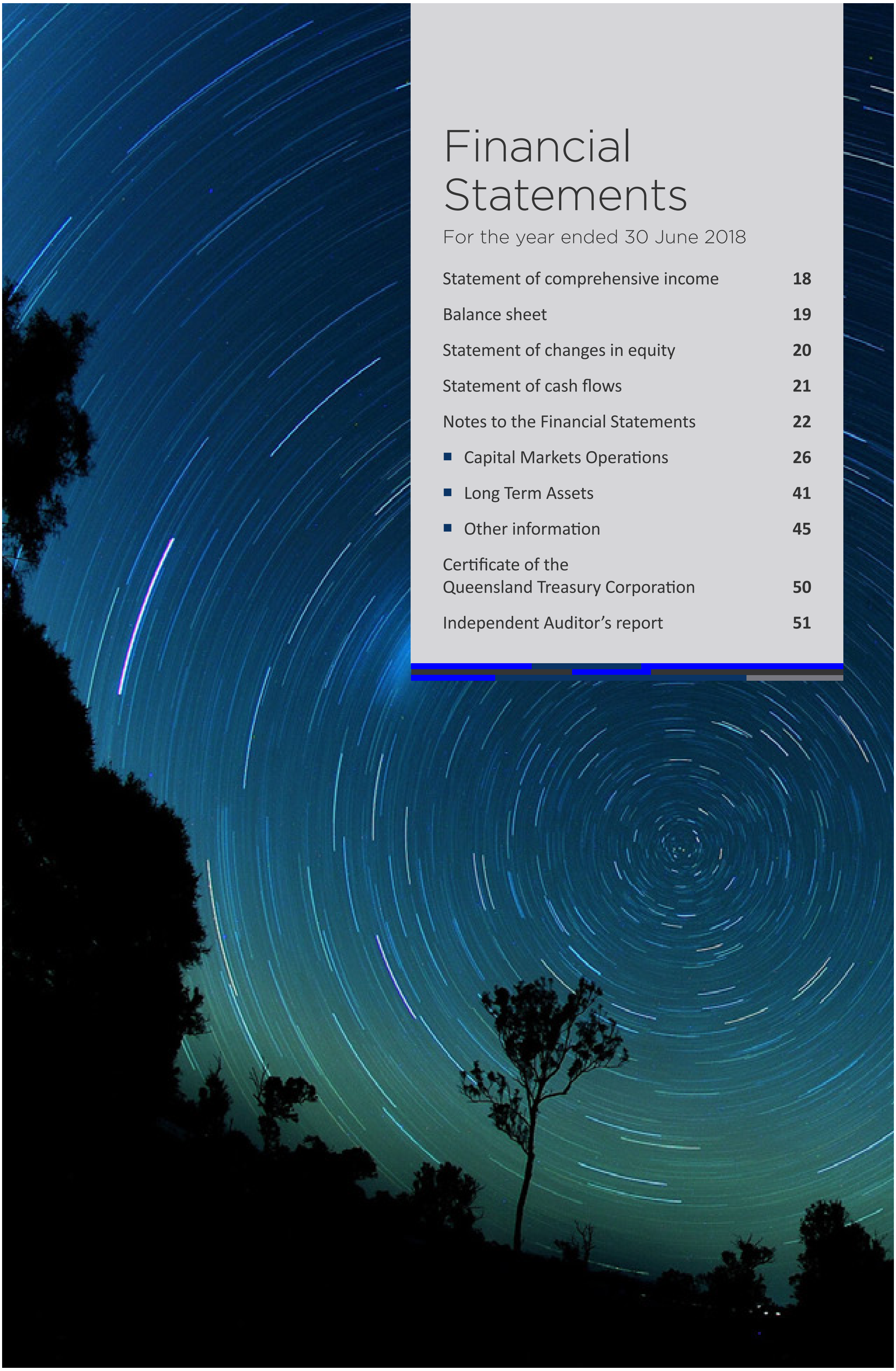

Financial Statements

For the year ended 30 June 2018

Statement of comprehensive income

For the year ended 30 June 2018

	NOTE	2018 $000	2017 $000
CAPITAL MARKETS OPERATIONS			
Net gain/(loss) on financial instruments at fair value through profit or loss			
Gain on financial assets	3	**3 333 057**	574 993
Loss on financial liabilities	3	**(3 239 917)**	(476 872)
		93 140	98 121
Other income			
Fee income		**82 915**	82 135
Lease income		**27 494**	37 218
Amortisation of cross border lease deferred income		**-**	29 298
		110 409	148 651
Expenses			
Administration expenses	4	**(73 734)**	(73 575)
Depreciation on leased assets	7	**(21 282)**	(29 813)
Loss on disposal of plant and machinery		**(243)**	-
		(95 259)	(103 388)
Profit from capital markets operations before income tax		**108 290**	143 384
Income tax expense	5	**(13 958)**	(14 200)
Profit from capital markets operations after income tax		**94 332**	129 184
LONG TERM ASSETS			
Net return from investments in long term assets			
Net change in fair value of unit trusts		**2 000 286**	2 382 036
Interest on fixed rate notes		**(2 095 376)**	(2 065 828)
Management fees		**(98 608)**	(91 617)
(Loss)/profit from long term assets		**(193 698)**	224 591
Total net (loss)/profit for the year after tax		**(99 366)**	353 775
Total comprehensive (loss)/income attributable to the owner		**(99 366)**	353 775
Total comprehensive (loss)/income derived from:			
Capital Markets Operations		**94 332**	129 184
Long Term Assets		**(193 698)**	224 591
Total comprehensive (loss)/income		**(99 366)**	353 775

The accompanying notes form an integral part of these financial statements.

Note: Throughout these financial statements the Capital Markets Operations and the Long Term Assets operations have been disclosed separately to distinguish between QTC's main central treasury management role and its additional responsibilities following the transfer of the State's superannuation and other long term assets (refer note 1).

Balance sheet

As at 30 June 2018

	NOTE	2018 $000	2017 $000
ASSETS – CAPITAL MARKETS OPERATIONS			
Cash and cash equivalents	6	**640 668**	2 124 768
Receivables		**7 484**	4 018
Assets held for sale	7	**59 385**	92 101
Financial assets at fair value through profit or loss	8	**20 528 480**	19 268 151
Derivative financial assets	9	**130 115**	337 559
Onlendings	10	**81 951 783**	85 101 958
Property, plant and equipment	14	**4 585**	4 483
Intangible assets		**17 051**	19 189
Deferred tax asset		**4 695**	2 710
		103 344 246	106 954 937
ASSETS – LONG TERM ASSETS			
Financial assets at fair value through profit or loss	16	**30 487 950**	31 714 458
		30 487 950	31 714 458
Total Assets		**133 832 196**	138 669 395
LIABILITIES – CAPITAL MARKETS OPERATIONS			
Payables		**29 551**	34 948
Derivative financial liabilities	9	**95 210**	175 192
Financial liabilities at fair value through profit or loss			
- Interest-bearing liabilities	11(a)	**96 532 449**	98 462 982
- Deposits	11(b)	**6 213 544**	7 428 891
Provision for dividend	24	**-**	500 000
Other liabilities		**39 559**	13 322
		102 910 313	106 615 335
LIABILITIES – LONG TERM ASSETS			
Financial liabilities at amortised cost		**29 766 334**	30 799 145
		29 766 334	30 799 145
Total Liabilities		**132 676 647**	137 414 480
NET ASSETS		**1 155 549**	1 254 915
EQUITY - CAPITAL MARKETS OPERATIONS			
Retained surplus		**433 933**	339 601
		433 933	339 601
EQUITY - LONG TERM ASSETS			
Retained surplus		**721 616**	915 314
		721 616	915 314
Total Equity		**1 155 549**	1 254 915

The accompanying notes form an integral part of these financial statements.

Statement of changes in equity

For the year ended 30 June 2018

	NOTE	CAPITAL MARKETS OPERATIONS RETAINED SURPLUS $000	LONG TERM ASSETS RETAINED SURPLUS $000	TOTAL EQUITY $000
Balance at 1 July 2016		710 417	690 723	1 401 140
Profit for the year		129 184	224 591	353 775
Transactions with owners in their capacity as owners: Repatriation dividend provided for or paid	24	(500 000)	-	(500 000)
Balance at 30 June 2017		339 601	915 314	1 254 915
Balance at 1 July 2017		339 601	915 314	1 254 915
Profit/(loss) for the year		94 332	(193 698)	(99 366)
Transactions with owners in their capacity as owners: Dividend provided for or paid	24	-	-	-
Balance at 30 June 2018		**433 933**	**721 616**	**1 155 549**

The accompanying notes form an integral part of these financial statements.

Statement of cash flows

For the year ended 30 June 2018

	NOTE	2018 $000	2017 $000
CAPITAL MARKETS OPERATIONS			
Cash flows from operating activities			
Interest received from onlendings		**3 499 874**	4 000 692
Interest received from investments and other sources		**689 971**	595 279
Fees received		**87 494**	81 667
Net GST		**(25)**	317
Interest paid on interest-bearing liabilities		**(4 257 305)**	(4 609 029)
Interest paid on deposits		**(192 704)**	(183 508)
Administration expenses paid		**(77 444)**	(67 596)
Income tax paid		**(13 538)**	(9 654)
Net cash used in operating activities	15(a)	**(263 677)**	(191 832)
Cash flows from investing activities			
Proceeds from sale of investments		**48 538 404**	30 801 805
Payments for investments		**(49 831 212)**	(33 662 640)
Net onlendings received		**2 326 299**	1 868 187
Proceeds from sale/(payment) of intangibles		**46**	(3 390)
Proceeds from sale of property, plant and equipment		**11 189**	10 471
Payments for property, plant and equipment		**(1 074)**	(3 905)
Net cash provided by/(used in) investing activities		**1 043 652**	(989 472)
Cash flows from financing activities			
Proceeds from interest-bearing liabilities		**53 165 066**	50 575 339
Repayment of interest-bearing liabilities		**(53 762 986)**	(48 937 845)
Net deposits (advanced)/received		**(1 166 155)**	573 961
Dividends paid		**(500 000)**	(47 000)
Net cash (used in)/provided by financing activities	15(b)	**(2 264 075)**	2 164 455
Net (decrease)/increase in cash and cash equivalents held		**(1 484 100)**	983 151
Cash and cash equivalents at 1 July		**2 124 768**	1 141 617
Cash and cash equivalents at 30 June	6	**640 668**	2 124 768
LONG TERM ASSETS			
No external cash flow is generated from the long term assets (refer note 1).			

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 30 June 2018

Contents

1 General information

Queensland Treasury Corporation (QTC) is constituted under the *Queensland Treasury Corporation Act 1988* (the Act), with the Under Treasurer designated as the Corporation Sole under section 5 (2) of the Act. QTC is domiciled in Queensland, Australia, with its principal place of business being 111 Eagle Street, Brisbane, Queensland. QTC's ultimate parent is the State of Queensland.

Capital Markets Operations

QTC is the Queensland Government's central financing authority. QTC also provides a range of financial services to the State and its public sector entities, including local governments. QTC's Capital Markets Operations include debt funding and management, cash management facilities, financial risk management advisory services, and specialist public finance education.

These services are undertaken on a cost-recovery basis with QTC lending at an interest rate based on its cost of funds and passing the benefits/costs of liability and asset management on to its clients. These activities can also generate a profit largely reflecting the interest earned from its own investments held for capital and liquidity purposes. In undertaking these activities, QTC maintains adequate capital to manage its risks.

Long Term Assets

QTC holds a portfolio of assets which were transferred to QTC by the State Government. These assets are held to fund superannuation and other long-term obligations of the State. The Long Term Assets are held in unit trusts managed by QIC Limited (QIC). In return, QTC has issued the State fixed rate notes with an interest rate of 7.0 per cent which is the expected long term average rate of return on the portfolio overseen by the Long Term Asset Advisory Board (LTAAB). This has resulted in the State receiving a fixed rate of return on the notes, while QTC absorbs the impact of fluctuations in the value and returns on the asset portfolio.

LTAAB is responsible for the oversight of the Long Term Assets which do not form part of QTC's day-to-day Capital Markets Operations.

2 Significant accounting policies and other explanatory information

The principal accounting policies adopted in the preparation of the financial report are set out below and in the relevant notes to the financial statements.

(a) Basis of preparation

These general purpose financial statements for the year ended 30 June 2018 have been prepared in accordance with Australian Accounting Standards (AASB) and interpretations adopted by the Australian Accounting Standards Board, the Financial Accountability Act 2009, the Financial and Performance Management Standard 2009, and the Financial Reporting Requirements for Queensland Government Agencies (as applicable to statutory bodies).

Compliance with International Financial Reporting Standards

QTC's financial statements comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. QTC has elected to comply with the requirements of IFRS as if it is a for-profit entity. Reporting as a for-profit entity does not materially change the financial statements of the Corporation.

Changes in accounting policy, disclosures, standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year

New accounting standards

This year, the Corporation has applied *AASB 2016-2: Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107* for the first time. The Corporation has disclosed more information to explain changes in liabilities arising from financing activities, including cash flows and non-cash flow changes. This is included in Note 15(b) – Notes to the Statement of Cash Flow.

All other new and amended accounting standards effective for the financial year were adopted.

Standards and interpretations not yet adopted

Certain new accounting standards have been issued that are not mandatory for the current reporting period. Application of these standards is mandatory for annual reporting periods starting from 1 January 2018 onwards. For QTC this will be the 2018-19 financial year. The Corporation's assessment of the impact of material changes from these standards is set out below:

(i) AASB 9 Financial Instruments

AASB 9 Financial Instruments replaces AASB 139 Financial Instruments: Recognition and Measurement. It has been developed in order to simplify and address deficiencies in AASB 139. The main changes in the standard impacting QTC relate to classification and impairment of financial assets.

Classification of financial assets

Classification groups will change from the previous four categories model to a simplified three measurement basis - fair value through profit & loss (FVTPL), fair value through other comprehensive income, and amortised cost. QTC will continue to measure all financial instruments using the FVTPL measurement basis. Therefore there will be no measurement change as a result of the new standard.

Impairment of financial assets

AASB 9 introduces a new 'expected credit loss' (ECL) model for determining impairment losses for financial assets which results in earlier recognition of losses than the existing standard. Entities are required to make an allowance for:

- expected credit losses on all financial assets held at amortised cost or at fair value through other comprehensive income;
- all loan commitments not measured at fair value through profit or loss;
- financial guarantee contracts to which *AASB 9* is applied and that are not accounted for at fair value through profit or loss; and
- lease receivables that are within the scope of *AASB 117* Leases, and trade receivables or contract assets within the scope of *AASB 15 Revenue from Contracts with Customers* that give rise to an unconditional right to consideration.

With the exception of trade receivables, the ECL model does not apply to entities that measure financial assets at FVTPL such as QTC. For trade receivables or contract assets that do not contain a significant financing component, a loss allowance should be measured at initial recognition and throughout the life of the receivable at an amount equal to the lifetime ECL. QTC has adopted an expected credit loss model which will be applied to aged debt at the end of each reporting period. Based on QTC's historical credit loss experience no impact to the financial statements is expected by adopting the ECL.

(ii) AASB 15 Revenue from Contracts with Customers

AASB 15 Revenue from Contracts with Customers replaces AASB 118 Revenue. The intention is to provide greater consistency, comparability and uniformity of reporting of revenue across the globe. Currently the timing of revenue recognition is based primarily on the transfer of risks and rewards. This has led to subjective assessment and potential mismatch in the reporting of revenue. The new standard focuses on when control of goods/services has transferred to the customer. It contains five principles that an entity will apply to determine the amount and timing of revenue. The underlying principle is for an entity to recognise revenue as it transfers goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services.

2 Significant accounting policies and other explanatory information continued

AASB 15 explicitly excludes from its scope transactions governed by *AASB 9 Financial Instruments*. For QTC this relates to interest income. Fees from the provision of onlendings, cash management fees and guarantees fees come under the scope of *AASB 15*. QTC will apply the five step approach with revenue recognised over time as per client mandates. This will not change how QTC currently recognises revenue for these items. Where QTC acts principally as an agent to arrange the provision of services by another third party, no advisory fee revenue is recognised as these contracts are structured by QTC on a cost recovery basis. Where advisory fees are paid by a client for the use of QTC services, this revenue will be recognised by QTC as each performance obligation is completed. A detailed assessment will be made each reporting period on all outstanding client contracts.

(iii) AASB 16 Leases

AASB 16 Leases is effective for annual periods beginning on or after 1 January 2019. The new standard will change the accounting by lessees and result in the recognition of almost all leases on the balance sheet. For lessees, the standard requires the recognition of a right to use asset and a liability for the present value of future lease commitments. This will result in the current lease for QTC's principal office at 111 Eagle Street and car parking leases being recognised on Balance Sheet. The present value of the current leasing commitments that will be added to the Balance Sheet (both as an asset and liability) is $27 million. For lessors, the standard remains substantially unchanged and lessors will continue to distinguish between operating and finance leases.

Other than as noted above, the adoption of various Australian Accounting Standards and Interpretations on issue but not yet effective is not expected to have a material impact on the financial statements of the Corporation. However, the pronouncements may result in minor changes to how information is currently disclosed.

Basis of measurement

These financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated. Fair value is the amount for which an asset could be exchanged or liability settled between knowledgeable, willing parties in an arm's length transaction.

Functional and presentation currency

These financial statements are presented in Australian dollars which is QTC's functional currency.

Classification of assets and liabilities

The balance sheet is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current.

(b) Foreign currency

Foreign currency transactions are initially translated into Australian dollars at the rate of exchange applying at the date of the transaction. At balance date, amounts payable to and by QTC in foreign currencies have been valued using current exchange rates after taking into account interest rates and accrued interest. Exchange gains/losses are brought to account in the statement of comprehensive income.

(c) Collateral

QTC enters into a range of transactions with counterparties which require the lodgement of collateral subject to agreed market thresholds. Where these thresholds are exceeded, QTC may be required to either pledge assets to, or be entitled to receive pledged assets from, the counterparty to secure these transactions. The assets pledged or received are primarily in the form of cash.

(d) Financial assets and liabilities

Financial assets on initial recognition are classified into the following categories:

- Cash and cash equivalents
- Financial assets at fair value through profit or loss
- Derivative financial instruments, and
- Onlendings

Financial liabilities are measured at fair value through profit or loss and include:

- Interest-bearing liabilities, and
- Deposits

Financial assets and liabilities are recognised in the balance sheet when QTC becomes party to the contractual provisions of the financial instrument, which is the settlement date of the transaction. A financial asset is derecognised when the contractual rights to the cash flows from the financial assets expire or are transferred and no longer controlled by QTC. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets and liabilities are measured at fair value through profit or loss by reference to quoted market exit prices where available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques.

QTC uses mid-market rates as the basis for establishing fair values of quoted financial instruments with offsetting risk positions. In general, the risk characteristics of funds borrowed, together with the financial derivatives used to manage interest rate and foreign currency risks, closely match those of funds onlent. In all other cases, the bid-offer spread is applied where material.

Gains and losses on financial assets and liabilities at fair value through profit or loss are brought to account in the statement of comprehensive income.

(e) Offsetting financial instruments

QTC offsets financial assets and liabilities where there is a legally enforceable right to set-off, and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously (refer note 12(c)(iv)).

2 Significant accounting policies and other explanatory information continued

(f) Repurchase agreements

Securities sold under agreements to repurchase at an agreed price are retained within the financial assets at fair value through profit or loss category while the obligation to repurchase is disclosed as a financial liability at fair value through profit or loss.

(g) Lease income

Lease income from operating leases where QTC is the lessor is recognised as income on a straight line basis over the lease term.

(h) Fee income

Fee income includes:

- Management fee income, which represents income earned from the management of QTC's onlendings and deposits, is recognised on an accrual basis when the service has been provided
- Professional fees, which are recognised in the period the services are provided to the extent that it is probable that the economic benefits will flow to QTC and can be measured reliably, and
- Revenue on financial guarantees, which are recognised at inception and on an ongoing basis over the contract term. As the probability of default is extremely low due to counter indemnities, the revenue receivable is reflective of fair value.

(i) Profits/losses

Unless otherwise determined by the Governor in Council, the *Queensland Treasury Corporation Act 1988* requires that all profits shall accrue to the benefit of the State Consolidated Fund and all losses shall be the responsibility of the State Consolidated Fund. Return of profits to the Consolidated Fund is made by way of dividends which are provided for following approval by the Board after considering QTC's capital requirements.

(j) Intangible assets

Costs incurred to acquire computer software licences and to develop the specific software are capitalised. These assets are amortised on a straight-line basis over the period of expected benefit, which is usually between three and ten years.

(k) Impairment

The carrying value of non-financial assets is reviewed at each reporting date or where there is an indication of impairment. If an indication of impairment exists, the asset's recoverable amount is determined. Any amount by which the asset's carrying amount exceeds the recoverable amount is recorded as an impairment loss. The asset's recoverable amount is determined as the higher of the asset's fair value less cost of disposal or value in use.

(l) Employee benefits

A liability is recognised for employee benefits including salaries, annual leave, long service leave and short-term incentives where there is a present or constructive obligation as a result of past service. The liability is based on the amount expected to be paid provided that the obligation can be measured reliably. These are measured on an undiscounted basis where the amounts are expected to be paid within the next 12 months. For amounts where the payment date is expected to exceed 12 months such as long service leave, future pay increases are projected and then discounted using the Australian Government Bond Generic Yield rates. As sick leave is non-vesting, this is recognised as and when this leave is taken.

(m) Rounding

Amounts have been rounded to the nearest thousand dollars except for notes 21 and 22, which are in whole dollars and note 12(a)(ii) which is rounded to the nearest million dollars.

(n) Comparative figures

No material adjustments have been made to prior year comparatives.

(o) Judgements and assumptions

The preparation of the financial statements requires the use of accounting estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates may be significant to the financial statements are shown below:

Fair value of financial assets and financial liabilities

Financial assets and financial liabilities (including derivatives) are measured at fair value by reference to quoted market prices where available. The fair value of financial instruments that are not traded in an active market is determined by reference to market quotes for similar instruments or by use of valuation techniques. Valuation techniques may include applying trading margins to the swap curve or counterparty credit spreads for similar instruments, adjusted for changes in the credit worthiness of the counterparty. A margin may be applied based on the original purchase margin where an instrument is not actively traded.

Judgement may be needed in selecting valuation methods or assumptions where an active market quote is not available.

Investments in Queensland Treasury Holdings Pty Ltd (QTH)

Queensland Treasury holds a 60 per cent beneficial interest in QTH and 76 per cent of the voting rights. The remaining 40 per cent beneficial interest and 24 per cent voting rights is held by QTC. QTC does not apply the equity method to its investment in QTH as it does not have control or significant influence over the entity, exposure or rights to variable returns or the power to affect those returns. Queensland Treasury controls the significant transactions and bears all the risks and benefits of QTH and accordingly, QTH is consolidated into the financial statements of Queensland Treasury.

Notes to the Financial Statements

Capital Markets Operations

For the year ended 30 June 2018

3 Net gain/(loss) on financial instruments at fair value through profit or loss

Accounting Policy

Gain/(loss) on financial assets and financial liabilities at fair value through profit or loss includes:

- net interest income and expense recognised under the accrual basis
- net realised gain/(loss) resulting from market rate movements recognised on settlement date from the sale of investments and the pre-redemption of borrowings, and
- net unrealised gain/(loss) resulting from market rate movements from investments, certain onlendings and borrowings.

	2018 $000	2017 $000
Gain on financial assets at fair value through profit or loss		
Cash and cash equivalents	**13 255**	8 126
Financial assets at fair value through profit or loss	**487 326**	368 118
Derivatives	**127 260**	62 528
Onlendings	**2 705 216**	136 221
	3 333 057	574 993
(Loss)/gain on financial liabilities at fair value through profit or loss		
Financial liabilities at fair value through profit or loss		
- Short-term	**(156 987)**	(131 868)
- Long-term	**(2 739 881)**	(422 179)
Deposits	**(191 600)**	(193 499)
Derivatives	**(135 499)**	290 767
Other	**(15 950)**	(20 093)
	(3 239 917)	(476 872)

During the financial year, long term yields remained relatively stable, with a modest increase in market values adding to the interest income generated on financial assets and interest expense incurred on financial liabilities. In contrast, during the prior financial year yields rose more significantly leading to a decline in the market value of financial assets and liabilities. The decline in market values offset the majority of the interest income from financial assets and interest expense from financial liabilities.

4 Administration expenses

	2018 $000	2017 $000
Salaries and related costs	**38 011**	35 933
Superannuation contributions	**3 395**	3 463
Other employee benefits (1)	**658**	1 104
Contractors	**542**	4 488
Consultants' fees	**6 837**	3 128
Information and registry services	**2 773**	2 475
Depreciation on property, plant and equipment	**973**	1 649
Amortisation and impairment on intangible assets	**2 092**	1 757
Office occupancy	**3 252**	6 045
Information and communication technology	**10 341**	7 953
Other administration expenses	**4 860**	5 580
	73 734	73 575

(1) Relates to redundancy costs

5 Income tax expense

Accounting Policy

QTC is exempt from the payment of income tax under section 50-25 of the *Income Tax Assessment Act 1997* (as amended). QTC makes a payment in lieu of income tax to the Queensland Government's Consolidated Fund. The calculation of the income tax liability is based on the income of certain activities controlled by QTC's Capital Markets Operations. No income tax is payable on the Long Term Assets segment.

	2018 $000	2017 $000
Current tax	**15 943**	13 538
Deferred tax expense/(income)	**(1 985)**	662
Total income tax expense recognised in the year	**13 958**	14 200

Numerical reconciliation between income tax expense and pre-tax accounting profit

	2018 $000	2017 $000
(Loss)/profit for the year before tax	**(85 408)**	367 975
Less profits/(losses) from non-taxable portfolios:		
Capital Markets Operations	**61 773**	96 095
Long Term Assets	**(193 698)**	224 591
Operating profit from taxable portfolios	**46 517**	47 289
Tax at the Australian tax rate of 30% on taxable portfolios	**13 955**	14 187
Effect of non-deductible items:	**3**	13
Income tax expense	**13 958**	14 200

6 Cash and cash equivalents

Accounting Policy

Cash and cash equivalents include cash on hand and demand deposits (11am cash) which are highly liquid investments that are readily convertible to cash.

	2018 $000	2017 $000
Cash at bank (1)	**42**	989 588
Money market deposits	**640 626**	1 135 180
	640 668	2 124 768

(1) In 2017, additional cash was placed in the bank account by a client over year end and then withdrawn in early July (refer note 10).

7 Assets held for sale

Accounting Policy

Non-current assets are classified as assets held for sale and reported at their net carrying amount. Any subsequent increase or decrease in fair value less costs to sell is recognised in the statement of comprehensive income. Depreciation rates are as follows:

Asset class	Depreciation rate
Plant and machinery	10 – 30%

Set out below are reconciliations of the carrying amounts for plant and machinery that were available for sale at balance date (refer note 25). These consist mainly of buses and ferries which QTC leases to public sector entities under a whole of government operating lease facility.

	2018 $000	2017 $000
Cost at balance date	**166 167**	230 936
Accumulated depreciation and impairment	**(106 782)**	(138 835)
Net carrying amount	**59 385**	92 101

Movement

	2018 $000	2017 $000
Net carrying amount at beginning of year	**92 101**	132 384
Disposals	**(11 434)**	(10 470)
Depreciation expense	**(21 282)**	(29 813)
Net carrying amount at end of year	**59 385**	92 101

Notes to the Financial Statements

Capital Markets Operations

For the year ended 30 June 2018

8 Financial assets at fair value through profit or loss

	2018 $000	2017 $000
Discount securities	**4 948 971**	3 567 666
Commonwealth and state securities (1)	**1 384 150**	1 515 773
Floating rate notes	**8 245 590**	7 639 279
Term deposits	**4 952 090**	5 232 255
Other investments	**997 679**	1 313 178
	20 528 480	19 268 151

(1) QTC maintains holdings of its own stocks. These holdings are netted off and therefore excluded from financial assets and financial liabilities at fair value through profit or loss.

As at 30 June 2018, $8,033.6 million (2017: $7,590.8 million) of financial assets will mature after 12 months.

9 Derivative financial assets and derivative financial liabilities

Accounting Policy

All derivatives are measured at fair value through profit or loss with gains and losses recognised in the income statement. Derivatives are carried on the balance sheet as assets when the fair value is positive and as liabilities when the fair value is negative.

QTC uses derivative financial instruments to hedge its exposure to interest rate, foreign currency and credit risks as part of its asset and liability management activities. In addition derivatives may be used to deliver long term floating rate or long term fixed rate exposure.

	2018 $000	2017 $000
Derivative financial assets		
Interest rate swaps	**38 614**	62 511
Cross currency swaps	**31 035**	176 238
Foreign exchange contracts	**47 047**	39
Futures contracts	**13 419**	98 771
	130 115	337 559
Derivative financial liabilities		
Interest rate swaps	**(31 635)**	(8 317)
Cross currency swaps	**(20 104)**	(101 649)
Foreign exchange contracts	**(2 287)**	(9 677)
Futures contracts	**(41 184)**	(55 549)
	(95 210)	(175 192)
Net derivatives	**34 905**	162 367

As at 30 June 2018, $15.3 million (2017: $11.2 million) of these derivatives have maturity dates exceeding 12 months.

Notes to the Financial Statements

Capital Markets Operations

For the year ended 30 June 2018

10 Onlendings

Accounting Policy

QTC borrows on behalf of its clients and lends at an interest rate based on QTC's cost of funds, plus an administration fee to cover the costs of QTC's operations.

Onlendings are initially recognised at the amount drawn-down. Subsequent to initial recognition, onlendings are included in the balance sheet at fair value by reference to either the underlying debt portfolio, or in the case of fixed rate loans on a discounted cash flow basis.

	2018 $000	2017 $000
Government departments and agencies	**31 382 607**	33 829 520
Government owned corporations	**26 006 139**	26 400 250
Statutory bodies (1)	**18 017 825**	17 996 287
Local governments (2)	**6 136 975**	6 449 433
QTC related entities	**121 626**	130 385
Other bodies (2)	**286 611**	296 083
	81 951 783	85 101 958

(1) *includes onlendings to Universities $406.8 million (2017: $372.7 million) which are not part of Queensland Treasury's related parties*

(2) *Local governments and other bodies are not part of Queensland Treasury's related parties*

At 30 June 2018, client deposits of $4.6 billion have been placed in redraw facilities and offset the value of onlendings in the balance sheet (2017: $3.9 billion). The gross value of onlendings at 30 June 2018 was $86.6 billion (2017: $89.0 billion).

As at 30 June 2018, $81,628.9 million (2017: $84,162.3 million) of repayments are expected to be received after 12 months.

11 Financial liabilities at fair value through profit or loss

(a) Interest-bearing liabilities

Interest-bearing liabilities mainly consist of short-term treasury notes, Australian and overseas bonds and floating rate notes. Australian bonds include QTC's domestic, capital indexed and public bonds. Overseas bonds include global bonds and eurobonds. Global bonds are Australian dollar denominated bonds issued in the United States and Euro markets.

	2018 $000	2017 $000
Interest-bearing liabilities		
Short-term		
Treasury notes	**4 244 895**	4 471 325
Commercial paper	**1 165 092**	921 564
	5 409 987	5 392 889
Long-term		
AUD Bonds	**85 766 730**	88 313 286
Floating rate notes	**4 009 753**	2 505 946
Global AUD Bonds	**-**	186 138
Medium-term notes	**1 021 030**	1 730 599
Other	**324 949**	334 124
	91 122 462	93 070 093
Total interest-bearing liabilities	**96 532 449**	98 462 982

QTC borrowings are guaranteed by the Queensland Government under the *Queensland Treasury Corporation Act 1988*. As at 30 June 2018, $81,328.6 million (2017: $83,556.6 million) of debt securities are expected to be settled after more than 12 months.

Instruments denominated in foreign currency are fully hedged resulting in no net exposure to any foreign currency. Details of QTC's exposure to foreign currencies and the derivatives used to hedge this exposure are disclosed in note 12(a)(i).

11 Financial liabilities at fair value through profit or loss continued

(a) Interest-bearing liabilities continued

The difference between the carrying amount of financial liabilities and the amount contractually required to be paid at maturity to the holder of the obligation is set out in the following table:

AS AT 30 JUNE 2018	FAIR VALUE $000	REPAYMENT AT MATURITY $000	DIFFERENCE $000
Interest-bearing liabilities			
Short-term			
Treasury notes	**4 244 895**	**4 255 000**	**(10 105)**
Commercial paper	**1 165 092**	**1 167 841**	**(2 749)**
	5 409 987	**5 422 841**	**(12 854)**
Long-term			
AUD Bonds	**85 766 730**	**77 940 564**	**7 826 166**
Floating rate notes	**4 009 753**	**4 000 000**	**9 753**
Medium-term notes	**1 021 030**	**964 587**	**56 443**
Other	**324 949**	**323 888**	**1 061**
	91 122 462	**83 229 039**	**7 893 423**
Total interest-bearing liabilities	**96 532 449**	**88 651 880**	**7 880 569**

AS AT 30 JUNE 2017	FAIR VALUE $000	REPAYMENT AT MATURITY $000	DIFFERENCE $000
Interest-bearing liabilities			
Short-term			
Treasury notes	4 471 325	4 485 000	(13 675)
Commercial paper	921 564	923 315	(1 751)
	5 392 889	5 408 315	(15 426)
Long-term			
AUD Bonds	88 313 286	79 079 879	9 233 407
Floating rate notes	2 505 946	2 500 000	5 946
Global AUD Bonds	186 138	181 276	4 862
Medium-term notes	1 730 599	1 659 197	71 402
Other	334 124	331 629	2 495
	93 070 093	83 751 981	9 318 112
Total interest-bearing liabilities	98 462 982	89 160 296	9 302 686

11 Financial liabilities at fair value through profit or loss continued

(b) Deposits

Client deposits are accepted to either the QTC Cash Fund or Working Capital Facility (11AM Fund). Income derived from the investment of these deposits accrues to depositors daily. The amount shown in the balance sheet represents the market value of deposits held at balance date.

Collateral held and securities which are sold under agreements to repurchase are disclosed as deposits.

	2018 $000	2017 $000
Client deposits		
Local governments	**2 549 851**	3 049 454
Statutory bodies	**2 706 450**	2 773 869
Government-owned Corporations	**83 376**	920 111
Government departments and agencies	**73 233**	44 349
QTC related entities	**83 172**	77 329
Other depositors	**173 671**	172 443
	5 669 753	7 037 555
Collateral held	**72 860**	75 290
Repurchase agreements	**470 931**	316 046
	543 791	391 336
Total deposits	**6 213 544**	7 428 891

As at 30 June 2018, $5,616.0 million (2017: $6,977.2 million) will mature within 12 months.

12 Financial risk management

QTC's activities expose it to a variety of financial risks including market risk (foreign exchange, interest rate, basis spreads, and credit spreads), liquidity risk, and credit risk. QTC's financial risk management focuses on minimising financial risk exposures and managing volatility, and seeks to mitigate potential adverse effects of financial risks on the financial performance of QTC and its clients. To assist in managing financial risk, QTC uses derivative financial instruments such as foreign exchange contracts, interest rate swaps and futures contracts.

Robust systems are in place for managing financial risk and compliance. Adherence to financial risk policies are monitored daily. To ensure independence, measurement and monitoring of financial risks are performed by teams separate to those transacting.

All financial risk management activities are conducted within Board approved policies, as set out in the Financial Markets Risk Policy with new financial instruments approved by the QTC Board. All breaches of the Financial Markets Risk Policy are escalated to management, the Chief Executive and the Funding and Markets Committee and presented at the next board meeting.

QTC ensures that in undertaking its capital markets activities it has regard to its Capital Adequacy Policy. This Policy sets out how QTC should manage its capital requirements to support its business activities and risk profile. Capital requirements are calculated for funding, liquidity, market, credit and operational risks with stress testing applied. Optimal capital requirements are regularly compared to QTC's actual capital with reports presented to management and the Board.

(a) Market risk

QTC is exposed to market risk in the form of interest rate risk and foreign exchange risk with price risk not having a significant impact.

QTC's exposure to market risk is through its borrowing and investment activities, including borrowing in advance of requirements to ensure Queensland public sector entities have ready access to funding when required and also to reduce the risk associated with refinancing maturing loans.

As a consequence of market changes, there are residual risk positions which may result in realised and unrealised accounting gains or losses being recorded during the year. Depending on whether these transactions are held to maturity, the unrealised gains or losses may be reversed in subsequent accounting periods.

QTC's investments on behalf of its clients are held in the QTC Cash Fund. Movement in credit spreads will impact on the value of the assets held in the Cash Fund resulting in unrealised mark-to-market accounting gains or losses. QTC generally holds these assets to maturity and therefore any mark-to-market impacts from credit margin changes are typically reversed over the life of the assets. QTC does not pass these unrealised credit spread adjustments onto the client, either positive or negative, in the returns to Cash Fund participants.

(i) Foreign exchange risk

QTC has funding facilities that allow for borrowing in foreign currencies. At times, QTC's Cash Fund invests in foreign currency assets. QTC enters into both forward exchange contracts and cross currency swaps to hedge the exposure of foreign currency borrowings and offshore investments from fluctuations in exchange rates. The following table summarises the hedging effect, in Australian dollars, that cross currency swaps and forward exchange contracts have had on the face value of offshore borrowings and investments.

	BORROWINGS		OFFSHORE INVESTMENTS		DERIVATIVE CONTRACTS		NET EXPOSURE	
	2018 $000	2017 $000	**2018 $000**	2017 $000	**2018 $000**	2017 $000	**2018 $000**	2017 $000
USD	**(927 228)**	(820 348)	**424 185**	729 101	**503 043**	91 247	**-**	-
NZD	**-**	(841 851)	**-**	-	**-**	841 851	**-**	-
GBP	**(230 613)**	-	**-**	29 812	**230 613**	(29 812)	**-**	-
CHF	**(149 701)**	(149 528)	**-**	-	**149 701**	149 528	**-**	-
JPY	**(183 492)**	(174 549)	**-**	-	**183 492**	174 549	**-**	-
EUR	**(631 496)**	(596 235)	**-**	52 040	**631 496**	544 195	**-**	-

12 Financial risk management continued

(a) Market risk continued

(ii) Interest rate risk

QTC lends to clients based on a duration profile specified in the client mandates. QTC then manages any mismatch between the duration profile of client loans and QTC's funding within an Asset and Liability Management Portfolio. Duration is a direct measure of the interest rate sensitivity of a financial instrument or a portfolio of financial instruments and quantifies the change in value of a financial instrument or portfolio due to interest rate movements. All costs or benefits of managing any mismatch between client loans and QTC funding are passed on to QTC clients ensuring that QTC is effectively immunised from interest rate risk with respect to these portfolios.

QTC's interest rate risk, which results from borrowing in advance and investing surplus funds in high credit quality, highly liquid assets, is managed with consideration given to duration risk, yield curve risk, basis risk and Value-at-Risk (VaR). To manage the risk of non-parallel yield curve movements, QTC manages portfolio cash flows in a series of time periods so that the net interest rate risk in each time period can be measured. QTC enters into interest rate swaps, forward rate agreements and futures contracts to assist in the management of interest rate risk.

In QTC's Funding and Liquidity portfolios, interest rate swaps may be utilised to change the interest rate exposure of medium to long term fixed rate borrowings into that of a floating rate borrowing. Also, at times, floating to fixed swaps may be undertaken to generate a fixed rate term funding profile. QTC is exposed to basis risk when interest rate swaps are used in the Funding and Liquidity portfolios. Basis risk represents a mark-to-market exposure due to movements between the swap curve and QTC's yield curve.

QTC uses a Board approved VaR framework to manage QTC's exposure to market risk complemented by other measures such as defined stress tests and PVBP (change in the present value for a one basis point movement). The VaR measure estimates the potential mark-to-market loss over a given holding period at a 99 per cent confidence level. QTC uses the historical simulation approach to calculate VaR with a holding period of 10 business days.

VaR impact

The VaR at 30 June, along with the minimum, maximum and average exposure over the financial year was as follows:

INTEREST RATE RISK VAR	2018 $M	2017 $M
As at 30 June	**11**	16
Average for the year	**14**	14
Financial year- minimum	**11**	10
Financial year- maximum	**24**	16

The above VaR calculation does not include the potential mark-to-market impact of changes in credit spreads on the value of assets held in the QTC Cash Fund. At 30 June 2018, QTC had an exposure of approximately $0.90 million per basis point to changes in credit spreads of assets held in the QTC Cash Fund.

QTC also calculates Stressed VaR, which is a measure used to determine the optimal level of capital that QTC should maintain in order to manage its risks in accordance with its Capital Adequacy Policy. Optimal Capital is calculated and compared to QTC's actual capital. The Stressed VaR is based on a historical period that covers the Global Financial Crisis.

(b) Liquidity and financing risks

QTC has a robust internal framework whereby extensive liquidity scenario analysis and forecasting is undertaken to understand assumption sensitivities to ensure there is appropriate forward looking visibility of the State's liquidity position.

QTC debt is a Level 1 (prudentially required) asset for Australian banks under Basel III reforms with a 0% capital risk weighting. In normal and difficult market circumstances, QTC debt is likely to be in high demand. The ability to issue debt is considered a potential source of liquidity.

QTC holds appropriate liquidity (allowing for suitable haircuts of liquid assets) to meet minimum liquidity requirements as estimated today and as forecast into the future. QTC measures the minimum liquidity requirement to comfortably meet the following scenarios simultaneously:

- Standard & Poor's Liquidity Ratio – maintaining a ratio greater than 80% of liquid assets over debt servicing requirements over next 12 months
- Liquidity forecast – maintaining a minimum of $4 billion forecast liquidity over any pending 12 month period
- Daily cash balances – maintaining a minimum of five working days' net cash requirements in 11AM cash, RBA repo eligible securities and Negotiable Certificates of Deposits to fund the net cash flows from assets and liabilities on QTC's balance sheet.

In addition, QTC holds liquid assets to support public sector entity deposits and the State's Long Term Assets. QTC considers these liquid assets as potential sources of liquidity in a liquidity crisis.

QTC maintains its AUD benchmark bond facility as its core medium to long-term funding facility and its domestic treasury note facility, euro-commercial paper facility and US commercial paper facility as its core short-term funding facilities. In addition, QTC has in place Euro and US medium-term note facilities to take advantage of funding opportunities in offshore markets. These facilities ensure that QTC is readily able to access the domestic and international financial markets.

With the exception of deposits and payables, the maturity analysis for liabilities has been calculated based on the contractual cash flows relating to the repayment of the principal (face value) and interest amounts over the contractual terms.

Deposits on account of the Cash Fund and Working Capital Facility (11AM Fund) are repayable at call while deposits held as security for stock lending and repurchase agreements are repayable when the security is lodged with QTC.

With the exception of cash and receivables, the maturity analysis for assets has been calculated based on the contractual cash flows relating to the repayment of the principal (face value) and interest amounts over the contractual terms.

In relation to client onlendings, certain loans are interest only with no fixed repayment date for the principal component (ie. loans are made based on the quality of the client's business and its financial strength). For the purposes of completing the maturity analysis, the principal component of these loans has been included in the greater than five year time band with no interest payment assumed in this time band.

Notes to the Financial Statements

Capital Markets Operations
For the year ended 30 June 2018

12 Financial risk management continued

(b) Liquidity and financing risks continued

The following table sets out the contractual cash flows relating to financial assets and financial liabilities held by QTC at balance date.

CONTRACTUAL MATURITIES AS AT 30 JUNE 2018	3 MONTHS OR LESS $000	3 - 6 MONTHS $000	6 - 12 MONTHS $000	1 - 5 YEARS $000	MORE THAN 5 YEARS $000	TOTAL $000	FAIR VALUE $000
Financial assets							
Cash and cash equivalents	640 668	-	-	-	-	**640 668**	**640 668**
Receivables	7 484	-	-	-	-	**7 484**	**7 484**
Onlendings [1]	1 332 075	1 212 306	1 432 167	15 448 446	73 486 751	**92 911 745**	**81 951 783**
Financial assets at fair value through profit or loss	6 690 126	3 862 733	2 186 803	7 227 083	1 717 974	**21 684 719**	**20 528 480**
Total assets	**8 670 353**	**5 075 039**	**3 618 970**	**22 675 529**	**75 204 725**	**115 244 616**	**103 128 415**
Financial liabilities							
Payables	(29 551)	-	-	-	-	**(29 551)**	**(29 551)**
Deposits	(6 075 055)	(22 371)	(4 348)	(14 964)	(97 999)	**(6 214 737)**	**(6 213 544)**
Financial liabilities at fair value through profit or loss							
- Short-term	(5 322 841)	(100 000)	-	-	-	**(5 422 841)**	**(5 409 987)**
- Long-term	(1 515 388)	(2 480 881)	(9 677 846)	(40 135 077)	(51 180 448)	**(104 989 640)**	**(91 122 462)**
Total liabilities	**(12 942 835)**	**(2 603 252)**	**(9 682 194)**	**(40 150 041)**	**(51 278 447)**	**(116 656 769)**	**(102 775 544)**
Derivatives							
Interest rate swaps	(6 283)	(1 568)	(6 238)	(31 577)	64 911	**19 244**	**6 979**
Cross currency swaps	(30)	(2 447)	(18 858)	(94 208)	(510 400)	**(625 943)**	**10 931**
Foreign exchange contracts	44 516	-	-	-	-	**44 516**	**44 760**
Futures contracts	(27 765)	-	-	-	-	**(27 765)**	**(27 765)**
Net derivatives	**10 438**	**(4 015)**	**(25 096)**	**(125 785)**	**(445 489)**	**(589 947)**	**34 905**
Net (liabilities)/assets	**(4 262 044)**	**2 467 772**	**(6 088 320)**	**(17 600 297)**	**23 480 789**	**(2 002 100)**	**387 776**
Cumulative	**(4 262 044)**	**(1 794 272)**	**(7 882 592)**	**(25 482 889)**	**(2 002 100)**	**-**	**-**

[1] A large proportion of QTC's onlendings are based on the quality of the business and financial strength of the client. Funds are therefore onlent on the basis of these businesses being going concerns and continuing to meet key credit metrics criteria such as debt to capital and interest coverage ratios. Accordingly, a significant portion of the onlendings portfolio has a loan maturity profile which is greater than five years with the interest rate risk of these loans being managed based on the client's business risk such that the funding is structured on the underlying business profile. This results in QTC's liability maturity profile being shorter than the asset maturity profile. Though not exposing QTC to interest rate risk, this approach does require QTC to undertake periodic refinancing of its liabilities.

12 Financial risk management continued

(b) Liquidity and financing risks continued

CONTRACTUAL MATURITIES AS AT 30 JUNE 2017	3 MONTHS OR LESS $000	3 - 6 MONTHS $000	6 - 12 MONTHS $000	1 - 5 YEARS $000	MORE THAN 5 YEARS $000	TOTAL $000	FAIR VALUE $000
Financial assets							
Cash and cash equivalents	2 124 768	-	-	-	-	**2 124 768**	**2 124 768**
Receivables	4 018	-	-	-	-	**4 018**	**4 018**
Onlendings	1 061 433	1 010 083	2 179 578	16 135 364	74 321 312	**94 707 770**	**85 101 958**
Financial assets at fair value through profit or loss	6 795 137	2 761 532	2 445 304	6 373 254	1 625 981	**20 001 208**	**19 268 151**
Total assets	**9 985 356**	**3 771 615**	**4 624 882**	**22 508 618**	**75 947 293**	**116 837 764**	**106 498 895**
Financial liabilities							
Payables and dividends	(34 948)	-	(500 000)	-	-	**(534 948)**	**(534 948)**
Deposits	(7 280 949)	(22 377)	(4 394)	(21 921)	(99 705)	**(7 429 346)**	**(7 428 891)**
Financial liabilities at fair value through profit or loss							
- Short-term	(3 940 362)	(1 467 953)	-	-	-	**(5 408 315)**	**(5 392 889)**
- Long-term	(5 821 893)	(514 661)	(6 888 134)	(41 353 155)	(44 646 553)	**(99 224 396)**	**(93 070 093)**
Total liabilities	**(17 078 152)**	**(2 004 991)**	**(7 392 528)**	**(41 375 076)**	**(44 746 258)**	**(112 597 005)**	**(106 426 821)**
Derivatives							
Interest rate swaps	(5 422)	(5 897)	(13 242)	(16 996)	-	**(41 557)**	**54 194**
Cross currency swaps	124 059	6 141	(36 909)	(87 923)	(46 102)	**(40 734)**	**74 589**
Foreign exchange contracts	(6 011)	(4 180)	-	-	-	**(10 191)**	**(9 638)**
Futures contracts	43 222	-	-	-	-	**43 222**	**43 222**
Net derivatives	**155 848**	**(3 936)**	**(50 151)**	**(104 919)**	**(46 102)**	**(49 260)**	**162 367**
Net (liabilities)/assets	**(6 936 948)**	**1 762 688**	**(2 817 797)**	**(18 971 377)**	**31 154 933**	**4 191 499**	**234 441**
Cumulative	**(6 936 948)**	**(5 174 260)**	**(7 992 057)**	**(26 963 434)**	**4 191 499**	**-**	**-**

Notes to the Financial Statements

Capital Markets Operations

For the year ended 30 June 2018

12 Financial risk management continued

(c) Credit risk

(i) Financial markets counterparties

Credit risk is regularly assessed, measured and managed in strict accordance with QTC's financial markets risk policy. Exposure to credit risk is managed through regular analysis of the ability of credit counterparties to meet payment obligations.

Credit exposure is QTC's estimate of the potential loss at balance date in relation to investments and derivative contracts (measured using methodologies based on Basel III) in the event of non-performance by all counterparties. The credit exposure for non-derivative investments is calculated based on the higher of the market value or face value of the instrument while exposure to derivative contracts is based only on a notional 'add-on' factor applied to the value of the instrument, as derivatives are marked-to-market daily with zero thresholds under all of QTC's credit support annexes. QTC utilises collateral arrangements to limit its derivatives' credit exposure (refer (iv) master netting arrangements).

All derivative contracts are subject to zero threshold collateral arrangements with the effect of credit valuation adjustments (CVA) and debt valuation adjustments (DVA) reflected where material. However this is typically not required due to the impact of collateral arrangements and the high credit worthiness of counterparties, hence for derivative contracts, credit risk is not a significant factor in the determination of fair value.

The following tables represent QTC's exposure to credit risk at 30 June:

BY CREDIT RATING (1) 30 JUNE 2018	AAA $000	AA+ $000	AA $000	AA- $000	A+ $000	A $000	OTHER(2) $000	TOTAL $000
Cash & equivalents	-	-	-	**640 668**	-	-	-	**640 668**
Financial assets(3)	**1 422 968**	**585 896**	**257 043**	**15 041 095**	**2 140 943**	**1 572 754**	**180 356**	**21 201 055**
Derivatives	-	-	-	**42 436**	**11 360**	-	-	**53 796**
	1 422 968	**585 896**	**257 043**	**15 724 199**	**2 152 303**	**1 572 754**	**180 356**	**21 895 519**
	6%	**3%**	**1%**	**72%**	**10%**	**7%**	**1%**	**100%**

BY CREDIT RATING (1) 30 JUNE 2017								
Cash & equivalents	-	-	-	2 124 768	-	-	-	2 124 768
Financial assets(3)	1 413 098	381 750	332 172	14 848 004	1 243 689	570 008	338 632	19 127 353
Derivatives	-	-	-	69 476	44 853	-	-	114 329
	1 413 098	381 750	332 172	17 042 248	1 288 542	570 008	338 632	21 366 450
	6%	2%	2%	80%	6%	2%	2%	100%

(1) *Credit rating as per Standard & Poor's or equivalent agency*

(2) *Includes long term ratings of A-, or a short term rating of A-1+ & A-2*

(3) *Financial assets are based on unsettled face value and consist mainly of discount securities, Commonwealth & State securities, floating rate notes and term deposits*

QTC adopts a conservative approach to the management of credit risk with a strong bias to high credit quality counterparties. QTC maintains a ratings based approach in determining maximum credit exposures to counterparties which is supplemented by QTC's credit risk analysis team performing its own credit assessment of QTC's capital markets counterparties. The country of domicile, the counterparty's credit metrics, size of its funding programs, asset composition and quality of the underlying security are key considerations when determining limits.

QTC has a significant concentration of credit risk to the banking sector and in particular, the domestic banking sector. While QTC has been focused on diversifying its investment portfolio, investments in bank credit predominate because of QTC's requirement to invest with counterparties rated BBB+ or better (approximately 82 per cent of exposures are AA- or better) and to invest in highly liquid securities.

(ii) Onlending counterparties

Counterparties for onlendings, with the exception of some small exposures to private companies, are Queensland Government sector entities with approximately 75 per cent (2017: 68 per cent) of these onlendings having an explicit State Government guarantee. As a consequence, these exposures are not included in QTC's total credit exposure.

(iii) Fair value attributable to credit risk of QTC's liabilities

QTC's borrowings are guaranteed by the State Government, and in the case of the Australian Government Guaranteed borrowings (2018: $2,427 million), by the Commonwealth. As a result, credit risk is not a significant factor in the determination of fair value. Changes in fair value are mainly attributable to market fluctuations.

(iv) Master netting arrangements

QTC enters into all derivative transactions under International Swaps and Derivatives Association (ISDA) Master Agreements. QTC does not currently have any master netting arrangements where a default event has occurred, and has therefore presented all derivative financial instruments on a gross basis in the statement of financial position. QTC also has Credit Support Annexes (CSAs) in place with each ISDA, under which collateral is transferred every business day. This further reduces QTC's credit exposure.

The following table presents the financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset. The column 'net amount' shows the impact on QTC's balance sheet if all set-off rights were exercised.

12 Financial risk management continued

(c) Credit risk continued

(iv) Master netting arrangements continued

		RELATED TO AMOUNTS NOT SET OFF IN THE BALANCE SHEET		
	GROSS AND NET AMOUNTS ON THE BALANCE SHEET $000	FINANCIAL INSTRUMENTS COLLATERAL $000	CASH COLLATERAL RECEIVED OR GIVEN $000	NET AMOUNT $000
2018				
Derivative assets: - subject to master netting arrangements	**130 115**	**-**	**(128 347)**	**1 768**
Derivative liabilities: - subject to master netting arrangements	**(95 210)**	**-**	**95 210**	**-**
Net exposure	**34 905**	**-**	**(33 137)**	**1 768**
2017				
Derivative assets: - subject to master netting arrangements	337 559	(63 126)	(244 936)	29 497
Derivative liabilities: - subject to master netting arrangements	(175 192)	-	175 652	460
Net exposure	162 367	(63 126)	(69 284)	29 957

13 Fair value hierarchy

Financial instruments measured at fair value have been classified in accordance with the hierarchy described in AASB 13 Fair Value Measurement. The fair value hierarchy is categorised into three levels based on the observability of the inputs used.

Level 1 – quoted prices (unadjusted) in active markets that QTC can access at measurement date for identical assets and liabilities.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial instruments at fair value through profit or loss are valued by reference to either quoted market prices or observable inputs with no significant adjustments applied to instruments held and therefore no financial instruments at fair value through profit or loss are classified under Level 3.

Financial assets classified as Level 1 consist primarily of short-term and tradable bank deposits, Commonwealth and semi-government bonds and futures contracts where an active market has been established. Financial liabilities classified as Level 1 consist of QTC benchmark bonds.

Financial assets classified as Level 2 include non-actively traded corporate and semi-government bonds, certain money market securities, floating rate notes, term deposits, QTC onlendings and all over the counter derivatives. The principal inputs in determining fair value include benchmark interest rates such as interbank rates, quoted interest rates in the swap, bond and futures markets, trading margins to the swap curve and counterparty credit spreads for similar instruments adjusted for changes in the credit worthiness of the counterparty. A margin may be applied based on the original purchase margin where the instrument is not actively traded. QTC onlendings are priced based on the underlying liability portfolio.

Financial liabilities classified as Level 2 include commercial paper, treasury notes, medium-term notes, floating rate notes, QTC Capital Index Bonds and client deposits. The principal inputs in determining fair value include benchmark interest rates such as interbank rates and quoted interest rates in the swap and bond markets. Valuations may include a fixed margin to LIBOR or swap curve. Client deposits are principally held in the QTC Cash Fund which is capital guaranteed.

Over the counter derivatives are typically valued as Level 2 and include FX forwards, FX swaps, interest rate and cross currency swaps. The principal inputs in determining fair value include quoted interest rates in the swap market, spot FX rates and basis curves.

QTC applies mid-market pricing as a practical and consistent method for fair value measurements within the bid-ask spread.

Classification of instruments into fair value hierarchy levels is reviewed annually and where there has been a significant change to the valuation inputs and a transfer is deemed to occur, this is effected at the end of the relevant reporting period. Floating rate notes were transferred from level 2 to level 1 as they meet the liquidity requirements and valuations were based on quoted prices during the current year. Liquidity in the QTC 2030 and QTC 2033 bonds improved and were also transferred from level 2 to level 1 during the year.

13 Fair value hierarchy continued

AS AT 30 JUNE 2018	QUOTED PRICES LEVEL 1 $000	OBSERVABLE INPUTS LEVEL 2 $000	TOTAL $000
Financial assets			
Cash and cash equivalents	640 668	-	**640 668**
Financial assets through profit or loss	12 054 074	8 474 406	**20 528 480**
Onlendings	-	81 951 783	**81 951 783**
Derivative financial assets	13 419	116 696	**130 115**
Total financial assets	**12 708 161**	**90 542 885**	**103 251 046**
Financial liabilities			
Financial liabilities through profit or loss			
- Short-term	-	5 409 987	**5 409 987**
- Long-term	86 315 997	4 806 465	**91 122 462**
Deposits	-	6 213 544	**6 213 544**
Derivative financial liabilities	41 184	54 026	**95 210**
Total financial liabilities	**86 357 181**	**16 484 022**	**102 841 203**
AS AT 30 JUNE 2017			
Financial assets			
Cash and cash equivalents	2 124 768	-	**2 124 768**
Financial assets through profit or loss	5 733 080	13 535 071	**19 268 151**
Onlendings	-	85 101 958	**85 101 958**
Derivative financial assets	98 810	238 749	**337 559**
Total financial assets	**7 956 658**	**98 875 778**	**106 832 436**
Financial liabilities			
Financial liabilities through profit or loss			
- Short-term	-	5 392 889	**5 392 889**
- Long-term	85 852 647	7 217 446	**93 070 093**
Deposits	-	7 428 891	**7 428 891**
Derivative financial liabilities	65 226	109 966	**175 192**
Total financial liabilities	**85 917 873**	**20 149 192**	**106 067 065**

14 Property, plant and equipment

Accounting Policy

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on a straight line basis over the estimated useful life of the assets. Depreciation rates are as follows:

Asset class	Depreciation rate
Information technology & office equipment	6 – 40%

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each financial year end.

Reconciliations of the carrying amounts for property, plant and equipment are set out below:

	2018 $000	2017 $000
Cost at balance date	**6 168**	12 208
Accumulated depreciation and impairment	**(1 583)**	(7 545)
Net carrying amount	**4 585**	4 483
Movement		
Net carrying amount at beginning of year	**4 483**	2 265
Additions	**1 075**	3 904
Disposals	**-**	(37)
Depreciation expense	**(973)**	(1 649)
Net carrying amount at end of year	**4 585**	4 483

15 Notes to the statement of cash flows

(a) Reconciliation of profit after tax to net cash provided by operating activities

	2018 $000	2017 $000
Profit for the year	**94 332**	129 184
Non-cash flows in operating surplus		
Loss/(gain) on interest-bearing liabilities	**1 422 117**	(3 285 567)
Gain on deposits held	**(17)**	(1 133)
Loss on onlendings	**790 966**	4 018 515
Loss on financial assets at fair value through profit or loss	**12 243**	86 358
Depreciation and amortisation	**24 590**	33 256
Doubtful debts- cooperative housing societies	**323**	153
Changes in assets and liabilities		
Decrease in financial assets at fair value through profit or loss	**22 363**	32 930
(Increase)/decrease in deferred tax asset	**(1 985)**	662
Increase in onlendings	**(13 692)**	(165 931)
(Increase)/decrease in receivables	**(3 583)**	7 626
Decrease in interest-bearing liabilities	**(2 631 089)**	(568 658)
(Decrease)/increase in deposits	**(1 087)**	11 125
Increase/(decrease) in payables and other liabilities	**20 842**	(490 352)
Net cash used in operating activities	**(263 677)**	(191 832)

15 Notes to the statement of cash flows continued

(b) Reconciliation of liabilities arising from financing activities

AS AT 30 JUNE 2018	OPENING BALANCE $000	CASH FLOWS $000	FAIR VALUE MOVEMENT $000	FOREIGN EXCHANGE MOVEMENT $000	OTHER NON CASH MOVEMENT $000	CLOSING BALANCE $000
Interest-bearing liabilities*	**98 638 174**	(597 920)	(1 359 678)	(62 439)	9 522	**96 627 659**
Deposits	**7 428 891**	(1 166 155)	17	-	(49 209)	**6 213 544**
Dividend paid	**500 000**	(500 000)	-	-	-	**-**
	106 567 065	**(2 264 075)**	(1 359 661)	(62 439)	(39 687)	**102 841 203**

** Includes derivatives*

16 Financial assets at fair value through profit or loss

Accounting Policy – Classification and measurement

Financial instruments on initial recognition are classified into the following categories:

- Financial assets at fair value through profit or loss, and
- Financial liabilities at amortised cost.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include investments held in unit trusts which consist of investments held and managed by QIC and include cash, international equities and other diversified products. These investments are measured at market value based on the hard close unit price quoted by QIC adjusted for fees outstanding on the account and net of any GST recoverable.

Financial liabilities at amortised cost

Financial liabilities at amortised cost consist of fixed rate notes issued to the State Government in exchange for a portfolio of assets. The fixed rate notes were initially recognised at par value, which equated to the fair value of the financial assets acquired. Deposits and withdrawals are made to/from the notes based on changes in the State Government's long-term liabilities. The notes will terminate upon the greater of 50 years (from the transaction date of 1 July 2008) or the date that the State Government's long term liabilities cease to exist. Interest on the fixed rate notes is capitalised monthly and the rate is reviewed annually.

Financial liabilities at amortised cost are measured using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial instrument and allocating the interest income or interest expense over the relevant period. In this way, interest is recognised in the statement of comprehensive income in the period in which it accrues.

	2018 $000	2017 $000
Investments in unit trusts and other holdings- QIC:		
Movement during the year:		
Opening balance	**31 714 458**	31 076 084
Net withdrawals	**(3 226 794)**	(1 743 662)
Net change in fair value of unit trusts	**2 000 286**	2 382 036
Closing balance	**30 487 950**	31 714 458
Comprised of the following asset classes:		
Defensive assets		
Cash	**7 854 382**	7 481 652
Fixed interest	**4 811 272**	5 944 533
Growth assets		
Equities	**3 821 700**	3 500 091
Diversified alternatives	**5 534 400**	6 961 071
Unlisted assets		
Infrastructure	**3 018 799**	2 891 681
Private equities	**2 577 068**	2 459 109
Real estate	**2 870 329**	2 476 321
	30 487 950	31 714 458

Notes to the Financial Statements

Long Term Assets

For the year ended 30 June 2018

17 Financial risk management

The Long Term Assets are invested in unlisted unit trusts held with QIC. The trusts hold investments in a variety of financial instruments including derivatives, which expose these assets to credit risk, liquidity risk and market risk. Market risk arises due to changes in interest rates, foreign exchange rates, property prices and equity prices. However as these investments are long term in nature, market fluctuations are expected to even out over the term of the investment.

The Long Term Asset Advisory Board (LTAAB) determines the investment objectives, risk profiles and strategy for the Long Term Assets within the framework provided by the Government. It is responsible for formulating a strategic asset allocation to achieve the objectives of the investments in line with the required risk profile. Risk management policies are established to identify and analyse risks as well as to set appropriate risk limits and controls. Risks are monitored in adherence with these limits.

QIC provides assistance to LTAAB in discharging its responsibilities. QIC's role includes recommending to LTAAB, investment product objectives, risk profiles and strategic asset allocations to achieve objectives within the targets and risk controls set. As the lead investment manager, QIC is responsible for implementing the investment strategy. In addition, independent oversight of the investment advice and services provided by QIC, including periodic strategic reviews of QIC's activities and performance, is provided by an external consultant.

LTAAB is responsible for setting the interest rate applicable on the fixed rate note liability of QTC, which was set at 7.0 per cent from 1 July 2015 and retained for 2017-18, based on the expected long term average rate of return on the portfolio.

(a) Liquidity risk

No external cash flows are generated by QTC from the Long Term Assets. Deposits and withdrawals from the fixed rate notes result in a corresponding change to the value of the investment held. As such daily movements in these cash flows do not expose QTC to liquidity risk. Interest on the fixed rate notes and distributions and fees on the Long Term Assets are capitalised.

(b) Credit risk

QIC is responsible for implementing the investment strategy for the Long Term Assets. The investment strategy targets a widely diversified portfolio across a broad range of asset classes, helping to minimise credit risk.

(c) Market risk

Long Term Assets expose QTC to market risk, including interest rate risk, foreign currency risk, property price risk and equity price risk, resulting from its investments in unit trusts and the underlying movement in the net asset value through these trusts. While the portfolio does not have direct exposure to interest rate, foreign currency and credit risk, the unit price of the fund in which the assets are invested will change in response to the market's perception of changes in these underlying risks.

Market risk is mitigated through a diversified portfolio of investments in unit trusts held with QIC in accordance with the investment strategy approved by LTAAB (refer note 16). The investment strategy targets a widely diversified portfolio across a broad range of asset classes.

QIC adheres to prudential controls contained in the Investment Management Agreement. Under this agreement, derivative products are not permitted to be used for speculative purposes but are used as hedging instruments against existing positions or for efficient trading and asset allocation purposes to assist in achieving the overall investment returns and volatility objectives of the portfolio.

A sensitivity analysis for the key types of market risk that apply to the investments of the funds has been undertaken by QIC. QIC has provided a range of reasonably possible changes in key risk variables including the ASX 200, the MSCI World ex Australia Equities Index, the RBA official cash rate, the Bank of England official cash rate and real estate capitalisation rates.

The foreign currency exposure of QTC's total investment portfolio is 100% hedged. For this reason sensitivity to foreign exchange rate movements has not been calculated at the asset class level.

Based on these changes to key risk variables and applying a range of valuation methodologies, a reasonably possible change in profit and equity on applicable investments held at 30 June is as follows:

	2018 CHANGE		2018 PROFIT/EQUITY		2017 CHANGE		2017 PROFIT/EQUITY	
	Low %	High %	Decrease $000	Increase $000	Low %	High %	Decrease $000	Increase $000
Cash and fixed interest [1]	**-1%**	**1%**	**(60 850)**	**60 850**	-1%	1%	(62 930)	62 930
Equities	**-10%**	**10%**	**(382 624)**	**382 624**	-10%	10%	(350 327)	350 327
Diversified alternatives [2]	**-10%**	**10%**	**(554 231)**	**554 231**	-9%	9%	(625 078)	625 078
Infrastructure	**-10%**	**10%**	**(301 882)**	**301 882**	-10%	10%	(289 146)	289 146
Private equities	**-10%**	**10%**	**(257 826)**	**257 826**	-10%	10%	(246 085)	246 085
Real estate	**-8%**	**9%**	**(234 206)**	**248 164**	-8%	8%	(190 367)	199 315
			(1 791 619)	**1 805 577**			(1 763 933)	1 772 881

(1) *Cash and fixed interest includes exposure to interest rate and inflation overlays on hedging instruments.*

(2) *Diversified alternatives include exposure to both price and interest rate risk.*

Notes to the Financial Statements

Long Term Assets

For the year ended 30 June 2018

18 Fair value hierarchy

Financial instruments have been classified in accordance with the hierarchy described in *AASB 13 Fair Value Measurement*, as per note 13.

AS AT 30 JUNE 2018	OBSERVABLE INPUTS LEVEL 2 $000	UNOBSERVABLE INPUTS LEVEL 3 $000	TOTAL $000
Financial assets			
Cash	7 854 382	-	**7 854 382**
Fixed interest	4 811 272	-	**4 811 272**
Equities	3 821 700	-	**3 821 700**
Diversified alternatives	-	5 534 400	**5 534 400**
Infrastructure	-	3 018 799	**3 018 799**
Private equities	-	2 577 068	**2 577 068**
Real estate	-	2 870 329	**2 870 329**
Total financial assets	**16 487 354**	**14 000 596**	**30 487 950**
Financial liabilities			
Fixed rate note	-	29 766 334	**29 766 334**
Total financial liabilities	**-**	**29 766 334**	**29 766 334**
AS AT 30 JUNE 2017			
Financial assets			
Cash	7 481 652	-	**7 481 652**
Fixed interest	5 944 533	-	**5 944 533**
Equities	3 500 091	-	**3 500 091**
Diversified alternatives	-	6 961 071	**6 961 071**
Infrastructure	-	2 891 681	**2 891 681**
Private equities	-	2 459 109	**2 459 109**
Real estate	-	2 476 321	**2 476 321**
Total financial assets	**16 926 276**	**14 788 182**	**31 714 458**
Financial liabilities			
Fixed rate note	-	30 799 145	**30 799 145**
Total financial liabilities	**-**	**30 799 145**	**30 799 145**

Investments in unit trusts are valued by QIC using fair value methodologies adjusted for fees outstanding. QIC reports the net asset value based on the unit price at measurement date.

The Board considers that the carry amount of the financial liabilities recorded at amortised cost in the financial statements approximates their fair value.

18 Fair value hierarchy continued

(a) Level 3 financial assets and liabilities - valuation techniques utilising significant unobservable inputs

Valuations of investments in unit trusts that are Level 3 in the fair value hierarchy are based on the prices of the assets underlying these unit trusts. Investments in unlisted externally managed investment schemes are valued by QIC on the basis of the latest available net asset value advised by the fund manager. Where the fund invests in illiquid assets, the investments are priced by independent valuers as there is no readily observable market price.

In some instances, the prices advised by QIC are based on unaudited valuation statements provided by the external managers of underlying investments that relate to a date prior to 30 June 2018. QIC continues to monitor and provide updated advice to QTC on the potential impact on the value of these investments arising from the subsequent receipt of updated valuations from external managers and audited financial statements.

Whilst QTC utilises the unit price of investments provided by QIC at the relevant reporting date to report the fair value of the investments, the table below shows the valuation techniques used to calculate the unit price for the Level 3 fair values and the significant unobservable inputs used.

ASSET CLASS	VALUATION TECHNIQUE	UNOBSERVABLE INPUTS
Diversified alternatives	Based on valuations provided by an independent external valuer or external manager in accordance with relevant industry standards	The valuation model considers the future net cash flows expected to be generated from the asset and are discounted using a risk adjusted discount rate
Infrastructure	Based on valuations provided by an independent external valuer or external manager in accordance with industry standards	The valuation model considers the future net cash flows expected to be generated from the asset and are discounted using a risk adjusted discount rate
Private equities	Based on valuations provided by an independent external valuer or external manager in accordance with International Private Equity and Venture Capital Valuation Guidelines	The valuation model considers the future net cash flows expected to be generated from the asset and are discounted using a risk adjusted discount rate
Real estate	Based on valuations provided by an independent external valuer or external manager in accordance with Australian Property Institute's valuation and Property Standards	The valuation model considers the future net cash flows expected to be generated from the asset and are discounted using a risk adjusted discount rate
Fixed Rate Note	Amortised cost	The valuation model considers the future net cash flows expected and are discounted using a risk adjusted discount rate

(b) Reconciliation of level 3 fair value movements

The table below shows the breakdown of gains and losses in respect of Level 3 fair values for the period ended 30 June 2018.

ASSET CLASS	OPENING BALANCE $000	DISTRIBUTIONS[1] $000	UNREALISED MARKET MOVEMENTS[1] $000	SETTLEMENTS[1] $000	CLOSING BALANCE $000
Diversified alternatives	**6 961 071**	(1 485 704)	196 360	(137 327)	**5 534 400**
Infrastructure	**2 891 681**	(88 612)	328 042	(112 312)	**3 018 799**
Private equities	**2 459 109**	(376 347)	545 209	(50 903)	**2 577 068**
Real estate	**2 476 321**	(81 846)	317 875	157 979	**2 870 329**
Fixed rate note	**30 799 145**	-	-	(1 032 811)	**29 766 334**

(1) Data in the above table is based on movements in the unit trusts that hold the assets.

(c) Level 3 – Sensitivity Analysis

Note 17 provides the impact to a change in market prices in respect of the asset classes categorised as Level 3.

19 Contingent liabilities

The following contingent liabilities existed at balance date:

- QTC has provided guarantees to the value of $2.09 billion (2017: $790 million) to support the commercial activities of various Queensland public sector entities. In each case, a counter indemnity has been obtained by QTC from the appropriate public sector entity.
- QTC can lend stock to support the liquidity of QTC bonds in the financial markets. At 30 June 2018 $7 million (2017: nil) of QTC inscribed stock was lent to other financial institutions.

20 Related party transactions

QTC's related parties are those that it controls, is controlled by, under common control or can exert significant influence over. It includes members of QTC's key management personnel and their related parties.

(a) Ultimate controlling entity

The immediate controlling entity and ultimate controlling entity is the Under Treasurer of Queensland as the Corporation Sole of QTC. No remuneration is payable by QTC to the Under Treasurer in relation to this role.

(b) Key management personnel

Disclosures relating to key management personnel are set out in note 21.

(c) Investments in companies

Details of investments in associates and other companies are set out in note 23.

(d) Transactions with related parties

Transactions undertaken with related parties during the year include:

- loans and associated interest and fees received from public sector entities (refer note 3 and note 10)
- investment of cash surpluses, interest paid and fees received (refer note 3 and note 11)
- advisory services to other state government agencies, and
- dividends paid to Queensland Treasury (refer note 24)

The above transactions were in the normal course of business and on commercial terms and conditions. These exclude certain advisory and other services provided to Queensland Treasury, its associated companies and other related parties. However, with respect to advisory services, QTC may seek reimbursement of some costs from time to time particularly where these relate to external charges.

QTC may from time to time indirectly hold a small amount of investments in QTC Bonds via its investments in unit trusts managed by QIC. QTC does not have direct legal ownership of these assets and therefore no adjustment has been made in the financial statements. QTC through the Long Term Assets has paid $98.6 million in management fees to QIC (2017: $91.6 million).

The nature and amount of any individually significant transactions with principal related parties are disclosed below.

- QTC sometimes acts as an agent to government entities in the procurement of advice from consultants. In these situations, QTC does not bear any significant risks or benefits associated with the advice and is reimbursed for the costs of the consultant by the government entity. The funds received as reimbursement offset consultant costs in the financial statements providing a nil net effect. The amount of costs reimbursed to QTC during the financial year totalled $4.5 million (2017: $19.5 million).
- QTC has a shareholding in Queensland Treasury Holdings Pty Ltd and its associated entities (QTH group). The QTH group hold deposits (refer note 11) and loans (refer note 10) with QTC that are provided on an arm's length basis and are subject to QTC's normal terms and conditions. QTC also provides company secretariat services to the QTH group on a cost recovery basis.

(e) Agency arrangements

QTC undertakes the following agency arrangements on behalf of its clients.

- QTC provides services on behalf of Queensland Treasury under a GOC Cash Management facility. QTC is not exposed to the risks and benefits of this facility and therefore does not recognise these deposits on its balance sheet. QTC charges a fee for this service. The balance of deposits under this facility at year end was $2,284.3 million (2017: $1,345.1 million).
- QTC may enter into derivative transactions from time to time on behalf of its clients. These arrangements have back to back contracts between QTC and the client and QTC and the market. In this way QTC is not exposed to the risks and benefits of these contracts and does not recognise these on-balance sheet. The notional value of these derivative arrangements at year end was $60.6 million (2017: $200.4 million).

Notes to the Financial Statements

Other information

For the year ended 30 June 2018

21 Key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of QTC, being members of the Board and the Executive Management Team.

(a) QTC's Boards

QTC has delegated its powers to its two boards, the Capital Markets Board and the Long Term Asset Advisory Board. Both boards are appointed by the Governor-in-Council, pursuant to section 10(2) of the *Queensland Treasury Corporation Act 1988*.

(b) Executive management

The Executive Management Team set the strategic direction and control of the major activities of the organisation.

(c) Remuneration principles

Capital Markets Board - Directors

The process for reviewing Board remuneration requires any increase in the Board's remuneration to be approved by the Treasurer and endorsed by Cabinet. Remuneration was last increased effective 1 July 2012.

Long Term Asset Advisory Board - Directors

No remuneration is payable by QTC to the directors of the Long Term Asset Advisory Board.

Executives and employees

QTC employees (including executive management) are employed on individual contracts and are appointed pursuant to the Queensland Treasury Corporation Act 1988. As the majority of QTC's employees are sourced from the financial markets in which it operates, it is crucial that QTC's employment practices are competitive with these markets. The remuneration framework comprises both fixed and variable remuneration (in the form of an annual short-term incentive (STI) opportunity) which are approved by the QTC Board annually. Both components are market-competitive and linked to performance.

Remuneration governance

The Human Resources Committee of the Board is responsible for governance of remuneration practices and arrangements, with the Board maintaining absolute responsibility and decision making for remuneration matters. QTC receives annual industry benchmarking data from the Financial Institutions Remuneration Group (FIRG), which captures remuneration data from organisations within the financial services industry. QTC utilises a subset of the data mapped to relevant organisations within the FIRG membership. Analysis and advice is obtained from external consultants to ensure that we continue to align QTC roles to the market.

Fixed remuneration

The fixed remuneration of each QTC employee is reviewed in July each year and is benchmarked against the FIRG remuneration data. Fixed remuneration levels are set around the FIRG market median position of a relevant sub-set of the FIRG database, and role scope, experience, skills and performance are considered when determining the remuneration level of each employee.

Variable remuneration - short-term incentives

QTC's variable remuneration framework provides an annual short-term incentive opportunity for eligible employees, aligned to financial year performance.

This opportunity is designed to differentiate and reward outstanding organisational, group and individual performance, and to align performance at these levels with incentive outcomes. It also aims to ensure market competitiveness, with 'target' STI outcomes aligned to the conservative market position of the FIRG (ie. the median incentive potential for FIRG members within QTC's peer group) and approved at Board level each year. For the 2017-18 year, STI payments were made to eligible staff in August 2018.

Variable remuneration - executive management

For the 2017-18 year, where executive management performed strongly against corporate and individual KPIs, they were eligible to receive a short-term incentive payment based on a percentage of their total fixed remuneration. Short term incentives are at risk with no payment made for underperformance and additional premiums of up to 50% of the target paid for above expected performance.

The outcomes for executive management are aligned to achievements measured against both corporate and individual KPIs. For 2017-18, short-term incentive 'targets' for executive management ranged between 40% and 60% of their total fixed remuneration. The proportion of each executive's short-term incentive 'target' opportunity is then weighed 40% on individual performance and 60% on the achievement of targets set out in QTC's Strategic Plan 2017-21 and Corporate Plan 2017-18.

QTC's overall performance for 2017-18, documented in the annual performance assessment that is reviewed and approved by QTC's Board, was considered to be very strong across QTC's whole-of-State, client, funding and operational activities. Based on the corporate performance assessed as exceeding expectations, the short-term incentives paid to the executive management broadly ranged between 53% and 80% of their total fixed remuneration.

Notes to the Financial Statements

Other information

For the year ended 30 June 2018

21 Key management personnel continued

(d) Remuneration by category

	2018 $	2017 $
Capital Markets Operations		
Directors		
Short-term employment benefits (1)	**329 867**	314 057
Post-employment benefits (4)	**19 366**	26 723
Total	**349 233**	340 780
Executive management		
Short-term employment benefits (2)	**3 868 859**	3 717 213
Long-term employment benefits (3)	**67 709**	63 495
Post-employment benefits (4)	**115 403**	116 254
Total	**4 051 971**	3 896 962

(1) *Directors' short-term benefits include board member and committee fees, and in relation to the Chairman, also includes the provision of a car park.*

(2) *Executive management personnel's short-term benefits include wages, annual leave taken, short-term incentives and non-monetary benefits such as car parks and motor vehicle benefits (where applicable).*

(3) *Long-term employment benefits relate to long-service leave.*

(4) *Post-employment benefits include superannuation contributions made by the Corporation.*

(i) Directors

Details of the nature and amount of each major element of the remuneration are as follows:

	SHORT-TERM EMPLOYMENT BENEFITS		POST-EMPLOYMENT BENEFITS		TOTAL	
	2018 $	2017 $	2018 $	2017 $	2018 $	2017 $
Gerard Bradley- Chairman(1)	**128 748**	124 266	**-**	10 529	**128 748**	134 795
Warwick Agnew (2)	**-**	-	**-**	-	**-**	-
Tonianne Dwyer	**40 210**	40 210	**3 820**	3 820	**44 030**	44 030
Anne Parkin	**43 856**	42 467	**4 166**	4 166	**48 022**	46 633
Bill Shields (3)	**-**	20 716	**-**	-	**-**	20 716
Karen Smith-Pomeroy	**38 077**	43 856	**3 877**	4 166	**41 954**	48 022
Stephen Roberts (4)	**38 776**	2 332	**3 683**	222	**42 459**	2 554
Jim Stening	**40 210**	40 210	**3 820**	3 820	**44 030**	44 030
Total	**329 877**	314 057	**19 366**	26 723	**349 243**	340 780

(1) *Increase in short-term benefits relates to change in the valuation of car parking arrangements*

(2) *No remuneration is payable to the Queensland Treasury representative*

(3) *Resigned 31 December 2016*

(4) *Resigned 1 June 2018*

Notes to the Financial Statements

Other information

For the year ended 30 June 2018

21 Key management personnel continued

(d) Remuneration by category continued

(ii) Executive management

Details of the nature and amount of each major element of the remuneration of the executive management personnel are as follows:

30 JUNE 2018	SHORT-TERM EMPLOYMENT BENEFITS BASE $	SHORT-TERM INCENTIVE $	NON-MONETARY $	POST-EMPLOYMENT BENEFITS $	LONG-TERM BENEFITS $	TOTAL $
Chief Executive	**699 060**	**469 239**	**15 855**	**19 986**	**21 971**	**1 226 111**
Deputy Chief Executive and Managing Director, Funding and Markets	**535 046**	**461 700**	**14 661**	**20 049**	**14 219**	**1 045 675**
Managing Director, Client Advisory	**348 378**	**224 775**	**12 056**	**19 587**	**10 643**	**615 439**
Managing Director, Risk and Financial Operations	**348 474**	**208 125**	**14 240**	**20 033**	**10 141**	**601 013**
Managing Director, Corporate Services	**317 419**	**170 000**	**29 831**	**35 748**	**10 735**	**563 733**
Total	**2 248 377**	**1 533 839**	**86 643**	**115 403**	**67 709**	**4 051 971**

30 JUNE 2017	SHORT-TERM EMPLOYMENT BENEFITS BASE $	SHORT-TERM INCENTIVE $	NON-MONETARY $	POST-EMPLOYMENT BENEFITS $	LONG-TERM BENEFITS $	TOTAL $
Chief Executive	678 587	464 668	14 861	19 548	18 019	1 195 683
Deputy Chief Executive and Managing Director, Funding and Markets	527 788	437 250	10 182	19 548	14 239	1 009 007
Managing Director, Client Advisory	328 661	208 688	10 829	19 548	11 150	578 876
Managing Director, Risk and Financial Operations	329 251	211 689	10 039	19 548	9 251	579 778
Managing Director, Corporate Services	290 509	169 600	24 611	38 062	10 836	533 618
Total	2 154 796	1 491 895	70 522	116 254	63 495	3 896 962

(e) Other transactions

QTC's Capital Markets Board members' directorships are disclosed in the corporate governance section of the Annual Report. No remuneration is paid or payable by QTC to the Under Treasurer as QTC's Corporation Sole.

There were no transactions between QTC and entities controlled by key management personnel or loans to/from key management personnel during the financial year.

22 Auditor's remuneration

The external auditor (Auditor-General of Queensland) does not provide any consulting services to QTC. Details of amounts paid or payable to the auditor of QTC (GST exclusive) are shown below:

	2018 $	2017 $
Audit services		
Audit and review of QTC financial statements	**379 250**	400 000

Notes to the Financial Statements

Other information

For the year ended 30 June 2018

23 Investments in companies

Investments in the following companies are held at cost:

NAME	PRINCIPAL ACTIVITIES
Queensland Treasury Holdings Pty Ltd (QTH)	Holding company for a number of subsidiaries and strategic investments held on behalf of the State of Queensland
Queensland Lottery Corporation Pty Ltd	Holds the Golden Casket lottery licence and trade marks
DBCT Holdings Pty Ltd	Holds the bulk coal terminal tenure and facilities at Dalrymple Bay near Mackay, which it has leased under a long term lease arrangement
Queensland Airport Holdings (Mackay) Pty Ltd	Owns the Mackay airport land and infrastructure which it has leased under a 99 year lease arrangement
Queensland Airport Holdings (Cairns) Pty Ltd	Owns the Cairns airport land and infrastructure which it has leased under a 99 year lease arrangement
Brisbane Port Holdings Pty Ltd	Owns the Port of Brisbane tenure and infrastructure which it has leased under a 99 year lease arrangement

QTH is incorporated and domiciled in Brisbane, Australia. QTH holds a 100 per cent beneficial interest in the companies listed above. QTC does not apply the equity method to its investment in QTH (refer note 2 (o) Judgments and assumptions).

24 Dividends

Each year the Board determines the appropriate level of dividends to be declared taking into consideration the financial situation of the Corporation. In the current year, the Board has not provided for a dividend. In the prior financial year a dividend of $500 million was provided for and paid.

25 Events subsequent to balance date

On 2 July 2018, Brisbane City Council (BCC) exercised an option to purchase their buses and ferries in accordance with the lease agreements with QTC. As part of the transaction, the buses were refinanced by BCC with a third party, while the City Cats were purchased outright. On the day of the transaction QTC received $59.1 million from BCC to payout the leases, resulting in a $0.3 million gain.

There are no other matters or circumstances which have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of QTC, the results of those operations or the state of affairs of QTC in future years.