FINANCIAL STATEMENTS

For the year ended 30 June 2019

Statement of comprehensive income

For the year ended 30 June 2019

	NOTE	2019 $000	2018 $000
CAPITAL MARKETS OPERATIONS			
Net gain/(loss) on financial instruments at fair value through profit or loss			
Gain on financial assets	3	**8 806 820**	3 333 057
Loss on financial liabilities	3	**(8 677 303)**	(3 239 917)
		129 517	93 140
Other income			
Fee income		**78 061**	82 915
Lease income		**253**	27 494
Gain on disposal of plant and machinery	7	**1 398**	-
		79 712	110 409
Expenses			
Administration expenses	4	**(74 328)**	(73 734)
Depreciation on leased assets	7	**(113)**	(21 282)
Loss on disposal of plant and machinery		**-**	(243)
		(74 441)	(95 259)
Profit from Capital Markets Operations before income tax		**134 788**	108 290
Income tax expense	5	**(8 865)**	(13 958)
Profit from Capital Markets Operations after income tax		**125 923**	94 332
LONG TERM ASSETS			
Net return from investments in Long Term Assets			
Net change in fair value of unit trusts		**1 666 822**	2 000 286
Interest on fixed rate notes		**(1 879 573)**	(2 095 376)
Net change in fair value of fixed rate notes		**311 415**	-
Management fees		**(98 664)**	(98 608)
Profit/(loss) from Long Term Assets		**-**	(193 698)
Total net profit/(loss) for the year after tax		**125 923**	(99 366)
Total comprehensive income/(loss) attributable to the owner		**125 923**	(99 366)
Total comprehensive income/(loss) derived from:			
Capital Markets Operations		**125 923**	94 332
Long Term Assets		**-**	(193 698)
Total comprehensive income/(loss)		**125 923**	(99 366)

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 2019

	NOTE	2019 $000	2018 $000
ASSETS – CAPITAL MARKETS OPERATIONS			
Cash and cash equivalents	6	**1 577 139**	640 668
Receivables		**6 709**	7 484
Assets held for sale	7	**49**	59 385
Financial assets at fair value through profit or loss	8	**21 175 900**	20 528 480
Derivative financial assets	9	**289 989**	130 115
Onlendings	10	**87 129 775**	81 951 783
Property, plant and equipment	14	**3 942**	4 585
Intangible assets		**14 968**	17 051
Deferred tax asset		**4 524**	4 695
		110 202 995	103 344 246
ASSETS – LONG TERM ASSETS			
Financial assets at fair value through profit or loss	16	**29 345 910**	30 487 950
		29 345 910	30 487 950
Total Assets		**139 548 905**	133 832 196
LIABILITIES – CAPITAL MARKETS OPERATIONS			
Payables		**24 331**	29 551
Derivative financial liabilities	9	**398 872**	95 210
Financial liabilities at fair value through profit or loss			
- Interest-bearing liabilities	11(a)	**102 012 672**	96 532 449
- Deposits	11(b)	**7 183 040**	6 213 544
Other liabilities		**74 224**	39 559
		109 693 139	102 910 313
LIABILITIES – LONG TERM ASSETS			
Financial liabilities at fair value through profit or loss	16	**29 345 910**	-
Financial liabilities at amortised cost	16	**-**	29 766 334
		29 345 910	29 766 334
Total Liabilities		**139 039 049**	132 676 647
NET ASSETS (1)		**509 856**	1 155 549
EQUITY – CAPITAL MARKETS OPERATIONS			
Retained surplus		**509 856**	433 933
		509 856	433 933
EQUITY – LONG TERM ASSETS			
Retained surplus		**-**	721 616
		-	721 616
Total Equity		**509 856**	1 155 549

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

(1) Due to a change in accounting policy (refer to note 2(a)) the net assets position in the current year represents the net assets of the Capital Markets Operations segment as the net assets of the Long Term Assets (LTA) segment is nil. The liabilities in the LTA segment are now fair valued, removing the accounting mismatch between the assets and liablities that previously existed. As a result, the LTA segment will no longer contribute to QTC's net asset position.

Statement of changes in equity

For the year ended 30 June 2019

	NOTE	CAPITAL MARKETS OPERATIONS RETAINED SURPLUS $000	LONG TERM ASSETS RETAINED SURPLUS $000	TOTAL EQUITY $000
Balance at 1 July 2017		339 601	915 314	1 254 915
Profit for the year		94 332	(193 698)	(99 366)
Balance at 30 June 2018		**433 933**	**721 616**	**1 155 549**
Balance at 1 July 2018		433 933	721 616	1 155 549
Net effect of changes in accounting policies	2(a)	-	(721 616)	(721 616)
Profit for the year		125 923	-	125 923
Transactions with owners in their capacity as owners:				
Dividend provided for or paid	24	(50 000)	-	(50 000)
Balance at 30 June 2019		**509 856**	**-**	**509 856**

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

Statement of cash flows

For the year ended 30 June 2019

	NOTE	2019 $000	2018 $000
CAPITAL MARKETS OPERATIONS			
Cash flows from operating activities			
Interest received from onlendings		**3 338 472**	3 499 874
Interest received from investments and other sources		**752 084**	689 971
Fees received		**78 059**	87 494
Net GST		**(463)**	(25)
Interest paid on interest-bearing liabilities		**(4 304 482)**	(4 257 305)
Interest paid on deposits		**(169 947)**	(192 704)
Administration expenses paid		**(70 375)**	(77 444)
Income tax paid		**(15 944)**	(13 538)
Net cash used in operating activities	15(a)	**(392 596)**	(263 677)
Cash flows from investing activities			
Proceeds from sale of investments		**48 862 702**	48 538 404
Payments for investments		**(49 456 035)**	(49 831 212)
Net client onlendings		**(535 943)**	2 326 299
Proceeds from (payment)/sale of intangibles		**(8)**	46
Proceeds from sale of property, plant and equipment		**60 621**	11 189
Payments for property, plant and equipment		**(29)**	(1 074)
Net cash (used in)/ provided by investing activities		**(1 068 692)**	1 043 652
Cash flows from financing activities			
Proceeds from interest-bearing liabilities		**54 086 609**	53 165 066
Repayment of interest-bearing liabilities		**(52 608 312)**	(53 762 986)
Net client deposits		**969 462**	(1 166 155)
Dividends paid		**(50 000)**	(500 000)
Net cash provided by/(used in) financing activities	15(b)	**2 397 759**	(2 264 075)
Net increase/(decrease) in cash and cash equivalents held		**936 471**	(1 484 100)
Cash and cash equivalents at 1 July		**640 668**	2 124 768
Cash and cash equivalents at 30 June	6	**1 577 139**	640 668
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 2019

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 (public sector entities), local governments and universities. QTC's Capital Markets Operations include debt funding, cash management, 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 management onto Queensland Treasury. QTC passes on the returns of asset management to its clients and retains unrealised gains/losses associated with credit spread movements on its balance sheet until the sale of the asset or its maturity.

QTC's capital markets activities can also generate a profit or loss largely reflecting the net return on financial markets instruments held by QTC for capital and liquidity purposes. In undertaking these activities, QTC maintains adequate capital to manage its risks having regard to its Capital Adequacy Policy.

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 6.5 per cent (2018: 7.0 per cent) on the book value of the notes. Recognising the direct relationship between the fixed rate notes and the Long Term Assets, any difference between the return paid by QTC on the fixed rate note and the return received by QTC on the Long Term Assets, is recognised in the financial statements annually as a market value adjustment.

In 2018-19, Long Term Assets Advisory Board (LTAAB) was responsible for the oversight of the Long Term Assets, which do not form part of QTC's day-to-day Capital Markets Operations. Refer to note 25 for LTAAB arrangements relating to periods after 2018-19.

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 2019 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.

Changes in accounting policy, disclosures, standards and interpretations

New accounting standards

All new and amended accounting standards effective for the financial year have been adopted by both the Capital Markets Operations segment and the Long Term Assets segment.

This year QTC has applied *AASB 15 Revenue from Contracts with Customers* and *AASB 9 Financial Instruments* (which replaced AASB 139 Financial Instruments: Recognition and Measurement) for the first time.

Capital Markets Operations

AASB 15 Revenue from Contracts with Customers – AASB 15 contains principles that entities should apply to determine the amount and timing of revenue recognition. AASB 15 explicitly excludes income from financial instruments which apply the requirements of AASB 9 *Financial Instruments*. QTC has applied the requirements of AASB 15 to fee income from the provision of onlendings, cash management services, guarantees and the provision of advice to clients. Under AASB 15 fee revenue is recognised over time as per client mandates and performance obligations pursuant to advisory engagements. This is consistent with revenue recognition applied by QTC under previous accounting standard requirements.

AASB 9 Financial Instruments – Under AASB 9 QTC has continued its practice of measuring the majority of the financial instruments of QTC's Capital Markets Operations at fair value through profit or loss (FVTPL). Other financial assets, such as receivables, continue to be measured at amortised cost. For assets not measured at FVTPL, AASB 9 requires entities to assess whether the financial assets are impaired at the end of each reporting period.

AASB 9 introduces a new 'expected credit loss' (ECL) provision model for determining impairment losses for financial assets which results in earlier recognition of losses than the existing standard. A loss allowance is measured at initial recognition and throughout the life of the financial asset at an amount equal to the lifetime ECL.

For QTC, application of the ECL model is only relevant for assessing the value of trade receivables or contract assets that do not contain a significant financing component. QTC has adopted an ECL model substantially in line with the Queensland Government Treasury Policy and has applied this to aged debtors at the end of each reporting period (refer to note 2(l)).

Long Term Assets

AASB 9 Financial Instruments – The application of AASB 9 does not change the current practice of measuring changes in the financial assets of the Long Term Assets segment through profit or loss.

However, in adopting AASB 9, QTC has elected to designate the fixed rate notes as financial liabilities measured at FVTPL. Previously, the fixed rate notes were measured at amortised cost.

The designation of the fixed rate notes as financial liabilities measured at FVTPL was made to eliminate or significantly reduce a previous accounting mismatch between the value of the financial assets and the value of the financial liabilities in the Long Term Assets segment. This is considered a more appropriate basis for reporting the value of the fixed rate note given the relationship between the fixed rate note and the Long Term Assets (refer Note 16).

In applying the transitional requirements of AASB 9, comparative information has not been restated. Instead, retained earnings were adjusted for the difference between the amortised cost and fair value of the fixed rate notes, as at 1 July 2018.

The table below identifies the adjustments made on the initial application of ASSB 9 to the Long Term Assets segment.

	ORIGINAL CLASSIFICATION UNDER AASB 139	NEW CLASSIFICATION UNDER AASB 9	ORIGINAL CARRYING AMOUNT UNDER AASB 139 $000	NEW CARRYING AMOUNT UNDER AASB 9 $000	RETAINED EARNINGS ADJUSTMENT $000
Financial assets					
Investments in unit trusts and other holdings- QIC	FVTPL	FVTPL	30 487 950	30 487 950	-
Total financial assets			**30 487 950**	**30 487 950**	**-**
Financial liabilities					
Fixed rate notes	Amortised Cost	FVTPL	29 766 334	30 487 950	721 616
Total financial liabilities			**29 766 334**	**30 487 950**	**721 616**

2 Significant accounting policies and other explanatory information continued

(a) Basis of preparation continued

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 2019 onwards. For QTC this will be the 2019-20 financial year. The Corporation's assessment of the impact of material changes from these standards is set out below.

Other than as noted below, the adoption of Australian Accounting Standards and Interpretations issued but not yet effective are not expected to have a material impact on the QTC's financial statements, however they may result in minor changes to how information is currently disclosed.

AASB 16 Leases – The application of AASB 16 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 $11.7 million. For leases where QTC is the lessor, the standard remains substantially unchanged and QTC will continue to distinguish between operating and finance leases.

AASB 16 allows a cumulative approach rather than a full retrospective application to recognising existing operating leases. QTC has elected to adopt the cumulative approach meaning it will not need to restate comparative information. Instead the effect of applying the standard for the first time will be recognised as an adjustment to the opening balance of the retained surplus balance at the date of initial application.

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 at fair value through profit or loss and include:

- 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 on 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)).

(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.

2 Significant accounting policies and other explanatory information continued

(h) Fee income

Fee income includes:

- Management fee income, which represents income earned from the management of QTC's onlendings and deposits, is recognised over time when the service has been provided in accordance with client mandates
- 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 is recognised at inception and on an ongoing basis over the contract term. The probability of default on a financial guarantee is extremely low due to counter indemnities, therefore 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) Receivables

Receivables are measured at amortised cost which approximates their fair value at reporting date. Trade debtors are recognised at the amounts due at the time of sale or service delivery i.e. the agreed purchase/contract price. Other debtors generally arise from transactions outside the usual operating activities of the corporation and are recognised at their assessed values with terms and conditions similar to trade debtors.

(k) 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.

(l) Impairment

Receivables: The loss allowance for trade and other debtors reflects lifetime expected credit losses and incorporates reasonable and supportable forward-looking information. Economic changes impacting the Corporation's debtors and relevant industry data form part of the Corporation's impairment assessment. No loss allowance is recorded for receivables from Queensland Government agencies or Australian Government agencies on the basis of materiality.

Where there is no reasonable expectation of recovering an amount owed by a debtor, the debt is written-off by directly reducing the receivable against the loss allowance. If the amount of debt written off exceeds the loss allowance, the excess is recognised as an impairment loss.

Non-financial Assets: 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.

(m) Employee benefits

A liability is recognised for employee benefits including salaries, superannuation, 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.

(n) Rounding

Amounts have been rounded to the nearest thousand dollars except as otherwise stated.

(o) Comparative figures

No material adjustments have been made to prior year comparatives.

(p) 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 (refer notes 13 and 18).

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 2019

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 movements from investments, certain onlendings and borrowings.

	2019 $000	2018 $000
Net gain on financial assets at fair value through profit or loss		
Cash and cash equivalents	**12 866**	13 255
Financial assets at fair value through profit or loss	**780 530**	487 326
Derivatives	**67 997**	127 260
Onlendings	**7 945 427**	2 705 216
	8 806 820	3 333 057
Net loss on financial liabilities at fair value through profit or loss		
Financial liabilities at fair value through profit or loss		
- Short-term	**(167 142)**	(156 987)
- Long-term	**(7 855 728)**	(2 739 881)
Deposits	**(170 417)**	(191 600)
Derivatives	**(467 602)**	(135 499)
Other	**(16 414)**	(15 950)
	(8 677 303)	(3 239 917)

During the financial year long term yields fell, resulting in a significant increase in market values which added to the interest income generated on financial assets and interest expense incurred on financial liabilities. In contrast, during the prior financial year yields remained relatively stable, resulting in a modest increase in the market value of financial assets and liabilities for that year.

4 Administration expenses

	2019 $000	2018 $000
Salaries and related costs	**41 422**	38 669
Superannuation contributions	**3 450**	3 395
Contractors	**2 000**	542
Consultants' fees	**3 917**	6 837
Information and registry services	**2 972**	2 773
Depreciation on property, plant and equipment	**673**	973
Amortisation and impairment on intangible assets	**2 092**	2 092
Office occupancy	**3 302**	3 252
Information and communication technology	**9 737**	10 341
Other administration expenses	**4 763**	4 860
	74 328	73 734

Notes to the Financial Statements

Capital Markets Operations

For the year ended 30 June 2019

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.

	2019 $000	2018 $000
Current tax	**8 638**	15 943
Deferred tax expense/(income)	**227**	(1 985)
Total income tax expense recognised in the year	**8 865**	13 958
Numerical reconciliation between income tax expense and pre-tax accounting profit		
Profit/(Loss) for the year before tax	**134 788**	(85 408)
Less profits/(losses) from non-taxable portfolios:		
- Capital Markets Operations	**105 303**	61 773
- Long Term Assets	**-**	(193 698)
Operating profit from taxable portfolios	**29 485**	46 517
Tax at the Australian tax rate of 30% on taxable portfolios	**8 846**	13 955
Effect of non-deductible items	**19**	3
Income tax expense	**8 865**	13 958

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.

	2019 $000	2018 $000
Cash at bank (1)	**1 577 139**	42
Money market deposits	**-**	640 626
	1 577 139	640 668

(1) From August 2018 cash at bank has been used to invest short term funds to facilitate daily liquidity. This change was due to operational changes within the domestic overnight 11am cash market.

7 Assets held for sale

Accounting Policy

Non-current assets held for sale consist of those assets that management has determined are available for immediate sale in their present condition, for which their sale is highly probable within the next twelve months. 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. In the current year this consists of a street sweeper and the prior year included buses and ferries which QTC leased to local government sector entities under a whole of government operating lease facility which were sold on 2 July 2018. The gain on sale on this transaction was $1.4 million.

	2019 $000	2018 $000
Cost at balance date	**245**	166 167
Accumulated depreciation and impairment	**(196)**	(106 782)
Net carrying amount	**49**	59 385
Movement		
Net carrying amount at beginning of year	**59 385**	92 101
Disposals	**(59 223)**	(11 434)
Depreciation expense	**(113)**	(21 282)
Net carrying amount at end of year	**49**	59 385

Notes to the Financial Statements

Capital Markets Operations

For the year ended 30 June 2019

8 Financial assets at fair value through profit or loss

	2019 $000	2018 $000
Discount securities	**6 492 812**	4 948 971
Commonwealth and state securities (1)	**1 665 784**	1 384 150
Floating rate notes	**8 227 251**	8 245 590
Term deposits	**3 265 525**	4 952 090
Other investments	**1 524 528**	997 679
	21 175 900	20 528 480

(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 2019: $9,844.2 million (2018: $8,033.6 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.

	2019 $000	2018 $000
Derivative financial assets		
Interest rate swaps	**204 482**	38 614
Cross currency swaps	**70 087**	31 035
Foreign exchange contracts	**7 673**	47 047
Futures contracts	**7 747**	13 419
	289 989	130 115
Derivative financial liabilities		
Interest rate swaps	**(355 569)**	(31 635)
Cross currency swaps	**(27 345)**	(20 104)
Foreign exchange contracts	**(1 830)**	(2 287)
Futures contracts	**(14 128)**	(41 184)
	(398 872)	(95 210)
Net derivatives	**(108 883)**	34 905

As at 30 June 2019, derivatives with a net liability position of $124.0 million have maturity dates exceeding 12 months (2018: net asset position of $15.3 million).

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Capital Markets Operations

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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. Following 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.

	2019 $000	2018 $000
Government departments and agencies	**33 382 054**	31 382 607
Government owned corporations	**27 666 064**	26 006 139
Statutory bodies	**19 367 116**	18 017 825
Local governments	**6 302 676**	6 136 975
QTC related entities [1]	**112 961**	121 626
Other bodies	**298 904**	286 611
	87 129 775	81 951 783

[1] QTC related entities includes DBCT Holdings Pty Ltd

At 30 June 2019, client deposits of $4.5 billion have been placed in redraw facilities and offset the value of onlendings in the balance sheet (2018: $4.6 billion). The gross value of onlendings at 30 June 2019 was $91.6 billion (2018: $86.6 billion).

As at 30 June 2019: $86,209.3 million (2018: $81,628.9 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 bonds and floating rate notes. Australian bonds include QTC's domestic, capital indexed and public bonds.

	2019 $000	2018 $000
Interest-bearing liabilities		
Short-term		
Treasury notes	**5 010 470**	4 244 895
Commercial paper	**676 157**	1 165 092
	5 686 627	5 409 987
Long-term		
AUD Bonds	**91 134 633**	85 766 730
Floating rate notes	**3 608 199**	4 009 753
Medium-term notes	**1 237 416**	1 021 030
Other	**345 797**	324 949
	96 326 045	91 122 462
Total interest-bearing liabilities	**102 012 672**	96 532 449

QTC borrowings are guaranteed by the Queensland Government under the *Queensland Treasury Corporation Act 1988*.
As at 30 June 2019: $87,886.3 million (2018: $81,328.6 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).

Notes to the Financial Statements

Capital Markets Operations

For the year ended 30 June 2019

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 2019	FAIR VALUE $000	REPAYMENT AT MATURITY $000	DIFFERENCE $000
Interest-bearing liabilities			
Short-term			
Treasury notes	**5 010 470**	**5 020 000**	**(9 530)**
Commercial paper	**676 157**	**677 517**	**(1 360)**
	5 686 627	**5 697 517**	**(10 890)**
Long-term			
AUD Bonds	**91 134 633**	**79 312 983**	**11 821 650**
Floating rate notes	**3 608 199**	**3 600 000**	**8 199**
Medium-term notes	**1 237 416**	**1 009 641**	**227 775**
Other	**345 797**	**337 331**	**8 466**
	96 326 045	**84 259 955**	**12 066 090**
Total interest-bearing liabilities	**102 012 672**	**89 957 472**	**12 055 200**

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

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Capital Markets Operations

For the year ended 30 June 2019

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. 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.

	2019 $000	2018 $000
Client deposits		
Local governments	**3 529 042**	2 549 851
Statutory bodies	**2 663 595**	2 706 450
Government departments and agencies	**583 216**	73 233
Government owned corporations	**96 161**	83 376
QTC related entities (1)	**93 747**	83 172
Other depositors	**166 018**	173 671
	7 131 779	5 669 753
Collateral held	**51 261**	72 860
Repurchase agreements	**-**	470 931
	51 261	543 791
Total deposits	**7 183 040**	6 213 544

(1) *QTC related entities includes Queensland Treasury Holdings Pty Ltd and its subsidiaries Brisbane Port Holdings Pty Ltd, DBCT Holdings Pty Ltd and Queensland Lottery Corporation Pty Ltd.*

As at 30 June 2019: $7,072.4 million (2018: $5,616.0 million) will mature within 12 months.

12 Financial risk management

QTC's activities expose it to a variety of financial risks including funding risk, 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. QTC has no legal, regulatory or accounting requirement to hold capital however, its Capital Adequacy Policy sets out how QTC should manage its capital to support its business activities and risk profile. QTC's Capital Adequacy Policy uses a stress scenario to determine the level of capital that should be held to cover funding, liquidity, market, credit and operational risks. This level of capital is known as Optimal Capital. Optimal Capital is calculated and regularly compared to QTC's actual capital, with reports presented to management and the Board.

(a) Market risk

Market risk is the risk of incurring losses in positions arising from adverse movements in financial market prices. QTC is exposed to market risk in the form of foreign exchange risk and interest rate risk. QTC's exposure to market risk is through its borrowing and investment activities. This includes 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 price movements, 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.

12 Financial risk management continued

(a) Market risk continued

(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	
	2019 $000	2018 $000	**2019 $000**	2018 $000	**2019 $000**	2018 $000	**2019 $000**	2018 $000
USD	**(363 517)**	(927 228)	**389 833**	424 185	**(26 316)**	503 043	**-**	-
GBP	**-**	(230 613)	**-**	-	**-**	230 613	**-**	-
CHF	**(160 821)**	(149 701)	**-**	-	**160 821**	149 701	**-**	-
JPY	**(198 559)**	(183 492)	**-**	-	**198 559**	183 492	**-**	-
EUR	**(650 261)**	(631 496)	**-**	-	**650 261**	631 496	**-**	-

(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 Queensland Treasury ensuring that QTC is effectively immunised from interest rate risk with respect to these portfolios.

Client deposits into the QTC Cash Fund are invested on behalf of clients and returns received from these investments are passed onto QTC's clients with the exception of mark-to-market gains or losses from credit spread movements. QTC generally holds these investments to maturity and therefore any mark-to-market impacts from credit margin changes are typically reversed over the life of the assets.

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 ten 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	**2019 (1) $M**	2018 $M
As at 30 June	**17**	11
Average for the year	**23**	14
Financial year- minimum	**15**	11
Financial year- maximum	**53**	24

(1) The VaR calculation for the 2019 year now includes the potential mark-to-market impact of changes in credit spreads on the value of assets held in the QTC Cash Fund.

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Capital Markets Operations

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12 Financial risk management continued

(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 (these are reviewed at a minimum on an annual basis to ensure relevance):

- Standard & Poor's Liquidity Ratio – maintaining a ratio of liquid assets over debt servicing requirements over next 12 months that provides the maximum benefit for Queensland's liquidity assessment
- Liquidity forecast – maintaining a minimum forecast liquidity balance over any pending 12 month period
- Daily cash balances – maintaining minimum net cash requirements in cash at bank, RBA repo eligible securities and Negotiable Certificates of Deposits to fund the net cash flows from assets and liabilities on QTC's balance sheet over a short term horizon.

In addition, QTC holds liquid assets in the form of public sector entity deposits and the State's Long Term Assets. QTC considers these 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, as its core short-term funding facility. In addition, QTC has in place Euro and US medium-term note facilities and Euro and US commercial paper 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 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 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 (i.e. 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.

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 2019	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	**1 577 139**	**-**	**-**	**-**	**-**	**1 577 139**	**1 577 139**
Receivables	**6 709**	**-**	**-**	**-**	**-**	**6 709**	**6 709**
Onlendings [1]	**1 058 432**	**1 177 372**	**1 468 018**	**14 632 239**	**74 038 140**	**92 374 201**	**87 129 775**
Financial assets at fair value through profit or loss	**2 968 764**	**8 274 482**	**3 936 258**	**13 548 190**	**1 561 012**	**30 288 706**	**21 175 900**
Total financial assets	**5 611 044**	**9 451 854**	**5 404 276**	**28 180 429**	**75 599 152**	**124 246 755**	**109 889 523**
Financial liabilities							
Payables	**(24 331)**	**-**	**-**	**-**	**-**	**(24 331)**	**(24 331)**
Deposits	**(6 816 861)**	**(22 134)**	**(4 298)**	**(8 199)**	**(96 192)**	**(6 947 684)**	**(7 183 040)**
Financial liabilities at fair value through profit or loss							
- Short-term	**(3 847 833)**	**(1 649 683)**	**(200 000)**	**-**	**-**	**(5 697 516)**	**(5 686 627)**
- Long-term	**(1 253 580)**	**(127 241)**	**(10 152 005)**	**(40 494 648)**	**(52 552 420)**	**(104 579 894)**	**(96 326 045)**
Total financial liabilities	**(11 942 605)**	**(1 799 058)**	**(10 356 303)**	**(40 502 847)**	**(52 648 612)**	**(117 249 425)**	**(109 220 043)**
Derivatives							
Interest rate swaps	**(62)**	**(2 065)**	**13 272**	**(62 045)**	**(113 248)**	**(164 148)**	**(151 087)**
Cross currency swaps	**(5 185)**	**(4 874)**	**(30 712)**	**(128 873)**	**(392 486)**	**(562 130)**	**42 742**
Foreign exchange contracts	**7 822**	**(1 446)**	**-**	**-**	**-**	**6 376**	**5 843**
Futures contracts	**94 700**	**-**	**-**	**-**	**-**	**94 700**	**(6 381)**
Net derivatives	**97 275**	**(8 385)**	**(17 440)**	**(190 918)**	**(505 734)**	**(625 202)**	**(108 883)**
Net (liabilities)/assets	**(6 234 286)**	**7 644 411**	**(4 969 467)**	**(12 513 336)**	**22 444 806**	**6 372 128**	**560 541**
Cumulative	**(6 234 286)**	**1 410 125**	**(3 559 342)**	**(16 072 678)**	**6 372 128**	**-**	**-**

[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 metric 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 can result 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 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	1 332 075	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 financial 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 and dividends	(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 financial 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	19 245	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)	-	-

(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 2019	AAA $000	AA+ $000	AA $000	AA- $000	A+ $000	A $000	OTHER[(2)] $000	TOTAL $000
Cash & equivalents	**-**	**-**	**-**	**1 577 139**	**-**	**-**	**-**	**1 577 139**
Financial assets[(3)]	**1 373 518**	**879 541**	**118 354**	**15 687 028**	**1 998 084**	**932 111**	**100 616**	**21 089 252**
Derivatives	**-**	**-**	**-**	**50 014**	**11 694**	**-**	**-**	**61 708**
	1 373 518	**879 541**	**118 354**	**17 314 181**	**2 009 778**	**932 111**	**100 616**	**22 728 099**
	6%	**4%**	**1%**	**76%**	**9%**	**4%**	**0%**	**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*

12 Financial risk management continued

(c) Credit risk continued

(i) Financial markets counterparties continued

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%

(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. The exposure to domestic banks reflects the structure of the Australian credit markets which are themselves dominated by issuance from these entities. Matching market structure is seen as a prudent portfolio management decision parameter. QTC has a requirement to invest with counterparties rated BBB+ or better. QTC has exposure to systemically important domestic banks (which are rated AA-) of approximately 69 per cent.

(ii) Onlending counterparties

Counterparties for onlendings, with the exception of some small exposures to private companies, are Queensland Government sector entities with approximately 67.5 per cent (2018: 67.6 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 (2019: $786 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 comprehensive income. 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.

		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
2019				
Derivative assets: - subject to master netting arrangements	**289 989**	**-**	**(289 461)**	**528**
Derivative liabilities: - subject to master netting arrangements	**(398 872)**	**-**	**398 872**	**-**
Net exposure	**(108 883)**	**-**	**109 411**	**528**
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

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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, 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. QTC Capital Index and QTC 2047 Bonds were transferred from level 2 to level 1 during the year as sufficient pricing sources existed to provide quoted market prices and recent transactions also improved liquidity.

AS AT 30 JUNE 2019	QUOTED PRICES LEVEL 1 $000	OBSERVABLE INPUTS LEVEL 2 $000	TOTAL $000
Financial assets			
Cash and cash equivalents	**1 577 139**	**-**	**1 577 139**
Financial assets through profit or loss	**16 331 753**	**4 844 147**	**21 175 900**
Onlendings	**-**	**87 129 775**	**87 129 775**
Derivative financial assets	**7 747**	**282 242**	**289 989**
Total financial assets	**17 916 639**	**92 256 164**	**110 172 803**
Financial liabilities			
Financial liabilities through profit or loss			
- Short-term	**-**	**5 686 627**	**5 686 627**
- Long-term	**91 134 633**	**5 191 412**	**96 326 045**
Deposits	**-**	**7 183 040**	**7 183 040**
Derivative financial liabilities	**14 128**	**384 744**	**398 872**
Total financial liabilities	**91 148 761**	**18 445 823**	**109 594 584**

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

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Capital Markets Operations

For the year ended 30 June 2019

14 Property, plant and equipment

Accounting Policy

Items with a cost or other value equal to or exceeding $5,000 are reported as property, plant and equipment. Items with a lessor value are expensed in the year of acquisition. 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:

	2019 $000	2018 $000
Cost at balance date	**5 608**	6 168
Accumulated depreciation and impairment	**(1 666)**	(1 583)
Net carrying amount	**3 942**	4 585
Movement		
Net carrying amount at beginning of year	**4 585**	4 483
Additions	**30**	1 075
Depreciation expense	**(673)**	(973)
Net carrying amount at end of year	**3 942**	4 585

15 Notes to the statement of cash flows

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

	2019 $000	2018 $000
Profit for the year	**125 923**	94 332
Non-cash flows in operating surplus		
Loss on interest-bearing liabilities	**4 174 631**	1 422 117
Loss/(gain) on deposits held	**36**	(17)
(Gain)/loss on onlendings	**(4 616 513)**	790 966
(Gain)/loss on financial assets at fair value through profit or loss	**(133 276)**	12 243
Depreciation and amortisation	**2 878**	24 590
Gain on disposal of plant and machinery	**(1 398)**	-
Doubtful debts	**1**	323
Changes in assets and liabilities		
Decrease in financial assets at fair value through profit or loss	**23 612**	22 363
Decrease/(increase) in deferred tax asset	**171**	(1 985)
Decrease /(increase) in onlendings	**7 771**	(13 692)
Decrease /(increase) in receivables	**775**	(3 583)
Decrease in interest-bearing liabilities	**(7 086)**	(2 631 089)
Increase/(decrease) in deposits	**434**	(1 087)
Increase in payables and other liabilities	**29 445**	20 842
Net cash used in operating activities	**(392 596)**	(263 677)

Notes to the Financial Statements

Capital Markets Operations

For the year ended 30 June 2019

15 Notes to the statement of cash flows continued

(b) Reconciliation of liabilities arising from financing activities

AS AT 30 JUNE 2019	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 (1)	**96 627 659**	**1 478 297**	**3 815 434**	**359 197**	**130 957**	**102 411 544**
Deposits	**6 213 544**	**969 462**	**(36)**	**-**	**70**	**7 183 040**
Dividend paid	**-**	**(50 000)**	**-**	**-**	**50 000**	**-**
	102 841 203	**2 397 759**	**3 815 398**	**359 197**	**181 027**	**109 594 584**

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 (1)	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

(1) Includes derivatives

16 Financial instruments 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 fair value through profit or loss.

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 fair value through profit or loss

Financial liabilities at fair value through profit or loss 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. Upon termination/settlement of the liability, any shortfall between the value of the assets and liability will be borne by the State; and any excess in the assets will be returned. Interest on the fixed rate notes is capitalised monthly and the rate is reviewed annually.

Financial liabilities at fair value through profit or loss are valued by reflecting the changes, including market value movements, of the supporting assets of the portfolio as market value movements in the fixed rate notes. This eliminates any accounting mismatch between the financial assets and liabilities in this segment.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	2019 $000	2018 $000
Investments in unit trusts and other holdings- QIC:		
Movement during the year:		
Opening balance	**30 487 950**	31 714 459
Net withdrawals	**(2 710 198)**	(3 128 187)
Fees paid	**(98 664)**	(98 608)
Net change in fair value of unit trusts	**1 666 822**	2 000 286
Closing balance	**29 345 910**	30 487 950
Comprised of the following asset classes:		
Defensive assets		
Cash	**9 149 487**	7 854 382
Fixed interest	**2 524 976**	4 811 272
Growth assets		
Equities	**2 299 396**	3 821 700
Diversified alternatives	**5 855 766**	5 534 400
Unlisted assets		
Infrastructure	**3 368 382**	3 018 799
Private equities	**2 839 975**	2 577 068
Real estate	**3 307 928**	2 870 329
	29 345 910	30 487 950

16 Financial instruments at fair value through profit or loss continued

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	**2019 $000**	2018 $000
Fixed rate notes		
Movement during the year:		
Opening balance	**29 766 334**	-
Opening balance adjustment [(1)]	**721 616**	-
Interest	**1 879 573**	-
Net withdrawals	**(2 710 198)**	-
Net change in fair value of fixed rate note	**(311 415)**	-
Closing balance	**29 345 910**	-

FINANCIAL LIABILITIES AT AMORTISED COST	**2019 $000**	2018 $000
Fixed rate notes		
Movement during the year:		
Opening balance	**-**	30 799 145
Interest	**-**	2 095 376
Net withdrawals	**-**	(3 128 187)
Closing balance	**-**	29 766 334

[(1)] *Accounting policy change refer to note 2(a)*

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) determined the investment objectives, risk profiles and strategy for the Long Term Assets within the framework provided by the Government. It was responsible for formulating a strategic asset allocation to achieve the objectives of the investments in line with the required risk profile. Risk management policies have been established to identify and analyse risks as well as to set appropriate risk limits and controls. Risks are monitored in adherence with these limits. Going forward, this role will be undertaken by the State Investment Advisory Board.

QIC provided assistance to LTAAB in discharging its responsibilities. QIC's role includes recommending 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, was provided by an external consultant.

The interest rate applicable on the fixed rate note liability of QTC, which was set at 6.5 per cent (2018: 7.0 per cent) on the book value of the notes from 1 July 2018.

(a) Liquidity risk

No external cash flows are generated by QTC from the Long Term Assets. Deposits and withdrawals from the Long Term Assets result in a corresponding change to the value of the fixed rate notes (FRN). Interest owing to Treasury on the FRNs is capitalised as are returns and fees on the Long Term Assets. As such daily movements in these cash flows do not expose QTC to liquidity risk.

(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

The 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. The investment strategy targets a 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 value of applicable investments held at 30 June is as follows:

	2019 CHANGE		2019 PROFIT/EQUITY		2018 CHANGE		2018 PROFIT/EQUITY	
	Low %	**High %**	**Decrease $000**	**Increase $000**	**Low %**	**High %**	**Decrease $000**	**Increase $000**
Cash and fixed interest (1)	**> -1%**	**< 1%**	**(23 772)**	**23 772**	>-1%	< 1%	(60 850)	60 850
Equities	**-10%**	**10%**	**(230 226)**	**230 226**	-10%	10%	(382 624)	382 624
Diversified alternatives (2)	**-10%**	**10%**	**(586 266)**	**586 266**	-10%	10%	(554 231)	554 231
Infrastructure	**-10%**	**10%**	**(336 663)**	**336 663**	-10%	10%	(301 882)	301 882
Private equities	**-10%**	**10%**	**(284 332)**	**284 332**	-10%	10%	(257 826)	257 826
Real estate	**-10%**	**11%**	**(317 829)**	**369 330**	-8%	9%	(234 206)	248 164
			(1 779 088)	**1 830 589**			(1 791 619)	1 805 577

(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.*

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 2019	OBSERVABLE INPUTS LEVEL 2 $000	UNOBSERVABLE INPUTS LEVEL 3 $000	TOTAL $000
Financial assets			
Cash	**9 149 487**	**-**	**9 149 487**
Fixed interest	**2 524 976**	**-**	**2 524 976**
Equities	**2 299 396**	**-**	**2 299 396**
Diversified alternatives	**-**	**5 855 766**	**5 855 766**
Infrastructure	**-**	**3 368 382**	**3 368 382**
Private equities	**-**	**2 839 975**	**2 839 975**
Real estate	**-**	**3 307 928**	**3 307 928**
Total financial assets	**13 973 859**	**15 372 051**	**29 345 910**
Financial liabilities			
Fixed rate note	**-**	**29 345 910**	**29 345 910**
Total financial liabilities	**-**	**29 345 910**	**29 345 910**
AS AT 30 JUNE 2018			
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

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.

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 2019. 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.

While 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 Notes	Based on the value of the corresponding assets in the Long Term Assets segment	The valuation is based on the fair values of the related assets which are derived using level 3 inputs

(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 2019.

ASSET CLASS	OPENING BALANCE $000	DISTRIBUTIONS[1] $000	UNREALISED MARKET MOVEMENTS[1] $000	SETTLEMENTS[1] $000	CLOSING BALANCE $000
Diversified alternatives	**5 534 400**	(902 388)	100 353	1 123 401	**5 855 766**
Infrastructure	**3 018 799**	(221 542)	530 119	41 006	**3 368 382**
Private equities	**2 577 068**	(352 154)	580 026	35 036	**2 839 975**
Real estate	**2 870 329**	(107 196)	173 328	371 467	**3 307 928**

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

Fixed rate note movements are disclosed in note 16.

(c) Level 3 – Sensitivity Analysis

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

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For the year ended 30 June 2019

19 Contingent liabilities

The following contingent liabilities existed at balance date:

- QTC has provided guarantees to the value of $2.27 billion (2018: $2.09 billion) 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 2019 no (2018: $7 million) QTC inscribed stock was lent to other financial institutions.

20 Related party transactions

QTC's related parties are those entities that it controls, is controlled by, under common control or can exert significant influence over. This includes controlled entities of the State of Queensland, being Queensland Treasury, Government Departments, Statutory Bodies (excluding universities) and Government Owned Corporations, and also includes QTC's key management personnel and their related parties. Along with universities, local governments are not considered as related parties of QTC.

(a) Ultimate controlling entity

The immediate controlling entity is the Under Treasurer of Queensland as the Corporation Sole of QTC and the ultimate controlling entity is the State of Queensland. 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 $77,288.9 million (2018: $72,537.5 million) and interest received $7,038.9 million (2018: $2,360.1 million)
- investment of cash surpluses $2,232.0 million (2018: $1,792.3 million) and interest paid $50.1 million (2018: $67.8 million)
- fees received $61.0 million (2018: $64.2 million), and
- dividends paid to Queensland Treasury $50 million (2018:$500 million)

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 $97.6 million in management fees to QIC (2018: $98.3 million) and $0.7 million (2018: nil) to Queensland Treasury for Board Secretariat services.

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 $9.5 million (2018: $4.5 million).
- QTC has a shareholding in Queensland Treasury Holdings Pty Ltd and its associated entities (QTH group). The QTH group hold deposits of $96.6 million (2018: $83.0 million) and loans of $113.0 million (2018: $121.6 million) 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 and received fees of $0.4 million (2018: $0.4 million) for the provision of these services.

(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 $2,272.1 million (2018: $2,284.3 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 $48.3 million (2018: $60.6 million).

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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

Any changes to Board remuneration requires consideration by Queensland Treasury and the Department of Premier and Cabinet to ensure remuneration is commensurate with government policy. Cabinet endorsement of any changes is required prior to approval by the Governor in Council. 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 for the period.

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 QTC continues to align 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 conservative 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, divisional, 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 database (i.e. the median incentive potential for FIRG members within QTC's peer group) and approved at Board level each year. For the 2018-19 year, STI payments were made to eligible staff in July 2019.

Variable remuneration - executive management

For the 2018-19 year, where executive management performed strongly against corporate, divisional 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 corporate, divisional and individual KPIs. For 2018-19, short-term incentive 'targets' for executive management ranged between 45% 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, 30% on divisional performance, and 30% on the achievement of targets set out in QTC's Strategic Plan 2017-21 and Corporate Plan 2018-19.

QTC's overall performance for 2018-19, 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 56% and 80% of their total fixed remuneration.

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21 Key management personnel continued

(d) Remuneration by category

	2019 $	2018 $
Capital Markets Operations		
Directors		
Short-term employment benefits (1)	**323 488**	328 326
Post-employment benefits (4)	**29 361**	19 366
Total	**352 849**	347 692
Executive management		
Short-term employment benefits (2)	**4 076 728**	3 868 859
Long-term employment benefits (3)	**68 703**	67 709
Post-employment benefits (4)	**106 260**	115 403
Total	**4 251 691**	4 051 971

(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	
	2019 $	2018 $	2019 $	2018 $	2019 $	2018 $
Gerard Bradley – Chairman	**125 251**	128 748	**10 529**	-	**135 780**	128 748
Alison Rayner (1)	**-**	-	**-**	-	**-**	-
Tonianne Dwyer	**42 357**	40 210	**4 024**	3 820	**46 381**	44 030
Anne Parkin	**43 856**	43 856	**4 166**	4 166	**48 022**	48 022
Karen Smith-Pomeroy	**42 357**	38 077	**4 024**	3 877	**46 381**	41 954
Stephen Roberts (2)	**-**	37 225	**-**	3 683	**-**	40 908
Jim Stening	**40 210**	40 210	**3 820**	3 820	**44 030**	44 030
Neville Ide (3)	**29 457**	-	**2 798**	-	**32 255**	-
Total	**323 488**	328 326	**29 361**	19 366	**352 849**	347 692

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

(2) *Resigned 1 June 2018*

(3) *Appointed 1 October 2018*

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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 2019	SHORT-TERM EMPLOYMENT BENEFITS BASE $	SHORT-TERM EMPLOYMENT BENEFITS SHORT-TERM INCENTIVE $	SHORT-TERM EMPLOYMENT BENEFITS NON-MONETARY $	POST-EMPLOYMENT BENEFITS $	LONG-TERM BENEFITS $	TOTAL $
Chief Executive	**720 151**	**511 200**	**16 601**	**20 461**	**20 624**	**1 289 037**
Deputy Chief Executive and Managing Director, Funding and Markets	**567 145**	**473 475**	**16 659**	**20 531**	**15 490**	**1 093 300**
Managing Director, Client Advisory	**367 830**	**219 375**	**15 651**	**20 531**	**11 598**	**634 985**
Managing Director, Corporate Services	**353 527**	**230 850**	**15 651**	**24 206**	**10 109**	**634 343**
Managing Director, Finance, Data, and Compliance	**337 932**	**202 500**	**28 181**	**20 531**	**10 882**	**600 026**
Total	**2 346 585**	**1 637 400**	**92 743**	**106 260**	**68 703**	**4 251 691**

30 JUNE 2018	SHORT-TERM EMPLOYMENT BENEFITS BASE $	SHORT-TERM EMPLOYMENT BENEFITS SHORT-TERM INCENTIVE $	SHORT-TERM EMPLOYMENT BENEFITS 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

(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:

	2019 $	2018 $
Audit services		
Audit and review of QTC financial statements	**359 000**	379 250

Notes to the Financial Statements

Other information

For the year ended 30 June 2019

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 (p) 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. A dividend of $50 million (2018: $500 million) was paid to the Queensland Government in June 2019.

25 Events subsequent to balance date

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

From 2019-20 onward, LTAAB will be reconstituted as the State Investment Advisory Board (SIAB). Membership to the Board will include the Under Treasurer (as chair), the Deputy Under Treasurer, Economic and Fiscal Coordination (as an ex-officio member) and three external members.