satisfaction rating of 83% favourable, and an advocacy score of +49 (NPS)
Capacity	The Corporation's ability to perform our critical tasks is measured through the Business Unit Balanced Scorecards. The Scorecards measure our performance against the primary drivers of each Business Unit, identifying areas where delivery break down may compromise the ability of the Corporation to deliver against its objectives. Through the year, TCV has maintained the core operating capacity to deliver our planned objectives.
People	The combined knowledge of TCV's employees represents a considerable corporate investment. TCV measures its ability to maintain that investment through training and succession planning. Through the year, TCV successfully maintained its employee capability. TCV also measures employee engagement, as one indicator of a healthy organisational culture, through data gathered in our bi-annual Staff Survey. The most recent survey indicated a top decile level of employee engagement and alignment.

## Financial Summary 2016-17

Income Summary	2016-17	2015-16	2014-15	2013-14	2012-13
	\$ million	\$ million	\$ million	\$ million	\$ million

### Income

Net gain on financial assets and liabilities designated at fair value through profit and loss	95.8	53.9	41.1	60.7	67.1
Fees and other income	7.1	8.8	8.7	9.0	8.0
<b>Total Income</b>	<b>102.9</b>	<b>62.7</b>	<b>49.8</b>	<b>69.7</b>	<b>75.1</b>

### Expenses

Borrowing related expenses	1.6	3.4	1.2	1.8	1.9
Other operational expenses	18.0	17.6	16.9	17.3	16.9
<b>Total Expenses</b>	<b>19.6</b>	<b>21.0</b>	<b>18.1</b>	<b>19.1</b>	<b>18.8</b>

<b>Net Profit</b>	<b>83.3</b>	<b>41.7</b>	<b>31.7</b>	<b>50.6</b>	<b>56.3</b>
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<b>Dividends Paid</b>	0.0	31.7	50.6	56.3	54.7
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Statement of Financial Position	2017	2016	2015	2014	2013
	\$ million	\$ million	\$ million	\$ million	\$ million

Loans to clients	34,144.1	40,888.6	40,980.3	40,838.3	38,874.1
Cash and cash equivalents	1,861.8	4,416.2	3,469.6	3,476.6	2,502.9
Investments	10,247.1	4,731.9	4,694.4	3,897.2	2,693.5
Derivatives	412.0	630.1	416.6	471.8	73.8
Other assets	240.7	517.9	296.1	39.0	1,056.2
<b>Total Assets</b>	<b>46,905.7</b>	<b>51,184.7</b>	<b>49,857.0</b>	<b>48,722.9</b>	<b>45,860.5</b>

### Financed by:

Domestic benchmark bonds	34,859.3	38,374.9	35,264.6	34,570.5	32,928.2
Domestic other	3,461.3	4,597.3	6,773.8	7,114.0	4,056.0
Offshore	244.0	372.5	274.9	448.0	745.4
	38,564.6	43,344.7	42,313.3	42,132.5	37,729.6
Deposits from public sector	7,288.9	6,521.0	6,667.7	5,711.9	5,809.7
Derivatives	399.9	955.4	596.2	494.9	739.3
Other liabilities	387.9	181.3	107.5	192.5	1,385.0
<b>Total Liabilities</b>	<b>46,641.3</b>	<b>51,002.4</b>	<b>49,684.7</b>	<b>48,531.8</b>	<b>45,663.6</b>

<b>Equity</b>	264.4	182.3	172.3	191.1	196.9
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## Treasury Client Services

A core part of our business model is the provision of services to the State's departments, agencies and various business enterprises, which assist them to manage their financing risks. This year these services included the following activities:

### Water Corporations

The Essential Services Commission (ESC) sets prices for the water and sewerage services provided by Victoria's water corporations.

TCV worked with our water clients and the ESC to investigate the introduction of a trailing 10 year average cost of debt as an alternative methodology for the calculation of the benchmark cost of debt to be used in determining the Weighted Average Cost of Capital (WACC) for future pricing determinations.

The ESC has subsequently adopted the trailing 10 year average cost of debt benchmark for Melbourne Water Corporation's 2016 pricing determination. The methodology will also be applied to pricing determinations due in 2018 for the remaining metropolitan and regional water corporations.

### Department of Treasury & Finance

Through the year, TCV has maintained a very strong relationship with the Department of Treasury and Finance (DTF).

Of significance was the debt retirement transaction arranged for DTF following the settlement of the PoMC lease transaction. TCV received on behalf of the Government in excess of \$9 billion of proceeds and applied the funds to short term cash requirements and the repayment of Budget Sector debt.

We continue to:

- provide advice and support to DTF's Balance Sheet Management Committee regarding financial risk management
- work closely with the Financial Assets and Liabilities group, the team responsible for managing the State's budget sector debt requirements and treasury management framework
- manage the daily funding of the State's Public Account on behalf of DTF. This involves TCV liaising directly with each of the portfolio departments and agencies needing funding and managing the net requirement as part of TCV's daily call on markets
- provide treasury advice and assistance on the policies relevant to the treasury operations of government business enterprises and departments

- support DTF's policy and processes by facilitating our clients understanding and awareness of the State's treasury risk management philosophy.

These activities, together with our management of the budget sector debt portfolio reduce Whole of State financing risks.

### Client Survey

In May 2017, TCV conducted a Client Satisfaction Survey to give clients the opportunity to provide open and honest feedback, and measure client priorities and perceptions of TCV's performance on a range of key service areas.

The 161 survey respondents confirmed that they hold high expectations with regards to the products and services they receive and indicated that they experience a high level of overall satisfaction with 83% of respondents rating TCV favourably. This is an increase on the 74% percentage favourable result in the 2012 survey. Clients also indicated a high level of alignment between their expectations and TCV's performance and an increase in client loyalty and advocacy. Overall client advocacy scored a Net Promoter Score of +49 in response to the question 'How likely is it that you would recommend TCV to others in the government sector?'

TCV is committed to meeting the very high expectations of our client base and maintaining these high levels of performance and satisfaction.

### Foreign Exchange and Commodity Risk Management

The Department of Treasury and Finance has a foreign exchange risk management policy that requires agencies and authorities to hedge any material foreign exchange exposures with TCV.

TCV actively communicates the parameters of this policy in its financial risk management discussions with clients.

During 2016-17, TCV provided foreign exchange advice and services to clients in the following government sectors:

- the arts
- sports and recreation
- emergency services
- protective services
- transportation
- education.

We worked closely with these government agencies and business enterprises to understand their foreign denominated business cash flows and risk parameters, and identified which foreign exchange risk management tools best achieved their objectives.

Similarly, DTF has a commodity risk management policy which requires consideration of hedging commodity risk with TCV where it is considered this

risk could have a material impact on the business. A diesel fuel hedge was managed in this period for a client and investigations were undertaken for a client with an exposure to fuel prices in a transportation contract.

### **Treasury Advisory Appointments**

During 2016-17, TCV provided a range of treasury advisory services to our clients, including Barwon Region Water Corporation, Central Highlands Water, City West Water, Coliban Water, DTF, Melbourne Water Corporation, Places Victoria, South East Water Limited, Goulburn-Murray Rural Water, Western Water and Yarra Valley Water.

### **Client Engagement**

TCV is dedicated to managing the ongoing financial, investment and risk management needs of our clients and fostering strong relationships with their finance teams. The Treasury Client Services (TCS) team met with clients on approximately 200 occasions in 2016-17.

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

TCV undertakes a regional visitation program in order to meet our clients that reside outside the metropolitan area, and in 2016-17 we travelled to the various regions in Victoria on 11 occasions.

These roadshows are an excellent opportunity for our TCS team to further develop regional client relationships and our knowledge of their local environments, business opportunities and challenges. These insights allow TCV to better service the unique financing, investment and risk management needs of regional Victoria.

TCS has developed relationships with client industry associations and support these organisations through sponsorships and the provision of conference presentations.

We also arrange several client events and in 2016-17 in excess of 400 clients attended these events. These events are excellent networking opportunities for the variety of government authorities and businesses that attend.



## Project Advisory Services

TCV's Project Advisory Services (PAS) 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. This year these services included the following activities:

### Department of Treasury and Finance

TCV continued to provide DTF with treasury advice and assistance on the policies relevant to the treasury operations of government business enterprises and departments.

In addition, TCV provides advice to DTF on financing aspects of Public Private Partnership's (PPP) including forecasting of the overall liabilities and exposures of its PPP program.

### Contract Management of Partnerships Victoria Projects

TCV offers assistance to departments and agencies in PPP, invoicing and contract management of Partnerships Victoria projects.

Key services include undertaking financial audits of PPP invoicing models and regular verification of monthly/quarterly invoices as received, amendments for modifications and contractual adjustments, abatements and refinancing provisions.

In 2016-17 TCV offered these services to a number of clients including the:

- Department of Health and Human Services (Casey, Royal Women's, Royal Children's, Victorian Comprehensive Cancer Centre and New Bendigo Hospitals)
- Court Services Victoria (Victorian County Court)
- Department of Justice and Regulation (Hopkins Correctional Centre and Victorian Correctional Facilities Projects)
- Department of Economic Development, Jobs, Transport and Resources (Melbourne Convention Centre, Biosciences Research Centre and Royal Melbourne Showgrounds Redevelopment Projects)
- Department of Education and Training (Partnerships Victoria in Schools Project and New Schools PPP).

A number of new contract management engagements were undertaken in 2016/17 for the New Bendigo Hospital Project and New Schools PPP. In addition specific purpose abatement modelling was undertaken for the Emergency

Services Telecommunications Authority (Emergency Alerting System).

### Partnerships Victoria Projects - High Capacity Metro Trains PPP

TCV assisted Public Transport Victoria on the High Capacity Metro Trains Project as a specialist financing advisor working in conjunction with the State's commercial advisor, PricewaterhouseCoopers.

Work completed included assessment of financial proposals received, liaison on the financial close processes, and successfully benchmarking financial market parameters for financial close.

Looking forward, TCV is in the process of undertaking an engagement with the Melbourne Metro Rail Authority for the Tunnels and Stations PPP project, as well as providing input into financing aspects of the Outer Suburban Arterials Roads Program (Western Package).

### PPP Refinancings

TCV provides specialist financing advice to Government departments and agencies as well as DTF on refinancing aspects of PPP's throughout their project lifecycles.

During 2016-17 TCV in conjunction with the State's commercial advisor, Ernst and Young, completed an advisory engagement with the Department of Health and Human Services and DTF in respect of the Victorian Comprehensive Cancer Centre's refinance of Plenary Group's respective debt facilities. In addition, TCV provided advice and transaction execution on long term interest rate hedging aspects associated with the new debt facilities.

Looking forward TCV is in the process of undertaking an engagement for DTF in respect of the scheduled refinancing of the Royal Women's Hospital.

### Business Case Development

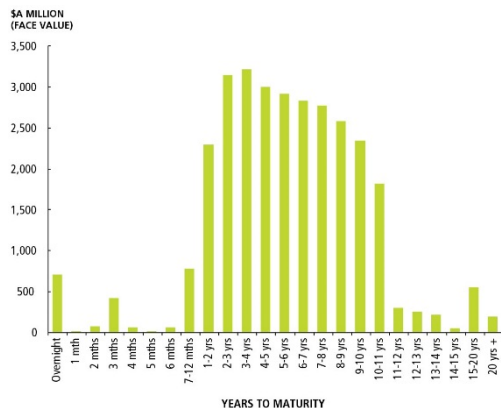
TCV offers financial modelling and business case development services to departments and agencies and supports DTF's Gateway Review Process.

In 2016-17 TCV completed a Business Case engagement for the Department of Health and Human Services in relation to the Werribee Mercy Hospital Multi-Deck Car Park, and continued to support the government Gateway program through participation in a number of Gateway evaluations.

## Funding and Markets

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 2017, the maturity profile of these client loans is shown in the chart below:



To finance this lending activity, TCV maintains four key funding programs:

- Australian Dollar Domestic Debt Issuance program, the cornerstone of the Corporation's funding strategy, which incorporates seven or more lines of stock with a targeted minimum of \$A4-5 billion issued per line
- \$US3 billion Euro Medium Term Note (EMTN) program
- \$A5 billion Euro Commercial Paper (ECP) program
- \$A5 billion Commercial Paper program (Domestic Promissory Note).

This suite of programs helps us maintain continual access to financial markets, and allows us to meet one of the Corporation's primary objectives, to 'meet client funding requirements in volume and duration at a competitive price'.

Our activity in each program is facilitated through our dealer panels. The dealer panels distribute TCV's debt and support our access to financial market instruments used in our risk management activities. TCV's dealer panel members, at 30 June 2017, were:

### Australian Dollar Domestic Debt Issuance Program

Australia and New Zealand Banking Group Limited  
 Citigroup Global Markets Australia Pty Ltd  
 Commonwealth Bank of Australia  
 Deutsche Bank AG, Sydney Branch  
 J.P. Morgan Australia Limited  
 Merrill Lynch International (Australia) Ltd  
 National Australia Bank Limited  
 Nomura International plc  
 Royal Bank of Canada  
 The Toronto-Dominion Bank  
 UBS AG, Australia Branch  
 Westpac Banking Corporation.

### \$A5 billion Domestic Commercial Paper

Australia and New Zealand Banking Group Limited  
 Commonwealth Bank of Australia  
 Deutsche Bank AG  
 Macquarie Bank Limited  
 National Australia Bank Limited  
 Westpac Banking Corporation.

### \$US3 billion Euro Medium Term Note

Nomura International plc  
 UBS Limited.

### \$A5 billion Euro Commercial Paper (Hong Kong)

Bank of America Securities Limited  
 Barclays Capital  
 Citibank International plc  
 Commonwealth Bank of Australia  
 Credit Suisse  
 National Australia Bank Limited, Hong Kong Branch  
 Royal Bank of Canada  
 The Royal Bank of Scotland  
 UBS Investment Bank.

## 2016-17 Funding Activity

### Long term funding programs

Domestic Benchmark Bond outstandings increased by \$A1.1 billion during the year.

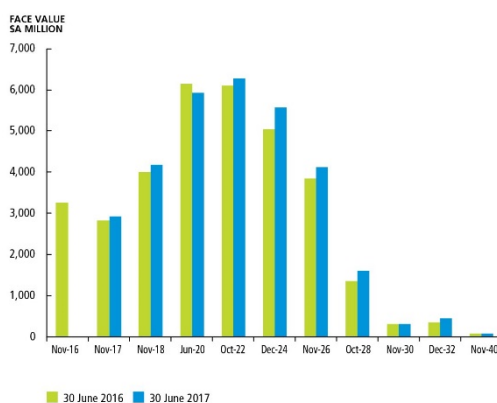
Maturity	Face Value Outstandings (\$A million)	Face Value Change (\$A million)
3.50% 17/11/2017	2,937.2	+111.6
5.50% 15/11/2018	4,189.7	+166.4
6.00% 15/06/2020	5,939.6	-218.8
6.00% 17/10/2022	6,308.9	+173.2
5.50% 17/12/2024	5,589.6	+535.3
5.50% 17/11/2026	4,133.6	+271.2
3.00% 20/10/2028	1,609.9	+250.3
<b>Total</b>	<b>30,708.5</b>	<b>+1,289.2</b>

Overall debt funding activity was light, with the majority of activity focussed on the management of the proceeds arising from the long term lease of the operations of the PoMC.

These funds were used to reduce debt outstandings in the Budget Sector Debt Portfolio, and ultimately to reduce short term debt outstandings in the ECP and Domestic Commercial Paper Programs and finance the maturity of the 15 November 2016 bond.

The remaining funds were invested against future TCV liability maturities.

The following chart depicts the year on year changes.



### Green Bonds

A highlight of our funding activities during the year was TCV's issuance of the first semi government authority Green Bond.

On 19 July 2016 TCV issued a \$300 million five year Green Bond with a coupon of 1.75%. The issue has been certified by the Climate Bonds Standards Board of the Climate Bonds Initiative.

The proceeds were used to fund a portfolio of eligible projects covering public transport, low carbon buildings, renewable energy generation projects and assets that contribute to climate change mitigation and adaptation.

In recognition of our inaugural TCV Green Bond issue, TCV were the proud recipient of an Award at the Climate Bond Initiative Green Bond Pioneer Awards.

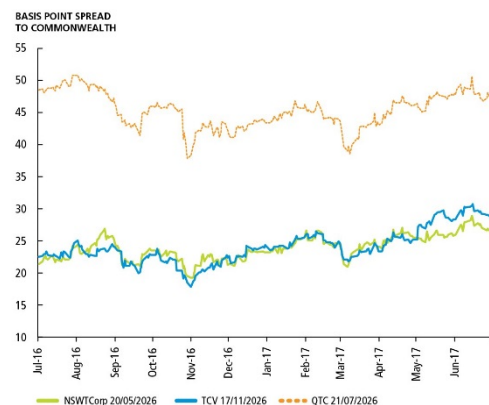
### Short term funding programs

Outstandings within the Domestic Commercial Paper program decreased by \$A1.365 billion to \$A233 million, while outstandings within the ECP program decreased by \$A83 million to \$A0 million. The reduction in outstandings was funded via the receipts of the PoMC lease.

### Cost of Funds

Through the year, Victoria's cost of funds relative to the Commonwealth Government widened slightly.

This is evident in the following chart, showing TCV's margin to Commonwealth Government Bond.



### Future Funding Strategy

For the financial year ending 30 June 2018, TCV's total funding requirement is \$A8.3 billion.

Through 2017-18 we will specifically seek to build outstandings in existing long term benchmark lines, and look for opportunities to diversify our investor base, including through the issuance of a second TCV Green Bond.

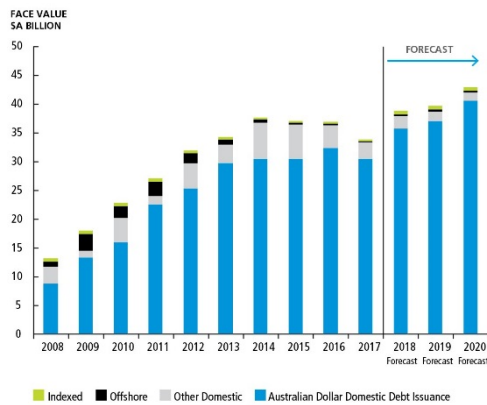
The 2017-18 long term funding requirement will be predominately funded through the Domestic Benchmark Bond program. Having been largely absent from term debt markets over the past 18 months, we will manage our entry back into markets using a combination of issuance strategies that best allows TCV to meet our client's borrowing needs.

Our short term borrowing activities will continue to be sourced from our Australian Dollar Domestic Promissory Note program and the Euro Commercial Paper program. The mix of issuance will be determined by relative pricing and demand conditions in each of these markets. Outstandings remain low and there is room for these programs to be increased if required.

TCV has no plans to issue inflation linked debt or non-AUD maturities.

### Total Outstanding Debt

The forecast path for debt levels is shown in the chart below.



## Corporate Governance

### Board of Directors

#### Rob Hunt, AM, FAICD

##### Chairman

First appointed: 1 January 2010

Retired: 30 June 2017

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

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

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

During the year Mr Hunt held the following BEN associated appointments:

- Director, Bendigo Community Telco Limited
- Director, Apollo Bay & District Community Enterprises Limited
- Director, Beut Property Pty Ltd.

#### Cassandra Kelly, BEc (Hons)

##### Deputy Chairperson and Chairperson 1 July 2017

First appointed: 11 August 2015

Current appointment expires: 10 August 2018

Ms Kelly has extensive experience in advising on finance, risk, strategy and policy. She was formerly chair for Pottinger, a corporate advisory company she co-founded in 2003, and is an expert advisor to the G20/B20 on matters of digitalisation and health and previously infrastructure, finance and growth.

Ms Kelly is an experienced director and is a member of the leadership council for MS Research Australia, a member of the Australian Federal Government's Treasury Inclusive Workplace Committee focusing on improving diversity and outcomes, and an Expert Advisor to the One Belt One Road initiative.

Ms Kelly has held executive roles at GMAC Commercial Mortgage and Deutsche Bank. Her experience spans agriculture, consumer products, energy and resources, financial services, infrastructure, medical technologies, tourism, technology, digital media and professional services.

During the year, Ms Kelly held the following appointments:

- Chair, Pottinger
- Chair, Atomli Inc
- Chair, Fulcrum Australia Pty Ltd.
- Director, Allpress International
- Director, Flight Centre Travel Group
- Director, UNSW Foundation
- Director, Her Heart
- Director, The Resolution Project (US based)
- Member, Multiple Sclerosis Research Australia Leadership Council
- Advisory Council Member, Centre for Universal Education, Brookings Institute.

#### Helen Thornton, BEc, ACA, GAICD

##### Deputy Chairperson 1 July 2017

First appointed: 1 July 2017

Current appointment expires: 30 June 2020

Ms Thornton is a Chartered Accountant with over 30 years' experience across a wide range of industries including financial services.

Ms Thornton has extensive experience in governance, audit and risk management and she has held senior leadership roles at Deloitte, KPMG, BHP Ltd and Bluescope Steel Ltd, where she was responsible for the global risk management function.

Ms Thornton has over 16 years' experience as a non-executive director. During the year, Ms Thornton held the following appointments:

- Director, Yarra Valley Water
- Member of Legal Practitioners Liability Committee
- Deputy Chair, Zoological Parks and Gardens Board
- Independent Member of Risk and Audit Committee, Department of Environment, Land, Water and Planning
- Independent Member of Risk and Audit Committee, Department of Health and Human Services,
- Independent Member of Risk and Audit Committee, Department of Education and Training.

#### William (Bill) Whitford, MBA, FAICD

##### Managing Director

First appointed: 28 July 2003

Current appointment expires: 27 July 2020

Mr Whitford is responsible for the successful leadership and management of the Corporation

according to the strategic direction set by the Board of Directors and the Treasurer of Victoria. Bill has more than 30 years' experience in market risk, gained through financial markets roles with Banque National de Paris and the State Bank of South Australia, and the financing of government and infrastructure with the South Australian and Victorian Governments.

He holds an MBA from Adelaide University Graduate School of Management and is a Fellow of the Australian Institute of Company Directors.

Mr Whitford has also held the following appointments during the year:

- Director, Australian Financial Markets Association
- Member, Australian Unity Investment Committee
- Chair, Audit and Risk Committee, Australian Financial Markets Association.

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

First appointed: 6 March 2012

Current appointment expires: 17 August 2018

Mr Blight is National Head of Corporate Finance at ShineWing Australia. He was formerly Partner of Grant Thornton Australia and Director of Grant Thornton Corporate Finance Pty Ltd. In those roles, he headed Financial Advisory for the Melbourne Office and was National Head of the Major Projects and Infrastructure group.

During the year, Mr Blight held the following appointments:

- Partner and Director, ShineWing Australia Corporate Finance Pty Ltd
- Partner and Director, ShineWing Australia Securities Pty Ltd
- Partner and Director, Grant Thornton Australia Limited
- Partner, Grant Thornton Australia
- Director, Grant Thornton Corporate Finance Pty Ltd
- Director, Moonee Valley Racing Club Inc.

#### **David Martine BEc (Hons) MBA**

First appointed: 13 May 2014

Current appointment expires: 12 May 2020

Mr Martine is Secretary of the Victorian Department of Treasury & Finance. He leads the Department providing economic, policy and service delivery advice to the Victorian Government.

Prior to this, Mr Martine worked as a senior executive in the Commonwealth public sector providing strategic advice to governments on a range of complex economic and other policy issues. He has extensive budget, finance, policy and organisational leadership experience, and has been involved in wide ranging strategic policy reform. Mr Martine was educated in Melbourne and has an honours degree in economics from Monash University. He completed his Master of Business Administration in 2005.

Mr Martine held the following appointments during the year:

- Director, Victorian Funds Management Corporation
- Director, Infrastructure Victoria Board
- Member, Advisory Board of the Melbourne Institute of Applied Economic and Social Research, The University of Melbourne.

#### **John Pearce, BEc, MAppFin**

First appointed: 14 April 2015.

Current appointment expires: 13 April 2018.

Mr Pearce has over 25 years' experience in the financial services industry both in Australia and Asia. He is Chief Investment Officer of UniSuper, having joined in July 2009.

Mr Pearce has held several senior positions including Chief Executive Officer and General Manager, Investments of Australia's largest asset management company, Colonial First State, from 2000 to 2006. From 2006 to 2008 Mr Pearce was the Head of Global Asset Management for Ping An, which is China's second largest insurance company.

#### **Paul Coughlin, BEc, MBA**

First appointed: 14 April 2015

Current appointment expires: 13 April 2018.

Mr Coughlin returned to Melbourne in 2015 after a 26 year career with Standard & Poor's Ratings Services, including roles in Hong Kong, Singapore and New York. In his final posting he became global head of S&P's credit rating operations.

Prior to his credit ratings career Paul spent five years as an investment banker, as well as several years working in a number of policy and administrative roles in the Federal Government including a role on the parliament house staff of the Hon. John Howard during his term as Treasurer.

Previous board experience includes appointments to the boards of the Alfred Group of Hospitals and Taiwan Ratings Corporation.

Mr Coughlin also held the following appointment during the year:

- Member, Audit and Risk Committee, Ambulance Victoria.

**Pamela Hauser, BA, LLB, MAICD**

First appointed: 21 February 2017

Current appointment expires: 20 February 2020

Ms Hauser is a non-executive Director and Chair of the Audit Committee.

A regulatory lawyer by background, Ms Hauser has more than 30 years' experience in the financial services industry with roles in legal, risk and compliance.

Ms Hauser has previously held senior roles with Macquarie Group, National Australia Bank, KPMG, Norwich and Australian Unity. As a Partner at KPMG, she led the firm's Financial Services Regulatory Group within Risk Advisory Services. She has held legal roles with CRA (now Rio Tinto), Freehills, and Ellison Hewison & Whitehead (now Minter Ellison) and has also held a directorship with the Australasian Compliance Institute.

During the year, Ms Hauser held the following appointments:

- Director, SG Hiscock & Company Limited
- Director, Victorian Plantations Corporation.

**Suzanne Ewart, BEc, CPA, FAICD**

First appointed: 1 February 2008

Retired: 31 January 2017

Ms Ewart is principal of her own consulting company, providing specialist consulting services to the corporate and government sectors, specialising in financial and strategic solutions.

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 held the following appointments during the year:

- Chair, Box Hill Institute
- Chair, Cell Therapies Pty Ltd
- Director, Peter MacCallum Cancer Institute
- Director, Peter MacCallum Cancer Foundation
- Director, TT- Line Company Pty Ltd.

## 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, and 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 Notes 24 and 25 of the financial statements.

During the year the Board comprised the Managing Director, William Whitford, the Secretary of the Victorian Department of Treasury and Finance, David Martine, and the following independent Directors:

- Rob Hunt
- Cassandra Kelly
- Suzanne Ewart
- Paul Coughlin
- John Pearce
- John Blight
- Pamela Hauser.

## 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 regularly 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 2016* (the Code) issued by the Victorian Public Sector Standards Commissioner to promote adherence to public sector values by Directors of Victorian public entities.

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

Charters have been established for the Board and each of its Committees. The charters are statements of the purpose and objectives, roles and responsibilities, authority and performance requirements of the Board and its Committees. The charters are reviewed annually. An annual review of board performance is also conducted consistent with the *Financial Management Act 1994*. That review was completed in May 2017.

## 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 Pamela Hauser.

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 was 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 was 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 16 - 30 June 17

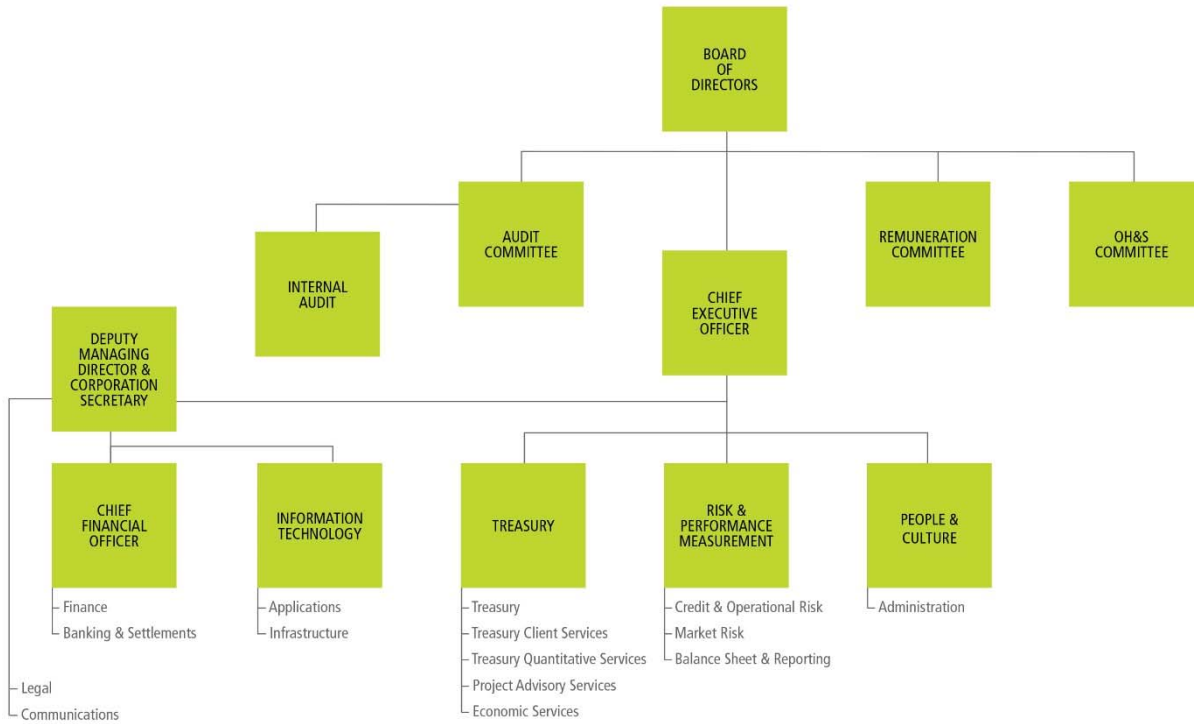
	Board		Audit		Remuneration		Occupational Health & Safety	
	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended
R Hunt <sup>1</sup>	9	9	4	4	2	2	2	2
W Whitford	9	8	4	4	2	2	2	2
S Ewart <sup>2</sup>	5	5	2	2	1	1	1	1
D Martine	9	6	4	3	2	1	2	2
P Coughlin	9	9	4	4	2	2	2	2
J Pearce	9	9	4	4	2	2	2	2
J Blight	9	9	4	4	2	2	2	2
C Kelly	9	9	4	4	2	2	2	2
P Hauser <sup>3</sup>	4	4	2	2	1	1	1	1

#### Notes:

1. Mr Hunt retired from the Board on 30 June 2017
2. Ms Ewart retired from the Board on 31 January 2017
3. Ms Hauser was appointed to the Board on 21 February 2017

**Management**

**Organisation Structure**



## Management Team

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

### **William (Bill) Whitford** Managing Director

As Managing Director, Bill is responsible for the successful leadership and management of the Corporation according to the strategic direction set by the Board of Directors and the Treasurer of Victoria.

Bill was appointed as Managing Director in July 2003, and has experience in financial markets through roles with Banque National de Paris and the State Bank of South Australia, and in the financing of public infrastructure with the South Australian Government.

He holds an MBA from Adelaide University Graduate School of Management, is a Fellow of the Australian Institute of Company Directors (FAICD), a non-executive Director of the Australian Financial Markets Association and is a member of the Investment Committee of Australian Unity.

### **Mark W Engeman** Deputy Managing Director and Corporation Secretary

Mark is responsible for the technology, legal, accounting, settlements, communications and audit operations at TCV.

Prior to joining TCV in 2001, Mark had a range of market and technology roles with CRA Limited, State Bank Victoria, Australian Wheat Board and SunGard data systems.

Mark holds a Bachelor of Economics from Monash University and a MBA from Melbourne Business School. He is a member of the Australian Institute of Company Directors (GAICD), FINSIA and is a CPA.

Mark is also the Chair of the Finance Audit Risk and Remuneration Committee for the Electrical Trades Union (Victoria Branch).

### **Mike van de Graaf** General Manager, Risk & Performance Measurement

Mike is responsible for market risk, credit risk, liquidity risk, operational risk and balance sheet management. He develops and maintains appropriate risk management policies and controls and provides independent risk assurance to the Board, the Prudential Supervisor and the Department of Treasury and Finance.

Prior to joining TCV in 2012, Mike held executive and senior roles in Balance Sheet & Capital Management, Market Risk and Credit Risk at ANZ, and at the Financial Services practices of Deloitte in Amsterdam, Chicago and Melbourne.

Mike holds a Master of Science, a Financial Risk Manager (FRM) qualification from the Global Association of Risk Professionals (GARP), an International Treasury Management Certification from the Association of Corporate Treasurers and is a member of the Australian Institute of Company Directors (GAICD). In 2015, Mike completed the Advanced Management Program at INSEAD. Mike is a Director of the Melbourne Chapter for GARP and a member of the AFMA Risk Management Committee.

### **Justin Lofting** General Manager, Treasury

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

Justin joined TCV in February 1995 and before moving into his current role, Justin held senior risk management roles within the Corporation.

He holds a MBA from Melbourne Business School and a Bachelor of Business, Banking and Finance from Victoria University. Justin is a member of the Australian Financial Markets Association Market Governance Committee and a member of the Australian Institute of Company Directors (GAICD).

**Judy Utley**

**General Manager, People and Culture**

Judy is responsible for the development, implementation and continuity of TCV's people and culture strategies. These strategies and outcomes successfully support and augment the delivery of TCV's business objectives. Judy also manages remuneration, administration and OHS for TCV.

Prior to joining TCV in 2001, Judy held senior dealing roles in the financial markets with ABN Amro, BZW and ANZ Treasury.

Judy holds a Master of Commerce, is a presenter for the Leadership Victoria 'Igniting Leadership' programme and previously held the position of Deputy Chair for the Financial Institutions Remuneration Group (FIRG) Board.

**Peter Wyatt**

**Chief Financial Officer**

Peter has responsibility for TCV's finance and reporting and settlements functions.

Prior to joining TCV in 2006, Peter was the Chief Financial Officer of the State Superannuation Fund, having formerly held senior management roles in life insurance and financial services organisations.

Peter has a Bachelor of Business and a Graduate Diploma of Applied Finance, is a Certified Practising Accountant, a Senior Associate of the Financial Services Institute of Australasia and a member of the Australian Institute of Company Directors (GAICD).

**Warren Murray**

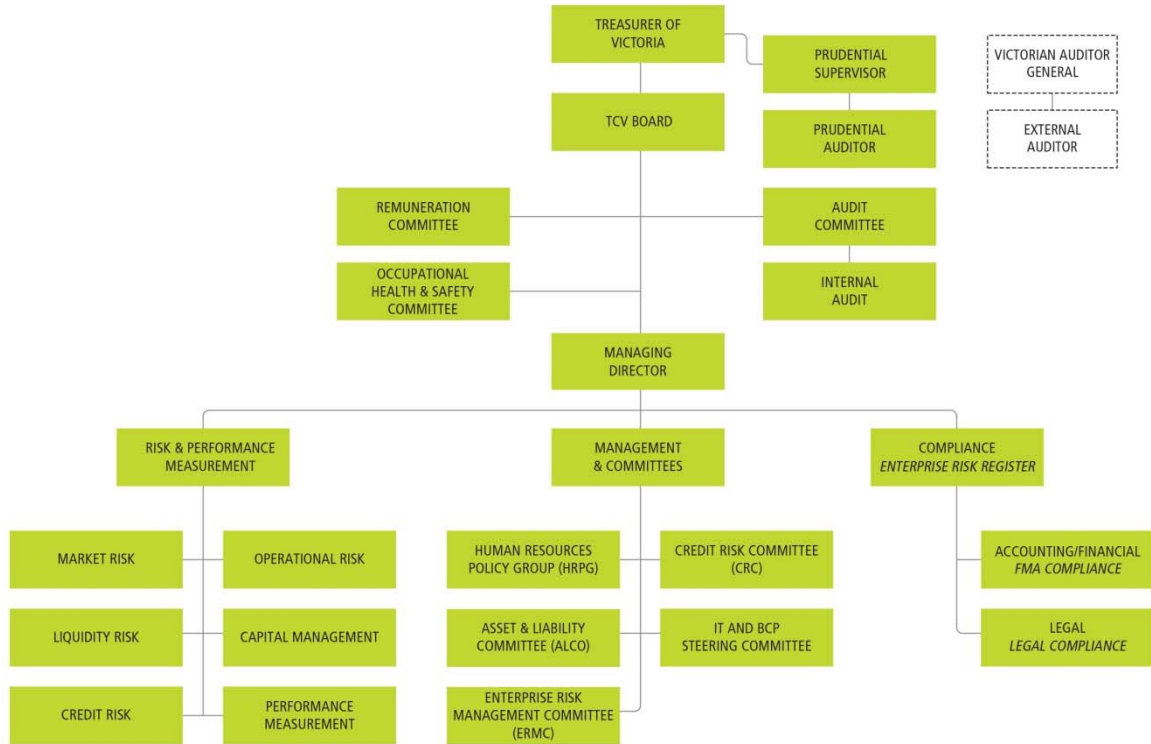
**General Manager, Information Technology**

Warren is responsible for the delivery of all information technology to the corporation, including hardware, infrastructure and applications. Warren also acts as the Business Continuity Facilitator and is the Chief Information Security Officer.

Prior to joining TCV in 1999, Warren held software development and implementation roles at the treasury system vendor Misys.

Warren holds a Bachelor of Applied Science and is a senior member of the Australian Computer Society.

## Risk and Control



## Prudential Supervision

The Victorian Government has significant financial assets and liabilities that need to be managed in a professional and efficient manner. The Victorian Government actively promotes prudent behavior by managers of the State's public financial corporations. Consistent with these aims, the Treasurer has implemented a Prudential Supervision standard, which aims to protect the solvency and viability of TCV, thereby protecting its investors and other stakeholders.

Prudential Supervision at TCV integrates with and builds on existing government wide (financial) risk policies. A Prudential Supervisor (KPMG) has been appointed by the Treasurer to independently assess the fitness for purpose of requirements as set down by the Australian Prudential Regulation Authority in its application to TCV. This assessment is reflected in TCV's Prudential Standard.

TCV Management and The Department of Treasury and Finance meet with the Prudential Supervisor regularly during the year to review compliance of TCV against the Prudential Standard and to assess impacts of changes that emerge from updates to global and domestic financial regulation.

## Internal Risk Management and Control

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

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

This risk management framework is consistent with the Prudential Standard requirements and is monitored by the Board and the Prudential Supervisor. The risk management framework of TCV includes a dedicated and independent Risk & Performance Measurement business unit. The General Manager, Risk & Performance Measurement reports directly to the Managing Director. The Business Unit has 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, amongst other things, monitor compliance with TCV's risk management requirements.

## Interest Rate Risk

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

Interest rate risk is quantified daily using both Value at Risk and other portfolio level risk measures. These assess the potential loss that TCV might incur under various market scenarios and stress tests. Risk is managed within an approved limit and control structure and monitored daily, with breaches or excesses being reported to the Managing Director and the Board.

## Liquidity Risk

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

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

- a Whole of Victorian Government Liquidity Ratio measures the 12-month debt obligations and interest costs against liquid assets, and requires TCV to maintain a minimum liquidity ratio of 80%
- strong operational controls are implemented, including limits against daily net and cumulative cash flows, balance sheet mismatches, sources of funding, investment risk, stress tests
- a liquidity crisis action plan is reviewed and updated periodically.

## 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 derivative transactions with market counterparties. TCV's credit risk management for investments is principally based on external credit ratings by Standard & Poor's, Moody's and Fitch. TCV implements and actively monitors the quality of investment risk by requiring progressively higher minimum ratings for larger and longer term exposures. Credit limits are approved by the Board and the Managing Director (under powers delegated by the Board). TCV has implemented Credit Support Annexes (CSA's) with derivative counterparties consistent with market practice. The table over page shows the resulting distribution, by counterparty credit rating, of TCV's total credit risk exposures due to its loans, derivatives and investments at 30 June 2017.

Standard & Poor's Rating	Derivatives % of Portfolio	Investments & Loans % of Portfolio	Moody's Investors Service Rating	Derivatives % of Portfolio	Investments & Loans % of Portfolio
Victorian Public Authorities	87	74	Victorian Public Authorities	87	74
AAA		1	Aaa		1
AA+		2	Aa1		3
AA		1	Aa2		1
AA-	10	19	Aa3	10	18
A+		2	A1	3	2
A	3	1	A2		
A-			A3		
BBB+					
Not rated by S&P			Not rated by Moody's but rated at least AA- by S&P		1
Total	100	100	Total	100	100

### Enterprise Risk Management & Operational Risk

The generally accepted definition of operational risk is 'the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, and systems or from external events'.

TCV has an Enterprise Wide Risk Management approach, integrating risk identification (risk register), risk measurement (risk self-assessments) and risk mitigation and reporting (operational/incident reporting). A Risk Management Policy embeds the Enterprise Risk Framework into TCV's operations.

The Enterprise Risk Management Committee meets at least quarterly to address operational risk management issues and reviews actual operational risk incidents as well as guide the Enterprise Risk activities across TCV.

A report on operational risk management continues to be presented to the Board quarterly, while any significant operational risk or near-miss events are reported to the Board monthly. Details on such events are captured in an internal operational risk database.

In addition, Anti Money Laundering and Counter-Terrorism Financing (AML/CTF) policies and processes are implemented by TCV. These policies and processes aim to ensure that TCV takes a risk-based approach to AML/CTF risks, consistent with the Board's risk-appetite. Current and emerging AML/CTF risks are identified, measured, mitigated and reported.

### Capital Adequacy

TCV's risk management framework incorporates a risk-based capital adequacy approach as specified in its Prudential Standard and generally follows APRA's standards on Capital Management. Under this standard, 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. This increases to 10.5% from 1 July 2017.

### 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 conducts a range of activities around cyber security to ensure the ongoing integrity of these information systems.

### Occupational Health & Safety (OHS)

TCV manages the potential risks to the health and safety of our staff and visitors through a comprehensive OHS risk management program. The TCV Board OHS Committee oversees this program.

Internally, the OHS (Staff) Committee lead, manage and administer the program and co-ordinate training and awareness sessions including inductions. This committee consists of two employer appointed and two staff elected representatives.

The committee reports to the TCV Board Committee on a semi-annual basis.

### 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 stakeholder
- 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 stakeholder monitoring role and manages the prudential supervision relationship with TCV
- Auditor-General - reports to Parliament. Provides an independent audit of TCV's financial report and expresses an opinion on it to the Members of the Parliament of Victoria, the responsible Ministers and TCV's Board, as required by the *Audit Act* 1994. The Victorian Auditor-General's Office has currently appointed Ernst & Young as its agent for 2016-17
- Minister for Finance - Member of Parliament. Monitors TCV's compliance with the State's financial and tax reporting and accountability framework via DTF's annual compliance certification process.

### Risk Attestation Statement

The Board of Directors of the Treasury Corporation of Victoria certify that for the year ended 30 June 2017:

The Treasury Corporation of Victoria has established and maintained appropriate prudential policies and procedures consistent with the Victorian Government's TCV Prudential Standard and that the Treasury Corporation of Victoria has complied with its policies and procedures and the TCV Prudential Standard. The Board verifies this assurance and that compliance with the standard has been subject to critical review within the last 12 months.

Signed for and on behalf of the Board:



Cassandra Kelly  
**Chairperson**

William (Bill) Whitford  
**Managing Director**

9 August 2017



## Regulatory Compliance and Disclosures

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

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

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

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

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

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

Information in respect of Financial Reporting Direction 22H *Standard Disclosures in the Report of Operations* (FRD 22H) 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 FRD 22H, there have been no significant events subsequent to balance date.

### Public Administration Act 2004 (Victoria)

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

### Freedom of Information Act 1982 (Victoria)

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

### Equal Opportunity and Anti-Discrimination Legislation

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

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

### Occupational Health and Safety and Accident Compensation Legislation

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

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

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

TCV is also required to comply with the *Workplace Injury Rehabilitation and Compensation Act 2013* and the *Accident Compensation Act 1985*. TCV is registered with WorkSafe Victoria to be covered by WorkCover insurance and maintains a register of injuries.

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

During 2016-17 TCV received no workers' compensation claims and there were no managed cases relating to risk management and occupational rehabilitation.

### Privacy and Data Protection Act 2014 (Victoria) and Health Records Act 2001 (Victoria)

TCV is subject to the *Privacy and Data Protection Act 2014* 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.

All TCV employees receive training to ensure compliance with the *Privacy and Data Protection Act 2014*.

## Victorian Industry Participation Policy Act 2003 (Victoria)

TCV is subject to the *Victorian Industry Participation Policy (VIPP)* which aims to provide opportunities for participation by local industry in projects, developments, procurements and other initiatives undertaken or funded, whether wholly or partially, by the State. Public bodies are required to apply VIPP in all tenders over \$A3 million in metropolitan Melbourne and \$A1 million in regional Victoria. In 2016-17, TCV did not tender any projects that met these value thresholds.

## Competition Policies and Taxation

The *Competition and Consumer Act 2010 (Commonwealth)*, *Australian Consumer Law and Fair Trading Act 2012 (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, TAC 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*. TCV has designated an Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) compliance officer and implemented an AML/CTF program which is subject to oversight by the Board. The program is risk-based and sets out TCV's approach to activities including training of employees, employee due diligence, reporting of suspicious matters and ongoing customer/transaction monitoring and customer identification processes and procedures.

## Code of Conduct

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

TCV also has an agreed behavioural framework which forms part of every employees' performance plan and review.

## Employee Numbers

At 30 June 2017, TCV employed 45.09 full-time equivalent (FTE) employees (2016: 45.09 FTE). Employees have been correctly classified in workforce data collections.

## Consultants

Pursuant to FRD 22H *Standard Disclosures in the Report of Operations*, TCV is required to provide various disclosures in respect of consultancy engagements. During 2016-17, two consultancies were undertaken with fees of \$48,995 (ex GST) and \$71,440 (ex GST). Details of these consultancies are available at [www.tcv.vic.gov.au](http://www.tcv.vic.gov.au). In addition, two other consultancies were undertaken for fees totalling \$7,530 (GST exclusive).

## Information and Communications Technology Expenditure

FRD 22H *Standard Disclosures in the Report of Operations*, requires that TCV disclose its Information and Communications Technology (ICT) expenditure.

ICT expenditure includes:

- operating and capital expenditure (including depreciation)
- ICT services internally and externally sourced
- cost of providing ICT services (including personnel and facilities).

Non-Business as Usual ICT expenditure is incurred to extend or enhance current ICT capabilities, activities usually run as projects.

Business as Usual ICT expenditure is all other ICT expenditure (operational and capital).

Expenditure	\$000
Business as Usual ICT	5,768
Non-Business as Usual ICT	
Operational	0
Capital	0
Total Non-Business as Usual ICT	0

## Environmental Performance

TCV is committed to improving our environmental awareness and the sustainability of our operations and business model. This has included progressing environmental projects as part of our core business activities. During the year, we have continued to explore areas of environmental performance where TCV can improve its operations.

TCV has:

- continued our commitment to reporting our activities with the City of Melbourne's Cityswitch program

- reduced our electricity consumption by 26% (measured by Total KWh/FTE) over 2010 levels including realising the benefits of significantly improving the energy efficiency of our computer server room (which accounts for approximately 80% of TCV electricity usage)
- obtained a (self-rated) NABERS rating of 5.5 stars for the TCV tenancy and 5.5 stars for the computer server room
- undertaken a waste audit which showed that enhanced recycling programs have resulted in a 28% landfill reduction and a 4% increase in recycling rates since March 2009
- continued focus on our computer server room efficiency through ongoing server virtualisation and realising the benefits of our upgraded lighting efficiency program
- continued our green purchasing and disposal policies including recycling all surplus electronic equipment, and environmental considerations in purchasing decisions including beginning a roll out of more efficient desktop computers
- successfully issued a \$300 million accredited Green Bond as the first tranche of an issuance program to support ongoing investment by the Victorian Government in low carbon infrastructure projects and energy efficiency initiatives
- undertaken pre-feasibility analysis to support the Government's investment in renewable energy projects investigating the role TCV can play in holding Large Scale Generation Certificates under the Commonwealth Government's Renewable Energy Target.

### Protected Disclosure Act 2012

The Corporation is subject to the *Protected Disclosure Act 2012* (PD Act).

There are three main purposes of the PD Act:

1. to encourage and assist people to make a disclosure of improper conduct and detrimental action by public officers and public bodies
2. to provide certain protections for people who make a disclosure, or those who may suffer detrimental action in reprisal for a disclosure
3. to ensure that certain information about a disclosure is kept confidential – the identity of the person making the disclosure, and the content of that disclosure.

TCV is committed to the aims and objectives of the PD Act.

TCV does not tolerate improper conduct by its employees, officers or Directors, 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, conduct involving a substantial

mismanagement of public resources, or conduct involving a substantial risk to public health and safety or the environment.

TCV will take all reasonable steps to protect people who make such disclosures from any detrimental action in reprisal for making the disclosure.

TCV is not able to receive disclosures regarding improper conduct by its employees, officers, or Directors under the PD Act. Any such disclosures are required to be made to the Independent Broad-based Anti-corruption Commission (IBAC) or investigating entities if the discloser wishes the disclosure to be protected under the PD Act.

TCV has established procedures to:

- make TCV employees and other persons aware that they can make disclosures under the PD Act directly to IBAC
- protect people against detrimental action that might be taken against them in reprisal for the making of protected disclosures or for cooperating with an investigation of a protected disclosure
- to provide processes for looking after the welfare of persons who have made protected disclosures, those who are subject of protected disclosures and those who might be witnesses in the investigation of protected disclosures
- to ensure as far as reasonably possible confidentiality of any such protected disclosures
- to ensure TCV's nominated officers and TCV employees are aware of the criminal offences created by the PD Act and other legal action that may be taken against them for any breach of them.

TCV's Protected Disclosures Procedures are accessible on TCV's website at [www.tcv.vic.gov.au](http://www.tcv.vic.gov.au) under the reference to *Protected Disclosure Act 2012*

## Financial Statements 2017

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## Statement of Comprehensive Income

For the year ended 30 June 2017

	Note	2017 \$000s	2016 \$000s
Net gain on financial assets and liabilities at fair value through profit and loss	2	95,760	53,929
Other fees and income		7,085	8,782
		<b>102,845</b>	<b>62,711</b>
Borrowing related expenses	3	1,600	3,398
Other operational expenses	3	17,991	17,574
		<b>19,591</b>	<b>20,972</b>
<b>Net profit</b>		<b>83,254</b>	<b>41,739</b>
<b>Other comprehensive income</b>			
Reversal of revaluation reserve	16	(2,059)	-
<b>Total other comprehensive income</b>		<b>(2,059)</b>	<b>-</b>
<b>Total comprehensive income</b>		<b>81,195</b>	<b>41,739</b>

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

## Statement of Financial Position

As at 30 June 2017

	Note	2017 \$000s	2016 \$000s
<b>Assets</b>			
Cash and cash equivalents	4	1,861,828	4,416,152
Receivables and other assets	5	238,925	514,661
Investments	6	10,247,094	4,731,943
Derivative financial instruments	7	411,971	630,084
Loans to the State of Victoria and Participating Authorities	8	34,144,127	40,888,605
Property, plant and equipment	9	524	1,781
Intangible assets	10	1,290	1,471
<b>Total assets</b>		<b>46,905,759</b>	<b>51,184,697</b>
<b>Liabilities</b>			
Payables and other liabilities	11	384,927	178,556
Deposits	12	7,288,937	6,520,951
Derivative financial instruments	7	399,945	955,420
Interest bearing liabilities – domestic	13	38,320,567	42,972,247
Interest bearing liabilities – offshore	14	243,945	372,491
Provisions	15	2,995	2,734
<b>Total liabilities</b>		<b>46,641,316</b>	<b>51,002,399</b>
<b>Net assets</b>		<b>264,443</b>	<b>182,298</b>
<b>Equity</b>			
Contributed equity		30,000	30,000
Reserves	16	-	2,059
Retained earnings		234,443	150,239
<b>Total equity</b>		<b>264,443</b>	<b>182,298</b>

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

## Statement of Changes in Equity

For the year ended 30 June 2017

	Note	Contributed Equity \$000s	Revaluation Reserve \$000s	Retained Earnings \$000s	Total \$000s
As at 1 July 2016		30,000	2,059	150,239	182,298
Net profit for the period		-	-	83,254	83,254
Change of accounting treatment	9	-	(2,059)	950	(1,109)
Dividend paid	16	-	-	-	-
<b>As at 30 June 2017</b>		<b>30,000</b>	<b>-</b>	<b>234,443</b>	<b>264,443</b>

	Note	Contributed Equity \$000s	Revaluation Reserve \$000s	Retained Earnings \$000s	Total \$000s
As at 1 July 2015		30,000	2,059	140,231	172,290
Net profit for the period		-	-	41,739	41,739
Dividend paid	16	-	-	(31,731)	(31,731)
<b>As at 30 June 2016</b>		<b>30,000</b>	<b>2,059</b>	<b>150,239</b>	<b>182,298</b>

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

## Statement of Cash Flows

For the year ended 30 June 2017

	2017	2016
Note	\$000s	\$000s
<b>Cash flows from operating activities</b>		
Interest received from the State of Victoria and Participating Authorities	1,571,647	1,791,297
Interest received on investments and cash	182,062	137,233
Interest paid on borrowings and deposits	(1,931,525)	(1,982,806)
Net interest received on derivatives	1,631	4,150
Fees received	7,316	8,769
Cash paid to suppliers and employees	(18,294)	(19,714)
<b>Cashflows from operating activities before changes in operating assets and liabilities</b>	<b>(187,163)</b>	<b>(61,071)</b>
Decrease in loans to the State of Victoria (Department of Treasury and Finance)	5,770,564	1,367,190
Increase in loans to Participating Authorities	(277,130)	(75,208)
(Increase)/decrease in investments	(5,514,236)	109,996
Increase/(decrease) in derivatives	(372,317)	81,764
(Decrease) in borrowings	(2,740,151)	(292,470)
Increase/(decrease) in deposits from the State of Victoria (Department of Treasury and Finance)	805,000	(500,820)
(Decrease)/increase in deposits from other entities	(38,443)	350,052
<b>Cashflows from operating activities arising from cashflow movements</b>	<b>(2,366,713)</b>	<b>1,040,504</b>
<b>Net cash (outflow)/inflow from operating activities</b>	<b>23 (2,553,876)</b>	<b>979,433</b>
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	(106)	(110)
Payments for intangible assets	(342)	(1,004)
<b>Net cash outflow from investing activities</b>	<b>(448)</b>	<b>(1,114)</b>
<b>Cash flows from financing activities</b>		
Dividend paid	16 -	(31,731)
<b>Net cash outflow from financing activities</b>	<b>-</b>	<b>(31,731)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(2,554,324)</b>	<b>946,588</b>
Cash and cash equivalents at beginning of year	4,416,152	3,469,564
<b>Cash and cash equivalents at end of year</b>	<b>4 1,861,828</b>	<b>4,416,152</b>

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



## Notes to and Forming Part of the Financial Statements

### Note 1 Summary of Significant Accounting Policies

This audited financial report of Treasury Corporation of Victoria (TCV or the Corporation) was authorised for issue in accordance with a resolution of the Board on 9 August 2017. The Board has the power to amend and reissue the financial statements.

Significant accounting policies adopted in the preparation of these financial statements are presented below. These policies have been consistently applied to the years presented, unless otherwise stated.

#### (a) Basis of accounting

TCV, a Victorian Government entity, is a for-profit entity for the purposes of preparing the financial statements.

This report is a general-purpose financial report, prepared in accordance with Direction 5.2 of the Standing Directions of the Minister for Finance under the *Financial Management Act 1994*, applicable Financial Reporting Directions, Australian Accounting Standards including Interpretations and other mandatory professional reporting requirements

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

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 and certain provisions (Refer Note 1(s)).

The presentation currency is Australian dollars which is the Corporation's functional currency.

All values are rounded to the nearest thousand dollars, unless otherwise indicated.

#### (b) Foreign currency

Assets and liabilities denominated in foreign currencies are initially converted at the rate of exchange at the date of the transaction and, at the end of the financial year, are translated using the applicable rates of exchange. Net unrealised gains and losses arising from translation of foreign currency assets and liabilities are brought to account in the Statement of Comprehensive Income.

#### (c) Critical estimates and assumptions

In preparing the financial statements, a number of estimates and assumptions are made that affect the amounts reported.

The fair value of financial instruments that cannot be sourced from active markets is determined using industry standard valuation techniques that involve significant estimates and assumptions. 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 and internally developed models. The level of subjectivity and degree of management judgment required varies depending on the sophistication of the models and proportion of unobservable inputs.

#### (d) Adoption of accounting standards

TCV did not adopt any new standards or amendments for the annual reporting period commencing 1 July 2016.

#### (e) New and amended accounting standards issued but not yet effective

Australian Accounting Standards relevant to TCV that have recently been issued or amended, but are not mandatory for the year ended 30 June 2017 and have not been adopted for these financial statements, are summarised in the paragraphs below:

##### **AASB 9 Financial Instruments**

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model. The Standard is not applicable until periods beginning on or after 1 January 2018 but is available for early adoption.

The adoption of the standard is not expected to impact materially on the presentation of the financial statements or on the measurement of the amounts disclosed, unless TCV decides to adopt hedge accounting. New rules under AASB9 align hedge accounting more closely with risk management practices by introducing a more principle-based approach. Management are currently assessing the impact of the adoption of the new standard.

## Note 1 Summary of Significant Accounting Policies (cont.)

### AASB 15 Revenue from Contracts with Customers

AASB 15 *Revenue from Contracts with Customers* will replace AASB 118 *Revenue* which covers contracts for goods and services and AASB 111 *Construction Contracts*. The new standard is based on a principle that revenue is recognised when control of a good or service transfers to a customer, the notion of control replacing the existing notion of risk and rewards. The Standard is not applicable until periods beginning on or after 1 January 2018 but is available for early adoption. It is not expected to materially impact on the presentation of the financial statements or on the measurement of the amounts disclosed.

### AASB 16 Leases

AASB 16 *Leases* is a new standard that will primarily affect the accounting by lessees and will result in recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and finance leases and requires recognition of an asset and a financial liability to pay rentals for almost all lease contracts. Under the standard, TCV will reflect in the Statement of Financial Position a right-of-use asset and liability in respect of its tenancy lease agreement. The Standard is not applicable until the period beginning on or after 1 January 2019 and will not materially impact on the presentation of the financial statements or on the measurement of the amounts disclosed.

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

#### (f) Income recognition

Income is recognised to the extent that it is probable that the economic benefits will flow to the Corporation and can be reliably measured. Income is measured at the fair value of the consideration received or receivable.

Fee income include fees charged for advisory and administrative services to the Department of Treasury and Finance and Participating Authorities.

#### (g) Borrowing related expenses

Borrowing related expenses are recognised as an expense when incurred. Borrowing costs include costs associated with syndicating Domestic Benchmark Bond or other issuances, rating agency fees, clearing fees, registry fees and bank charges.

#### (h) Operating leases

Payments made under the lease relating to TCV's premises (net of any incentives received from the lessor) are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

#### (i) Taxation

##### Income tax

TCV is not a tax payer under the *Income Tax Assessment Act 1936* and is not subject to Victorian taxation under the *State Owned Enterprises Act 1992*. Income tax expense is therefore not reflected in the Statement of Comprehensive Income.

##### Goods and services tax

TCV predominantly provides input taxed supplies and as such the majority of Goods and Services Tax incurred on the acquisition of goods and services cannot be claimed. Expenditure is inclusive of non-recoverable GST.

## Note 1 Summary of Significant Accounting Policies (cont.)

### (j) Financial assets and liabilities

#### Date of recognition

Financial asset and liability transactions are recognised at trade date. Amounts receivable for transactions executed but not yet settled, including unsettled borrowings, are included in the Statement of Financial Position under 'Receivables and other assets'. Amounts payable for transactions executed but not yet settled, including unsettled loans, are included in the Statement of Financial Position under 'Payables and other liabilities'.

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

All financial assets and liabilities, on recognition, are designated at fair value through profit and loss. 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. Refer to Note 17 for the valuation techniques used to determine the fair value of financial instruments.

In the Statement of Comprehensive Income, 'Net gain on financial assets and liabilities at fair value through profit and loss' reflects changes in the fair value of financial assets and liabilities inclusive of interest earned on assets or paid on liabilities (refer Note 2).

Where the fair value of a financial asset purchased or liability issued cannot be determined from observable data, the difference between the transaction price and the fair value determined (the 'day one' profit or loss) is not immediately recognised in the Statement of Comprehensive Income. The day one profit or loss is brought to account in the Statement of Comprehensive Income over the life of the relevant financial asset or liability until such time as the valuation data becomes observable or the financial instrument is sold or repurchased. At that time the remaining 'day one' profit or loss is recognised.

#### Derivative financial instruments

TCV enters into derivative financial instruments to manage the market risks inherent in its borrowing and asset management activities (refer Note 7).

Derivative instruments are initially recognised at fair value with changes to their fair value recognised in the Statement of Comprehensive Income.

### (k) Offsetting of financial instruments

Financial assets and liabilities are offset, with the net amount reported in the Statement of Financial Position, only where there is a currently legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

The majority of the offsetting applied by TCV relates to derivatives and collateral arrangements, as well as repurchase and reverse repurchase agreements.

### (l) Debt and loans reconstruction

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

### (m) 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 (refer Note 4).

### (n) Cash and cash equivalents

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

## Note 1 Summary of Significant Accounting Policies (cont.)

### (o) Receivables, payables and other assets and liabilities

Receivables reflect amounts receivable in respect of transactions executed but not yet settled, prepayments and fees due from clients.

Payables reflect amounts due in respect of transactions executed but not yet settled, accounts payable for goods and services provided to the TCV prior to the end of the financial year and statutory payables such as goods and services tax and fringe benefits tax.

### (p) Property, plant and equipment

Property, plant and equipment are measured initially at cost and subsequently stated at 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 depreciated over five years (2016: five to eight years) except for computer hardware which is depreciated over the estimated useful life of three to five years (2016: three years to five years). The depreciation expense on property, plant and equipment is recognised in the Statement of Comprehensive Income in the 'Other operational expenses' item.

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

### (q) Intangible assets

Intangible assets represent purchased software and are shown at historical cost. Subsequent to initial recognition, they are stated at cost less accumulated amortisation and impairment losses.

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 to four years (2016: three to four years). Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets is recognised in the Statement of Comprehensive Income in the 'Other operational expenses' item.

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

### (r) Provisions

Provisions are recognised when the Corporation has a present obligation (legal or constructive) as a result of a past event and are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

## Note 1 Summary of Significant Accounting Policies (cont.)

### (s) Employee benefits

#### Salaries

The liabilities for salaries, including non-monetary benefits, 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.

#### Annual leave, long service leave, and sick leave

The liability for annual leave is measured on contractual requirements and assessments having regard to leave utilisation, future salary increases and appropriate discount factors. The liability is measured at present value and as TCV does not have an unconditional right to defer settlement, the provision is classified as current.

Unconditional long service leave (LSL) is disclosed as a current liability, even where TCV does not expect to settle the liability within 12 months, because it will not have the unconditional right to defer the settlement of the entitlement should an employee take leave within 12 months. The components of this liability are measured at present value.

Conditional LSL is disclosed as a non-current liability. There is an unconditional right to defer the settlement of the entitlement until the employee has completed the requisite years of service. Conditional LSL is measured at present value.

Liabilities for sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

## Note 2 Net Gain on Financial Assets and Liabilities

	2017	2016
	\$000s	\$000s
<b>Financial assets designated at fair value through profit and loss</b>		
Interest income on cash assets and investments	255,406	207,701
Interest income on loans to the Victorian Government and Participating Authorities	1,556,048	1,785,944
	<b>1,811,454</b>	<b>1,993,645</b>
Realised and unrealised market movements of financial assets	(1,661,851)	1,226,548
<b>Net gain on financial assets designated at fair value through profit and loss</b>	<b>149,603</b>	<b>3,220,193</b>
<b>Financial liabilities designated at fair value through profit and loss</b>		
Interest expense on borrowings	(1,790,244)	(1,938,074)
Realised and unrealised market movements of financial liabilities	1,743,886	(1,225,913)
<b>Net loss on financial liabilities designated at fair value through profit and loss</b>	<b>(46,358)</b>	<b>(3,163,987)</b>
Net loss on derivatives	(7,485)	(2,277)
<b>Net gain on financial assets and liabilities at fair value through profit and loss</b>	<b>95,760</b>	<b>53,929</b>

### Note 3 Expense Items

	2017	2016
	\$000s	\$000s
<b>Borrowing related expenses</b>		
Syndication fees	295	2,112
Rating agency fees	582	571
Clearing fees	450	443
Other fees and charges	273	272
	<b>1,600</b>	<b>3,398</b>
<b>Other operational expenses</b>		
Salaries and other direct employee expenses		
- Salaries, wages and entitlements	9,253	8,817
- Defined contribution superannuation contributions	654	652
- Employee related taxes	443	441
Software maintenance, disaster recovery, network and other IT expenditure	2,166	1,878
Professional services		
- Victorian Auditor-General's fees in relation to the audit of the TCV financial statements for the year ended 30 June <sup>(1)</sup>	315	332
- Department of Treasury and Finance Prudential supervision fee	121	105
- Other professional service fees	873	783
Market information services	1,316	1,363
Depreciation of property, plant and equipment	254	534
Amortisation of intangible assets	523	437
Premises		
- Operating lease rental expense	669	707
- Other occupancy costs	169	186
Other supplies and services	1,235	1,339
	<b>17,991</b>	<b>17,574</b>

<sup>(1)</sup> No other amounts have been paid or are payable to the Victorian Auditor-General.

## Note 4 Cash and Cash Equivalents

	2017	2016
	\$000s	\$000s
<b>Current:</b>		
Cash at bank and on hand	9,241	58,304
Deposits with futures clearing house	1,267	34,153
Deposits with financial institutions	427,263	1,249,932
Short term discounted securities	1,016,575	2,465,053
Secured cash lending <sup>(1)</sup>	407,482	608,710
<b>Total cash and cash equivalents</b>	<b>1,861,828</b>	<b>4,416,152</b>

<sup>(1)</sup> The fair value of securities purchased under reverse repurchase agreements was \$403 million (2016: \$611 million). These securities were not recognised in the Statement of Financial Position (refer Note 1(m)).

## Note 5 Receivables and Other Assets

	2017	2016
	\$000s	\$000s
<b>Current:</b>		
Unsettled trades - receivable (refer Note 1(j))	237,308	239,161
Right of demand pursuant to a Deed of Indemnity (refer Note 26)	-	273,532
Other financial assets	620	837
Prepayments	997	1,131
<b>Total receivables and other assets</b>	<b>238,925</b>	<b>514,661</b>

## Note 6 Investments

	2017	2016
	\$000s	\$000s
Floating rate securities	610,726	927,323
Short term discounted securities	2,246,528	1,972,421
Fixed interest securities	1,486,834	1,571,860
Term deposits with financial institutions	5,673,392	-
Treasurer guaranteed investments <sup>(1)</sup>		
- Melbourne Cricket Club	204,385	232,107
- St. Vincent's Hospital (Melbourne) Limited	3,449	10,023
- The Australian Ballet	10,780	11,176
- School co-operatives	7,287	7,033
- Mercy Hospitals Victoria Limited	3,713	-
<b>Total investments</b>	<b>10,247,094</b>	<b>4,731,943</b>
Maturity in 12 months or less	7,008,076	2,279,421
Maturity in more than 12 months	3,239,018	2,452,522
<b>Total investments</b>	<b>10,247,094</b>	<b>4,731,943</b>

<sup>(1)</sup> TCV's investment powers, approved by the Governor in Council provide, inter alia, that an approved manner of investment is 'the making or acquisition of a loan or advance to any Corporation where such loan or advance is at all times guaranteed as to both principal and interest by the Treasurer of the State of Victoria or the government of either the Commonwealth, a state or territory'. The balances reported are at fair value. Depending on their accounting basis, this disclosure may differ from the disclosure by the entities identified.

## Note 7 Derivative Financial Instruments

TCV enters into derivative instruments to manage the interest rate and currency risk inherent in the borrowing and asset management activities of the Corporation and the risk inherent in the activities of the State of Victoria and Participating Authorities.

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

	2017	2016
	\$000s	\$000s
<b>Derivative financial instrument assets</b>		
Interest rate swaps	222,991	343,057
Cross currency swaps	146,475	142,649
Forward foreign exchange contracts	39,816	46,514
Exchange traded futures <sup>(1)</sup>	97	12,676
FX swap position receivable	-	83,192
Fuel swaps	2,592	1,996
<b>Total derivative asset</b>	<b>411,971</b>	<b>630,084</b>
Maturity in 12 months or less	10,079	112,926
Maturity in more than 12 months	401,892	517,158
<b>Total derivative asset</b>	<b>411,971</b>	<b>630,084</b>
<b>Derivative financial instrument liabilities</b>		
Interest rate swaps <sup>(1)</sup>	203,395	683,966
Cross currency swaps	154,099	136,226
Forward foreign exchange contracts	39,787	46,585
Forward rate agreements	-	11
Exchange traded futures	72	2,611
FX swap position payable	-	84,025
Fuel swaps	2,592	1,996
<b>Total derivative liability</b>	<b>399,945</b>	<b>955,420</b>
Maturity in 12 months or less	12,281	105,340
Maturity in more than 12 months	387,664	850,080
<b>Total derivative liability</b>	<b>399,945</b>	<b>955,420</b>

<sup>(1)</sup> 30 June 2016 balance includes derivatives subject to a Deed of Indemnity with Department of Treasury and Finance (refer Note 26).



## Note 8 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 (a public authority that is accepted, for the purpose of providing financial accommodation, by the Corporation under the TCV Act) are guaranteed as to both principal and interest by 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 are categorised as follows:

	2017 \$000s	2016 \$000s
Overnight and short term cash	699,872	265,067
Floating rate loans	749,157	794,584
Fixed interest loans	32,359,194	39,479,249
Index linked loans	335,904	349,705
<b>Total loans to the State of Victoria and Participating Authorities</b>	<b>34,144,127</b>	<b>40,888,605</b>
Maturity in 12 months or less	2,154,909	4,338,025
Maturity in more than 12 months	31,989,218	36,550,580
<b>Total loans to the State of Victoria and Participating Authorities</b>	<b>34,144,127</b>	<b>40,888,605</b>
State of Victoria (Department of Treasury and Finance)	21,710,833	28,352,121
Participating Authorities	12,433,294	12,536,484
<b>Total loans to the State of Victoria and Participating Authorities</b>	<b>34,144,127</b>	<b>40,888,605</b>

The above loans are shown at fair value inclusive of unsettled loans. Depending on their accounting basis, this disclosure may differ from that of the State of Victoria and individual Participating Authorities.

## Note 9 Property, Plant and Equipment

	2017 \$000s	2016 \$000s
Property, plant and equipment at cost	4,342	4,065
Accumulated depreciation	(3,818)	(2,284)
<b>Closing balance</b>	<b>524</b>	<b>1,781</b>
<b>Reconciliation</b>		
Opening balance	1,781	2,204
Change of accounting treatment	(1,109)	-
Acquisitions	129	204
Disposals	(23)	(93)
Depreciation expense	(254)	(534)
<b>Closing balance</b>	<b>524</b>	<b>1,781</b>

The 2016 gross balance of property, plant and equipment includes an amount of \$2.059 million arising from an independent valuation of leasehold improvements and furniture and fittings provided by Valuer General Victoria as at 30 June 2012. The valuation was determined based on the depreciated replacement cost of the assets. Following the issuance of new guidance under FRD 103F *Non-Financial Physical Assets*, TCV has reconsidered its application of the FRD and reversed the revaluation reserve together with the related gross asset balances and accumulated depreciation. Property, plant and equipment assets held by TCV are no longer revalued on a periodical basis.

## Note 10 Intangible Assets

	2017	2016
	\$000s	\$000s
Computer software at cost	8,939	8,662
Accumulated amortisation	(7,649)	(7,191)
<b>Closing balance</b>	<b>1,290</b>	<b>1,471</b>
<b>Reconciliation</b>		
Opening balance	1,471	904
Acquisitions	342	1,004
Amortisation expense	(523)	(437)
<b>Closing balance</b>	<b>1,290</b>	<b>1,471</b>

## Note 11 Payables and Other Liabilities

	2017	2016
	\$000s	\$000s
Unsettled trades		
- payable to market participants (refer Note 1(j))	201,042	59,080
- payable to Participating Authorities (refer Note 1(j))	161,602	98,712
Other financial liabilities	16,231	14,788
Net deferred 'day one' profit (refer Note 1(j))	2,832	2,904
Other	3,220	3,072
<b>Total payables and other liabilities</b>	<b>384,927</b>	<b>178,556</b>

The table below presents the year-to-year movement in the net 'day one' profit or loss deferred to the balance sheet.

	2017	2016
	\$000s	\$000s
Opening balance	2,904	2,260
Net 'day one' profit derived during the financial year	77	1,629
Subsequent move to observability <sup>(1)</sup>	-	(845)
Amortisation of the deferred profit or loss during the period	(149)	(140)
<b>Net deferred 'day one' profit</b>	<b>2,832</b>	<b>2,904</b>

<sup>(1)</sup> For certain financial instruments, the valuation data became observable and the remaining value of the associated deferred 'day one' profit or loss has been recognised as income.

## Note 12 Deposits

Deposits consist of short term deposit takings primarily from Victorian State Government departments and agencies.

	2017	2016
	\$000s	\$000s
Cash deposits	3,370,380	4,688,311
Term deposits	3,918,557	1,832,640
<b>Total deposits</b>	<b>7,288,937</b>	<b>6,520,951</b>
Maturity in 12 months or less	7,283,092	6,513,179
Maturity in more than 12 months	5,845	7,772
<b>Total deposits</b>	<b>7,288,937</b>	<b>6,520,951</b>
State of Victoria (Department of Treasury and Finance)	2,231,360	1,451,691
Participating Authorities	2,727,411	2,063,286
Other public sector entities	2,330,166	3,005,974
<b>Total deposits</b>	<b>7,288,937</b>	<b>6,520,951</b>

## Note 13 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.

	2017	2016
	\$000s	\$000s
<b>Benchmark programs</b>		
Domestic Benchmark Bonds <sup>(1)</sup>	34,859,308	38,374,890
TCV Promissory Notes <sup>(2)</sup>	232,323	1,594,145
<b>Total benchmark programs</b>	<b>35,091,631</b>	<b>39,969,035</b>
<b>Domestic borrowings – other</b>		
TCV fixed interest	2,625,259	2,152,732
Indexed linked securities	555,500	632,978
Payables to market participants	48,123	217,444
Commonwealth Government loans	54	58
<b>Total domestic borrowings - other</b>	<b>3,228,936</b>	<b>3,003,212</b>
<b>Total domestic borrowings</b>	<b>38,320,567</b>	<b>42,972,247</b>
Maturity in 12 months or less	3,523,165	5,199,305
Maturity in more than 12 months	34,797,402	37,772,942
<b>Total domestic borrowings</b>	<b>38,320,567</b>	<b>42,972,247</b>

<sup>(1)</sup> Domestic Benchmark Bonds (fixed interest securities that form the cornerstone of the Corporation's funding strategy) pay a fixed interest coupon with varying maturities.

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

## Note 14 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. Foreign exchange rate risk is not material as the daily net currency exposure is limited (refer Note 20).

	2017	2016
	\$000s	\$000s
Euro Commercial Paper	-	82,518
Euro Medium Term Notes	243,945	289,973
<b>Total offshore borrowings</b>	<b>243,945</b>	<b>372,491</b>
Maturity in 12 months or less	-	82,518
Maturity in more than 12 months	243,945	289,973
<b>Total offshore borrowings</b>	<b>243,945</b>	<b>372,491</b>

From time to time TCV issues Euro Commercial Papers under the AUD 5 billion multi-currency Euro Commercial Paper Program. There were no Commercial Papers issued at 30 June 2017 (2016: USD50 million and SGD15 million).

Under the USD 3 billion Euro Medium Term Note Program, TCV has issued Medium Term Notes. The 2017 liability balance comprises face value of AUD159 million (2016: AUD166 million) and JPY7.5 billion (2016: JPY7.5 billion).

## Note 15 Provisions

	2017	2016
	\$000s	\$000s
<b>Employee long service leave entitlements</b>		
Current: Unconditional entitlements expected to be settled within 12 months	92	205
Current: Unconditional entitlements expected to be settled after 12 months	2,297	1,843
Non-current conditional entitlements	198	192
<b>Employee annual leave entitlements</b>		
Current: Unconditional entitlements expected to be settled within 12 months	352	417
Current: Unconditional entitlements expected to be settled after 12 months	56	77
<b>Total provisions</b>	<b>2,995</b>	<b>2,734</b>

## Note 16 Dividends and Reserves

### Dividend

Under Section 31 of the TCV Act, TCV is required to pay to the Government of Victoria, from its surplus for the preceding financial year, such dividend as the Treasurer shall determine after consultation with the Corporation. At 30 June 2017, no dividend in respect of the year ended 30 June 2017 (2016: \$nil) has been provided for in the accounts of TCV. In respect of the prior year's surplus, no dividend (2016: \$31.7 million) was declared and paid after the relevant reporting date.

### Reserves

	2017	2016
	\$000s	\$000s
<b>Asset revaluation reserve</b>		
Opening balance	2,059	2,059
Change in accounting treatment	(2,059)	-
<b>Closing balance</b>	<b>-</b>	<b>2,059</b>

### Nature and purpose of the asset revaluation reserve

The asset revaluation reserve is used to record increments and decrements on the revaluation of property, plant and equipment. The asset revaluation reserve has been reversed in the current year (refer Note 9).

## Note 17 Financial Instruments Carried at Fair Value

### (a) Fair value determination

All financial assets and liabilities, on recognition, are designated at fair value through profit and loss. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is assumed that the transaction takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market. All financial instruments are measured at fair value on a recurring basis.

The fair values of financial instruments are determined by the Risk and Performance Measurement business unit independent of Treasury employees.

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

The fair value of financial instruments that cannot be sourced from active markets is determined using industry standard valuation techniques. 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.

Mid market prices are initially utilised to establish fair values. Where assets and liabilities do not have offsetting market risks, bid-offer spreads are applied to the net open positions.

### (b) Valuation techniques

The following paragraphs summarise the Corporation's valuation techniques used to determine the fair value of financial instruments.

#### Cash and cash equivalents

With the exception of short term discounted securities, reverse repurchase agreements and term deposits, the fair value of cash and cash equivalents reflects the sum of interest accrued and their nominal value. Short term discounted securities are valued by discounting the full face value of the securities using yields interpolated off curves derived from market data. The fair value of term deposits and reverse repurchase agreements reflects the discounted value of their cash flows.

#### Receivables and other assets

The fair value of unsettled trades reflects the discounted value of their cash flows.

Amounts due from clients are payable within 14 days and their fair value is assumed to equate to the amount receivable.

#### Investments

Floating rate securities are valued using standard market conventions. Inputs include quoted trading margins and, for mortgage backed securities, quoted weighted average life data.

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

The fair value of fixed interest securities is determined utilising market quotes. Two exceptions are a Victorian State Government guaranteed structured bond, where the fair value is determined utilising yields derived from the TCV yield curve<sup>1</sup>, and a structured bond for which the fair value is based on a yield reflecting the credit risk of the bank holding and distributing residual debt contributions adjusted for pricing evidence when available.

Treasurer guaranteed investments, other than indexed linked instruments, are valued by discounting instrument cash flows utilising rates derived from the TCV yield curve. Indexed investments are valued either using yields provided by a market participant for TCV indexed bonds with like maturity dates or are valued off a curve extrapolated from the yields.

#### Term Deposits with financial institutions

Term deposits with financial institutions, with three months or less to maturity, are valued off a curve constructed from bank bill yields. The fair value of other term deposits is determined from the interpolation of quotes obtained from the relevant counterparty, with the pricing verified against quotes sourced from similar financial institutions on the same basis.

<sup>1</sup> The TCV yield curve is primarily derived from market quotes for TCV's Domestic Benchmark Bonds with maturities greater than one year, until 20 October 2028 (2016: until 20 October 2028). For subsequent periods the curve is extrapolated using a spread to swap based on quotations provided by market makers.

## Note 17 Financial Instruments Carried at Fair Value (cont.)

### 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 indexed swaps is valued on a cashflow basis using the relevant swap curve, with the CPI leg valued using the Zero Coupon Inflation Swap methodology.

The cross currency swap is valued in accordance with market conventions utilising relevant swap curves adjusted where applicable for cross currency and single currency basis risk.

A Credit Value Adjustment (a provision for counterparty default) and Debit Valuation Adjustment (a provision for TCV's own risk) have been provided for in the determination of TCV's derivative positions. The Credit Value Adjustment is calculated with reference to TCV's net credit exposure to individual counterparties and their applicable Credit Default Swap spread. The Debit Valuation Adjustment is calculated with reference to individual counterparties net credit exposure to TCV and the TCV yield curve spread to swap.

### Loans to the State of Victoria and Participating Authorities

The fair value of short term cash loans reflects the sum of interest accrued and the nominal value.

Floating rate loans are valued using standard market conventions, with future cash flows derived from the AUD swap curve with discounting yields derived from the TCV yield curve.

Fixed interest loans are valued by using standard market conventions utilising yields derived from the TCV yield curve.

Indexed linked loans are valued off a curve derived from market quotes for indexed linked securities.

### Payables and other liabilities

The fair value of unsettled trades reflects the discounted value of their cash flows. Amounts due to creditors are short term in nature and their fair value is assumed to equate to the amount payable.

### Deposits from public sector

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

### Interest bearing liabilities – domestic

Domestic Benchmark Bonds, other than those maturing within 12 months, are valued using quoted yields. If maturity is within 12 months, fair value is determined using standard market conventions utilising yields derived from the TCV yield curve.

With the exception of index linked securities, other instruments are valued by discounting the instrument cash flows utilising rates derived from the TCV yield curve.

Index linked securities are valued using standard market conventions and yields provided by a market participant.

### Interest bearing liabilities – offshore

Euro Commercial Paper is valued through the discounting of the cash flows using the relevant currency's swap curve. AUD-denominated Euro Medium Term Notes (EMTNs) are valued through the discounting of the cash flows using the TCV yield curve. The JPY-denominated EMTN is valued through the discounting of cash flows using the JPY sovereign curve.

### (c) Fair value hierarchy

The nature of the inputs used to determine the fair value determines the hierarchical level into which they fall:

- Level 1 instruments are valued utilising unadjusted prices quoted in active markets for identical assets or liabilities
- Level 2 instruments are valued utilising valuation techniques that utilise prices for like instruments in active markets without significant adjustment
- Level 3 instruments are valued utilising inputs that are not based on observable market data.

The following tables summarise the fair value of the financial instruments and the appropriate fair value hierarchy into which they fall as at 30 June. TCV's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the start of the reporting period.

## Note 17 Financial Instruments Carried at Fair Value (cont.)

	Level 1 (quoted prices in active markets)	Level 2 (inputs other than quoted prices)	Level 3 (unobservable inputs)	Total
	\$000s	\$000s	\$000s	\$000s
<b>2017</b>				
<b>Assets</b>				
Cash and cash equivalents	845,253	1,016,575	-	1,861,828
Receivables and other financial assets <sup>(1)</sup>	-	237,928	-	237,928
Investments				
- Floating rate securities	526,984	83,742	-	610,726
- Short term discounted securities	-	2,246,528	-	2,246,528
- Fixed interest securities	1,200,685	286,149	-	1,486,834
- Term deposits with financial institutions	-	5,673,392	-	5,673,392
- Treasurer guaranteed investments	-	226,165	3,449	229,614
Derivative financial instruments <sup>(2)</sup>	39,912	372,059	-	411,971
Loans to the State of Victoria and Participating Authorities <sup>(3)</sup>	699,872	33,444,255	-	34,144,127
	<b>3,312,706</b>	<b>43,586,793</b>	<b>3,449</b>	<b>46,902,948</b>
<b>Liabilities</b>				
Payables and other financial liabilities <sup>(1)</sup>	-	378,875	-	378,875
Deposits from public sector	3,370,380	3,918,557	-	7,288,937
Derivative financial instruments <sup>(2)</sup>	39,858	360,087	-	399,945
Interest bearing liabilities – domestic	32,030,970	6,289,597	-	38,320,567
Interest bearing liabilities – offshore	-	243,945	-	243,945
	<b>35,441,208</b>	<b>11,191,061</b>	<b>-</b>	<b>46,632,269</b>
<b>2016</b>				
<b>Assets</b>				
Cash and cash equivalents	1,951,099	2,465,053	-	4,416,152
Receivables and other financial assets <sup>(1)</sup>	-	513,530	-	513,530
Investments				
- Floating rate securities	828,261	99,062	-	927,323
- Short term discounted securities	-	1,972,421	-	1,972,421
- Fixed interest securities	1,252,846	118,048	200,966	1,571,860
- Treasurer guaranteed investments	-	246,271	14,068	260,339
Derivative financial instruments <sup>(2)</sup>	59,190	570,894	-	630,084
Loans to the State of Victoria and Participating Authorities <sup>(3)</sup>	265,069	40,623,536	-	40,888,605
	<b>4,356,465</b>	<b>46,608,815</b>	<b>215,034</b>	<b>51,180,314</b>
<b>Liabilities</b>				
Payables and other financial liabilities <sup>(1)</sup>	-	172,580	-	172,580
Deposits from public sector	4,688,310	1,832,641	-	6,520,951
Derivative financial instruments <sup>(2)</sup>	49,196	906,224	-	955,420
Interest bearing liabilities – domestic	35,240,631	7,731,616	-	42,972,247
Interest bearing liabilities – offshore	-	372,491	-	372,491
	<b>39,978,137</b>	<b>11,015,552</b>	<b>-</b>	<b>50,993,689</b>

<sup>(1)</sup> Excludes non-financial assets and liabilities respectively.

<sup>(2)</sup> Refer Note 7.

<sup>(3)</sup> Refer Note 8.

## Note 17 Financial Instruments Carried at Fair Value (cont.)

### (d) Level 3 financial instruments – reconciliation

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

	Opening balance	Total gains or (losses) <sup>(1)</sup>	Purchases/ (Sales)	Settlements <sup>(2)</sup>	Transfer from Level 3	Closing balance
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
<b>2017</b>						
<b>Assets</b>						
Investments						
- Fixed interest securities	200,966	-	-	-	(200,966)	-
- Treasurer guaranteed investments	14,068	(252)	-	(10,367)	-	3,449
	<b>215,034</b>	<b>(252)</b>	<b>-</b>	<b>(10,367)</b>	<b>(200,966)</b>	<b>3,449</b>
<b>Liabilities</b>						
	-	-	-	-	-	-
	-	-	-	-	-	-
	Opening balance	Total gains or (losses) <sup>(1)</sup>	Purchases/ (Sales)	Settlements <sup>(2)</sup>	Transfer from Level 3	Closing balance
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
<b>2016</b>						
<b>Assets</b>						
Investments						
- Fixed interest securities	201,703	958	-	(1,695)	-	200,966
- Treasurer guaranteed investments	25,928	(946)	-	(10,914)	-	14,068
Derivative financial instruments						
- Aluminium OTC options	109	(109)	-	-	-	-
	<b>227,740</b>	<b>(97)</b>	<b>-</b>	<b>(12,609)</b>	<b>-</b>	<b>215,034</b>
<b>Liabilities</b>						
Derivative financial instruments						
- Aluminium OTC options	109	(109)	-	-	-	-
	<b>109</b>	<b>(109)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

(1) Total net gains (or losses) only include unrealised fair value movements which are reflected in 'Net gain on financial assets and liabilities at fair value through profit and loss' in the Statement of Comprehensive Income. There were no realised gains (or losses) arising in relation to these instruments during the year.

(2) For investments, 'Settlements' includes principal on maturity, principal/discount amortisation and principal repayments.

### Level 3 category

The fixed interest securities are structured securities with fair value determined from a yield reflecting swap rates, credit spreads and past pricing evidence.

The Treasurer guaranteed investments are indexed investments valued off a curve extrapolated from yields for TCV indexed bonds provided by a market participant.

### Transfers to/from level 3 category

The fixed interest securities were moved from Level 3 to Level 2 during the period as the adjustment to Level 2 inputs is not significant to their measurement.



## Note 17 Financial Instruments Carried at Fair Value (cont.)

### (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. Alternative valuations for instruments classified as Level 3 financial instruments had no significant impact on the value of assets or liabilities at the reporting date.

### (f) 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 and Participating Authorities and Treasurer guaranteed investments amounts to a loss of \$61 million (2016: gain of \$151 million) and cumulatively a gain of \$369 million (2016: gain of \$551 million).

The change in fair value attributable to changes in credit risk, for the current year, of interest bearing liabilities amounts to a gain of \$57 million (2016: loss of \$151 million) and cumulatively a loss of \$499 million (2016: loss of \$721 million).

The current year change in fair values attributable to changes in credit risk was estimated by applying the change in spreads to the basis point value of relevant positions at the end of the period. The appropriate change in spread is determined by linear interpolation off fixed tenor yield curves between TCV market yields and Commonwealth Bond market yields. The cumulative change applies spread changes between transaction date and period end.

TCV and the State of Victoria remained AAA rated by Standard and Poor's and Aaa by Moody's during 2016-17. The spreads between the TCV yield curve and the Commonwealth Bond yield curve narrowed at the shorter end and widened at the longer end. For example, at the 3-year spreads narrowed by one basis point while the 10-year widened by 10 basis points. The change in spreads reflect a number of factors in addition to markets' assessment of credit risk. The values disclosed above, therefore, do not only represent the change in fair value of the relevant assets or liabilities due to changes in credit risk.

## Note 18 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.

	2017 Fair Value <sup>(1)</sup>	2017 Principal Owing at Maturity <sup>(2)</sup>	2017 Variance	2016 Fair Value <sup>(1)</sup>	2016 Principal Owing at Maturity <sup>(2)</sup>	2016 Variance
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Deposits from public sector	7,288,937	7,271,127	17,810	6,520,951	6,498,589	22,362
Interest bearing liabilities – domestic <sup>(3)</sup>	38,320,567	34,093,971	4,226,596	42,972,247	37,093,167	5,879,080
Interest bearing liabilities – offshore	243,945	246,232	(2,287)	372,491	347,641	24,850

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

(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 financial year-end.

## Note 19 Offsetting Financial Assets and Financial Liabilities

Certain financial assets and financial liabilities are presented on a net basis in the Statement of Financial Position (refer Note 1(k)).

The following tables provide information on the impact of offsetting on the Statement of Financial Position, as well as the financial impact of netting for instruments subject to an enforceable master netting arrangement or similar agreement, as well as available cash and financial instrument collateral.

In line with general market practice, TCV has entered into arrangements that do not meet criteria for offsetting in a normal course of business, but allow for the relevant amounts to be set off in certain circumstances, such as bankruptcy, default or insolvency. The effect of these agreements is reflected in the column 'Impact of master netting arrangements'.

The 'Cash and financial instrument collateral' column discloses collateral amounts received or pledged in relation to the total amounts of assets and liabilities, including those that were not offset. The rights to set off relating to the cash and financial instruments collateral are conditional upon the default of the counterparty.

The column 'Net amount' shows the impact on TCV's Statement of Financial Position if all existing rights of offset were exercised.

	Effects of offsetting on the Statement of Financial Position			Related amounts not offset		
	Gross amounts	Gross amounts set off in the Statement of Financial Position	Net amounts presented in the Statement of Financial Position	Impact of master netting arrangements	Cash and financial instrument collateral	Net amount
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
<b>2017</b>						
<b>Assets</b>						
Reverse repurchase agreements <sup>(1)</sup>	407,482	-	407,482	-	(402,563)	4,919
Derivative financial instruments <sup>(2)</sup>	1,447,395	(1,035,424)	411,971	(280,581)	(35,263)	96,127
	<b>1,854,877</b>	<b>(1,035,424)</b>	<b>819,453</b>	<b>(280,581)</b>	<b>(437,826)</b>	<b>101,046</b>
<b>Liabilities</b>						
Derivative financial instruments <sup>(2)</sup>	1,400,771	(1,000,826)	399,945	(280,581)	(119,364)	-
	<b>1,400,771</b>	<b>(1,000,826)</b>	<b>399,945</b>	<b>(280,581)</b>	<b>(119,364)</b>	<b>-</b>
<b>2016</b>						
<b>Assets</b>						
Reverse repurchase agreements <sup>(1)</sup>	608,710	-	608,710	(108,469)	(500,241)	-
Derivative financial instruments <sup>(2)</sup>	2,276,369	(1,646,285)	630,084	(389,913)	(101,190)	138,981
	<b>2,885,079</b>	<b>(1,646,285)</b>	<b>1,238,794</b>	<b>(498,382)</b>	<b>(601,431)</b>	<b>138,981</b>
<b>Liabilities</b>						
Repurchase agreements <sup>(3)</sup>	110,220	-	110,220	(110,220)	-	-
Derivative financial instruments <sup>(2)</sup>	2,587,216	(1,631,796)	955,420	(389,913)	(461,960)	103,547
	<b>2,697,436</b>	<b>(1,631,796)</b>	<b>1,065,640</b>	<b>(500,133)</b>	<b>(461,960)</b>	<b>103,547</b>

(1) Reverse repurchase agreements are recognised within 'Cash and Cash Equivalents' if the maturity date is within 3 months.

(2) Cash collateral received, and cash collateral pledged are presented within cash and cash equivalents and interest bearing liabilities – domestic respectively.

(3) Repurchase agreements are recognised within 'Interest Bearing Liabilities – Domestic'.

## Note 20 Risk Management

The principal activities of TCV involve raising funds in capital/money markets to fund the Corporation's requirements as lender to the State of Victoria and Participating Authorities and the investment of deposits liquid assets and surplus funds with market counterparties. TCV also enters into derivative instruments to manage the interest rate and currency risk inherent in the borrowing and asset management activities of the Corporation and the risk inherent in the activities of the State of Victoria and Participating Authorities.

The primary risks that result from these and related activities are:

- a) market risk
- b) liquidity risk
- c) credit risk
- d) operational risk.

Foreign exchange rate risk is not material as the daily net currency exposure is limited to AUD250,000.

Management of these risks is carried out in accordance with TCV's risk management framework. The framework is consistent with Victorian Government Prudential Standard for the Treasury Corporation of Victoria (the Prudential Standard) established by the Treasurer of the State of Victoria and adopted from the standards of the Australian Prudential Regulatory Authority (APRA) for financial institutions in Australia. Compliance with the Prudential Standard requirements is monitored by an independent Prudential Supervisor appointed by the Treasurer.

The risk management framework comprises the following key components:

- the TCV Board is responsible for ensuring that TCV's risk management framework is sound and for approving TCV's Risk Appetite Statement and key risk policies consistent with the Prudential Standard's requirements
- the Managing Director is responsible for the set up and maintenance of the risk management framework and the risk management policies, ensuring that the risks are controlled and within Board approved levels
- the TCV Audit Committee assists the TCV Board in discharging its responsibility for oversight, implementation and operation of the risk management framework
- Internal Audit provides an independent objective risk assurance and advisory service to assist the TCV Board, through its Audit Committee, to evaluate the effectiveness of TCV's risk control and governance framework
- the Treasury business unit is responsible for day-to-day management of the Corporation's assets and liabilities, funding and liquidity risks in accordance with established risk policies
- the Asset and Liability Committee, an executive committee comprising the Managing Director, members of the executive management team and other managers, is responsible for ensuring the Corporation's financial assets and liabilities are managed prudently and efficiently
- the Risk and Performance Measurement business unit is responsible for developing and maintaining appropriate risk policies consistent with the Prudential Standard and the guidelines of the Board, relating to risk identification, measurement, control, reporting and implementation.

The Managing Director and TCV executives are required to promptly advise the Board, Prudential Supervisor and the Treasurer, via the Department of Treasury and Finance (DTF), and relevant stakeholders of any breach by the Corporation of the Prudential Standard.

### (a) Market risk

Market risk is the risk of a loss due to adverse movements in market prices, yields or rates of financial instruments and their derivatives.

The Prudential Standard requires the Corporation to maintain sufficient capital to cover, in addition to credit risk, its exposure to market risk. More specifically, it requires "the methodology used by TCV to determine its capital requirement to support market risk is consistent with the APRA's Prudential Statement C3 / Prudential Standard APS 116 *Capital Adequacy: Market Risk* for banks".

## Note 20 Risk Management (cont.)

### Value at Risk

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. TCV bases VaR limits on historical movement of prices, yields and spreads that could contribute to a potential loss.

The Prudential Standard requires the Corporation to maintain sufficient capital to cover, in addition to credit risk, its exposure to market risk. VaR is calculated daily on the following basis:

- historic simulation based VaR
- 1,000 days of immediate past historical data on rates
- one-day holding period, expanded to 10 days for capital calculation purposes
- 99% confidence level
- measurement includes capture of significant issuer-specific or idiosyncratic risks within the portfolios.

The total aggregate VaR exposure that TCV can undertake at any point in time across all its portfolios is set by TCV's Board. The Managing Director is responsible for recommending a total aggregate VaR limit for consideration by the Board. Board approved changes to the aggregate VaR limit must be approved by the Treasurer.

Within the Board set total aggregate VaR limit, the Managing Director has discretion to allocate sub limits to individual portfolios or sets of portfolios, as well as to allocate a lower level of limit to the General Manager, Treasury for day-to-day portfolio management purposes. VaR is measured, controlled and reported to management daily.

The VaR estimates are checked via back-testing against actual daily Treasury Operations Revenue results for reasonableness and the continued accuracy of the model assumptions and implementation. Any exceptions are tested against APS116 *Capital Adequacy: Market Risk* suggested back-testing levels of accuracy and results are reported to the Prudential Supervisor monthly.

The Corporation's VaR measure for the financial year was as follows:

	<b>2017</b>	<b>2016</b>
	<b>\$000s</b>	<b>\$000s</b>
30 June	1,756	2,520
Average daily value during the year	2,342	2,738
Highest	2,944	3,047
Lowest	1,704	2,329

All VaR measures were within limits during the respective financial years.

As TCV's VaR model relies on historical data and assumes recent historic market conditions, it may not always accurately predict the size of potential losses.

TCV's VaR measurement excludes a JPY 7.5 billion Euro Medium Term Note (JPY Bond), related cross currency swap and AUD loan to the Department of Treasury and Finance (DTF), as the cross currency swap fully hedges the JPY Bond's cash flows and the resulting AUD cash flows match the loan's cash flows. However, despite being cash flow matched, prior to their maturity, differences in the fair value of the instruments will impact on net profit.

As the fair value of the JPY Bond and the JPY leg of the related cross currency swap are valued off different curves (refer Note 17(b)) the present value in AUD of the cashflows of each instrument will also vary, despite being cash flow matched. Prior to maturity, this creates a AUD/JPY sensitivity. In addition, because all three instruments are valued off different curves, prior to maturity there is also interest rate sensitivity.

These risk sensitivities, outlined below, reflect the impact of the 'reasonably possible' movements in these factors on the portfolio at 30 June.

## Note 20 Risk Management (cont.)

	2017	2016
	\$000s	\$000s
<b>Risk Factor</b>		
AUD depreciates 5% against JPY	1,046	862
AUD appreciates 5% against JPY	(947)	(780)
JPY Bond and cross currency market interest rates 20 basis points up	(120)	(71)
JPY Bond and cross currency market interest rates 20 basis points down	125	75

The use of VaR is complemented by a range of scenarios for stress testing its exposure to market risk and by using Contingent Loss Risk (CLR) interest rate shocks to provide additional information about potential outcomes that lie outside of the chosen confidence interval in the VaR measurement.

### Contingent Loss Risk

TCV utilises CLR reports to analyse portfolio exposures to a number of key interest rate scenarios together with reporting of the basis risk inherent in the core portfolios. The interest rate scenario model quantifies the exposure of TCV's core portfolios against plausible interest rate scenarios. The Managing Director approves the CLR total aggregate, sector and scenario limits.

The market interest rate risk factor and sensitivity is measured and controlled daily as part of the CLR report.

### (b) Liquidity risk

Liquidity risk is the risk of a loss due to an inability to meet financial obligations when they fall due and/or the need to raise funds when markets are unable to offer the required volume or price. TCV is subject to the specific liquidity requirements of the Prudential Supervisor and DTF.

DTF's Whole of Victorian Government (WVOG) Liquidity Strategy requires TCV to:

- operate as the State's interface with wholesale financial markets and be the primary facilitator of liquidity
- maintain an appropriate profile in the wholesale markets to permit ready access to funding at appropriate prices and maturities to meet the expected and contingent funding needs of its clients
- maintain liquidity crisis action plans
- maintain appropriate diversification of funding
- hold acceptable minimum levels of surplus liquid assets for the State of Victoria to maintain the WVOG Liquidity Ratio (refer to *Short-term Liquidity Management* below)
- monitor market conditions constantly and advise the State of Victoria and its Participating Authorities when accessing funds at particular maturities becomes difficult or expensive so that their respective funding plans can be modified as appropriate.

The Prudential Standard requires that TCV has appropriate policies and procedures that:

- reflect the principles of APS210 *Liquidity*
- ensure that TCV has sufficient liquidity to meet its obligations as they fall due
- ensure TCV adheres to its liquidity management strategy at all times and that TCV review this strategy at least annually to take account of changing operating and regulatory circumstances where appropriate
- ensure TCV provides the Prudential Supervisor with monthly liquidity reports as detailed in the Prudential Standard.

## Note 20 Risk Management (cont.)

### Short-term Liquidity Management

DTF requires TCV to maintain the WOVG Liquidity Ratio, the ratio of liquid assets (free cash assets, liquid assets and committed bank lines) to twelve month's debt service obligations, at or above 80%. In certain circumstances the ratio is permitted to fall below 80% where there is an expectation that projected cash flows will restore the ratio.

The ratio during the period ending 30 June was:

	2017	2016
	%	%
30 June	103	114
Average during the year	109	106
Highest	216	145
Lowest	76	78

TCV also monitors liquidity stress cash flows to ensure TCV has sufficient liquid assets to manage abnormal cash outflows at a time when funding markets are severely restricted or closed.

### 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 based on contracted undiscounted repayment obligations.

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>2017</b>							
Deposits	2,490,645	4,135,676	713,287	5,986	-	-	7,345,594
Interest bearing liabilities – domestic	-	294,933	4,875,053	6,160,173	10,391,354	21,582,800	43,304,313
Interest bearing liabilities – offshore	-	85	3,078	3,163	9,490	291,916	307,732
	<b>2,490,645</b>	<b>4,430,694</b>	<b>5,591,418</b>	<b>6,169,322</b>	<b>10,400,844</b>	<b>21,874,716</b>	<b>50,957,639</b>
<b>2016</b>							
Deposits	2,832,277	3,174,342	620,034	2,042	5,986	-	6,634,681
Interest bearing liabilities – domestic	-	1,738,840	5,093,563	4,764,470	14,824,877	21,008,533	47,430,283
Interest bearing liabilities – offshore	-	15,109	71,092	3,517	10,550	319,589	419,857
	<b>2,832,277</b>	<b>4,928,291</b>	<b>5,784,689</b>	<b>4,770,029</b>	<b>14,841,413</b>	<b>21,328,122</b>	<b>54,484,821</b>

### Liquidity Crisis Management

TCV uses liquidity crisis action plans, in the nature of a "checklist", to manage liquidity conditions during a liquidity crisis. A liquidity crisis would be typified by TCV not being able to access funding at a reasonable price to manage operating liquidity requirements.

## Note 20 Risk Management (cont.)

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

With respect to derivative transactions, the Treasurer's Approval of Financial Accommodation under the *Borrowing and Investment Powers Act 1987* lists the types of derivative transactions that TCV can transact.

The Board delegates to the Managing Director the authority to approve new or varied credit limits in accordance with the Board approved maximum exposures. The Board delegates to the Managing Director the authority to approve new or varied limits for settlement risk arising from cross currency swap and FX forward transactions. The Managing Director has the authority to immediately suspend, reduce or withdraw a counterparty credit limit originally approved by the Board to ensure credit quality standards are not diminished by an actual or prospective downgrading of the counterparty.

In respect of loans to the State of Victoria and repayment of loans by Participating Authorities (which are fully guaranteed by the State of Victoria provided the conditions incorporated in the Treasurer's approval of the borrowing are complied with) the ultimate credit exposure is to the State of Victoria. 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 20 Risk Management (cont.)

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

The credit quality of financial assets that are neither past due or impaired are assessed by reference to external ratings. 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	BBB+/BBB \$000s	Other \$000s	Total \$000s
<b>2017</b>						
Cash and cash equivalents	-	794,503	992,571	74,754	-	1,861,828
Receivables and other assets	536	126,764	110,543	-	85	237,928
Investments	607,296	8,988,723	442,397	169,667	39,011	10,247,094
Derivative financial instrument assets <sup>(1)</sup>	114,324	132,633	18,442	-	-	265,399
Loans to the State of Victoria and Participating Authorities <sup>(2)</sup>	34,144,127	-	-	-	-	34,144,127
<b>Total credit risk exposure</b>	<b>34,866,283</b>	<b>10,042,623</b>	<b>1,563,953</b>	<b>244,421</b>	<b>39,096</b>	<b>46,756,376</b>
<b>2016</b>						
Cash and cash equivalents	-	3,576,045	790,224	49,883	-	4,416,152
Receivables and other assets	274,317	85,405	121,160	32,595	53	513,530
Investments	697,768	3,524,040	498,014	-	12,121	4,731,943
Derivative financial instrument assets <sup>(1)</sup>	140,967	189,121	28,199	40,102	-	398,389
Loans to the State of Victoria and Participating Authorities <sup>(2)</sup>	40,888,605	-	-	-	-	40,888,605
<b>Total credit risk exposure</b>	<b>42,001,657</b>	<b>7,374,611</b>	<b>1,437,597</b>	<b>122,580</b>	<b>12,174</b>	<b>50,948,619</b>

(1) Reflects the credit exposure of derivative assets. This exposure is mitigated by derivative portfolio netting pursuant to Master Netting Agreements and collateral deposits. At 30 June 2017, TCV held \$48.0 million (2016: \$101.2 million) in cash deposits pursuant to Credit Support Annexures which provide for the provision of collateral to cover the credit risk arising from net derivative exposures to market counterparties.

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

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

At 30 June 2017, there were no amounts past due (30 June 2016: nil).

#### (d) Operational risk

Operational risk is defined as the risk of indirect or direct loss resulting from inadequate or failed internal processes, people and systems or from external events (as adopted by the Basel Committee on Banking Supervision). This definition includes legal risk but excludes strategic and reputational risks.

Operational risk is monitored with incidents documented in a risk and breach register. Significant operational risk incidents are required to be reported to the Board, Prudential Supervisor and DTF.



## Note 21 Capital Adequacy

TCV's risk management framework incorporates a risk-based capital adequacy approach as specified in TCV's Prudential Standard, which is based on the principles of the Basel Accord as adopted by APRA for the prudential supervision of the Australian banking sector. Under the Prudential Standard, the Corporation is required to hold a minimum capital adequacy ratio of 8% of risk weighted assets. For the years ended 30 June 2017 and 2016 the Corporation aimed to maintain a capital ratio of at least 10% of risk weighted assets. This increases to 10.5% from 1 July 2017.

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

	Actual 2017 \$000	Required 2017 \$000	Actual 2016 \$000	Required 2016 \$000
Total capital <sup>(1)</sup>	264,443	145,189	180,239	68,468
Risk weighted assets	1,814,859	1,814,859	855,850	855,850
Capital ratio	14.6%	8.0%	21.1%	8.0%

<sup>(1)</sup> Total capital excludes reserves.

## Note 22 Segment Information

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

## Note 23 Notes Supporting Statement of Cash Flows

### (i) Cash flows presented on a net basis

Cash flows arising from operating activities are presented on a net basis in the Statement of Cash Flows.

### (ii) Reconciliation of net cash from operating activities to net profit

	2017 \$000s	2016 \$000s
Net profit	83,254	41,739
Depreciation of property, plant and equipment	254	534
Amortisation of intangible assets	523	437
Increase in payables and other liabilities	1,519	4,184
Decrease/(increase) in other financial assets	349	(113)
Increase in provisions	261	195
Decrease in accrued interest receivable	20,650	3,960
(Decrease)/increase in accrued interest payable	(37,393)	1,610
Net unrealised (loss) from financial assets and liabilities	(256,581)	(113,617)
Operating cashflow items not included in profit	(2,366,712)	1,040,504
<b>Net cash inflow from operating activities</b>	<b>(2,553,876)</b>	<b>979,433</b>

## Note 24 Responsible Persons

In accordance with the Ministerial Directions issued by the Minister for Finance under the Financial Management Act 1994 (FMA), the following disclosures are made regarding responsible persons for the reporting period.

The following Directors together with the Treasurer, Tim Pallas MP, are or have been responsible persons of TCV during the year:

Rob Hunt AM, Chairman (retired on 30 June 2017)

Cassandra Kelly, Deputy Chairperson

William Whitford, Managing Director

Suzanne Ewart (retired on 31 January 2017)

John Blight

David Martine

Paul Coughlin

John Pearce

Pamela Hauser (appointed on 21 February 2017)

Effective 1 July 2017, Cassandra Kelly was appointed Chairperson and Helen Thornton was appointed as Director and Deputy Chairperson.

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*.

### Remuneration

The total remuneration paid or payable to Directors for the year is \$1,000,978 (2016: \$1,013,668). These amounts include all employee benefits which are all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for service rendered. In respect of the Managing Director, total remuneration is also inclusive of accrued bonus. Amounts relating to ministers are reported in the financial statements of the Department of Parliamentary Services.

Remuneration of Directors	2017	2016
Income band	No. of Directors	No. of Directors
\$620,000 to \$629,999	-	1
\$600,000 to \$609,999	1	-
\$100,000 to \$109,999	1	1
\$50,000 to \$59,999	4	5
\$30,000 to \$39,999	1	-
\$20,000 to \$29,999	1	-
\$0 <sup>(1)</sup>	1	1

<sup>(1)</sup> David Martine, as an employee of the Department of Treasury and Finance, was not compensated by TCV.

## Note 25 Remuneration of executives

The table below presents the remuneration received or receivable by executives, including the Managing Director. Remuneration comprises employee benefits in all forms of consideration paid, payable or provided by the TCV, or on behalf of the entity, in exchange for services rendered, and is disclosed in the following categories:

- short-term employee benefits include amounts such as wages, salaries, annual leave or sick leave that are usually paid or payable on a regular basis
- post-employment benefits are benefits paid or payable on a discrete basis when employment has ceased
- other long-term benefits reflect long service leave accrued
- termination benefits include termination of employment payments, such as severance packages.

<b>Remuneration of Executive officers</b>	<b>2017</b>
	<b>\$000s</b>
Short-term benefits	2,817
Post-employment benefits	-
Other long term benefits	100
Termination benefits	-
<b>Total remuneration</b>	<b>2,917</b>
<b>Total number of executive officers</b>	<b>7</b>
<b>Total annualised employee equivalent (AEE) <sup>(1)</sup></b>	<b>6.6</b>

(1) The total annualised employee equivalent (AEE) provides a measure of full-time equivalent executive officers over the reporting period based on working 5 days per week.

No comparatives have been reported because remuneration in the prior year was determined in line with the basis and definition under FRD 21B. Remuneration previously included salary, performance bonuses, superannuation, fringe benefits and Fringe Benefits Tax paid by TCV in relation to those benefits. Refer to the prior year's financial statements for executive remuneration for the 2015-16 reporting period.

## Note 26 Related Parties

TCV is the central financing authority and financial markets adviser for the State of Victoria. TCV provides treasury services to the State of Victoria and Participating Authorities. TCV also provides financial advice and analytical services to Participating Authorities, government departments and agencies and other parties at the direction of the Treasurer.

Related parties of the TCV include:

- all key management personnel and their close family members and personal business interests (controlled entities, joint ventures and entities they have significant influence over);
- all cabinet ministers and their close family members; and
- all departments and public sector entities that are controlled and consolidated into the whole of state consolidated financial statements.

All related party transactions have been entered into on an arm's length basis.

No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

## Note 26 Related Parties (cont.)

### Significant transactions with government-related entities

Other than as detailed below, there were no significant transactions with government related entities.

In October 2016, TCV received \$9.7 billion from the Department of Treasury and Finance (DTF), of which \$7.2 billion was applied to reduce term and at call borrowings and the balance was placed on term and at call deposits.

In February 2015, TCV entered into a Deed of Indemnity (the Deed) with DTF to indemnify TCV in respect of any expenses, losses, damage, cost or liability incurred in hedging and/or unwinding the State of Victoria financial exposures to interest rate swaps subsequently assumed by TCV (the Swaps). The Swaps were associated with the East West Link Project. Under the Deed, DTF agreed to reimburse TCV for any net loss incurred managing the swaps on behalf of the State of Victoria. In September 2016, DTF paid TCV \$301.5 million satisfying all costs incurred under the Deed in full. Consequently, the Deed has no further effect.

### Key management personnel

Key management personnel of the TCV include the Treasurer, Tim Pallas MP, TCV's Directors (refer Note 24) and the following members of the Senior Executive Team:

Mark Engeman, Deputy Managing Director and Corporation Secretary

Mike van der Graaf, General Manager, Risk and Performance Management

Justin Lofting, General Manager, Treasury

Judy Utley, General Manager, People and Culture

Peter Wyatt, Chief Financial Officer

Warren Murray, General Manager, Information Technology

The TCV Director, David Martine, is the Secretary of DTF and a director of Victorian Funds Management Corporation.

### Transactions and balances with key management personnel and other related parties

Outside of normal citizen type transactions with TCV or related entities (i.e. transactions where key management personnel or close family members interact with TCV in the capacity as a citizen), there were no related party transactions that involved key management personnel, their close family members and their personal business interests.

## Note 27 Contingencies

From time to time TCV incurs 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.

There were no contingent liabilities as at 30 June 2017. A guarantee previously provided to the Australian Energy Market Operation Limited (AEMO) in order for the State Electricity Commission of Victoria (SECV) to participate in the national electricity market was cancelled in the period and therefore as at 30 June 2017 TCV had no obligations to pay any amounts to AEMO.

## Note 28 Commitments

### Lease commitments

Future commitments under non-cancellable operating leases are due:

	<b>2017</b>	<b>2016</b>
	<b>\$000s</b>	<b>\$000s</b>
Not later than one year	405	516
Later than one year but not more than five years	2,278	-
Later than 5 years	6,637	-
	<b>9,320</b>	<b>516</b>

Operating lease commitments relate to the Corporation's tenancy at 1 Collins Street Melbourne. During the year TCV entered a new lease agreement extending the lease expiry date to 2024 with an option to extend for a further 5 years. The lease provides for a rental increase at each anniversary date.

### Other

Capital expenditure commitments as at 30 June 2017 were \$1.1 million (2016: nil).

## Note 29 Subsequent Events

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

## Certification of Financial Statements

The attached financial statements for Treasury Corporation of Victoria have been prepared in accordance with Direction 5.2 of the Standing Directions of the Minister for Finance under the *Financial Management Act 1994*, applicable Financial Reporting Directions, Australian Accounting Standards including Interpretations and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and notes to and forming part of the financial statements, presents fairly the financial transactions during the year ended 30 June 2017 and financial position of Treasury Corporation of Victoria as at 30 June 2017.

At the time of signing, we are not aware of any circumstance which would render any particulars included in the financial statements to be misleading or inaccurate.

We authorise the attached financial statements for issue on 9 August 2017.



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Cassandra Kelly  
**Chairperson**

Melbourne  
Date: 9 August 2017



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William Whitford  
**Managing Director**

Melbourne  
Date: 9 August 2017



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Peter Wyatt  
**Chief Financial Officer**

Melbourne  
Date: 9 August 2017

## Independent Auditor's Report



### Independent Auditor's Report

#### To the board of the Treasury Corporation of Victoria

<b>Opinion</b>	<p>I have audited the financial report of the Treasury Corporation of Victoria (the corporation) which comprises the:</p> <ul style="list-style-type: none"> <li>• statement of financial position as at 30 June 2017</li> <li>• statement of comprehensive income for the year then ended</li> <li>• statement of changes in equity for the year then ended</li> <li>• statement of cash flows for the year then ended</li> <li>• notes to the financial statements, including significant accounting policies</li> <li>• certification of the financial statements.</li> </ul> <p>In my opinion the financial report presents fairly, in all material respects, the financial position of the corporation as at 30 June 2017 and its financial performance and cash flows for the year then ended in accordance with the financial reporting requirements the <i>Financial Management Act 1994</i> and applicable Australian Accounting Standards.</p>
<b>Basis for Opinion</b>	<p>I have conducted my audit in accordance with the <i>Audit Act 1994</i> which incorporates the Australian Auditing Standards. My responsibilities under the Act are further described in the <i>Auditor's Responsibilities for the Audit of the Financial Report</i> section of my report.</p> <p>My independence is established by the <i>Constitution Act 1975</i>. My staff and I are independent of the corporation in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's <i>APES 110 Code of Ethics for Professional Accountants</i> (the Code) that are relevant to my audit of the financial report in Australia. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code.</p> <p>I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.</p>
<b>Board's responsibilities for the financial report</b>	<p>The board of the corporation is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the <i>Financial Management Act 1994</i>, and for such internal control as the board determines is necessary to enable the preparation and fair presentation of a financial report that is free from material misstatement, whether due to fraud or error.</p> <p>In preparing the financial report, the board is responsible for assessing the corporation's ability to continue as a going concern, and using the going concern basis of accounting unless it is inappropriate to do so.</p>

**Auditor's responsibilities for the audit of the financial report**

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit 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 corporation's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board
- conclude on the appropriateness of the board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the corporation to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

MELBOURNE  
14 August 2017

  
Andrew Greaves  
Auditor-General



## Appendix 1 – Disclosure Index

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

Victorian Legislation and Pronouncements	Requirement	Page Reference
<b>Financial Reporting Directions</b>		
FRD10A	Disclosure index	64
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FRD22H	Summary of the financial results	5
FRD22H	Significant changes in financial position	n/a
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FRD22H	Information and Communications Technology expenditure	25
FRD22H	Application of <i>Freedom of Information Act 1982</i>	24
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<i>Financial Management Act 1994</i>		24

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Facsimile	+61 3 9651 4880	General
	+61 3 9651 4880	Dealing room
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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 2535.	
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 Border Protection, please email <a href="mailto:tcv@tcv.vic.gov.au">tcv@tcv.vic.gov.au</a> or telephone +61 3 9911 3636.	