

**ANNUAL REPORT**  
**2019/20**

ENHANCING FINANCIAL  
OUTCOMES FOR VICTORIA

Treasury Corporation of Victoria  
ABN: 97 552 308 966

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## Reference to Credit Ratings

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

## Our Purpose

Treasury Corporation of Victoria (TCV or the Corporation) supports the State of Victoria and its agencies and departments by assisting in the management of their financial risks.

We work together to understand each organisations' specific financing, investment and market risks, and provide the appropriate products, services and advice to manage these risks.

By centralising the financing, short-term investment and advisory expertise into one entity, the State ensures it has a single interface to financial markets to:

- centrally manage financing and short-term investment risk, and harvest the benefits of scale
- attract and retain expert employees who have the experience, skills and knowledge to meet our obligations, customer support and advisory needs
- manage liquidity at a Whole of State level
- promote the State's profile and reputation in domestic and international financial markets
- meet the growing market requirement for prudent risk management in relation to interest rate, refinancing, credit, liquidity, foreign currency, commodity and enterprise risks
- support the State's activities in regard to the Rating Agencies.

The *Treasury Corporation of Victoria Act 1992* (TCV Act) enables TCV to provide services to Participating Authorities (public authorities accepted by TCV) and Departments of the State and, at the determination of the Treasurer, other Victorian entities.

At 30 June 2020, there were 115 Participating Authorities (2019: 109) in addition to the Budget Sector.

## Our Borrowing Program

We maintain a range of borrowing programs to 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 assist us to source funds at acceptable and competitive pricing in all market conditions.

## 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 relationship with the Treasurer of Victoria

The Treasurer of Victoria (Treasurer) is responsible for the administration of the 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 (DTF), with Prudential oversight provided by an independent Prudential Supervisor.

Our Chair, on behalf of the Board of Directors, reports to the Treasurer.

## Our People

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 as employees in the public sector, as set out in the relevant Codes of Conduct.

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

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.

## Report of the Chair and Managing Director

While the COVID virus only became evident in the second half of the financial year, its impact on Victoria's people, Government and economy has been profound and it has been the most significant external factor to influence TCV's activities and operations this year.

As with businesses across the globe, TCV's agility has been tested. We have moved rapidly to work and communicate in new ways to maintain the functionality of the business, to support our customers and to ensure the health and well-being of our people.

We are happy to report that we have been successful in our endeavours. Our systems and processes, including our Business Continuity Plan, have been tested and proven to be robust. Our continual improvement philosophy and the scenario testing that we have carried out over the years have served us well in the rapid move to a working from home environment. We have seamlessly supported our customers' needs and we have cared for our employees, whose lives have been significantly disrupted.

Our people too have risen to the COVID-related challenges, adapting to the environmental changes and working collegiately to ensure continued cohesion and effectiveness.

Our core task, financing the needs of Government, increased rapidly and substantially as the Victorian Government committed to an unprecedented COVID stimulus response. TCV responded to this proactively, despite difficult market conditions, sourcing funding across the curve to maintain a strong liquidity position and satisfy all funding needs.

At the same time, a number of our Participating Authorities clients required assistance as isolation measures impacted their cashflows. We have been able to work collaboratively with all of our clients, focusing on adding value and providing advice and support with their financing requirements.

We have continued to maintain strong relationships with Australian and International Financial Markets, and these relationships allow us to promote both Victoria and TCV. Our investors continue to compliment the professional approach we demonstrate in our capital market activities and are supportive of our programs.

In considering our success across the years, we have focused on quantitative and qualitative measures. Whilst we pay careful attention to and place importance on metrics including KPIs, financial return and other measures of operational effectiveness, it is the ability of the Corporation to be able to adapt to and deliver seamlessly in a high stress environment such as this one that is the ultimate test of our capabilities.

We are proud of our achievements: financial performance exceeded expectations; customer feedback remained uniformly positive; our people are highly engaged; and our reputation remains very strong within financial markets.

It is at this point that we can now turn from reflecting on what we have delivered and how we have performed to acknowledging those who have helped us achieve the excellent results. We are most grateful for our employees' contribution, commitment and dedication – the Corporation's performance reflects their success and we are proud of each of them.

Thank you to our Board of Directors whose expertise and professionalism brings the governance and added valuable insight to make TCV even more effective at carrying out its responsibilities.

A further thanks to our clients, who actively seek our engagement and open their businesses to us. We remain grateful of their confidence which is vital to our shared success.

To Treasurer Tim Pallas MP, his staff and the team at the Department of Treasury and Finance, we wish to extend our sincere appreciation for their ongoing guidance and support. Their trust and proactive engagement enhance 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 assist in delivering better outcomes to the State of Victoria.



**Cassandra Kelly**  
 Chair  
 19 August 2020



**William (Bill) Whitford**  
 Managing Director  
 19 August 2020

## Performance

TCV focuses on financial and non-financial objectives and performance indicators, which 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 against these objectives:

Objective/Indicator	Outcome 2019-20
<b>Delivery of the State's financing requirements</b>	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, despite the increased requirements and market illiquidity through the COVID period. We retain clear access to funding markets.
<b>Management of market risk within approved parameters</b>	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 2019-20 financial year, TCV managed market risk within approved/agreed limits.
<b>Financial performance</b>	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 2019-20, TCV delivered a ROE of 20.5%, Net Profit \$51.8 million, \$31.3 million in excess of budget.
<b>Client satisfaction</b>	<p>TCV regularly measures client satisfaction through an independent Client Survey. The formal survey was last undertaken in May 2017, and while due this year, has been delayed this year due to the COVID environment.</p> <p>Our ongoing conversations with clients indicate that they retain a positive view of the Corporation and our contribution to their businesses.</p>
<b>Capacity</b>	The Corporation's ability to deliver our critical tasks is observable through a number of metrics including our Audit and Prudential supervision findings and our operational risk reporting. Through the year, these reports show that the corporation continues to perform at a high level and maintain a strong operating capacity. The COVID environment has tested this capacity, and we are pleased to report that metrics remain strong.
<b>People</b>	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, conducted late in 2018, indicated a top decile level of employee engagement and alignment, which was replicated in the State's People Matters Survey run in mid-2019. TCV was the State's highest-ranking organisation in most parts of that survey.
<b>OHS</b>	We ensure the safety of our people through the oversight of both Employee and Board OHS committees, and through a thorough training and compliance process. In 2019-20 there were no notifiable OHS incidents.

## Financial Summary

Income Summary	2019-20	2018-19	2017-18	2016-17	2015-16
	\$ million	\$ million	\$ million	\$ million	\$ million
<b>Net profit</b>	<b>51.8</b>	<b>50.3</b>	<b>49.7</b>	<b>83.3</b>	<b>41.7</b>
<b>Dividends paid</b>	<b>50.3</b>	<b>49.7</b>	<b>83.3</b>	<b>0.0</b>	<b>31.7</b>
Balance sheet	2020	2019	2018	2017	2016
	\$ million	\$ million	\$ million	\$ million	\$ million
Cash and cash equivalents	570.6	2,534.2	2,849.6	1,861.8	4,416.2
Investments	3,448.2	6,530.4	5,243.1	10,017.5	4,471.6
Derivatives	1,193.5	488.2	414.9	412.0	630.1
Loans	65,573.2	43,063.5	39,250.4	34,373.7	41,148.9
Other assets	72.0	267.2	71.7	240.7	517.9
<b>Total assets</b>	<b>70,857.5</b>	<b>52,883.5</b>	<b>47,829.7</b>	<b>46,905.7</b>	<b>51,184.7</b>
Other liabilities	7,031.2	3,536.8	566.0	387.9	181.3
Deposits from public sector	209.3	2,086.9	7,585.8	7,288.9	6,521.0
Derivatives	1,150.9	465.2	388.3	399.9	955.4
Domestic benchmark bonds	51,712.5	39,700.4	34,422.9	34,859.3	38,374.9
Domestic borrowings other	9,897.9	6,632.8	4,389.0	3,461.3	4,597.3
Offshore borrowings	642.9	232.9	246.8	244.0	372.5
<b>Total liabilities</b>	<b>70,644.7</b>	<b>52,655.0</b>	<b>47,598.8</b>	<b>46,641.3</b>	<b>51,002.4</b>
<b>Total equity</b>	<b>212.8</b>	<b>228.5</b>	<b>230.9</b>	<b>264.4</b>	<b>182.3</b>

## 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 to assist them manage their financing risks. This year these services included the activities detailed below.

### Water Corporations

We continue to work closely with the water sector in the management of their debt portfolios. The total of loans provided to the sector is excess of \$13 billion and debt management discussions are held regularly with each water corporation.

The Essential Services Commission (ESC) sets prices for the water and sewerage services provided by Victoria's water corporations, and we continue to engage with them regarding the calculation of the trailing 10-year average. The current trailing 10-year average methodology was confirmed in the renewal of pricing determinations this year for a number of water corporations, and we have advised our water clients about the management of the relevant risk exposures and debt management practice that is aligned to the trailing average approach.

We have also been engaged by the Intelligent Water Network (IWN), which is a partnership between VicWater, 18 Victorian water corporations and the Department of Environment, Land, Water and Planning (DELWP) to provide invoice verification and Large-scale Generation Certificates (LGC) transactional support for a power purchase agreement between a new umbrella organisation called Zero Emissions Water (ZEW) and Kiamal Solar Farm in north west Victoria.

### Department of Treasury & Finance

TCV continues to maintain a very strong relationship with DTF and its officers. The main focus for the year, particularly since the onset of the COVID crisis, has been the fulfillment of the State's funding requirements.

In addition, we continue to:

- provide advice and support to DTF's Debt Portfolio Management Committee, responsible for reviewing the State's debt exposures
- manage the daily funding of the State's One Account on behalf of DTF
- 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 client's 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.

### Housing Association Funding

The 'Building the Financial Capacity of the Housing Associations' program provides government support of up to \$1.1 billion to help housing associations (HA) to access financing at affordable rates. The provision of support is in two ways – up to \$550 million in government guarantees will be provided to banks to reduce the cost of funds provided by banks to the HAs. The additional \$550 million will be available as low cost loans from TCV. Loans sourced from TCV can be utilised to fund new social housing developments or refinance existing bank loans. TCV is currently finalising arrangements to provide loan facilities to the initial group of HA's that are expected to borrow up to \$353 million under the program.

### Community Sports Infrastructure Loan Scheme

TCV has worked to finalise the delivery of the first tranche of the Community Sports Infrastructure Loan (CSIL) Scheme. The tranche provides for \$100 million of low-interest, government-guaranteed TCV loans of between \$500,000 and \$10 million to deliver infrastructure that boosts grassroots participation. The infrastructure programs approved under the program include building or upgrading community sport and recreation infrastructure, such as pools, indoor sports stadiums and community sport precincts — including pavilions, grounds and synthetic surfaces. The first tranche borrowers are made up of metropolitan and regional councils, sporting clubs and associations, and a privately-owned leisure management provider. A second \$100 million tranche of the CSIL scheme has been approved for delivery in 2020-21.

### Community Infrastructure Loan Scheme

The Community Infrastructure Loan (CIL) scheme is an additional loan scheme to support the development of community infrastructure at the local government level which was launched by the Treasurer and the Minister for Local Government in early September 2019.

The program size is \$100 million and is designed to provide councils access to low interest rate loans from TCV of between \$500,000 and \$10 million. Eligible projects include community centres, public libraries, kindergartens and public spaces. A total of 22 projects have been approved for delivery by 15 metropolitan and regional councils.

### Victorian Business Growth Fund

The government has established a Victorian Business Growth Fund (VBGF) to provide equity capital to fund small and medium-sized enterprises, to create jobs and grow the Victorian economy. The government and First State Super are contributing \$250 million into the fund which is expected to run for 10 years. TCV is supporting the State's contribution to the Fund.

### Victorian Pride Centre

The Victorian Pride Centre (VPC) has received a \$10 million borrowing approval from the Treasurer to assist with funding the construction costs of new headquarters in St Kilda. VPC's headquarters will provide a permanent home for major and smaller LGBTQI organisations in Victoria. In addition to the \$10 million TCV loan facility, VPC were provided a \$15 million State Government grant for the project.

### Foreign Exchange

DTF has a foreign exchange risk management policy that requires agencies and authorities to hedge any material foreign exchange exposures with TCV. We actively communicate this policy in our financial risk management discussions with clients.

During 2019-20, TCV provided foreign exchange advice and services to clients in a number of government sectors including the arts, sports, utilities, transport and protective services. We also assisted health service providers in managing foreign exchange exposures related to the procurement of medical equipment and supplies required to manage the COVID health crisis.

### Treasury Advisory Appointments

Over the year, TCV provided a range of treasury advisory services to our clients, including Barwon Region Water Corporation, City West Water, DTF, Melbourne Water Corporation, Development Victoria, South East Water and Yarra Valley Water.

This advice includes debt portfolio strategy reviews, treasury policy updates, debt structuring advice, interest cost scenario analysis and cash management strategies.

### Loan Repayment Holidays

As a result of COVID, the State has provided support to borrowers who are temporarily unable to meet their debt repayment obligations. TCV worked closely with DTF and clients to design a principal and interest holiday scheme that allows clients to defer principal and interest payments for an initial six-month period.

### Large-Scale Generation Certificates

Various state agencies and Victorian water corporations, through their renewable energy generation schemes, manage holdings of LGCs. TCV is able to acquire, hold, sell or surrender certificates on behalf of our clients and provided risk management and transactional assistance to a number of government schemes, including the Renewable Energy Certificate Purchasing Initiative, Solar Trams, Victorian Reverse Energy Auction Scheme, and the Bulgana Wind Farm.



## Project Advisory Services

TCV's Project Advisory Services team provides support for clients in the development and implementation 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, contract management and risk management advice, as well as assistance with transaction implementation where required. This year these services included the following activities:

### Department of Treasury and Finance

TCV provides advice to DTF on financing aspects of Public Private Partnership (PPP) including forecasting of the overall liabilities and exposures of its PPP program and advice on PPP refinancing, contract negotiations and risk management aspects.

### 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, amendments for modifications and contractual adjustments, abatements and refinancing provisions.

In 2019-20 TCV offered these services to a number of clients including the:

- Department of Health and Human Services (DHHS) for the Casey (including the Casey Expansion Project), Royal Women's, Royal Children's, Victorian Comprehensive Cancer Centre and New Bendigo Hospitals
- Court Services Victoria (Victorian County Court)
- Department of Justice and Community Safety (Hopkins Correctional Centre and Victorian Correctional Facilities Projects (Metropolitan Remand Centre and Marngoneet Correctional Centre) and Ravenhall Prison)
- Department of Jobs, Precincts and Regions (Melbourne Convention Centre, Melbourne Exhibition Centre Expansion, Biosciences Research Centre and Royal Melbourne Showgrounds Redevelopment Projects)
- Department of Education and Training (Partnerships Victoria in Schools Project and New Schools PPP).

### PPP Procurements and Refinancing

TCV provides specialist financing advice to DTF (as central contract administrator) as well as Government departments and agencies on refinancing aspects of PPP's throughout their project lifecycles. Additionally, TCV provides advice to DTF and procuring agencies on financing aspects of PPP procurement submissions through to providing assistance with benchmarking the Financial Close rate set processes.

Specific PPP refinancing's that TCV provided advice during the year included:

- East Link
- New Schools PPP.

In addition, TCV provided transactional assistance (swap and long-term TCV loans to the AquaSure project vehicle) for the Victorian Desalination Project as part of a commercial refinancing transaction in conjunction with providing associated advice to DTF, DELWP and the State's advisory team.

Specific PPP procurements where TCV provided advice during the year included:

- Suburban Roads Upgrade (Northern and South Eastern Packages)
- New Footscray Hospital
- North East Link.

In addition, TCV has provided financing advice in relation to contract negotiations for the Melbourne Metro Tunnels and Stations PPP that is currently under construction to DTF and the Department of Transport, and the Public Housing Renewal Program to DHHS in respect of the procurement of private financing for the respective project packages.

Looking forward, TCV is in the process of continuing our engagement on the Suburban Roads Upgrade, New Footscray Hospital, North East Link Project, and the Public Housing Renewal Program (Package 4) expected to reach Financial Close in 2020-21.

### **Business Case Development**

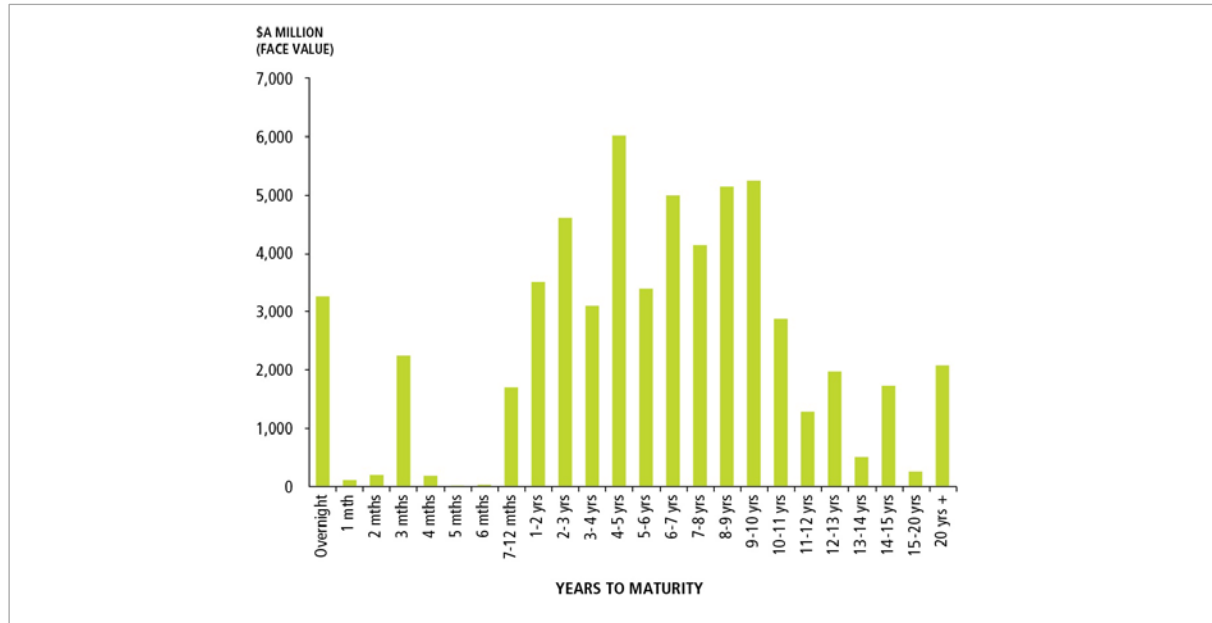
TCV offers financial modelling and business case development services to departments and agencies and supports DTF's Gateway Review Process.

During the year TCV provided financial modelling advice to the Werribee Zoo, Victorian Port Authority, and Department of Jobs, Precincts and Regions (Federation Square, Melbourne Convention Centre and Exhibition Centre Trust, and COVID Business Restrictions) and has started the development of a business case for a new Monash Health car park.

## 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 2020, 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 Note 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
- \$A10 billion Domestic Promissory Note program.

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 currently comprises:

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

**\$A10 billion Domestic Promissory Note**

Australian and New Zealand Banking Group Limited	National Australia Bank Limited
Commonwealth Bank of Australia	Westpac Banking Corporation
Macquarie Bank Limited	

**\$US3 billion Euro Medium Term Note**

Nomura International plc	UBS Limited
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**\$A5 billion Euro Commercial Paper**

Bank of America Merrill Lynch Limited	National Australia Bank Limited, Hong Kong Branch
Barclays plc	RBC Europe Limited
Citibank International plc	The Royal Bank of Scotland plc
Commonwealth Bank of Australia	UBS AG, London Branch
Credit Suisse	

## 2019-20 Funding Activity

### Long-term funding programs

Domestic Benchmark Bond outstandings increased by \$A15.2 billion during the year (excluding the matured June 2020 bond).

Maturity	30 June 2020 Face Value Outstandings (\$A million)	YOY Face Value Change (\$A million)
Oct 2021	2,858	-375
Oct 2022	4,282	-642
Nov 2023	2,975	2,975
Dec 2024	5,792	189
Nov 2026	7,886	2,558
Oct 2028	6,432	1,812
Oct 2029	5,116	1,789
Nov 2030	3,743	3,743
Dec 2032	3,108	1,303
Nov 2034	2,328	2,328
Dec 2040	569	283
Nov 2041	1,203	1,203

TCV launched three new benchmark transactions through the year with the addition of a new November 2023, November 2030 and November 2034 benchmark maturities. Each of these new benchmark lines were completed via a syndication process with TCV dealer panel intermediaries.

In addition to the new benchmark bond lines, outstandings in the existing benchmark bond lines increased by some \$7.3 billion and TCV issued an additional \$2 billion in non-benchmark issuance across a number of maturities.

Maturity	30 June 2020 Face Value Outstandings (\$A million)	YOY Face Value Change (\$A million)
Nov 2027	500	+500
Nov 2040	569	+283
Nov 2041	1,203	+1,203
Nov 2047	221	+91

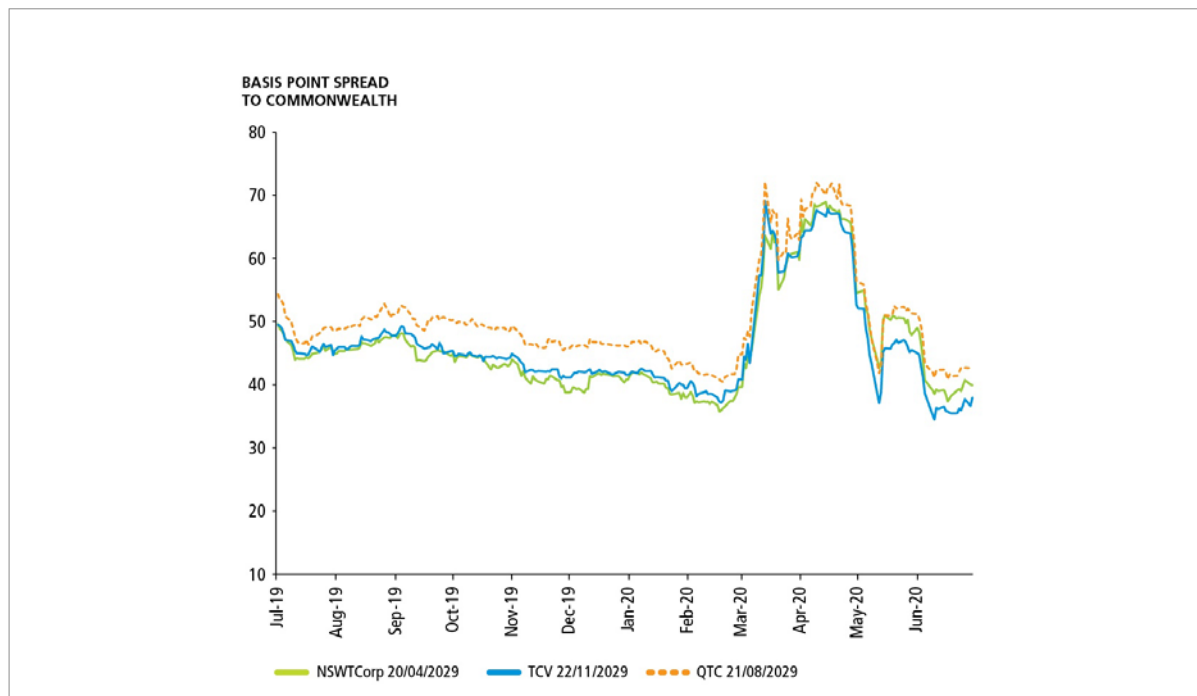
Outstandings within the Domestic Promissory Note program decreased by \$A295 million to \$A2,748 million. Activity in our ECP program was minimal during the period and ended the year with zero outstandings.

TCV accessed the Euro dollar market and raised a total of €250 million maturing February 2050. This was the first non-AUD funding transaction completed since 2009. The issue provided a funding and duration advantage that could not be achieved in the AUD market at the time.

In total, TCV issued \$19.3 billion in new debt outstandings versus a base 2019-20 funding requirement of \$5.5 billion. The higher funding requirement was due to the impact of the COVID health crisis on the States revenue and expenditure forecasts.

**Cost of Funds**

Victoria’s cost of funds relative to the Commonwealth Government ended the year relatively unchanged despite having blown out significantly at the beginning of the COVID crisis in February, before improving over April/ May as the RBA entered the market to purchase semi government debt via the secondary market.



**Future Funding Strategy**

For the 2020-21 year, a comprehensive forecast of the full funding impact of the pandemic responses and associated economic downturn will not be available until the 2020-21 Budget is released, after the Commonwealth’s budget in early October. At this stage, TCV anticipates a funding requirement of between \$20-24 billion. This represents a combination of \$10-14 billion in additional funding and the previously advised 2020-21 funding task of \$10.2 billion.

The higher funding requirement is predominately due to the impacts on the governments expenditure and revenue activities to support the Victorian economy as a result of the COVID crisis.

The ECP program size was increased during the year from \$5 billion to \$10 billion to help support our short-term funding capacity. While for the first time since October 2009, TCV utilised the Euro Medium Term Note program with the issuance of €250 million of a 2050 Euro Dollar issuance.

The TCV funding strategy continues to focus on building liquid benchmark bond lines and, where possible, extending the duration of our benchmark maturities.

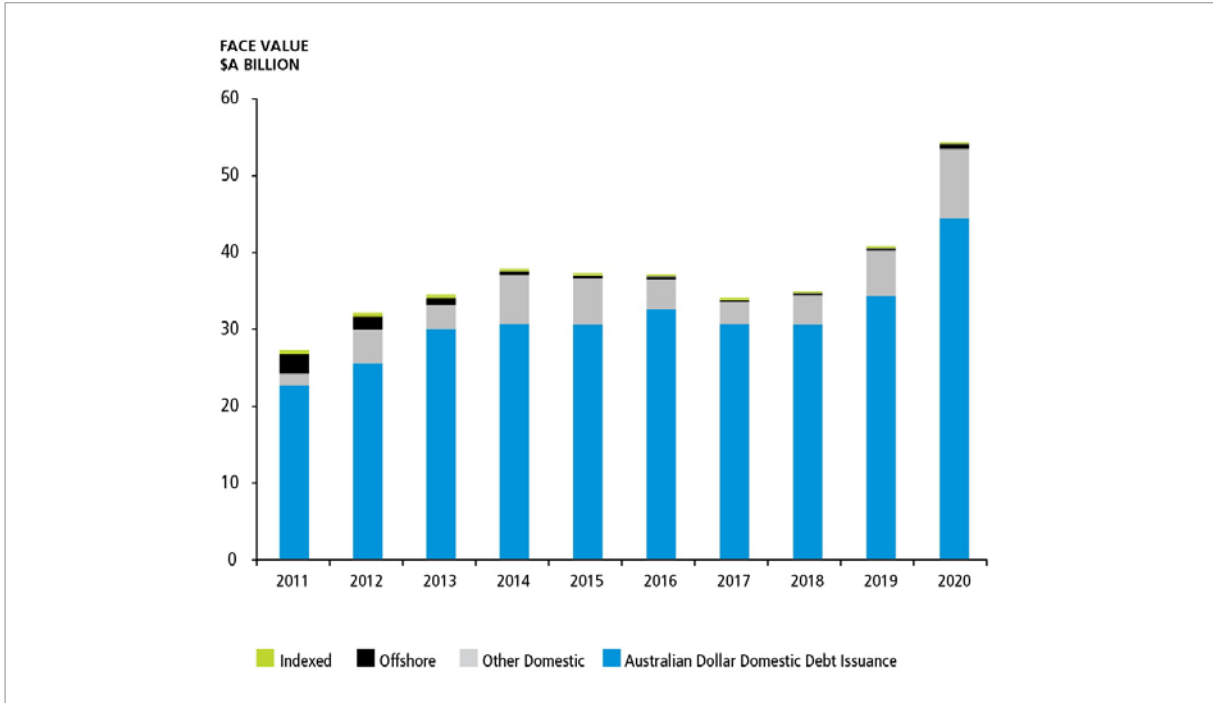
It is envisaged that the 2020-21 long-term funding requirement will be predominantly funded through the Domestic Benchmark Bond program. TCV will consider non-AUD funding opportunities where it provides a duration or cost of funds advantage.

Issuance will be conducted via private placement, public tenders and syndications, however this will be determined on a case by case basis and in line with market conditions.

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.

**Total Outstanding Debt**

This chart depicts the mix of TCV's total outstanding debt at 30 June 2020 relative to previous periods.



## Corporate Governance

### Board of Directors

#### **Cassandra Kelly, BEc (Hons) AM** **Chair**

First appointed: 11 August 2015

Current appointment expires: 10 August 2021

Ms Kelly has extensive experience in advising on finance, risk, strategy and policy. In 2003, she co-founded Pottinger, a corporate advisory company, where she remains as an advisor. Following on from her role advising the G20/B20 on matters of infrastructure, finance, health and digitalisation, Cassandra is a continuing member of the European Union's Global Tech Panel, chaired by the EU Vice Commissioner.

Ms Kelly has held executive roles at GMAC Commercial Mortgage and Deutsche Bank and was a consultant at McKinsey and Co. Her experience is broad and spans areas such as financial services, infrastructure, technology, digital media and professional services.

Ms Kelly is an experienced director. She was formerly chair of Pottinger and Allpress Espresso International, and a director of Flight Centre Travel Group and UNSW Foundation. Ms Kelly was appointed a member in the General Division of the Order of Australia in June 2019 for significant service to business through executive roles, and as an advocate for gender equity.

Ms Kelly held the following appointments during the year:

- Chair, Atomli Inc
- Chair, Her Heart Ltd
- Director, Pottinger Co Pty Limited
- Director, Pink Hope
- Member, European Union Global Tech Panel
- Member, Multiple Sclerosis Research Australia Leadership Council
- Advisory Council Member, Centre for Universal Education, Brookings Institute
- Chair of the Global Council of Exponent, the diversity initiative incubated by Google
- Chair, LiveTiles
- Advisory Board member, Block Chain Learning Group
- Expert Advisor to the G20/B20 on matters of Digitisation and health.

#### **Helen Thornton, BEc, ACA, GAICD** **Deputy Chair**

First appointed: 1 July 2017

Current appointment expires: 30 June 2023

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 and held the following appointments during the year:

- Director, Yarra Valley Water
- Director, Legal Practitioners Liability Committee
- Director, ISPT Pty Ltd
- Director, Austin Health
- Director, ANSVAR Insurance Pty Ltd
- 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, GAIST**  
**Managing Director**

First appointed: 28 July 2003

Current appointment expires: 27 July 2025

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. He has more than 35 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, is a Fellow of the Australian Institute of Company Directors and a Graduate of the Australian Institute of Superannuation Trustees.

Mr Whitford held the following appointments during the year:

- Director and Chair Audit and Risk Committee, Australian Financial Markets Association
- Director and Chair, Audit Risk and Compliance Committee, Zoological Parks and Gardens Board
- Member, Australian Unity Investment Committee.

**David Martine, BEc (Hons), MBA, PSM**

First appointed: 13 May 2014

Current appointment expires: 12 May 2023

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.

Mr Martine previously 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 holds an honours degree in economics from Monash University and completed his Master of Business Administration in 2005.

Mr Martine was awarded the Public Service Medal (PSM) - Victoria in the Australia Day Honours 2019 for outstanding public service to social, microeconomic and public sector reform and innovation in Victoria.

Mr Martine held the following appointments during the year:

- Director, Victorian Funds Management Corporation
- Director, Infrastructure Victoria Board
- Director, Tax and Transfer Policy Institute in the Crawford School of Public Policy ANU.

**John Pearce, BEc, MAppFin**

First appointed: 14 April 2015

Current appointment expires: 13 April 2021

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.

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

First appointed: 21 February 2017

Current appointment expires: 20 February 2023

Ms Hauser is Chair of the Audit Committee.

Ms Hauser has a background as a regulatory lawyer and has more than 30 years' experience in the financial services industry. She has held 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.

Ms Hauser held the following appointments during the year:

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

**Sue O'Connor, BAppSc, GradDipBM, FAICD**

First appointed: 10 April 2018

Current appointment expires: 9 April 2021

Ms O'Connor has extensive experience as a Chair, Director and senior business leader with ASX Top 10 companies, global unlisted companies and high-profile statutory authorities. She brings to the Board her commercial acumen and deep expertise in digital, transformation, cyber resilience, audit, risk, utilities and financial services.

Her 25+ year executive leadership career in the technology sector included 13 years as a senior executive at Telstra Corporation.

She holds a Bachelor of Applied Science and a Graduate of Diploma Business Management. She is a Fellow of the Australian Institute of Company Directors.

Ms O'Connor held the following appointments during the year:

- Chair, Yarra Valley Water
- Director, Mercer Superannuation
- Director, Kordia Group Limited
- Director, ClimateWorks Australia
- President elect, Bush Heritage Australia
- Advisory Council Member, Monash Sustainable Development Institute.

**Debra Hazelton, BA (Hons) MComm, GAICD**

First appointed: 18 August 2018

Current appointment expires: 17 August 2021

Ms Hazelton has 30 years' experience in global financial services, with a particular focus on Australia and Japan. She has expertise across fixed interest, treasury, institutional banking, risk management and global financial markets as well as organisational culture.

Ms Hazelton's most recent executive role was leading corporate culture globalisation for Mizuho Financial Group, based in Tokyo. She has held national CEO positions in both Australia and Japan, namely Mizuho Bank and Commonwealth Bank of Australia respectively.

Her previous board experience includes Australian Financial Markets Association (AFMA) Board, Asia Society and Women in Banking and Finance.

Ms Hazelton held the following appointments during the year:

- Director, AMP Limited (Chairman from August 2020)
- Director, AMP Bank (Chairman from August 2020)
- Director, AMP Capital Holdings
- Director, PERSOL Australia Pty. Ltd (holding company of Programmed)
- Director, Australia - Japan Foundation (DFAT)
- Member of Japan Advisory Committee for the Australian Chamber Orchestra (ACO)
- Principal of Kokusai Business Advisory.

## 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 Chair or Deputy Chair 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 are given in Note 27 of the Financial Statements 2020.

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:

- Cassandra Kelly (Chair)
- Helen Thornton (Deputy Chair)
- David Martine
- John Pearce
- Pamela Hauser
- Sue O'Connor
- Debra Hazelton

## Responsibility 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 Director's Code of Conduct* (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 *Standing Directions* issued under the *Financial Management Act 1994*.

## 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 is chaired by Ms Cassandra Kelly and meets bi-annually, or as required. The primary objectives are to ensure that TCV has appropriate processes to determine remuneration, to review remuneration strategy and budgetary costs, to approve remuneration terms for senior management and to set the terms and conditions of the Managing Director’s appointment.

**Occupational Health and Safety Committee**

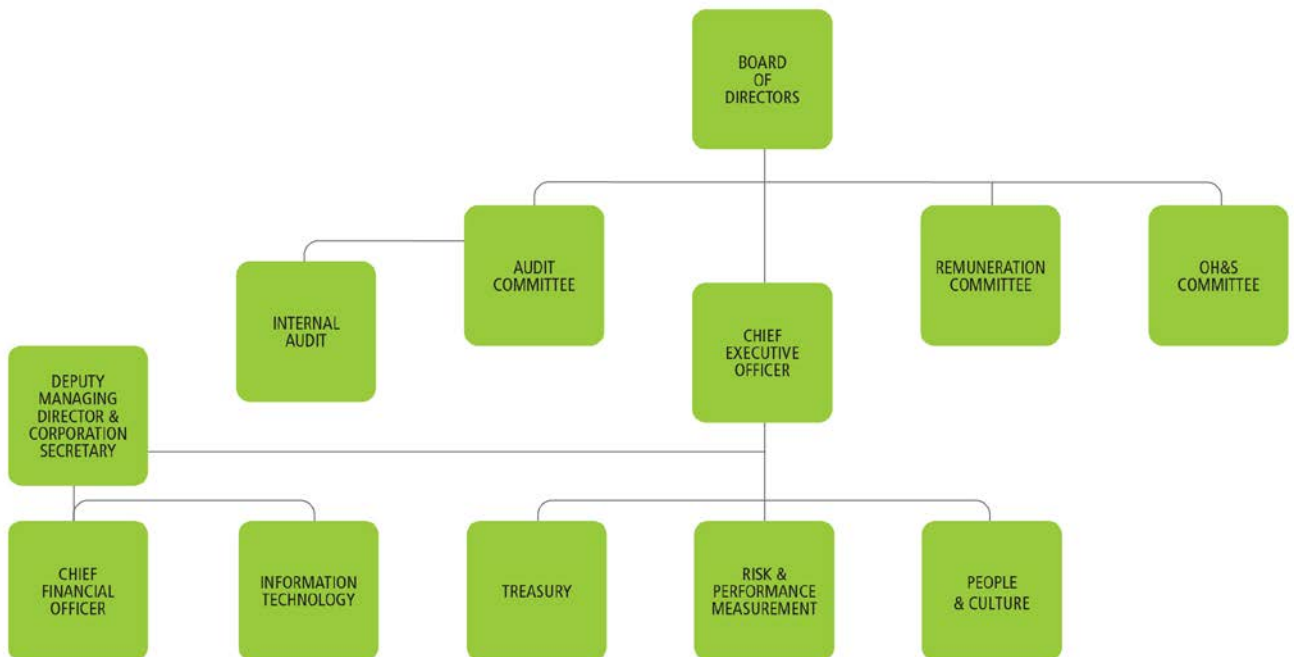
All of the Corporation’s Directors are members of the Occupational Health & Safety Committee, which is chaired by Ms Cassandra Kelly and meets bi-annually, or as required. The primary objectives are to oversee TCV’s occupational health and safety policies and procedures, ensuring compliance with the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

**Attendance by Directors at Directors’ Meetings 1 July 2019 – 30 June 2020**

	Board		Audit		Remuneration		OH&S	
	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended
C Kelly	10	10	4	4	5	5	2	2
W Whitford	10	10	4	4	5	5	2	2
H Thornton	10	10	4	4	5	5	2	2
D Martine	10	8	4	2	5	3	2	1
J Pearce	10	10	4	4	5	5	2	2
P Hauser	10	10	4	4	5	5	2	2
S O’Connor	10	10	4	4	5	5	2	2
D Hazelton	10	9	4	3	5	5	2	1

**Management**

**Organisation Structure**



## Management Team

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

### Mark 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), a graduate of the Australian Institute for Superannuation Trustees (GAIST) and is a CPA.

Mark is a non-executive director of Protect, an industry severance scheme.

### 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 risk appetite, risk frameworks, policies, controls and technologies. He provides independent risk assessments to the Board, the Audit Committee, 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 an 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 OH&S 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. Judy is a member of the Australian Institute of Company Directors (GAICD).

**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 Practicing Accountant, a member of the Australian Institute of Company Directors (GAICD) and of the Finance and Treasury Association

Peter is member of the Audit and Risk Committee of the Portable Long Service Authority.

**Warren Murray****General Manager, Information Technology**

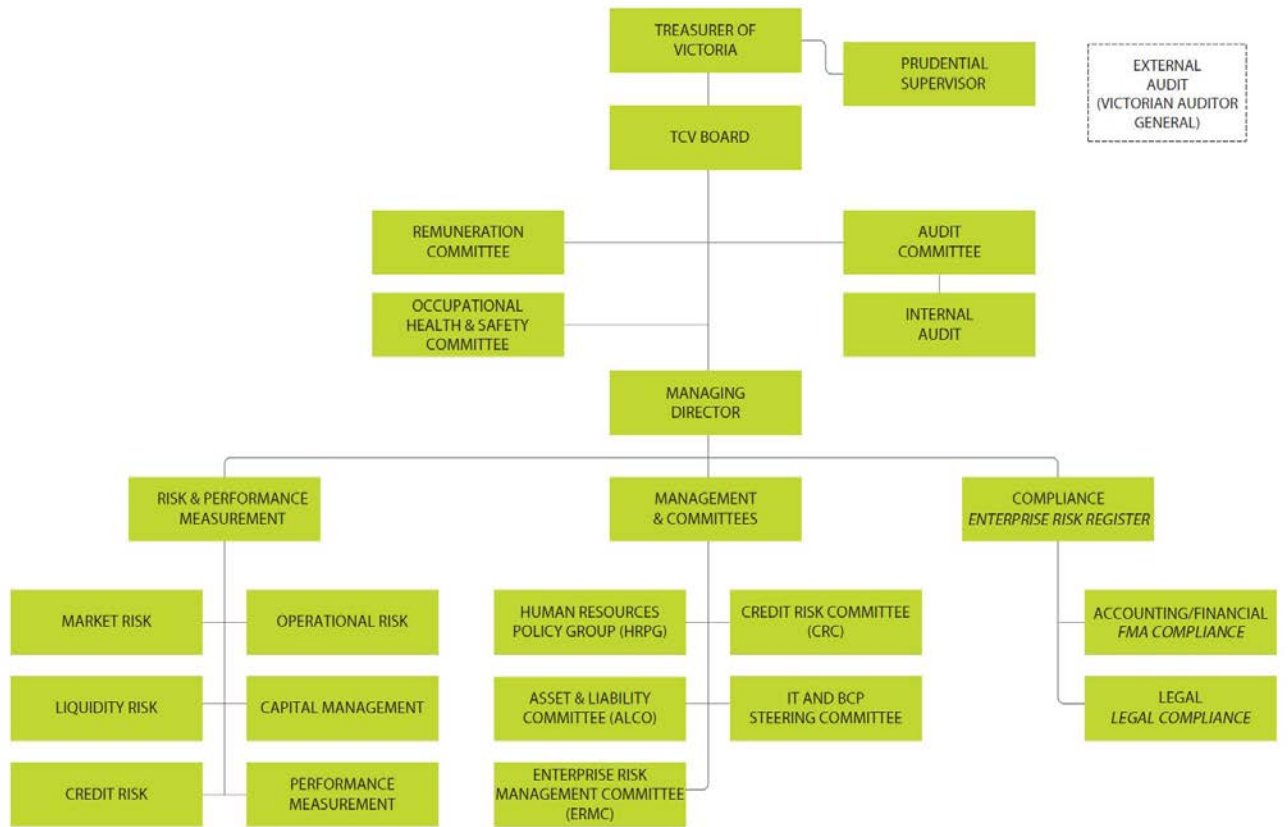
Warren is responsible for the development and implementation of strategies to deliver provide secure, accurate and highly available information technology to the Corporation within recognised governance frameworks. Warren also acts as the Business Continuity Facilitator and is the Chief Information Security Officer.

Prior to joining TCV in 1999, Warren held software development and implementation roles at the treasury system vendor Misys and implemented and supported treasury and funds management systems at over twenty local and overseas financial institutions.

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

### Risk and Control

The risk governance management and control framework is shown below:



### 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 behaviour by managers of the State's public financial corporations. Consistent with these aims, the Treasurer has implemented a Prudential Supervision standard, which aims to ensure that TCV is operating in a sound and prudent manner.

Prudential Supervision at TCV integrates with, and builds on, existing government wide (financial) risk policies. A Prudential Supervisor (Ernst & Young) 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 DTF 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 global and domestic financial markets and regulation.

### Internal Risk Management & 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.

The 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%
- operational controls are implemented, including limits against daily net and cumulative cash flows, balance sheet mismatches, sources of funding, investment risk, and cash flow stress tests
- a liquidity crisis action plan that is reviewed and updated periodically.

### Credit Risk

At TCV, credit risk arising from loans to Participating Authorities (PAs) is covered, in all instances, by a guarantee from the Treasurer of Victoria. From time to time, the Treasurer may instruct TCV to provide loans to non-PAs, which in all instances are covered by a Treasurer's guarantee as well. 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 and Moody's Investors Service. 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 (CSAs) 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 2020.



Standard & Poor's Rating	Derivatives % of Portfolio	Investments & loans % of Portfolio	Moody's Investors Service Rating	Derivatives % of Portfolio	Investments & loans % of Portfolio
Victorian Government Guaranteed	89	94	Victorian Government Guaranteed	89	94
AAA		1	Aaa		1
AA+			Aa1		1
AA			Aa2	4	1
AA-	6	3	Aa3	7	3
A+	5	1	A1		
A			A2		
A-			A3		
BBB+			Baa1		
Not rated by S&P		1	Not rated by Moody's		
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 targets to maintain a capital ratio of at least 10.5% of risk weighted assets.

### Business Continuity

Business continuity is critical to TCV's ability to achieve its objectives. TCV has in place detailed business continuity and information technology and cyber risk 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 and tested quarterly with a full relocation test performed annually.

In addition, TCV conducts a range of activities around cyber security to ensure the ongoing integrity of information systems.

Business continuity is embedded at a cultural level across the organisation.

The COVID crisis necessitated a rapid move to remote working on a widely distributed basis. That was accomplished within short time frames with minimal functionality loss in an extremely active business environment with Governance and Control frameworks intact. A strong technology base supported well-organised and well-practised operational teams. The original pandemic crisis plan envisaged a short period of reduced capacity and scaling this up to full functionality for an extended period required adaptations to the original

technology design. This has been achieved without impacting service delivery whilst maintaining a strong cyber-security and disaster recovery stance.

### **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 coordinate 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 Ernst & Young 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
- Assistant Treasurer - Member of Parliament. Monitors TCV's compliance with the applicable requirements of the Financial Management Act.

## 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) 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.

### Public Administration Act 2004 (Victoria)

The Corporation is a 'public entity' as defined in the Public Administration Act. 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.

### 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 2019-20 (and 2018-19) 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.

### **Local Jobs First Act 2003 (Victoria)**

TCV is subject to the Local Jobs First Act 2003 and Local Jobs First Policy (LJFP). The LJFP objectives are to promote employment and business growth by expanding market opportunities for local industry; provide contractors with increased access to, and raised awareness of, local industry capability; expose local industry to world's best practice in workplace innovation, e-commerce and use of new technologies and materials; and develop local industry's international competitiveness and flexibility in responding to changing global markets by giving local industry a fair opportunity to compete against foreign suppliers. Public bodies are required to apply the LJFP for all procurements and construction or grant or loan projects over \$A3 million in metropolitan Melbourne and \$A1 million in regional Victoria. In 2019-20, TCV did not conduct any procurements or 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, 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 2020, TCV employed 43.3 full-time equivalent (FTE) employees (2019: 42.9 FTE). This includes those on parental leave, other long-term leave and 'to be filled' vacancies.

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 2019 - 20, there were two consultancy engagements costing \$36,161 (before GST) in total. Details of these consultancies are made available on the TCV website ([www.tcv.vic.gov.au](http://www.tcv.vic.gov.au)).

### 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 2019-20	\$000
Business as Usual ICT	7,268
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. This year due to the COVID crisis, TCV has moved to a working from home arrangement for the majority of our staff, impacting a number of our office based environmental metrics outlined below.

As part of our office-based activities TCV has:

- continued to reduce our electricity consumption by more than 25% (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) including a reduced air-conditioning capacity requirement
- in 2019-20 TCV did not undertake our annual waste audit due to the COVID crisis with only low numbers of support staff on site. However previous results have showed that enhanced recycling programs have resulted in a 56% landfill reduction since March 2009 when we implemented enhanced waste and office recycling programs. We continue to provide feedback to staff on areas of success and/or for improvement
- continued our green purchasing and disposal policies including recycling all surplus electronic equipment and the inclusion of environmental considerations in purchasing decisions.

As part of an increased focus of environmental outcomes for our core business activities, since 2016 TCV has:

- continued with our reporting and monitoring obligations in respect of TCV's July 2016 issuance of a \$A300 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
- since 2017 implemented transactional support and advisory services to support the Government's investment in renewable energy projects in holding LGCs under the Commonwealth Government's Renewable Energy Target for the Renewable Certificates Purchasing Initiative, the Victorian Desalination Plant, the Solar Trams initiative and other water sector clients
- in 2019-20 we continued our engagement to assist Zero Emissions Water, which has been set up to procure solar power on behalf of thirteen water authorities at Kiamal Solar Farm, to provide advisory services, invoice verification, settlement and LGC transactional support.
- additionally, in 2019-20 we confirmed a further engagement with the Department of Environment, Land, Water and Planning to provide advisory, invoice verification and LGC transactional support to the Victorian Renewable Energy Auction Scheme and Bulgana Wind Farm projects in support of meeting the Government's Renewable Energy commitments.

### Public Interest Disclosures Act 2012

The *Public Interest Disclosures Act 2012* (formerly the Protected Disclosure Act 2012) encourages and facilitates making disclosures of improper conduct by public bodies or public sector employees and protects people who report improper conduct from reprisal. Public bodies or public officers include TCV and its employees.

Protections include keeping the identity of the person reporting improper conduct confidential and protecting them from reprisals including bullying, harassment or legal action.

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 revealing improper conduct and will take all reasonable steps to protect people making disclosures from reprisals. We are also committed to affording natural justice to the person subject of the disclosure.

TCV is not able to receive disclosures regarding improper conduct by its employees, officers, or Directors under the Public Interest Disclosures Act (PID 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 PID Act.

TCV has established procedures to:

- make TCV employees and other persons aware that they can make disclosures under the Public Interest Disclosures Act directly to IBAC
- keep a discloser's identity and the content of a disclosure confidential
- manage the welfare of disclosers including protecting them from detrimental action.

TCV's Public Interest Disclosures procedures are accessible on TCV's website at [www.tcv.vic.gov.au](http://www.tcv.vic.gov.au)

### Financial Management Compliance Attestation Statement

I Cassandra Kelly, on behalf of the Board, certify that Treasury Corporation of Victoria has complied with the applicable Standing Directions made under the Financial Management Act (1994) and Instructions.



Cassandra Kelly  
**Chair**

19 August 2020

## Financial Statements 2020

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## Statement of Comprehensive Income

For the year ended 30 June 2020

	Note	2020 \$000s	2019 \$000s
Net gain on financial assets and liabilities at fair value through profit and loss	2	69,040	70,124
Interest from financial assets at amortised cost		7,306	6,177
Other fees and income		9,522	7,870
		<b>85,868</b>	<b>84,171</b>
Borrowing related expenses	3	10,645	7,115
Other operational expenses	3	19,361	18,720
Interest on financial liabilities at amortised cost		3,439	2,590
Net loss on non-financial assets		-	4,859
Hedge ineffectiveness on cash flow hedge		597	597
		<b>34,042</b>	<b>33,881</b>
<b>Net profit</b>		<b>51,826</b>	<b>50,290</b>
<b>Other comprehensive income</b>			
<i>Items that might be reclassified subsequently to profit and loss</i>			
Net loss on cashflow hedges		(17,271)	(9,368)
<b>Total other comprehensive income</b>		<b>(17,271)</b>	<b>(9,368)</b>
<b>Total comprehensive income</b>		<b>34,555</b>	<b>40,922</b>

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



## Statement of Financial Position

As at 30 June 2020

	Note	2020 \$000s	2019 \$000s
<b>Assets</b>			
Cash and cash equivalents	6	570,635	2,534,269
Other receivables	7	61,142	264,742
Investments	8	3,448,143	6,530,421
Derivative financial instruments	9	1,193,517	488,183
Loans	10	65,573,217	43,063,478
Other assets		10,841	2,453
<b>Total assets</b>		<b>70,857,495</b>	<b>52,883,546</b>
<b>Liabilities</b>			
Deposits	11	209,296	2,086,869
Other payables	12	6,976,503	3,524,220
Derivative financial instruments	9	1,150,928	465,221
Interest bearing liabilities – domestic	13	61,610,374	46,333,184
Interest bearing liabilities – offshore	14	642,853	232,947
Other liabilities		49,935	8,621
Provisions		4,814	3,957
<b>Total liabilities</b>		<b>70,644,703</b>	<b>52,655,019</b>
<b>Net assets</b>		<b>212,792</b>	<b>228,527</b>
<b>Equity</b>			
Contributed equity		30,000	30,000
Hedge reserves		(26,639)	(9,368)
Retained earnings		209,431	207,895
<b>Total equity</b>		<b>212,792</b>	<b>228,527</b>

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

## Statement of Changes in Equity

For the year ended 30 June 2020

	Note	Contributed equity	Hedge reserves	Retained earnings	Total
		\$000s	\$000s	\$000s	\$000s
As at 30 June 2019		30,000	(9,368)	207,895	228,527
Net profit for the period		-	-	51,826	51,826
Other comprehensive income		-	(17,271)	-	(17,271)
Dividend paid	23	-	-	(50,290)	(50,290)
<b>As at 30 June 2020</b>		<b>30,000</b>	<b>(26,639)</b>	<b>209,431</b>	<b>212,792</b>

	Note	Contributed equity	Hedge reserves	Retained earnings	Total
		\$000s	\$000s	\$000s	\$000s
As at 30 June 2018		30,000	-	200,947	230,947
Adjustment on adoption of AASB 9 <i>Financial Instruments</i>		-	-	6,416	6,416
<b>As at 1 July 2018</b>		<b>30,000</b>	<b>-</b>	<b>207,363</b>	<b>237,363</b>
Net profit for the period		-	-	50,290	50,290
Other comprehensive income		-	(9,368)	-	(9,368)
Dividend paid	23	-	-	(49,758)	(49,758)
<b>As at 30 June 2019</b>		<b>30,000</b>	<b>(9,368)</b>	<b>207,895</b>	<b>228,527</b>

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

## Statement of Cash Flows

For the year ended 30 June 2020

	Note	2020 \$000s	2019 \$000s
<b>Cashflows from operating activities</b>			
Interest received on loans		1,565,977	1,575,332
Interest received on investments and cash		122,436	121,274
Interest paid on borrowings and deposits		(1,737,497)	(1,825,510)
Net interest received on derivatives		23,197	16,824
Fees received		9,049	7,852
Operational expenses paid		(27,368)	(23,284)
<b>Cashflows from operating activities before changes in operating assets and liabilities</b>		<b>(44,206)</b>	<b>(127,512)</b>
(Increase)/decrease in loans to the State of Victoria (Department of Treasury and Finance)		(16,800,105)	1,479,718
Increase in loans to Participating Authorities		(858,058)	(630,106)
(Increase)/decrease in Treasury guaranteed loans		(589,970)	13,131
Decrease/(increase) in investments		3,008,389	(1,088,223)
Decrease in non-financial assets		-	4,025
Decrease in derivatives		(32,025)	(12,757)
Increase in borrowings		15,277,662	5,582,622
Decrease in deposits from the State of Victoria (Department of Treasury and Finance)		(1,360,000)	(820,000)
Decrease in deposits from other entities		(513,605)	(4,666,473)
<b>Cashflows from operating activities arising from changes in assets and liabilities</b>		<b>(1,867,712)</b>	<b>(138,063)</b>
<b>Net cash outflow from operating activities</b>	24	<b>(1,911,918)</b>	<b>(265,575)</b>
<b>Cash flows from investing activities</b>			
Payments for other assets		(1,426)	-
<b>Net cash outflow from investing activities</b>		<b>(1,426)</b>	<b>-</b>
<b>Cash flows from financing activities</b>			
Dividend paid	23	(50,290)	(49,758)
<b>Net cash outflow from financing activities</b>		<b>(50,290)</b>	<b>(49,758)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(1,963,634)</b>	<b>(315,333)</b>
Cash and cash equivalents at beginning of year		2,534,269	2,849,602
<b>Cash and cash equivalents at end of year</b>	6	<b>570,635</b>	<b>2,534,269</b>

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

## Notes to and Forming Part of the Financial Statements

### Note 1 Basis of preparation

Treasury Corporation of Victoria (TCV or the Corporation) is Victoria's central financing authority and financial markets adviser and operates mainly within the domestic financial markets. It has a single reportable operating segment. TCV's primary customers are the Government of Victoria, Participating Authorities and other government entities.

This audited financial report of TCV was authorised for issue in accordance with a resolution of the Board on 19 August 2020. The Board has the power to amend and reissue the financial statements.

Significant accounting policies adopted in the preparation of these financial statements are reported in this and subsequent notes to the financial statements. 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 Annual Reporting of the Standing Directions 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 International Financial Reporting Standards issued by the International Accounting Standards Board.

The financial statements have been prepared in accordance with the historical cost convention except for those financial assets and liabilities which are reported at fair value and certain provisions.

Comparative information has been revised where appropriate to conform to changes in presentation in the current year.

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) 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.

#### (d) Critical estimates and assumptions

In preparing the financial statements, a number of estimates and assumptions are made that affect the amounts reported. Critical estimates and assumptions for the year ended 30 June 2020 include consideration of the COVID-19 pandemic.

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.

## Note 1 Basis of preparation (cont.)

### (e) Adoption of new and revised accounting standards

Commencing 1 July 2019, TCV adopted AASB 16 *Leases* (AASB 16) and related consequential amendments to other Australian Accounting Standards. AASB 16 replaced AASB 117 *Leases* and introduced new requirements for lease identification and determination of a lease's term. It required most leases to be recognised on the balance sheet. Adoption of AASB 16 did not have a material impact on TCV's financial statements.

The standard was adopted using the modified retrospective approach which did not require restatement of comparative information. Instead, the cumulative effect of applying the standard initially was reflected in the opening balances. A right-of-use asset in respect of TCV's tenancy lease agreement of \$7.4 million, a decrease to prepayments of \$0.6 million and a lease liability of \$8.0 million were recognised as at 1 July 2019. There was no impact of adoption of AASB 16 on TCV's retained earnings.

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

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

## Revenue and Expenditure

### Note 2 Net gain on financial assets and liabilities at FVTPL

The Corporation generates revenue from its lending and deposit taking activities and the management of associated risks. Revenue is primarily generated from the realised or unrealised differential between the fair value movements of financial assets and financial liabilities, inclusive of interest earned on assets or paid on liabilities, being the 'Net gain on financial assets and liabilities at fair value through profit and loss'.

	2020	2019
	\$000s	\$000s
<b>Financial assets designated at fair value through profit and loss</b>		
Interest income on cash assets and investments	119,692	192,930
Interest income on loans	1,561,598	1,559,063
	<b>1,681,290</b>	<b>1,751,993</b>
Realised and unrealised market movements of financial assets	726,885	1,862,509
<b>Net gain on financial assets designated at fair value through profit and loss</b>	<b>2,408,175</b>	<b>3,614,502</b>
<b>Financial liabilities designated at fair value through profit and loss</b>		
Interest expense on borrowings	(1,674,787)	(1,696,831)
Realised and unrealised market movements of financial liabilities	(693,016)	(1,850,561)
<b>Net loss on financial liabilities designated at fair value through profit and loss</b>	<b>(2,367,803)</b>	<b>(3,547,392)</b>
Net gains on derivatives	28,668	3,014
<b>Net gain on financial assets and liabilities at fair value through profit and loss</b>	<b>69,040</b>	<b>70,124</b>

### Note 3 Operational expenses

	2020	2019
	\$000s	\$000s
<b>Borrowing related expenses</b>		
Syndication fees	7,914	5,413
Rating Agency fees	1,760	927
Clearing fees	589	499
Other fees and charges	382	276
	<b>10,645</b>	<b>7,115</b>
<b>Other operational expenses</b>		
Salaries and other direct employee expenses		
- Salaries, wages and entitlements	9,730	9,139
- Net loss/(gain) arising from revaluation of long service leave liability	232	564
- Defined contribution superannuation contributions	649	650
- Employee related taxes	456	451
Information technology	1,969	1,809
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>	330	330
- Department of Treasury and Finance prudential supervision fee	109	106
- Other professional service fees	992	919
Market information services	1,592	1,470
Depreciation <sup>(2)</sup>	1,107	278
Amortisation of intangible assets	619	846
Premises		
- Operating lease rental expense <sup>(2)</sup>	-	676
- Other occupancy costs	308	258
Other supplies and services	1,268	1,224
	<b>19,361</b>	<b>18,720</b>

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

<sup>(2)</sup> From 1 July 2019, obligations under the tenancy operating lease are reflected as a right-of-use (ROU) asset under AASB 16. The depreciation of the ROU is included in the 'Depreciation' balance.

## Financial Instruments

### Note 4 Financial instruments accounting policy overview

All financial assets and liabilities, except for those in the hedge accounting portfolio, on recognition are designated at Fair Value Through Profit or Loss (FVTPL). 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. Designation of financial assets and liabilities into hedging relationships is assessed on a transaction by transaction basis.

Financial assets and liabilities at FVTPL are initially recognised and subsequently measured at fair value.

Financial assets and liabilities designated into the hedge accounting portfolio are initially recognised at fair value and are subsequently measured at amortised cost with interest recognised in the profit and loss using the effective interest method. This applies to financial liabilities that are evaluated on a basis other than their fair value, because they are formally designated as hedged items, as well as client loans funded by those liabilities. The assets are held with the objective of collecting contractual cashflows that are payments of principal and interest.

The majority of TCV's financial assets are measured at FVTPL and as such are not subject to the impairment requirements. Assets designated at amortised cost, due to them being part of the hedge accounting portfolio, are guaranteed by the State of Victoria provided the conditions incorporated in the Treasurer's approval of the borrowing are complied with. As the State is rated AAA/Aaa by Standard & Poor's and Moody's respectively, no impairment charge is considered necessary.

At the request of DTF, subject to the provision of a guarantee by the Treasurer of the State of Victoria (guarantee) TCV may provide loans to entities other than the State of Victoria and Participating Authorities. TCV may also enter into interest rate swaps with entities at the request of the DTF subject to the provision of a guarantee. The provision of the guarantee is integral to the provision of the relevant loan or swap. If DTF charge TCV a proportion of interest received for the provision of the guarantee, the cash flows used to determine the fair value of the relevant instrument are net of the proportion of the interest payable to DTF and the interest received by TCV is reported net of this charge.

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 'Other receivables'. Amounts payable for transactions executed but not yet settled, including unsettled loans, are included in the Statement of Financial Position under 'Other payables'.

Until maturity, 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.

Further information on accounting policy is provided in Notes 6 to 17.

### Note 5 Overview of fair value determination

The fair value of financial instruments is determined by the Risk and Performance Measurement business unit independent of Treasury.

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, with the exception of those in the hedge accounting portfolio, are measured at fair value on a recurring basis.

Fair values are initially determined exclusive of bid offer spreads. Where assets and liabilities do not have offsetting market risks, bid-offer spreads are applied to the net open positions.

Further information on the determination of fair value is also provided in Notes 6 to 15.

## Note 6 Cash and cash equivalents

Cash and cash equivalents include 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.

Balances outstanding at the year-end are detailed as follows:

	2020	2019
	\$000s	\$000s
<b>Current:</b>		
Cash at bank and on hand	4,234	11,782
Deposits with futures clearing house	2,615	2,160
Deposits with financial institutions	313,846	205,454
Short term discounted securities	249,940	1,114,447
Reverse repurchase agreements	-	1,200,426
<b>Total cash and cash equivalents</b>	<b>570,635</b>	<b>2,534,269</b>

Market securities purchased under reverse repurchase agreements are not recognised as financial assets as TCV does not receive the contractual right to receive cash flows or carry the risk or reward of ownership. The fair value of securities purchased under reverse repurchase agreements was \$nil (2019: \$1,200 million).

### Fair value determination

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 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.

## Note 7 Other receivables

Other receivables include amounts receivable in respect of transactions executed but not yet settled, fees and other receivables due from clients.

	2020	2019
	\$000s	\$000s
<b>Current:</b>		
Unsettled trades - receivable	59,982	264,052
Fee and other receivables	1,160	690
<b>Total other receivables</b>	<b>61,142</b>	<b>264,742</b>

### Fair value determination

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



## Note 8 Investments

Investments include liquid securities and deposits with financial institutions with original maturities longer than three months.

Balances outstanding at the year-end are detailed as follows:

	2020	2019
	\$000s	\$000s
Floating rate securities	540	7,096
Short term discounted securities	2,279,724	2,653,518
Fixed interest securities	1,167,879	1,841,821
Term deposits with financial institutions	-	2,027,986
<b>Total investments</b>	<b>3,448,143</b>	<b>6,530,421</b>
Maturity in 12 months or less	2,315,301	4,875,068
Maturity in more than 12 months	1,132,842	1,655,353
<b>Total investments</b>	<b>3,448,143</b>	<b>6,530,421</b>

### Fair value determination

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 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.

The fair value of term deposits is determined from the interpolation of bank bill yields to two months and then quotes obtained from the relevant counterparty, with the pricing verified against quotes sourced from similar financial institutions on the same basis.

## Note 9 Derivative financial instruments

TCV enters into derivative instruments primarily to manage interest rate and currency risks inherent in the borrowing and asset management activities of the Corporation and the risk inherent in activities of the State of Victoria and Participating Authorities. TCV may also enter into commodity derivatives to manage risks associated with its clients' activities.

Derivative instruments are initially recognised at fair value with changes to their fair value recognised in the Statement of Comprehensive Income, unless the derivative is a hedging item within a formally designated hedge relationship. In that case, to the extent the hedge is effective, changes in fair value of the derivative are recorded in Reserves with any ineffectiveness recorded in the Statement of Comprehensive Income.

## Note 9 Derivative financial instruments (cont.)

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

	2020	2019
	\$000s	\$000s
<b>Derivative financial instrument assets</b>		
Interest rate swaps	424,911	286,051
Cross currency swaps	745,282	176,112
Forward foreign exchange contracts	14,580	23,450
Fuel swaps	7,454	1,854
Foreign exchange options	1,136	-
Exchange traded futures	154	8
Large-scale Generation Certificate forward contracts	-	708
<b>Total derivative asset</b>	<b>1,193,517</b>	<b>488,183</b>
Maturity in 12 months or less	14,619	20,035
Maturity in more than 12 months	1,178,898	468,148
<b>Total derivative asset</b>	<b>1,193,517</b>	<b>488,183</b>
<b>Derivative financial instrument liabilities</b>		
Interest rate swaps	357,847	258,440
Cross currency swaps	769,790	180,626
Forward foreign exchange contracts	14,616	23,439
Fuel swaps	7,454	1,854
Foreign exchange options	1,136	-
Exchange traded futures	85	154
Large-scale Generation Certificate forward contracts	-	708
<b>Total derivative liability</b>	<b>1,150,928</b>	<b>465,221</b>
Maturity in 12 months or less	10,536	24,737
Maturity in more than 12 months	1,140,392	440,484
<b>Total derivative liability</b>	<b>1,150,928</b>	<b>465,221</b>

### Fair value determination

Over the counter derivatives such as interest rate swaps are valued on a cash flow basis off the appropriate swap curves. Where TCV pays DTF a proportion of the interest received for the provision of the guarantee (refer Note 4), cash flows are net of the fee payable to DTF.

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

A credit valuation adjustment (a provision for counterparty default) and debit valuation adjustment (a provision for TCV's own risk) have also been provided for in the determination of the fair value of derivative positions.

## Note 10 Loans

A function of the Corporation under Section 8(1) of the TCV Act is to provide financial accommodation to a Participating Authority or the State of Victoria. A Participating Authority is a public authority that is accepted, for the purpose of providing financial accommodation, by the Corporation under the TCV Act. At the request of DTF and subject to the provision of a guarantee by the Treasurer of the State of Victoria, TCV also provides loans to other entities.

Balances outstanding at the year-end are detailed below. Instruments are at fair value unless otherwise stated.

	2020	2019
	\$000s	\$000s
Short term cash	3,264,137	857,553
Floating rate loans	3,548,192	613,309
Fixed interest loans	57,951,622	41,172,957
Fixed interest loans at amortised cost <sup>(1)</sup>	515,054	106,752
Index linked loans	294,212	312,907
<b>Total loans</b>	<b>65,573,217</b>	<b>43,063,478</b>
Maturity in 12 months or less	7,884,209	4,311,455
Maturity in more than 12 months	57,173,954	38,645,271
Maturity in more than 12 months - Fixed interest loans at amortised cost <sup>(1)</sup>	515,054	106,752
<b>Total loans</b>	<b>65,573,217</b>	<b>43,063,478</b>
State of Victoria (Department of Treasury and Finance)	48,578,209	28,747,263
State of Victoria (Department of Treasury and Finance) - Fixed interest loans at amortised cost <sup>(1)</sup>	515,054	106,752
Participating Authorities	15,180,137	14,032,377
Treasurer guaranteed loans	1,299,817	177,086
<b>Total loans</b>	<b>65,573,217</b>	<b>43,063,478</b>

<sup>(1)</sup> Fixed interest loans carried at amortised cost are part of the hedge accounting portfolio. The fair value of the loans as at 30 June 2020 was \$555.7 million (2019: \$ 164.9 million).

### Fair value determination

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. In respect of Treasurer guaranteed loans, where TCV pays DTF a proportion of interest received for the provision of the guarantee (refer Note 4), the cash flows used to determine fair value are net of that fee.

Fixed interest loans, except those carried at amortised cost, 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.

## Note 11 Deposits

Deposits consist of short term deposit takings. Balances outstanding at the year-end are detailed as follows:

	2020	2019
	\$000s	\$000s
Cash deposits	125,860	1,776,010
Term deposits	83,436	310,859
<b>Total deposits</b>	<b>209,296</b>	<b>2,086,869</b>
Maturity in 12 months or less	209,296	2,086,869
<b>Total deposits</b>	<b>209,296</b>	<b>2,086,869</b>
State of Victoria (Department of Treasury and Finance)	-	1,360,815
Participating Authorities	118,916	558,793
Other public sector entities	90,380	167,261
<b>Total deposits</b>	<b>209,296</b>	<b>2,086,869</b>

The reduction in deposit levels reflects the implementation of the State's Central Banking System.

### Fair value determination

Cash deposits are reflected at their account balance inclusive of accrued interest. The fair value of term deposits is determined from a yield curve constructed from market rates.

## Note 12 Other payables

Other payables reflect amounts payable in respect of transactions executed but not yet settled and other financial liabilities.

	2020	2019
	\$000s	\$000s
Unsettled trades		
- loans payable to State of Victoria and Participating Authorities	6,384,947	3,406,723
- Treasurer guaranteed loans payable	585,462	9,587
- payable to market participants	-	93,518
Other financial liabilities	6,094	14,392
<b>Total other payables</b>	<b>6,976,503</b>	<b>3,524,220</b>
Maturity in 12 months or less	6,540,863	3,514,633
Maturity in more than 12 months	435,640	9,587
<b>Total other payables</b>	<b>6,976,503</b>	<b>3,524,220</b>

### Fair value determination

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

### Note 13 Interest bearing liabilities – domestic

All amounts issued by TCV have the benefit of the guarantee of the Government of Victoria pursuant to Section 32 of the TCV Act.

Domestic Benchmark Bonds are fixed interest securities that form the cornerstone of the Corporation's funding strategy. TCV aims to have sufficient volume on issue to support its lending activities. TCV also issues fixed interest bonds with different maturities, in smaller volumes, to compliment the more liquid Domestic Benchmark Bond lines.

TCV Promissory Notes are promissory notes issued under the \$10 billion Commercial Paper Program with maturities up to one year.

Balances outstanding at the year-end are detailed as follows:

	2020	2019
	\$000s	\$000s
<b>Benchmark programs</b>		
Domestic Benchmark Bonds	51,712,492	39,700,410
TCV Promissory Notes	2,747,205	3,035,329
<b>Total benchmark programs</b>	<b>54,459,697</b>	<b>42,735,739</b>
<b>Domestic borrowings – other</b>		
TCV fixed interest bonds	4,779,820	3,039,970
TCV floating rate bonds	1,924,331	-
Indexed linked securities	397,232	458,617
Payables to market participants	49,229	98,796
Commonwealth Government loans	65	62
<b>Total domestic borrowings - other</b>	<b>7,150,677</b>	<b>3,597,445</b>
<b>Total domestic borrowings</b>	<b>61,610,374</b>	<b>46,333,184</b>
Maturity in 12 months or less	3,221,411	8,948,719
Maturity in more than 12 months	58,388,963	37,384,465
<b>Total domestic borrowings</b>	<b>61,610,374</b>	<b>46,333,184</b>

#### Fair value determination

The fair value of Domestic Benchmark Bonds is determined from quoted yields.

The fair value of floating rate bonds is determined from projected cash flows derived from the relevant swap curve, discounted off the TCV yield curve.

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

Other instruments are valued by discounting the instrument cash flows utilising rates derived from the TCV yield curve.

## Note 14 Interest bearing liabilities – offshore

From time to time TCV issues Euro Commercial Paper under the AUD 5 billion multi-currency Euro Commercial Paper (ECP) Program. The ECP balance at 30 June 2020 was nil (2019: AUD5 million).

TCV also issues Medium Term Notes (EMTNs) under the USD 3 billion Euro Medium Term Note Program. The 2020 liability balance comprises face value of AUD145 million (2019: AUD145 million), JPY7.5 billion

(2019: JPY7.5 billion) and EUR250 million (2019: nil).

Liabilities issued under these programs have the benefit of the guarantee of the State of Victoria pursuant to Section 32 of the TCV Act. All foreign currency risk associated with foreign currency issuances is fully hedged by the Corporation using derivatives. Hedge accounting is applied to certain long term foreign currency debt structures.

Balances outstanding at the year-end are detailed below. Instruments are at fair value unless otherwise stated.

	2020	2019
	\$000s	\$000s
Euro Commercial Paper	-	4,997
Euro Medium Term Notes	135,903	128,174
Euro Medium Term Notes at amortised cost	506,950	99,776
<b>Total offshore borrowings</b>	<b>642,853</b>	<b>232,947</b>
Maturity in 12 months or less	-	4,997
Maturity in more than 12 months	642,853	227,950
<b>Total offshore borrowings</b>	<b>642,853</b>	<b>232,947</b>

### Fair value determination

AUD-denominated EMTNs are valued through the discounting of cash flows using the TCV yield curve. The JPY and EUR denominated EMTNs which are hedged items within cashflow hedge relationships are carried at amortised cost. The fair value of the EMTNs at amortised cost at 30 June 2020 was AUD556.6 million (2019: AUD149.1million).

## Note 15 Fair Value Hierarchy

The Fair Value Hierarchy, by distinguishing between inputs that are observable in the marketplace, and therefore more objective, and those that are unobservable and therefore more subjective, is designed to indicate the relative subjectivity and estimation reliability of the fair value measurements. The nature of the inputs used to determine the fair value of instruments 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 table over page summarises the fair value of the financial instruments and the appropriate fair value hierarchy into which they fall as at year end. TCV's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the date of the event or change in circumstances that caused the transfer.

### Transfers between level categories

During the year there was one transfer between fair value hierarchy categories. The 2034 Domestic Benchmark Bond balance with face value of \$1.3 billion was transferred from Level 2 to Level 1 as the quotes for that bond became observable.

## Note 15 Fair Value Hierarchy (cont.)

	Level 1 (quoted prices in active markets) \$000s	Level 2 (inputs other than quoted prices) \$000s	Level 3 (unobservable inputs) \$000s	Total \$000s
<b>2020</b>				
<b>Assets</b>				
Cash and cash equivalents	320,695	249,940	-	570,635
Other receivables	-	61,142	-	61,142
Investments			-	
- Floating rate securities	-	540	-	540
- Short term discounted securities	-	2,279,724	-	2,279,724
- Fixed interest securities	1,155,915	11,964	-	1,167,879
Derivative financial instruments	14,734	1,178,783	-	1,193,517
Loans (excludes loans at amortised cost)	3,264,137	61,794,026	-	65,058,163
	<b>4,755,481</b>	<b>65,576,119</b>	-	<b>70,331,600</b>
<b>Liabilities</b>				
Deposits	125,860	83,436	-	209,296
Other payables	-	6,976,503	-	6,976,503
Derivative financial instruments	14,701	1,136,227	-	1,150,928
Interest bearing liabilities – domestic	51,806,737	9,803,637	-	61,610,374
Interest bearing liabilities – offshore (excludes debt at amortised cost)	-	135,903	-	135,903
	<b>51,947,298</b>	<b>18,135,706</b>	-	<b>70,083,004</b>
<b>2019</b>				
<b>Assets</b>				
Cash and cash equivalents	1,419,822	1,114,447	-	2,534,269
Other receivables	-	264,742	-	264,742
Investments			-	
- Floating rate securities	-	7,096	-	7,096
- Short term discounted securities	-	2,653,518	-	2,653,518
- Fixed interest securities	1,621,576	220,245	-	1,841,821
- Term deposits with financial institutions	-	2,027,986	-	2,027,986
Derivative financial instruments	24,166	464,017	-	488,183
Loans (excludes loans at amortised cost)	857,553	42,099,173	-	42,956,726
	<b>3,923,117</b>	<b>48,851,224</b>	-	<b>52,774,341</b>
<b>Liabilities</b>				
Deposits	1,776,010	310,859	-	2,086,869
Other payables	-	3,524,220	-	3,524,220
Derivative financial instruments	24,301	440,920	-	465,221
Interest bearing liabilities – domestic	39,890,304	6,442,880	-	46,333,184
Interest bearing liabilities – offshore (excludes debt at amortised cost)	-	133,171	-	133,171
	<b>41,690,615</b>	<b>10,852,050</b>	-	<b>52,542,665</b>

### Note 16 Contractual obligations and financial liabilities

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

	2020	2020	2020	2019	2019	2019
	Carrying amount	Principal owing at maturity <sup>(1)</sup>	Variance	Carrying amount	Principal owing at maturity <sup>(1)</sup>	Variance
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
Deposits	209,296	209,236	60	2,086,869	2,082,753	4,116
Interest bearing liabilities – domestic	61,610,374	54,068,343	7,542,031	46,333,184	40,883,595	5,449,589
Interest bearing liabilities – offshore	642,853	655,575	(12,722)	232,947	249,244	(16,297)

<sup>(1)</sup> Principal owing at maturity is the amount TCV is contractually required to pay at maturity, to the holder of the obligation, exclusive of interest due.



## Note 17 Offsetting financial assets and financial liabilities

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.

The following table provides 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>2020</b>						
<b>Assets</b>						
Derivative financial instruments <sup>(1)</sup>	1,616,957	(423,440)	1,193,517	(829,372)	(4,710)	359,435
	<b>1,616,957</b>	<b>(423,440)</b>	<b>1,193,517</b>	<b>(829,372)</b>	<b>(4,710)</b>	<b>359,435</b>
<b>Liabilities</b>						
Repurchase agreements <sup>(2)</sup>	44,518	-	44,518	-	(44,518)	-
Derivative financial instruments <sup>(1)</sup>	1,574,368	(423,440)	1,150,928	(829,372)	(312,221)	9,335
	<b>1,618,886</b>	<b>(423,440)</b>	<b>1,195,446</b>	<b>(829,372)</b>	<b>(356,739)</b>	<b>9,335</b>
<b>2019</b>						
<b>Assets</b>						
Reverse repurchase agreements <sup>(3)</sup>	1,200,426	-	1,200,426	-	(1,198,440)	1,986
Derivative financial instruments <sup>(1)</sup>	957,170	(468,987)	488,183	(257,839)	(35,693)	194,651
	<b>2,157,596</b>	<b>(468,987)</b>	<b>1,688,609</b>	<b>(257,839)</b>	<b>(1,234,133)</b>	<b>196,637</b>
<b>Liabilities</b>						
Derivative financial instruments <sup>(1)</sup>	933,500	(468,279)	465,221	(257,839)	(201,661)	5,721
	<b>933,500</b>	<b>(468,279)</b>	<b>465,221</b>	<b>(257,839)</b>	<b>(201,661)</b>	<b>5,721</b>

- (1) Cash collateral received, and cash collateral pledged are presented within cash and cash equivalents and interest-bearing liabilities – domestic respectively.
- (2) Repurchase agreements are recognised within 'Interest Bearing Liabilities – Domestic'.
- (3) Reverse repurchase agreements are recognised within 'Cash and Cash Equivalents' if the maturity date is within 3 months.

## Risk Management

### Note 18 Risk management framework

#### Overview

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

The primary risks arising from financial instruments that result from these activities are:

- market risk
- liquidity risk
- credit risk.

TCV may also be exposed to foreign exchange rate risk, but the 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 the Victorian Government Prudential Standard for the Treasury Corporation of Victoria (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, for approving TCV's Risk Appetite Statement and approving TCV's key risk policies
- 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
- 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 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
- 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
- executive committees such as the Asset and Liability Committee, the Credit Risk Committee and the Enterprise Risk Management Committee include the Managing Director and members of the executive management team and other managers who are responsible for ensuring the Corporation's financial assets and liabilities are managed prudently and efficiently.

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

## Note 19 Market risk

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

TCV's treasury management model is based on providing tailored loans to TCV's clients to meet their cashflow financing needs. TCV then structures its funding activities to manage interest rate risk mismatches. In a similar manner, TCV actively manages its liquid assets portfolio to generate returns. These risks are managed within the Value at Risk (VaR) and contingent loss risk (CLR) limits.

### 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 Managing Director is responsible for recommending to the Board a total aggregate VaR limit that TCV can undertake at any point in time across all its portfolios. The Board considers this and approves a limit to be recommended to the Treasurer for approval.

Within the 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 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. Back-testing exceptions are monitored and reported consistent with APS116 *Capital Adequacy: Market Risk* classifications, as required under the Prudential Standard.

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

	<b>2020</b>	<b>2019</b>
	<b>\$000s</b>	<b>\$000s</b>
30 June	2,109	1,512
Average daily value during the year	1,590	1,839
Highest	3,801	2,466
Lowest	1,042	1,363

The VaR utilisation of the Corporation remained within the Board agreed limits the entire year.

As VaR relies on historical data and assumes recent historic market conditions, it may not always accurately predict the size of potential losses. The use of VaR is therefore complemented by Stressed VaR and a range of scenarios for stress testing exposure to market risk and by using interest rate shocks to yield curves which provides additional information about potential outcomes that may lie outside of the chosen confidence interval in the VaR measurement.

### Contingent loss risk

TCV uses an interest rate scenario model to quantify the exposure of TCV's core portfolios to plausible interest rate scenarios. The resulting CLR reports and details of the basis risk inherent in the core portfolios are used to monitor, and assist in the management of, market risk within limits.

The CLR total aggregate, sector and scenario limits are approved by the Managing Director.

## Note 20 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 under the Whole of Victorian Government (WOVG) Liquidity Strategy.

DTF 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 WOVG Liquidity Ratio (refer 'Short-term liquidity management' below)
- monitor market conditions continuously 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 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.

### Short-term liquidity management

TCV measures and reports the WOVG Liquidity Ratio, which is the ratio of liquid assets (free cash assets, liquid assets and committed bank lines) to twelve month's debt service obligations. This ratio is required to remain at or above 80% for normal business conditions during the financial year. In certain circumstances the ratio is permitted to fall below 80% where there is an expectation that projected cash flows will restore the ratio.

In 2019, the value of liquid assets used in the ratio was limited to assets reflected on TCV's balance sheet. Following the implementation of the State's Central Banking System however, TCV has managed liquidity from a WOVG perspective. In 2020 this resulted in liquid assets belonging to the State becoming included in the ratio.

The ratio, excluding State owned liquid assets, was 141% at 30 June 2020 (2019: 118%).

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.

## Note 20 Liquidity risk (cont.)

### 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 to 12 months	Between 1 and 2 years	Between 2 and 5 years	Greater than 5 years	Total
	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s	\$000s
<b>2020</b>							
Deposits	129,489	61,790	21,664	-	-	-	212,943
Interest bearing liabilities – domestic	-	2,563,534	2,495,198	5,244,594	19,750,407	36,586,450	66,640,183
Interest bearing liabilities – offshore	-	85	5,853	5,938	51,415	724,599	787,890
	<b>129,489</b>	<b>2,625,409</b>	<b>2,522,715</b>	<b>5,250,532</b>	<b>19,801,822</b>	<b>37,311,049</b>	<b>67,641,016</b>
<b>2019</b>							
Deposits	1,701,029	428,720	56,514	-	-	-	2,186,263
Interest bearing liabilities – domestic	-	2,047,026	8,287,831	1,769,242	12,517,142	25,691,622	50,312,863
Interest bearing liabilities – offshore	-	5,085	3,334	3,419	44,028	254,269	310,135
	<b>1,701,029</b>	<b>2,480,831</b>	<b>8,347,679</b>	<b>1,772,661</b>	<b>12,561,170</b>	<b>25,945,891</b>	<b>52,809,261</b>

### Constrained liquidity management

TCV uses liquidity action plans to manage liquidity conditions during periods of liquidity constraints. A liquidity constraint would be typified by TCV not being able to access funding at a reasonable price to manage operating liquidity requirements.

## Note 21 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.

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 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, Participating Authorities (which are guaranteed by the State of Victoria) and Treasurer guaranteed loans, the ultimate credit exposure is to the State of Victoria.

## Note 21 Credit risk (cont.)

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 managed 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.

### 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 unless otherwise stated.

	AAA \$000s	AA+/AA/AA- \$000s	A+/A/A- \$000s	BBB+/BBB \$000s	Other \$000s	Total \$000s
<b>2020</b>						
Cash and cash equivalents	-	335,508	235,127	-	-	570,635
Other receivables	1,149	39,638	20,344	-	11	61,142
Investments <sup>(1)</sup>	769,431	1,712,352	604,870	149,972	211,518	3,448,143
Derivative financial instrument assets <sup>(2)</sup>	362,354	76,944	9,822	-	-	449,120
Loans <sup>(3)</sup>	65,573,217	-	-	-	-	65,573,217
<b>Total credit risk exposure</b>	<b>66,706,151</b>	<b>2,164,442</b>	<b>870,163</b>	<b>149,972</b>	<b>211,529</b>	<b>70,102,257</b>

	AAA \$000s	AA+/AA/AA- \$000s	A+/A/A- \$000s	BBB+/BBB \$000s	Other \$000s	Total \$000s
<b>2019</b>						
Cash and cash equivalents	-	2,047,263	407,020	79,986	-	2,534,269
Other receivables	676	180,686	35,695	47,672	13	264,742
Investments <sup>(1)</sup>	937,261	5,518,526	24,959	-	49,675	6,530,421
Derivative financial instrument assets <sup>(2)</sup>	205,473	94,222	12,369	-	-	312,064
Loans <sup>(3)</sup>	43,063,478	-	-	-	-	43,063,478
<b>Total credit risk exposure</b>	<b>44,206,888</b>	<b>7,840,697</b>	<b>480,043</b>	<b>127,658</b>	<b>49,688</b>	<b>52,704,974</b>

(1) Investments classified as rated "Other" are rated Aa3 by Moody's.

(2) 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 2020, TCV held \$4.7 million (2019: \$48.7 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.

(3) Rating reflects the State of Victoria's rating as guarantor. Balances include client loans that are held at amortised cost and not FVTPL, due to being part of the hedge accounting portfolio.

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

At 30 June 2020, there were no amounts past due (30 June 2019: nil).

## Capital and Dividends

### Note 22 Capital adequacy

The Prudential Standard requires the Corporation to maintain sufficient capital to act as a buffer against the risks associated with its activities. The principles detailed in APS 110 *Capital Adequacy* and APS 111 *Capital Adequacy: Measurement of Capital* apply to TCV with modification.

The Corporation is required to hold a minimum capital adequacy ratio of 8% of risk weighted assets and to target a capital ratio of at least 10.5% of risk weighted assets.

The total capital of the Corporation consists of the contributed equity and retained earnings. It is exclusive of hedge reserves.

	Actual 2020 \$000	Required 2020 \$000	Actual 2019 \$000	Required 2019 \$000
Total capital	239,431	48,889	237,895	77,789
Risk weighted assets <sup>(1)</sup>	611,112	611,112	972,366	972,366
Capital ratio	39.2%	8.0%	24.5%	8.0%

<sup>(1)</sup> Risk Weighted Assets decreased between 2019 and 2020 due to a shift to higher credit quality assets that attract lower risk weightings.

### Note 23 Dividends

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 2020, no dividend in respect of the year ended 30 June 2020 (2019: \$nil) has been provided for in the accounts of TCV. In respect of the prior year's surplus, a dividend of \$50.3 million (2019: \$49.8 million) was declared and paid after the relevant reporting date.

## Other Information

### Note 24 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

	2020 \$000s	2019 \$000s
Net profit	51,826	50,290
Depreciation	1,107	278
Amortisation of intangible assets	619	846
Increase/(decrease) in other payables and liabilities	25,622	(16,213)
Increase in other receivables and assets	(1,765)	(119)
Increase in provisions	858	807
Decrease in accrued interest receivable	11,795	7,716
Increase/(decrease) in accrued interest payable	33,238	(17,038)
Net gain from financial assets and liabilities	(168,103)	(159,535)
Net loss from non-financial assets	-	4,859
Hedge ineffectiveness	597	597
Operating cashflow items not included in profit	(1,867,712)	(138,063)
<b>Net cash outflow from operating activities</b>	<b>(1,911,918)</b>	<b>(265,575)</b>

## Note 25 Responsible persons

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

Cassandra Kelly, Chair

William Whitford, Managing Director

Helen Thornton, Deputy Chair

David Martine

John Pearce

Pamela Hauser

Sue O'Connor

Debra Hazelton

TCV Directors have the benefit of indemnities given by the Treasurer of Victoria pursuant to the Financial Management Act 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 \$1,125,542 (2019: \$1,083,086). These amounts include all employee benefits which are all forms of consideration paid, payable or provided by the Corporation, or on behalf of the Corporation, 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 within the financial statements of the Department of Parliamentary Services.

<b>Remuneration of Directors</b>	<b>2020</b>	<b>2019</b>
<b>Income band</b>	<b>No. of Directors</b>	<b>No. of Directors<sup>(3)</sup></b>
\$670,000 to 679,999 <sup>(1)</sup>	1	-
\$630,000 to \$639,999 <sup>(1)</sup>	-	1
\$140,000 to \$149,999	1	1
\$60,000 to \$69,999	5	4
\$50,000 to \$59,999	-	1
\$0 to \$9,999 <sup>(2)</sup>	1	2

(1) The total remuneration reported for the Managing Director includes recreational leave and long service leave accrued during the year. Non-executive directors do not accrue these benefits. The increase in the Managing Director's remuneration between 2019 and 2020 largely reflects differences between the year in which recreational leave was accrued and when it was taken.

(2) Includes Director David Martine, an employee of DTF, who was not compensated by TCV.

(3) 2019 data reflects appointment of Debra Hazelton and retirement of John Blight.



## Note 26 Remuneration of executives

The table below presents the total remuneration received or receivable by executives and the number of executives exclusive of the Managing Director (refer Note 25). Remuneration comprises employee benefits in all forms of consideration paid, payable or provided by the Corporation, or on behalf of the Corporation, in exchange for services rendered. Accordingly, remuneration is determined on an accrual basis and is disclosed in the following categories:

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

<b>Remuneration of executive officers</b>	<b>2020</b>	<b>2019</b>
	<b>\$000s</b>	<b>\$000s</b>
Short-term benefits	2,197	2,169
Post-employment benefits	121	118
Other long-term benefits	114	80
Termination benefits	-	-
<b>Total remuneration</b>	<b>2,432</b>	<b>2,367</b>
<b>Total number of executive officers</b>	<b>6</b>	<b>6</b>
<b>Total annualised employee equivalent (AEE) <sup>(1)</sup></b>	<b>5.6</b>	<b>5.6</b>

<sup>(1)</sup> 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.

## Note 27 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. Significant transactions with government related entities that occurred during the year are discussed below.

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
- all departments and public sector entities that are controlled and consolidated into the whole of state consolidated financial statements.

### Key management personnel

Key management personnel of the TCV include the Treasurer, Tim Pallas MP, TCV's Directors (refer Note 25) and the following members of the senior executive team:

Mark Engeman, Deputy Managing Director and Corporation Secretary

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

Justin Lofting, General Manager, Treasury

Judy Utlej, General Manager, People and Culture

Peter Wyatt, Chief Financial Officer

Warren Murray, General Manager, Information Technology

## Note 27 Related parties (cont.)

The remuneration below excludes the salaries and benefits of the Treasurer. Amounts relating to ministers are reported within the financial statements of the Department of Parliamentary Services.

Remuneration of key management personnel	2020	2019
	\$000s	\$000s
Short-term benefits	3,228	3,170
Post-employment benefits	181	177
Other long-term benefits	149	102
Termination benefits	-	-
<b>Total remuneration</b>	<b>3,558</b>	<b>3,449</b>

### Significant transactions with government related entities

In December 2019, TCV entered into a Deed of Guarantee and Indemnity with the Treasurer of Victoria acting for and on behalf of the Crown in the right of the State of Victoria. The guarantee unconditionally and irrevocably indemnifies TCV against demands, claims, suits, actions, damages, liabilities, losses, costs and expenses incurred by TCV in respect of the obligations and payments of Aquasure Finance Pty Ltd for three floating rate amortising loans (loans) and four interest rate swaps (swaps) to be provided by TCV. On trade date the loans had a face value of \$1.2 billion and the swaps a notional amount of \$1.8 billion. In consideration for providing that guarantee, DTF will receive a proportion of interest received from the loans and swaps by TCV. In respect of this consideration, in 2019-20 TCV paid DTF \$1.4 million, with a further \$152 million due to be paid over the life of the loans and swaps until their maturity in 2038.

In September 2019, TCV entered into a Deed of Guarantee and Indemnity (the Deed) with the Treasurer of Victoria acting for and on behalf of the Crown in right of the State of Victoria. Under the terms of the Deed, the Treasurer unconditionally and irrevocably guaranteed the repayment to TCV of a short-term loan by SKM industries Pty Ltd (receivers and managers appointed) and indemnified TCV against demands, claims, suits, actions, damages, liabilities, losses, costs and expenses incurred by TCV in relation to that loan. In May 2020, TCV received \$3 million from the Treasurer under the guarantee to fully satisfy the third party's obligations to TCV. No consideration was payable by TCV for the provision of the guarantee.

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

All transactions that involve the related parties listed below are dealt with on normal commercial terms and conditions and without reference to the key management personnel concerned. No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

Key management person	Related party	Key management person relationship with related party	Services provided to the related party
Helen Thornton, Deputy Chair	Yarra Valley Water	Director	Loan, deposit and derivative products and advisory services
	Austin Health	Director	Loan products
David Martine, Director	Department of Treasury and Finance	Secretary	Loan and deposit products and advisory services
	Victorian Funds Management Corporation	Director	Deposit and repo products
Sue O'Connor, Director	Yarra Valley Water	Chair	Loan, deposit and derivative products and advisory services
	Mercer Superannuation (Australia) Limited (MSAL)	Director	MSAL is the Trustee of the Mercer Superannuation Trust which is the TCV employer nominated fund.

## Note 28 Subsequent events

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

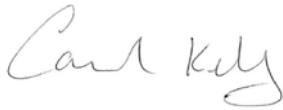
## Certification of Financial Statements

The attached financial statements for Treasury Corporation of Victoria have been prepared in accordance with Direction 5.2 of the Standing Directions 2018 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 2020 and financial position of Treasury Corporation of Victoria as at 30 June 2020.

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 19 August 2020.




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Cassandra Kelly  
**Chair**

Melbourne  
Date: 19 August 2020




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William Whitford  
**Managing Director**

Melbourne  
Date: 19 August 2020




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Peter Wyatt  
**Chief Financial Officer**

Melbourne  
Date: 19 August 2020

## 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 2020</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 2020 and its financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of 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. I further describe my responsibilities under that Act and those standards 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 APES 110 <i>Code of Ethics for Professional Accountants</i> (the Code) that are relevant to my audit of the financial report in Victoria. 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>Key audit matters</b>	<p>Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial report of the current period. These matters were addressed in the context of my audit of the financial report as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.</p>

Key audit matter	How I addressed the matter
------------------	----------------------------

**Valuation of financial instruments carried at fair value and related net gain on financial assets and liabilities at fair value**

Refer to Note 5 of the financial report for the accounting policy associated with the valuation of financial instruments and the fair value determination section of the relevant financial instrument notes for the assumptions applied by management in valuing financial instruments.

Financial assets at fair value - \$69.7 billion.

Financial liabilities at fair value - \$63.1 billion.

Net gain on financial assets and liabilities at fair value - \$69.0 million.

I considered this to be a key audit matter because:

- financial instruments and the related fair value net gain on financial assets and liabilities are financially significant
- the underlying model used by management to reliably fair value financial instruments with higher estimation uncertainty is complex
- a significant degree of management judgement is required in valuing these financial instruments
- the performance of financial markets fluctuated over the period impacting the value of financial assets
- manual valuation adjustments made outside of the system are complex and subject to management judgement
- a small adjustment to a valuation input may have a significant effect on the fair value of each financial instrument.

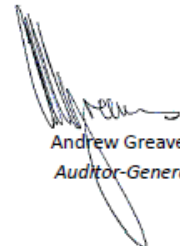
My key procedures included:

- gaining an understanding of the valuation processes and identifying key controls supporting the valuation of financial instruments, and the calculation and measurement of related net gains
- assessing the characteristics and valuation methodology for each type of financial instrument and categorising them based on the level of estimation uncertainty in the valuation
- assessing the design and operating effectiveness of key manual, IT-dependent manual and automated controls supporting the valuation processes
- obtaining independent counterparty confirmations of financial instruments at 30 June 2020 and agreeing these to the recorded balances
- engaging valuation specialists to perform independent testing of key valuation inputs, valuation methodology and assumptions for financial instruments with a higher level of estimation uncertainty
- assessing, in conjunction with our valuation specialists, any manual fair value adjustments made to financial assets and liabilities that impact the net gain against the requirements of Australian accounting standards
- assessing the sufficiency and appropriateness of methodologies and valuation models across financial instrument classes against the requirements of applicable financial reporting frameworks
- assessing the completeness and adequacy of financial statement disclosures against the requirements of Australian accounting standards.

<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 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, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to do so.</p>
<b>Auditor's responsibilities for the audit of the financial report</b>	<p>As required by the <i>Audit Act 1994</i>, 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.</p> <p>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:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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</li> <li>• evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board</li> <li>• 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.</li> <li>• 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.</li> </ul>

<p><b>Auditor's responsibilities for the audit of the financial report (continued)</b></p>	<p>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.</p> <p>From the matters communicated with the Board, I determine those matters that were of most significance in the audit of the financial report of the current period and are therefore key audit matters. I describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.</p>
<p><b>Other information - Report of operations</b></p>	<p>The Board is responsible for the "other information" included in the Corporation's Report of Operations for the year ended 30 June 2020. The Report of Operations does not include the financial report and my auditor's report thereon, which together with the Report of Operations forms the Corporation's annual report.</p> <p>My opinion on the financial report does not cover the other information included in the Report of Operations and accordingly I do not express any form of assurance conclusion thereon.</p> <p>In connection with my audit of the financial report, my responsibility is to read the Report of Operations when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>If, based on the work I have performed, I conclude that there is a materially misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.</p>

MELBOURNE  
31 August 2020



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	63
FRD11A	Disclosure of ex-gratia payments	n/a
FRD21C	Responsible person and executive officer disclosures	55-57
FRD22H	Occupational health and safety	25,26
FRD22H	Manner of establishment and the relevant Minister	2
FRD22H	Purpose, functions, powers and duties	2
FRD22H	Nature and range of services provided	2-9
FRD22H	Organisational charts	19,22
FRD22H	Key initiatives and projects	3-14
FRD22H	Employment and conduct principals	27
FRD22H	Summary of the financial results	5
FRD22H	Significant changes in financial position	n/a
FRD22H	Subsequent events	57
FRD22H	Expenditure on consultancies	27
FRD22H	Expenditure on government advertising	n/a
FRD22H	Information and Communications Technology expenditure	28
FRD22H	Application of <i>Freedom of Information Act 1982</i>	26
FRD22H	Application and operation of the Public Interest Disclosures Act 2012	29
FRD22H	Statement on National Competition Policy	27
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SD5.2.2	Declaration in financial statements	58
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<i>Public Interest Disclosures Act 2012</i>		29
<i>Local Jobs First Act 2003</i>		27
<i>Financial Management Act 1994</i>		26



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Email	<a href="mailto:tcv@tcv.vic.gov.au">tcv@tcv.vic.gov.au</a>	
Telephone	+61 3 9651 4800	General
	+61 3 9911 3636	Dealing room
	+61 3 9651 4843	Settlements
Facsimile	+61 3 9651 4880	General
	+61 3 9651 4880	Dealing room
	+61 3 9651 4899	Settlements
Registry of Inscribed Stock	Inscribed stock registries are operated by Computershare Investor Services Pty Ltd, located at Yarra Falls, 452 Johnston Street, Abbotsford, Victoria, 3067 Telephone: +61 3 9415 5000 Facsimile: +61 3 9473 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.	



**TCV**

Treasury Corporation of Victoria