Statement of comprehensive income

For the year ended 30 June 2021

	NOTE	2021 $000	2020 $000
CAPITAL MARKETS OPERATIONS			
Net gain/(loss) on financial instruments at fair value through profit or loss			
(Loss)/gain on financial assets	3	**(243 309)**	5 173 695
Gain/(loss) on financial liabilities	3	**354 846**	(5 105 688)
		111 537	68 007
Other income			
Fee income		**91 879**	81 262
Lease income		**-**	7
		91 879	81 269
Expenses			
Administration expenses	4	**(77 770)**	(73 578)
Depreciation on right of use assets	14	**(1 713)**	(1 711)
Depreciation on leased assets		**-**	(12)
Loss on disposal of plant and machinery		**-**	(17)
		(79 483)	(75 318)
Profit from Capital Markets Operations before income tax		**123 933**	73 958
Income tax expense	5	**(8 282)**	(7 091)
Profit from Capital Markets Operations after income tax		**115 651**	66 867
STATE INVESTMENT OPERATIONS*			
Net return from investments			
Net change in fair value of unit trusts		**4 676 076**	(1 105 390)
Interest on fixed rate notes		**(1 864 990)**	(1 825 104)
Net change in fair value of fixed rate notes		**(2 653 028)**	3 109 369
Management fees		**(158 058)**	(178 875)
Profit/(loss) from State Investment Operations		**-**	-
Total net profit/(loss) for the year after tax		**115 651**	66 867
Total comprehensive income/(loss) attributable to the owner		**115 651**	66 867
Total comprehensive income/(loss) derived from:			
Capital Markets Operations		**115 651**	66 867
State Investment Operations		**-**	-
Total comprehensive income/(loss)		**115 651**	66 867

**Previously Long Term Assets (refer note 1)*

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

Note: Throughout these financial statements the Capital Markets Operations and the State Investment 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 investment assets (refer note 1).

Balance sheet

As at 30 June 2021

	NOTE	2021 $000	2020 $000
ASSETS – CAPITAL MARKETS OPERATIONS			
Cash and cash equivalents	6	**11 803 213**	2 487 431
Receivables		**7 262**	6 239
Financial assets at fair value through profit or loss	7	**14 958 589**	22 170 759
Derivative financial assets	8	**336 836**	377 633
Onlendings	9	**104 611 229**	98 334 286
Property, plant and equipment	13	**2 967**	3 633
Right-of-use assets	14	**8 278**	9 991
Intangible assets		**9 462**	14 383
Deferred tax asset		**4 893**	4 590
		131 742 729	123 408 945
ASSETS - STATE INVESTMENT OPERATIONS*			
Financial assets at fair value through profit or loss	16	**37 814 711**	26 216 930
		37 814 711	26 216 930
Total Assets		**169 557 440**	149 625 875
LIABILITIES – CAPITAL MARKETS OPERATIONS			
Payables		**26 579**	19 974
Derivative financial liabilities	8	**238 187**	646 834
Financial liabilities at fair value through profit or loss			
- Interest-bearing liabilities	10(a)	**122 755 935**	113 188 864
- Deposits	10(b)	**8 107 683**	8 865 253
Lease liabilities	14	**15 165**	17 826
Other liabilities		**6 806**	143 471
		131 150 355	122 882 222
LIABILITIES – STATE INVESTMENT OPERATIONS*			
Financial liabilities at fair value through profit or loss	16	**37 814 711**	26 216 930
		37 814 711	26 216 930
Total Liabilities		**168 965 066**	149 099 152
NET ASSETS		**592 374**	526 723
EQUITY – CAPITAL MARKETS OPERATIONS			
Retained surplus		**592 374**	526 723
		592 374	526 723
EQUITY – STATE INVESTMENT OPERATIONS*			
Retained surplus		**-**	-
		-	-
Total Equity		**592 374**	526 723

**Previously Long Term Assets (refer note 1)*

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

Statement of changes in equity

For the year ended 30 June 2021

	NOTE	CAPITAL MARKETS OPERATIONS RETAINED SURPLUS $000	STATE INVESTMENT OPERATIONS* RETAINED SURPLUS $000	TOTAL EQUITY $000
Balance at 1 July 2019		509 856	-	509 856
Profit for the year		66 867	-	66 867
Transactions with owners in their capacity as owners:				
Dividend provided for or paid		(50 000)	-	(50 000)
Balance at 30 June 2020		**526 723**	**-**	**526 723**
Balance at 1 July 2020		526 723	-	526 723
Profit for the year		115 651	-	115 651
Transactions with owners in their capacity as owners:				
Dividend provided for or paid	24	(50 000)	-	(50 000)
Balance at 30 June 2021		**592 374**	**-**	**592 374**

**Previously Long Term Assets (refer note 1)*

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

Statement of cash flows

For the year ended 30 June 2021

	NOTE	2021 $000	2020 $000
CAPITAL MARKETS OPERATIONS			
Cash flows from operating activities			
Interest received from onlendings		**3 190 892**	3 017 502
Interest received from investments and other sources		**279 835**	337 479
Fees received		**93 390**	81 264
Net GST		**208**	(172)
Interest paid on interest-bearing liabilities		**(2 800 272)**	(3 054 005)
Interest paid on deposits		**(64 617)**	(126 763)
Administration expenses paid		**(71 654)**	(71 600)
Income tax paid		**(7 153)**	(8 638)
Net cash provided by operating activities	15(a)	**620 629**	175 067
Cash flows from investing activities			
Proceeds from sale of investments		**33 681 434**	41 490 286
Payments for investments		**(26 578 979)**	(42 205 617)
Net client onlendings		**(9 977 168)**	(9 527 259)
Payment for intangibles		**(709)**	(1 567)
Proceeds from sale of property, plant and equipment		**-**	20
Payments for property, plant and equipment		**(13)**	(321)
Net cash used in investing activities		**(2 875 435)**	(10 244 458)
Cash flows from financing activities			
Proceeds from interest-bearing liabilities		**40 285 045**	62 312 835
Repayment of interest-bearing liabilities		**(27 908 582)**	(52 967 165)
Net client deposits		**(755 875)**	1 684 013
Dividends paid		**(50 000)**	(50 000)
Net cash provided by financing activities	15(b)	**11 570 588**	10 979 683
Net increase in cash and cash equivalents held		**9 315 782**	910 292
Cash and cash equivalents at 1 July		**2 487 431**	1 577 139
Cash and cash equivalents at 30 June	6	**11 803 213**	2 487 431

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

Notes to the Financial Statements

For the year ended 30 June 2021

Contents

1 General information

Queensland Treasury Corporation (QTC) is the Queensland Government's central financing authority. It also provides a range of financial services to State public sector entities, local governments and universities. 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.

QTC's business operations are made up of two segments, namely Capital Markets Operations and State Investment Operations (SIO).

Capital Markets Operations

QTC's Capital Markets Operations include debt funding, cash management, financial risk management advisory and specialist public finance education.

These services are undertaken on a cost-recovery basis with QTC lending to its clients at an interest rate based on its cost of funds plus a loan administration fee to cover the cost of administering the loans. QTC passes on the returns of asset management to its clients and retains the unrealised gains/losses associated with credit spread movements on its balance sheet until the sale of the asset or its maturity. The gains/losses associated with QTC's management of these loans is passed on to the State Consolidated Fund.

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

State Investment Operations

SIO consists of portfolios of assets that were transferred to QTC by the State Government. This segment was previously called the Long Term Assets (LTA) segment.

The assets of this segment are held in unit trusts managed by QIC Limited (QIC) and overseen by the State Investment Advisory Board (SIAB). These assets are invested in two portfolios, the LTA portfolio and the Queensland Future Fund (QFF) portfolio. Each portfolio has its own investment management agreement.

Long Term Assets

The LTA portfolio consists of assets that were transferred to QTC by the State in 2008 to fund the State's superannuation and other long-term obligations. In 2020-21, the Queensland Government contributed a 25 per cent share of Queensland Titles Registry Pty Ltd to the LTA portfolio.

Queensland Future Fund

The QFF and its sub fund, the Debt Retirement Fund (DRF) were established as funds under the *Queensland Future Fund Act 2020*. The DRF was set up to support both the State's credit rating and generate returns to reduce the State's debt burden. The initial investment in the DRF was a transfer of $1 billion from the surplus assets of the defined benefit superannuation investment account of the LTA portfolio in April 2021. Further contributions made to the DRF in the financial year included a 75 per cent share of Queensland Titles Registry Pty Ltd at an initial value of $6 billion, $206 million of other securities and a further transfer of $500 million surplus assets held to support the defined benefit superannuation scheme.

Withdrawals from the DRF are limited to amounts to reduce the State's debt, and fees or expenses associated with administering the fund by the *Queensland Future Fund Act 2020*.

Fixed Rate Notes

A Fixed Rate Note (FRN) has been issued by QTC for each of the portfolios of SIO in return for the transfer of assets from the State.

The FRN issued to match the LTA portfolio has an interest rate of 6.5% per annum (2020: 6.5%) which accrues on the book value of the FRN and is for the benefit of the State's Consolidated Fund.

The FRN issued in return for the initial transfer of assets to the QFF is for the benefit of Queensland Treasury. Interest at a rate of 6.5% per annum accrues on the book value of this FRN.

Recognising the direct relationship between the FRN and the assets of SIO, any difference between the return paid by QTC on the FRN and the return received by QTC on the invested assets is recognised in the financial statements annually as a market value adjustment to the value of the FRN. Any market value adjustment does not impact QTC's Capital Markets Operations or its ability to meet its obligations.

SIAB members include representatives from Queensland Treasury and three external members with experience in investment management and insurance and has been delegated all responsibility for overseeing SIO within a framework provided by the State Government. This includes determining an appropriate investment strategy, monitoring investment performance and the performance of the investment manager (QIC), and monitoring compliance with relevant internal controls, standards and legislation. The formulation of strategic asset allocation, performance and monitoring of SIO's assets is therefore distinct from QTC's Capital Markets Board and day-to-day Capital Markets Operations and is the responsibility of SIAB and its appointed investment manager (QIC).

Each year, QTC's Capital Markets Board receives relevant information about the assets of SIO in order to prepare financial statements in accordance with Australian Accounting Standards and other prescribed requirements. QIC is responsible for assisting SIAB to provide this relevant information to the QTC Capital Markets Board.

Notes to the Financial Statements

For the year ended 30 June 2021

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 2021 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 2019, and the Financial Reporting Requirements for Queensland Government Agencies (as applicable to statutory bodies) for reporting periods beginning on or after 1 July 2020.

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

Changes to the Conceptual Framework for Financial Reporting and new and amended accounting standards are effective for the year ended 30 June 2021. None of these changes, new standards or interpretations have been deemed to have any material impact on the financial statements.

Standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been issued that are not mandatory for the current reporting period. The future adoption of Australian Accounting Standards and Interpretations issued but not yet effective are not expected to have a material impact on QTC's financial statements, however they may result in minor changes to how information is currently disclosed.

Basis of measurement

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

Functional and presentation currency

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

Classification of assets and liabilities

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

(b) Foreign currency

Foreign currency transactions are initially translated into Australian dollars at the rate of exchange applying at the date of the transaction. At balance date, amounts payable to and by QTC in foreign currencies have been valued using current exchange rates after considering 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
- deposits, and
- fixed rate notes

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 on lent. 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 11(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) Fee income

Fee income includes:

- management fee income, which represents income earned from the management of QTC's onlendings and deposits, and is recognised over time when the service has been provided in accordance with client mandates
- other fees, which are recognised in the period the services are provided to the extent that it is probable that the economic benefits will flow to QTC and can be measured reliably, and
- revenue on financial guarantees, which is recognised on an ongoing basis over the contract term. The probability of default on a financial guarantee is extremely low due to counter indemnities and therefore, revenue receivable is reflective of fair value.

(h) 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 State Consolidated Fund is made by way of dividends which are provided for following approval by the Board after considering QTC's capital requirements.

Notes to the Financial Statements

For the year ended 30 June 2021

2 Significant accounting policies and other explanatory information continued

(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.

(j) Intangible assets

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

(k) Impairment

Where an impairment is recognised the following methodology is applied:

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 QTC's debtors and relevant industry data form part of QTC'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.

(l) 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.

(m) Rounding

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

(n) Comparative figures

No material adjustments have been made to prior year comparatives.

(o) Judgements and assumptions

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

Fair value of financial assets and financial liabilities

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

Judgement may be applied in selecting valuation methods or assumptions where an active market quote is not available (refer notes 12 and 18).

Investments in Queensland Treasury Holdings Pty Ltd (QTH)

Queensland Treasury holds a 60% beneficial interest in QTH and 76% of the voting rights. The remaining 40% beneficial interest and 24% 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.

COVID-19 and other Environmental, Social, and Governance (ESG) related impacts

The majority of QTC's assets (onlendings and cash and cash equivalents) are valued daily at fair value and therefore no further adjustment is required as a result of COVID-19, climate change, changes to laws and regulations or other policies adopted by governments or regulatory authorities. Counterparty credit risk and credit risk associated with QTC's clients is separately monitored by QTC (refer note 11(c)). ESG and other sustainability risks are key considerations in determining credit ratings. The majority of QTC's onlendings are guaranteed by the State, including lending to carbon intensive businesses.

Notes to the Financial Statements

Capital Markets Operations

For the year ended 30 June 2021

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

Accounting Policy

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

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

	2021 $000	2020 $000
Net gain/(loss) on financial assets at fair value through profit or loss		
Cash and cash equivalents	**16 690**	15 292
Financial assets at fair value through profit or loss	**81 683**	419 113
Derivatives	**30 951**	160 202
Onlendings	**(372 633)**	4 579 088
	(243 309)	5 173 695
Net gain/(loss) on financial assets at fair value through profit or loss		
Financial liabilities at fair value through profit or loss		
- Short-term	**169 285**	(199 828)
- Long-term	**354 350**	(4 541 637)
Deposits	**(62 922)**	(119 180)
Derivatives	**(87 578)**	(227 207)
Other	**(18 289)**	(17 836)
	354 846	(5 105 688)

During the year ended 30 June 2021, long term yields rose leading to a decline in the market value of financial assets and in particular QTC's onlendings. This loss was offset by a decrease in the market value of financial liabilities.

4 Administration expenses

	2021 $000	2020 $000
Salaries and related costs	**44 803**	43 751
Superannuation contributions	**3 603**	3 840
Contractors	**1 863**	459
Consultants' fees	**1 107**	2 399
Information and registry services	**3 380**	3 468
Depreciation on property, plant and equipment	**680**	630
Amortisation and impairment on intangible assets (1)	**5 630**	2 152
Office occupancy	**1 967**	1 722
Information and communication technology	**11 440**	11 225
Other administration expenses	**3 297**	3 932
	77 770	73 578

(1) *During the annual review of intangible assets it was decided that due to advances in technology, the estimated useful life of Findur and OnesumX software would be reduced. This has resulted in an increase in amortisation cost of $3.2 million for 2021.*

Notes to the Financial Statements

Capital Markets Operations

For the year ended 30 June 2021

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 State 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 SIO segment.

	2021 $000	2020 $000
Current tax	**8 606**	7 153
Deferred tax (income)/expense	**(324)**	(62)
Total income tax expense recognised in the year	**8 282**	7 091
Numerical reconciliation between income tax expense and pre-tax accounting profit		
Profit for the year before tax	**123 933**	73 958
Less profits/(losses) from non-taxable portfolios:		
- Capital Markets Operations	**96 022**	50 327
- State Investment Operations	**-**	-
Operating profit from taxable portfolios	**27 911**	23 631
Tax at the Australian tax rate of 30% on taxable portfolios	**8 373**	7 089
Effect of non-deductible items	**(91)**	2
Income tax expense	**8 282**	7 091

6 Cash and cash equivalents

Accounting Policy

Cash and cash equivalents include cash on hand and on demand deposits which are highly liquid investments and readily convertible to cash.

	2021 $000	2020 $000
Cash at bank	**11 803 213**	2 487 431
	11 803 213	2 487 431

Notes to the Financial Statements

Capital Markets Operations

For the year ended 30 June 2021

7 Financial assets at fair value through profit or loss

Accounting Policy

Financial assets are recognised on the balance sheet when QTC becomes party to the contractual provisions of the financial instrument with gains and losses recognised in the income statement.

All financial assets are measured at fair value 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.

	2021 $000	2020 $000
Discount securities	**1 404 764**	6 248 681
Commonwealth and state securities [(1)]	**1 840 526**	1 890 341
Floating rate notes	**8 254 147**	8 973 685
Term deposits	**2 776 061**	3 590 075
Other investments	**683 091**	1 467 977
	14 958 589	22 170 759

[(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 2021, $9.4 billion (2020: $8.6 billion) of financial assets will mature after 12 months.

8 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.

	2021 $000	2020 $000
Derivative financial assets		
Interest rate swaps	**224 737**	291 741
Cross currency swaps	**49 657**	72 743
Foreign exchange contracts	**59 924**	11 950
Futures contracts	**2 518**	1 199
	336 836	377 633
Derivative financial liabilities		
Interest rate swaps	**(177 299)**	(506 650)
Cross currency swaps	**(51 758)**	(75 813)
Foreign exchange contracts	**-**	(17 053)
Futures contracts	**(9 130)**	(47 318)
	(238 187)	(646 834)
Net derivatives	**98 649**	(269 201)

As at 30 June 2021, derivatives with a net liability position of $38.9 million have maturity dates exceeding 12 months (2020: net liability position of $298.1 million).

Notes to the Financial Statements

Capital Markets Operations

For the year ended 30 June 2021

9 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 cost 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.

	2021 $000	2020 $000
Government departments and agencies	**48 965 762**	42 133 893
Government owned corporations	**28 609 158**	28 686 077
Statutory bodies	**19 744 887**	20 320 437
Local governments	**6 883 658**	6 797 068
QTC related entities (1)	**102 898**	104 391
Other bodies (2)	**304 866**	292 420
	104 611 229	98 334 286

(1) *QTC related entities includes DBCT Holdings Pty Ltd.*
(2) *Other bodies include loans advanced under the Industry Support Package.*

At 30 June 2021, client deposits of $2.3 billion were placed in redraw facilities and offset the value of onlendings in the balance sheet (2020: nil). The gross value of onlendings at 30 June 2021 was $106.9 billion (2020: $98.3 billion).

As at 30 June 2021, $91.6 billion (2020: $98.1 billion) of repayments are expected to be received after 12 months.

During the year ended 30 June 2021 the State provided financial assistance in the form of loans and grants to various Queensland private sector entities. This program was called the Industry Support Package (ISP). At 30 June 2021, $36.5 million remained outstanding on loans advanced under the ISP. Each loan in this package was negotiated individually and contains different terms and conditions and is guaranteed by the State. The maximum term for the ISP loans is 10 years with all loans expected to be repaid by September 2030.

10 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.

	2021 $000	2020 $000
Interest-bearing liabilities		
Short-term		
Treasury notes	**3 174 801**	4 714 972
Commercial paper	**2 460 771**	1 321 736
	5 635 572	6 036 708
Long-term		
AUD Bonds	**105 388 979**	97 745 424
Floating rate notes	**10 082 630**	7 629 841
Medium-term notes	**1 276 180**	1 462 903
Other	**372 574**	313 988
	117 120 363	107 152 156
Total interest-bearing liabilities	**122 755 935**	113 188 864

QTC borrowings are guaranteed by the Queensland Government under the *Queensland Treasury Corporation Act 1988*.
As at 30 June 2021, $114.6 billion (2020: $98.6 billion) 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 11(a)(i).

Notes to the Financial Statements

Capital Markets Operations

For the year ended 30 June 2021

10 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 2021	FAIR VALUE $000	REPAYMENT AT MATURITY $000	DIFFERENCE $000
Interest-bearing liabilities			
Short-term			
Treasury notes	**3 174 801**	**3 175 000**	**(199)**
Commercial paper	**2 460 771**	**2 594 228**	**(133 457)**
	5 635 572	**5 769 228**	**(133 656)**
Long-term			
AUD Bonds	**105 388 979**	**115 650 611**	**(10 261 632)**
Floating rate notes	**10 082 630**	**10 292 668**	**(210 038)**
Medium-term notes	**1 276 180**	**1 486 560**	**(210 380)**
Other	**372 574**	**376 977**	**(4 403)**
	117 120 363	**127 806 816**	**(10 686 453)**
Total interest-bearing liabilities	**122 755 935**	**133 576 044**	**(10 820 109)**

AS AT 30 JUNE 2020	FAIR VALUE $000	REPAYMENT AT MATURITY $000	DIFFERENCE $000
Interest-bearing liabilities			
Short-term			
Treasury notes	4 714 972	4 716 000	(1 028)
Commercial paper	1 321 736	1 321 774	(38)
	6 036 708	6 037 774	(1 066)
Long-term			
AUD Bonds	97 745 424	84 260 055	13 485 369
Floating rate notes	7 629 841	7 630 000	(159)
Medium-term notes	1 462 903	1 117 441	345 462
Other	313 988	304 402	9 586
	107 152 156	93 311 898	13 840 258
Total interest-bearing liabilities	113 188 864	99 329 672	13 839 192

Notes to the Financial Statements

Capital Markets Operations

For the year ended 30 June 2021

10 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 that are sold under agreements to repurchase are disclosed as deposits.

	2021 $000	2020 $000
Client deposits		
Local governments	**4 029 212**	3 602 330
Statutory bodies	**3 404 693**	3 002 217
Government departments and agencies	**78 308**	80 598
Government owned corporations	**144 543**	131 592
QTC related entities [(1)]	**114 683**	94 494
Other depositors	**189 180**	143 603
	7 960 619	7 054 834
Collateral held	**147 064**	56 739
Repurchase agreements	**-**	1 753 680
	147 064	1 810 419
Total deposits	**8 107 683**	8 865 253

(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 2021, $8.0 billion (2020: $8.8 billion) will mature within 12 months.

11 Financial risk management

QTC's activities expose it to a variety of financial risks including market risk (including foreign exchange risk and interest rate risk), funding and 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 Executive Leadership Team under delegated authority from the 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 Policy. QTC has no legal, regulatory or accounting requirement to hold capital however, its Capital Policy sets out how QTC should manage its capital. QTC endeavours to maintain adequate capital to support its business activities risk profile and risk appetite.

(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 arising from the impact of movements in foreign exchange rates and interest rates. 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 to reduce the risk associated with refinancing maturing loans.

As a consequence of market price movements, there are residual risk positions that 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.

Notes to the Financial Statements

Capital Markets Operations

For the year ended 30 June 2021

11 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	
	2021 $000	2020 $000	**2021 $000**	2020 $000	**2021 $000**	2020 $000	**2021 $000**	2020 $000
USD	**(2 311 346)**	(999 484)	**-**	495 270	**2 311 346**	504 214	**-**	-
CHF	**(158,715)**	(168 449)	**-**	-	**158 715**	168 449	**-**	-
GBP	**-**	(322 290)	**-**	-	**-**	322 290	**-**	-
JPY	**(180 376)**	(203 241)	**-**	-	**180 376**	203 241	**-**	-
EUR	**(721 451)**	(745 751)	**79 106**	81 771	**642 345**	663 980	**-**	-

(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's funding are passed on to the State Consolidated Fund, ensuring that QTC is effectively immunised from interest rate risk with respect to these portfolios.

QTC's interest rate risk, which results from borrowing in advance and investing surplus funds in high credit quality, highly liquid assets, is managed with consideration given to duration risk, yield curve risk, basis risk and Value-at-Risk (VaR).

QTC uses a Board approved VaR framework to manage QTC's exposure to market risk complemented by other measures such as defined stress tests. The VaR measure estimates the potential mark-to-market loss over a given holding period at a 99% confidence level. QTC uses the historical simulation approach to calculate VaR with a holding period of ten business days.

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 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, as well as cash, bank bill and bond futures contracts and QTC's yield curve.

Client deposits in the QTC Cash Fund are invested on behalf of clients and returns received from these investments are passed onto QTC's clients except for 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 spread changes are typically reversed over the life of the assets.

(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 zero per cent capital risk weighting. Even in difficult market circumstances, this generally ensures QTC debt is in high demand. Demand is further supported by the fact that QTC borrowings are guaranteed by the Queensland Government, (QTC has been rated AA+/Aa1/AA by ratings agencies Standard & Poors, Moody's and Fitch respectively) and that QTC benchmark bonds are Reserve Bank of Australia (RBA) repurchase agreement eligible (repo eligible). The ability to readily issue debt is considered a potential source of liquidity.

QTC maintains appropriate liquidity to meet minimum requirements as defined by the Board. Limits are set by the Board and reviewed annually for the following liquidity metrics:

- QTC Liquidity Coverage Ratio – QTC must maintain a minimum liquidity balance sufficient to cover a stressed liquidity requirement over 90 calendar days of outflows.
- Standard & Poor's Liquidity Ratio – QTC must maintain a minimum ratio of liquid assets to debt servicing requirements at all times over a rolling 12 month horizon.
- Cash Flow Waterfall – QTC must maintain positive cash equivalents net of all inflows and outflows over a set horizon.

In addition to adhering to Board approved liquidity metrics, QTC holds liquid assets in the form of public sector entity deposits and investments owned by SIO.

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 a Green Bond Program, Euro and US medium-term note facilities and Euro and US commercial paper facilities to take advantage of alternative funding opportunities in global markets. These facilities ensure that QTC is readily able to access both the domestic and international financial markets.

Except for 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.

Except for 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.

Notes to the Financial Statements

Capital Markets Operations

For the year ended 30 June 2021

11 Financial risk management continued

(b) Liquidity and financing risks continued

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

CONTRACTUAL MATURITIES AS AT 30 JUNE 2021	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	**11 803 213**	**-**	**-**	**-**	**-**	**11 803 213**	**11 803 213**
Receivables	**7 262**	**-**	**-**	**-**	**-**	**7 262**	**7 262**
Onlendings (1)	**1 133 459**	**1 108 672**	**1 284 119**	**14 068 787**	**95 460 106**	**113 055 143**	**104 611 229**
Financial assets at fair value through profit or loss	**2 529 589**	**2 450 967**	**698 604**	**6 831 173**	**3 908 991**	**16 419 324**	**14 958 589**
Total financial assets	**15 473 523**	**3 559 639**	**1 982 723**	**20 899 960**	**99 369 097**	**141 284 942**	**131 380 293**
Financial liabilities							
Payables	**(26 579)**	**-**	**-**	**-**	**-**	**(26 579)**	**(26 579)**
Deposits	**(7 779 197)**	**(377 209)**	**(20 809)**	**(9 013)**	**(92 327)**	**(8 278 555)**	**(8 107 683)**
Financial liabilities at fair value through profit or loss							
- Short-term	**(3 715 528)**	**(1 903 701)**	**(150 000)**	**-**	**-**	**(5 769 229)**	**(5 635 572)**
- Long-term	**(1 811 267)**	**(78 646)**	**(4 334 921)**	**(49 840 758)**	**(71 741 222)**	**(127 806 814)**	**(117 120 363)**
Total financial liabilities	**(13 332 571)**	**(2 359 556)**	**(4 505 730)**	**(49 849 771)**	**(71 833 549)**	**(141 881 177)**	**(130 890 197)**
Derivatives							
Interest rate swaps	**6 103**	**(6 027)**	**5 147**	**(27 875)**	**72 267**	**49 615**	**47 438**
Cross currency swaps	**(1 198)**	**(5 928)**	**(19 058)**	**(108 264)**	**(432 061)**	**(566 509)**	**(2 101)**
Foreign exchange contracts	**2350**	**-**	**-**	**-**	**-**	**2350**	**59 924**
Futures contracts	**(1 536 000)**	**-**	**-**	**-**	**-**	**(1 536 000)**	**(6 612)**
Net derivatives	**(1 528 745)**	**(11 955)**	**(13 911)**	**(136 139)**	**(359 794)**	**(2 050 544)**	**98 649**
Net (liabilities)/assets	**612 207**	**1 188 128**	**(2 536 918)**	**(29 085 950)**	**27 175 754**	**(2 646.779)**	**588 745**
Cumulative	**612 207**	**1 800 335**	**(736 583)**	**(29 822 533)**	**(2 646 779)**	**-**	**-**

(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 on lent 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 that 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. While interest rate risk mismatches are hedged with swap and futures contracts, this approach requires QTC to undertake periodic refinancing of its liabilities.

Notes to the Financial Statements

Capital Markets Operations

For the year ended 30 June 2021

11 Financial risk management continued

(b) Liquidity and financing risks continued

CONTRACTUAL MATURITIES AS AT 30 JUNE 2020	3 MONTHS OR LESS $000	3 - 6 MONTHS $000	6 - 12 MONTHS $000	1 - 5 YEARS $000	MORE THAN 5 YEARS $000	TOTAL $000	FAIR VALUE $000
Financial assets							
Cash and cash equivalents	2 487 431	-	-	-	-	2 487 431	2 487 431
Receivables	6 239	-	-	-	-	6 239	6 239
Onlendings[(1)]	3 114 474	3 214 281	3 545 480	14 802 798	83 420 266	108 097 299	98 334 286
Financial assets at fair value through profit or loss	8 180 839	7 279 998	1 912 980	9 993 376	4 393 697	31 760 890	22 170 759
Total financial assets	13 788 983	10 494 279	5 458 460	24 796 174	87 813 963	142 351 859	122 998 715
Financial liabilities							
Payables	(19 974)	-	-	-	-	(19 974)	(19 974)
Deposits	(6 591 677)	(2 052 568)	(20 772)	(8 593)	(94 305)	(8 767 915)	(8 865 253)
Financial liabilities at fair value through profit or loss							
- Short-term	(2 472 774)	(3 565 000)	-	-	-	(6 037 774)	(6 036 708)
- Long-term	(1 446 575)	(137 674)	(10 089 566)	(43 862 187)	(58 448 725)	(113 984 727)	(107 152 156)
Total financial liabilities	(10 531 000)	(5 755 242)	(10 110 338)	(43 870 780)	(58 543 030)	(128 810 390)	(122 074 091)
Derivatives							
Interest rate swaps	7 888	5 922	12 739	(99 021)	(151 047)	(223 519)	(214 908)
Cross currency swaps	(26 959)	(9 811)	(36 274)	(125 750)	(383 193)	(581 987)	(3 070)
Foreign exchange contracts	(3 413)	-	-	-	-	(3 413)	(5 104)
Futures contracts	9 600	-	-	-	-	9 600	(46 119)
Net derivatives	(12 884)	(3 889)	(23 535)	(224 771)	(534 240)	(799 319)	(269 201)
Net (liabilities)/assets	3 245 099	4 735 148	(4 675 413)	(19 299 377)	28 736 693	12 742 150	655 423
Cumulative	3 245 099	7 980 247	3 304 834	(15 994 543)	12 742 150	-	-

(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 on lent 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 that 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. While interest rate risk mismatches are hedged with swap and futures contracts, this approach requires QTC to undertake periodic refinancing of its liabilities.

(c) Credit risk

(i) Financial markets counterparties

Financial markets credit exposure is estimated as the potential loss at balance date associated with QTC's investments in the cash fund and other direct investments in financial instruments. In addition, QTC has credit exposure in the form of derivative contracts. Credit risk is the risk that these counterparties are not able to meet the payment obligations associated with QTC's investments.

The credit exposure for non-derivative investments is calculated daily based on the higher of the market value or face value of the instrument. In contrast, exposure to derivative contracts is based only on a notional 'add-on' factor applied to the value of the instrument. Derivatives are marked-to-market daily with zero thresholds under all QTC's credit support annexes. QTC uses collateral arrangements to limit its exposure to counterparties with which it trades derivatives (refer (iv) master netting arrangements).

Notes to the Financial Statements

Capital Markets Operations

For the year ended 30 June 2021

11 Financial risk management continued

(c) Credit risk continued

(i) Financial markets counterparties continued

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

BY CREDIT RATING [1] 30 JUNE 2021	AAA $000	AA+ $000	AA $000	AA- $000	A+ $000	A $000	OTHER[2] $000	TOTAL $000
Cash & equivalents	**-**	**-**	**-**	**11 803 213**	**-**	**-**	**-**	**11 803 213**
Financial assets[3]	**2 069 924**	**1 083 854**	**451 715**	**7 456 454**	**2 957 201**	**797 203**	**-**	**14 816 351**
Derivatives	**-**	**-**	**-**	**48 403**	**12 795**	**-**	**-**	**61 198**
	2 069 924	**1 083 854**	**451 715**	**19 308 070**	**2 969 996**	**797 203**	**-**	**26 680 762**
	8%	**4%**	**2%**	**72%**	**11%**	**3%**	**0%**	**100%**

BY CREDIT RATING [1] 30 JUNE 2020	AAA $000	AA+ $000	AA $000	AA- $000	A+ $000	A $000	OTHER[2] $000	TOTAL $000
Cash & equivalents	-	-	-	2 487 431	-	-	-	2 487 431
Financial assets[3]	2 247 083	837 825	-	14 518 660	2 346 260	1 759 864	114 956	21 824 648
Derivatives	1 751	-	-	57 506	16 764	-	-	76 021
	2 248 834	837 825	-	17 063 597	2 363 024	1 759 864	114 956	24 388 100
	10%	3%	-	70%	10%	7%	0%	100%

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

(2) Includes long-term ratings of A- and BBB+, 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 has a significant concentration of credit risk to the banking sector and in particular, the domestic banking sector. At 30 June 2021, QTC's exposure to systemically important domestic banks (which are rated AA-) was approximately 40% (2020: 57%). The exposure to domestic banks reflects the structure of the Australian credit markets which are themselves dominated by issuance from these entities. Key characteristics of these entities are continuously monitored including their regulatory requirements, additional capital buffers, type of issuance and the impact of exigent developments.

QTC adopts a conservative approach to the management of credit risk with a strong bias to high credit quality counterparties. QTC has a requirement to invest with counterparties rated BBB+ or better, and that have their head offices in politically stable countries with strong legal and regulatory frameworks associated with financial institutions and financial markets.

QTC's Board establishes maximum counterparty dollar value and term limits related to issuer credit ratings. Actual limits for individual counterparties will be within these Board limits and depend on the country of domicile, performance against key credit metrics and other factors related to asset quality, level of capital and size of funding program.

Ratings agencies are used as the prime source of credit ratings information by QTC's credit team. This information is supported by the credit team's own credit analysis methodology and practice for exposure monitoring and reporting.

(ii) Onlending counterparties

QTC is also exposed to the credit risk associated with onlendings to clients. Except for some small exposures to private companies and exposures as part of the ISP[1], QTC on-lends funds to Queensland Government sector entities (including Queensland Treasury, statutory bodies and Government owned corporations) and non-State Government entities (including, local governments, universities and grammar schools).

Most of QTC's onlendings (72.0% in 2021 and 70.3% in 2020) are explicitly guaranteed by the State, including the loans that form the ISP and all debt held by clients operating in key ESG impacted areas such as coal-based power generation. QTC is directly exposed to credit default risk to the extent of its non-guaranteed lending of approximately $29.6 billion at 30 June 2021 (2020: $29.6 billion).

QTC's outstanding client onlending exposures are actively monitored in accordance with an approved Client Credit Procedure. This procedure includes regular Credit Reviews and covenant monitoring to ensure all counterparties maintain adequate debt serviceability and long term financial stability.

QTC has a robust credit assessment and ratings methodology in place that informs its onlending recommendations to the State. This methodology includes analysis of quantitative and qualitative factors (industry, regional, demographic, and economic characteristics) across a number of years. An assessment of a client's performance against key credit metrics is made and borrowing recommendations are appraised by an independent Credit Committee prior to being communicated to the State.

QTC adopts a cautious risk appetite to ensure onlendings are provided to clients with satisfactory credit profiles. The majority of QTC's onlending clients maintain an adequate financial buffer to manage short term financial shocks, though longer term financial impacts may adversely affect their performance.

Of the non-guaranteed onlending, 99 per cent has been provided to clients that have been assigned a credit rating of Moderate or above by QTC. QTC's Moderate credit rating approximates to an Investment Grade rating used by the major Rating Agencies.

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

QTC's borrowings are largely guaranteed by the State Government. As a result, credit risk is not a significant factor in the determination of fair value. Changes in fair value are mainly attributable to the market fluctuations.

(1) As noted in Note 9, during the year ended 30 June 2021, the State provided financial assistance in the form of loans and grants to various Queensland private sector entities. This program was called the ISP.

Notes to the Financial Statements

Capital Markets Operations

For the year ended 30 June 2021

11 Financial risk management continued

(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 therefore presents 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
2021				
Derivative assets: - subject to master netting arrangements	**336 836**	**-**	**54 880**	**391 716**
Derivative liabilities: - subject to master netting arrangements	**(238 187)**	**-**	**(147 060)**	**(385 247)**
Net exposure	**98 649**	**-**	**(92 180)**	**6 469**
2020				
Derivative assets: - subject to master netting arrangements	377 633	-	(371 483)	6 150
Derivative liabilities: - subject to master netting arrangements	(646 834)	-	645 671	(1 163)
Net exposure	(269 201)	-	274 188	4 987

12 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 QTC's financial instruments at fair value through profit or loss are valued with reference to either quoted market prices or observable inputs, with no significant adjustments applied to instruments held. QTC holds no Level 3 financial instruments.

Financial assets classified as Level 1 consist primarily of short-term and tradeable 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.

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Capital Markets Operations

For the year ended 30 June 2021

12 Fair value hierarchy continued

AS AT 30 JUNE 2021	QUOTED PRICES LEVEL 1 $000	OBSERVABLE INPUTS LEVEL 2 $000	TOTAL $000
Financial assets			
Cash and cash equivalents	**11 803 213**	**-**	**11 803 213**
Financial assets through profit or loss	**9 042 835**	**5 915 754**	**14 958 589**
Onlendings	**-**	**104 611 229**	**104 611 229**
Derivative financial assets	**168**	**336 668**	**336 836**
Total financial assets	**20 846 216**	**110 863 651**	**131 709 867**
Financial liabilities			
Financial liabilities through profit or loss			
- Short-term	**-**	**5 635 572**	**5 635 572**
- Long-term	**100 786 473**	**16 333 890**	**117 120 363**
Deposits	**-**	**8 107 683**	**8 107 683**
Derivative financial liabilities	**9 129**	**229 058**	**238 187**
Total financial liabilities	**100 795 602**	**30 306 203**	**131 101 805**

AS AT 30 JUNE 2020	QUOTED PRICES LEVEL 1 $000	OBSERVABLE INPUTS LEVEL 2 $000	TOTAL $000
Financial assets			
Cash and cash equivalents	2 487 431	-	2 487 431
Financial assets through profit or loss	14 556 626	7 614 133	22 170 759
Onlendings	-	98 334 286	98 334 286
Derivative financial assets	1 199	376 434	377 633
Total financial assets	17 045 256	106 324 853	123 370 109
Financial liabilities			
Financial liabilities through profit or loss			
- Short-term	-	6 036 708	6 036 708
- Long-term	93 757 676	13 394 480	107 152 156
Deposits	-	8 865 253	8 865 253
Derivative financial liabilities	47 318	599 516	646 834
Total financial liabilities	93 804 994	28 895 957	122 700 951

13 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 lesser 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:

	2021 $000	2020 $000
Cost at balance date	**5 765**	5 770
Accumulated depreciation and impairment	**(2 798)**	(2 137)
Net carrying amount	**2 967**	3 633
Movement		
Net carrying amount at beginning of year	**3 633**	3 942
Additions	**14**	321
Depreciation expense	**(680)**	(630)
Net carrying amount at end of year	**2 967**	3 633

Notes to the Financial Statements

Capital Markets Operations

For the year ended 30 June 2021

14 Right of use assets and lease liabilities

Accounting Policy

All leases, other than short-term leases and leases of low value assets, are recognised on balance sheet as lease liabilities and right-of-use assets.

On initial recognition the carrying amount of the lease liability is measured at the present value of the current leasing commitments. Lease payments are discounted at the rate implicit in the lease or at QTC's incremental borrowing rate if the implicit interest rate cannot be readily determined.

Right-of-use assets are initially measured at cost comprising the following:

- The amount of the initial measurement of the lease liability
- Lease payments made at or before the commencement date and any lease incentives received
- Initial direct costs incurred, and
- The initial estimate of restoration costs.

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
Lease property	7%

Carrying amounts of right of use assets and the movements during the period are set out below:

	2021 $000	2020 $000
Cost at balance date	**11 702**	11 702
Accumulated depreciation and impairment	**(3 424)**	(1 711)
Net carrying amount at end of year	**8 278**	9 991
Movement		
Net carrying amount at beginning of year	**9 991**	11 702
Additions	**-**	-
Depreciation expense	**(1 713)**	(1 711)
Net carrying amount at end of year	**8 278**	9 991

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2021 $000	2020 $000
Net carrying amount at beginning of year	**17 826**	20 338
Interest	**270**	313
Lease repayments	**(2 931)**	(2 825)
Net carrying amount at end of year	**15 165**	17 826

44 Notes to the Financial Statements

Capital Markets Operations

For the year ended 30 June 2021

15 Notes to the statement of cash flows

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

	2021 $000	2020 $000
Profit for the year	**115 651**	66 867
Non-cash flows in operating surplus		
(Gain)/loss on interest-bearing liabilities	**(3 552 597)**	1 783 992
(Gain)/loss on deposits held	**(838)**	821
Loss/(gain) on onlendings	**3 550 453**	(1 576 339)
Loss/(gain) on financial assets at fair value through profit or loss	**176 137**	(226 490)
Depreciation and amortisation	**8 023**	2 793
Loss on disposal of plant and machinery	**-**	17
Changes in assets and liabilities		
Increase in financial assets at fair value through profit or loss	**(25 626)**	(30 644)
Increase in deferred tax asset	**(303)**	(66)
Decrease in onlendings	**12 743**	14 753
(Increase)/decrease in receivables	**(1 042)**	471
Increase in interest-bearing liabilities	**334 558**	82 407
Decrease in deposits	**(857)**	(8 405)
Increase in payables and other liabilities	**4 327**	64 890
Net cash used in operating activities	**620 629**	175 067

(b) Reconciliation of liabilities arising from financing activities

AS AT 30 JUNE 2021	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]	**113 835 698**	**12 376 463**	**(3 318 628)**	**(233 969)**	**334 558**	**122 994 122**
Deposits	**8 865 253**	**(755 875)**	**(838)**	**-**	**(857)**	**8 107 683**
Dividend paid	**-**	**(50 000)**	**-**	**-**	**50 000**	**-**
	122 700 951	**11 570 588**	**(3 319 466)**	**(233 969)**	**383 701**	**131 101 805**
AS AT 30 JUNE 2020						
Interest-bearing liabilities [1]	102 411 544	9 345 670	1 637 999	145 993	294 492	113 835 698
Deposits	7 183 040	1 684 013	(821)	-	(979)	8 865 253
Dividend paid	-	(50 000)	-	-	50 000	
	109 594 584	10 979 683	1 637 178	145 993	343 513	122 700 951

[1] Includes derivatives

Notes to the Financial Statements

State Investment Operations

For the year ended 30 June 2021

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 managed by QIC. These investments include cash, international equities and other diversified products which are measured at market value based on a hard close unit price quoted by QIC (adjusted for fees outstanding on the account and net of any GST recoverable) for the end of the financial year.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss consist of FRNs issued to the State in exchange for portfolios of assets. The FRNs were initially recognised at a value that equated to the fair value of the financial assets contributed by the State. The FRNs will terminate upon the greater of 50 years from the initial transaction date or the date that the FRNs are repaid in full. The market value of the FRNs is payable by QTC to the State. Interest on the FRNs is capitalised monthly. The FRN interest rate may be varied by the State under the terms of their corresponding agreements.

Recognising the direct relationship between the FRNs and the assets of SIO, financial liabilities at fair value through profit or loss are determined by reflecting the changes (including market value movements) in the value of the invested assets of the portfolio, as equivalent market value movements in the FRNs. That is, any difference between the return paid by QTC on the FRNs and the return received by QTC on the invested assets is recognised as a market value adjustment to the value of the FRNs, eliminating any accounting mismatch between the financial assets and liabilities in this segment.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	$000 LTA (1)	2021 $000 QFF (2)	$000 TOTAL STATE INVESTMENT OPERATIONS	2020 $000
Investments in unit trusts and other holdings - QIC:				
Movement during the year:				
Opening balance	**26 216 930**	**-**	**26 216 930**	29 345 910
Deposits (3)	**2 747 056**	**6 195 724**	**8 942 780**	-
Transfers	**(1 500 000)**	**1 500 000**	**-**	-
Withdrawals (3)	**(1 863 018)**	**-**	**(1 863 018)**	(1 844 715)
Fees paid	**(155 387)**	**(2 671)**	**(158 058)**	(178 875)
Net change in fair value of unit trusts	**4 626 911**	**49 166**	**4 676 077 (4)**	(1 105 390)
Closing balance	**30 072 492**	**7 742 219**	**37 814 711**	26 216 930

(1) The LTA are assets held to fund the defined benefit superannuation and other long term obligations of the State.

(2) At 30 June 2021, the only sub fund of the QFF is the DRF. The DRF was established to support both the State's credit rating and generate returns to reduce the State's debt burden.

(3) For every investment deposited or withdrawal from the LTA or QFF, there is an equivalent increase or decrease to the corresponding FRN.

(4) The net change in the fair value of the unit trusts was positive in 2021, reflecting the higher returns achieved on the assets invested when compared to the interest paid by QTC on the FRN of 6.5%. In the previous year, the return on assets invested was negative, reflecting the lower returns achieved on the assets invested when compared to the interest paid by QTC on the FRN of 6.5%.

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For the year ended 30 June 2021

16 Financial instruments at fair value through profit or loss continued

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	2021 $000	2020 $000
Comprised of the following asset classes:		
Defensive assets		
Cash	**4 800 449**	7 998 494
Fixed interest	**4 273 774**	2 946 641
Growth assets		
Equities	**10 323 878**	2 459 961
Diversified alternatives	**4 439 721**	4 882 357
Unlisted assets		
Infrastructure	**8 703 330**	3 190 411
Private equity	**3 611 679**	2 799 276
Real estate	**1 661 880**	1 939 790
	37 814 711	26 216 930

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	$000 LTA (1)	2021 $000 QFF (2)	$000 TOTAL STATE INVESTMENT OPERATIONS	2020 $000
Fixed rate notes				
Movement during the year:				
Opening balance	**26 216 930**	**-**	**26 216 930**	29 345 910
Increases (3)	**2 747 056**	**6 195 724**	**8 942 780**	-
Transfers	**(1 500 000)**	**1 500 000**	**-**	-
Interest	**1 838 728**	**26 263**	**1 864 991**	1 825 104
Decreases (3)	**(1 863 018)**	**-**	**(1 863 018)**	(1 844 715)
Net change in fair value of fixed rate note	**2 632 796**	**20 232**	**2 653 028**	(3 109 369)
Closing balance	**30 072 492**	**7 742 219**	**37 814 711**	26 216 930

(1) The LTA are assets held to fund the defined benefit superannuation and other long term obligations of the State.
(2) At 30 June 2021, the only sub fund of the QFF is the DRF. The DRF was established to support both the State's credit rating and generate returns to reduce the State's debt burden.
(3) For every investment deposited or withdrawal from the LTA or QFF, there is an equivalent increase or decrease to the corresponding FRN.

Notes to the Financial Statements

State Investment Operations

For the year ended 30 June 2021

17 Financial risk management

QTC also holds a portfolio of assets that were transferred to QTC by the State Government, but are managed by QIC on behalf of SIAB. SIAB members include representatives from Queensland Treasury and three external members with experience in investment management and insurance.

The assets of SIO 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.

SIAB determines the investment objectives, risk profiles and strategy for the invested assets of the SIO segment within the framework provided by the Government. It is responsible for formulating a strategic asset allocation to achieve the objectives of the investments in line with the required risk profile. The invested assets of the SIO segment are therefore distinct from QTC's Capital Markets Board and day-to-day Capital Markets Operations and are the responsibility of SIAB and its appointed investment manager (QIC).

QIC provides assistance to SIAB in discharging its responsibilities. As the Queensland Government's

investment manager, QIC is responsible for implementing the investment strategy of each portfolio of invested assets of the SIO segment. QIC's role includes recommending investment product objectives, risk profiles and strategic asset allocations to achieve objectives within the targets and risk controls set. SIAB oversees QIC's implementation and monitors adherence to the targets, risk controls and limits under which QIC is approved to manage the invested assets of the SIO segment.

QIC has established risk management policies to identify and analyse risk, and to set risk limits and controls that comply with SIAB's instructions. QIC's risk control framework is confirmed in a GS007 report signed by the Auditor-General of Queensland.

The interest rate applicable on the FRN liabilities of QTC for both the LTA and the QFF portfolios is set at 6.5% per annum on the book value of the notes.

(a) Liquidity risk

No external cash flows are generated by QTC from SIO. Deposits and withdrawals from SIO result in a corresponding change to the value of the FRNs. Interest owing to Treasury on the FRNs is capitalised as are returns and fees on SIO. 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 SIO. The investment strategy targets a widely diversified portfolio across a broad range of asset classes, helping to minimise credit risk.

(c) Market risk

The assets of SIO 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 portfolios do 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 diversified portfolios of investments in unit trusts held with QIC in accordance with the investment strategies approved by SIAB. 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 for each portfolio of assets. Under these agreements, 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.

QTC's foreign currency exposure is managed at a whole of portfolio level rather than at an individual asset class level. For this reason, sensitivity to foreign exchange rate movements has been shown as a currency overlay on the whole portfolios.

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:

	2021 CHANGE		2021 PROFIT/EQUITY		2020 CHANGE		2020 PROFIT/EQUITY	
	Low %	**High %**	**Decrease $000**	**Increase $000**	**Low %**	**High %**	**Decrease $000**	**Increase $000**
Cash and fixed interest [1]	-4%	4%	**(350 837)**	**350 837**	-4%	4%	(295 570)	295 570
Equities	-10%	10%	**(1 032 629)**	**1 032 629**	-10%	10%	(246 055)	246 055
Diversified alternatives [2]	-10%	10%	**(444 076)**	**444 076**	-10%	10%	(488 352)	488 352
Infrastructure	-10%	10%	**(870 536)**	**870 536**	-10%	10%	(318 466)	318 466
Private equities	-9%	9%	**(325 283)**	**325 283**	-10%	10%	(279 994)	279 994
Real estate	-22%	35%	**(367 115)**	**578 903**	-22%	30%	(418 045)	588 217
Currency overlay	-10%	10%	**(732 642)**	**732 642**	-10%	10%	(403 954)	403 954
			(4 123 118)	**4 334 906**			(2 450 436)	2 620 608

[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.

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18 Fair value hierarchy

Financial instruments have been classified in accordance with the hierarchy described in AASB 13 *Fair Value Measurement*, as per note 12.

AS AT 30 JUNE 2021	OBSERVABLE INPUTS LEVEL 2 $000	UNOBSERVABLE INPUTS LEVEL 3 $000	TOTAL $000
Financial assets			
Cash	**4 800 449**	**-**	**4 800 449**
Fixed interest	**4 273 774**	**-**	**4 273 774**
Equities	**10 323 878**	**-**	**10 323 878**
Diversified alternatives	**1 290 496**	**3 149 225**	**4 439 721**
Infrastructure	**-**	**8 703 330**	**8 703 330**
Private equities	**-**	**3 611 679**	**3 611 679**
Real estate	**-**	**1 661 880**	**1 661 880**
Total financial assets	**20 688 597**	**17 126 114**	**37 814 711**
Financial liabilities			
Fixed rate note - LTA	**-**	**30 072 494**	**30 072 494**
Fixed rate note - QFF	**-**	**7 742 217**	**7 742 217**
Total financial liabilities	**-**	**37 814 711**	**37 814 711**
AS AT 30 JUNE 2020			
Financial assets			
Cash	7 998 494	-	7 998 494
Fixed interest	2 946 641	-	2 946 641
Equities	2 459 961	-	2 459 961
Diversified alternatives	-	4 882 357	4 882 357
Infrastructure	-	3 190 411	3 190 411
Private equities	-	2 799 276	2 799 276
Real estate	-	1 939 790	1 939 790
Total financial assets	13 405 096	12 811 834	26 216 930
Financial liabilities			
Fixed rate note	-	26 216 930	26 216 930
Total financial liabilities	-	26 216 930	26 216 930

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.

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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 based on 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 2021. 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.

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 portfolio of assets in the SIO 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.

30 JUNE 2021 ASSET CLASS	OPENING BALANCE $000	DISTRIBUTIONS[1] $000	UNREALISED MARKET MOVEMENTS[1] $000	SETTLEMENTS[1] $000	CLOSING BALANCE $000
Diversified alternatives	**4 882 357**	(870 939)	91 042	(953 235)	**3 149 225**
Infrastructure	**3 190 411**	(79 420)	402 922	5 189 418	**8 703 331**
Private equities	**2 799 276**	(392 689)	1 433 742	(228 650)	**3 611 679**
Real estate	**1 939 790**	(12 339)	(396 182)	130 611	**1 661 880**

30 JUNE 2020 ASSET CLASS	OPENING BALANCE $000	DISTRIBUTIONS[1] $000	UNREALISED MARKET MOVEMENTS[1] $000	SETTLEMENTS[1] $000	CLOSING BALANCE $000
Diversified alternatives	**5 855 766**	(940 916)	(102 334)	69 841	**4 882 357**
Infrastructure	**3 368 382**	(125 093)	(122 269)	69 391	**3 190 411**
Private equities	**2 839 975**	(338 140)	259 033	38 408	**2 799 276**
Real estate	**3 307 928**	(73 058)	(1 322 340)	27 260	**1 939 790**

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

FRN 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.

Notes to the Financial Statements

Other information

For the year ended 30 June 2021

19 Contingent liabilities

The following contingent liabilities existed at balance date:

- QTC has provided guarantees to the value of $2.5 billion (2020: $2.5 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.

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 $93.8 billion (2020: $87.6 billion) and interest received $2.7 billion (2020: $4.0 billion)
- investment of cash surpluses $1.9 billion (2020: $1.8 billion) and interest paid $14.3 million (2020: $17.1 million)
- fees received $71.9 million (2020: $63.4 million)
- dividends paid to Queensland Treasury $50 million (2020: $50 million)
- $206 million in Aurizon shares were transferred from QTH to the QFF via Queensland Treasury
- The State transferred Queensland Titles Registry Pty Ltd to SIO segment of QTC. At the time of transfer Queensland Titles Registry was valued at $8.0 billion, and
- QTC issued an FRN to Queensland Treasury to match the fair value of the assets in the DRF. At 30 June 2021, the FRN was valued at $7.7 billion.

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 SIO has paid $157.5 million in management fees to QIC (2020: $177.9 million) and $0.5 million (2020: $0.5 million) to Queensland Treasury for board secretariat services to SIAB.

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 $6.0 million (2020: $4.2 million).
- QTC has a shareholding in QTH and its associated entities (QTH group). The QTH group hold deposits of $114.1 million (2020: $94.5 million) and loans of $102.9 million (2020: $104.4 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 $0.3 million (2020: $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 $1.1 billion (2020: $1.5 billion).
- 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 $36.7 million (2020: $25.3 million).

Notes to the Financial Statements

Other information

For the year ended 30 June 2021

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 Leadership Team.

(a) QTC's Boards

QTC has delegated its powers to its two boards, the Capital Markets Board and SIAB. 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 Leadership Team sets the strategic direction and controls the major activities of the organisation.

(c) Remuneration principles

Capital Markets Board - Directors

Any changes to Board remuneration require consideration by Queensland Treasury and the Department of the 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.

State Investment Advisory Board - Directors

When the Long Term Asset Advisory Board was renamed and reconstituted as SIAB on 4 July 2019, new external Board members were appointed who were entitled to remuneration. Remuneration for the new Board members was set by Queensland Treasury in consultation with the Department of the Premier and Cabinet prior to approval by the Governor in Council.

Executives and employees

QTC employees (including the Executive Leadership Team) 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 uses a subset of the data mapped to relevant organisations within the FIRG membership. Analysis and advice are 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 each year and is benchmarked against the FIRG remuneration data. Fixed remuneration levels are set around the FIRG market median position of a relevant sub-set of the FIRG database. Role scope, experience, skills and performance are considered when determining the remuneration level of each employee. Given the impact of COVID-19 throughout Queensland, the Board did not award fixed remuneration increases at the annual review in July 2020.

Variable remuneration – short-term incentives for employees

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 relevant 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 year ended 30 June 2021, STI payments were made to eligible staff in July 2021.

Variable remuneration – short term incentives for the Executive Leadership Team

For the year ended 30 June 2021, where the Executive Leadership Team 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 the Executive Leadership Team are aligned to achievements measured against corporate, divisional and individual KPIs. For 2021, short-term incentive 'targets' for the Executive Leadership Team ranged between 45% and 60% of their total fixed remuneration. The proportion of each executive's short-term incentive 'target' opportunity is based on individual and divisional performance, and the achievement of targets set out in QTC's Strategic Plan 2020-24.

QTC's overall performance for 2021, documented in the annual performance assessment reviewed and approved by QTC's Board, was assessed as strong to excellent across QTC's whole-of-State, client, funding and operational activities. This performance assessment led to short-term incentives for the Executive Leadership Team of between 48% and 70% of fixed remuneration. A moderation has been applied by the Board to reflect the ongoing impact of COVID-19 throughout Queensland.

Notes to the Financial Statements

Other information

For the year ended 30 June 2021

21 Key management personnel continued

(d) Remuneration by category

	2021 $	2020 $
Capital Markets Operations		
Directors		
Short-term employment benefits (1)	**332 066**	347 077
Post-employment benefits (4)	**21 391**	28 667
Total	**353 457**	375 744
Executive Leadership Team		
Short-term employment benefits (2)	**3 961 409**	3 771 444
Long-term employment benefits (3)	**60 059**	70 939
Post-employment benefits (4)	**108 890**	104 637
Total	**4 130 358**	3 947 020

	2021 $	2020 $
State Investment Operations		
Directors		
Short-term employment benefits (1)	**100 653**	100 653
Post-employment benefits (4)	**9 561**	9 561
Total	**110 214**	110 214

(1) Directors' short-term benefits include Board member and committee fees, and in relation to the Chair, 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.

Capital markets operations

(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	
	2021 $	2020 $	2021 $	2020 $	2021 $	2020 $
Gerard Bradley – Chair (1)	**130 176**	128 431	**2 213**	7 897	**132 389**	136 328
Leon Allen (2)(3)	**-**	-	**-**	-	**-**	-
Tonianne Dwyer (4)	**-**	45 362	**-**	4 309	**-**	49 671
Anne Parkin	**44 360**	43 856	**4 214**	4 166	**48 574**	48 022
Karen Smith-Pomeroy	**45 362**	45 362	**4 309**	4 309	**49 671**	49 671
Jim Stening (1)	**38 709**	40 210	**3 677**	3 820	**42 386**	44 030
Neville Ide	**43 856**	43 856	**4 166**	4 166	**48 022**	48 022
Rosemary Vilgan (5)	**29 603**	-	**2 812**	-	**32 415**	-
Total	**332 066**	347 077	**21 391**	28 667	**353 457**	375 744

(1) Term expired 30 June 2020, and reappointed 16 July 2020
(2) Appointed 16 July 2020
(3) No remuneration is payable to the Queensland Treasury representative
(4) Ceased 30 June 2020
(5) Appointed 1 October 2020

Notes to the Financial Statements

Other information

For the year ended 30 June 2021

21 Key management personnel continued

(d) Remuneration by category continued

(ii) Executive Leadership Team

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

	SHORT-TERM EMPLOYMENT BENEFITS			POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS	TOTAL
30 JUNE 2021	BASE $	SHORT-TERM INCENTIVE $	NON-MONETARY $	$	$	$
Chief Executive	**738 627**	**449 410**	**17 767**	**21 778**	**18 277**	**1 245 859**
Deputy Chief Executive and Managing Director, Funding and Markets	**583 564**	**424 710**	**19 842**	**21 778**	**14 459**	**1 064 353**
Managing Director, Client	**393 486**	**203 800**	**17 767**	**21 778**	**9 685**	**646 516**
Managing Director, Corporate Services and Chief Risk Officer	**368 475**	**185 600**	**16 047**	**21 778**	**9 078**	**600 978**
Managing Director, Finance, Data and Compliance	**348 467**	**176 080**	**17 767**	**21 778**	**8 560**	**572 652**
Total	**2 432 619**	**1 439 600**	**89 190**	**108 890**	**60 059**	**4 130 358**

There were no fixed remuneration increases for 2021. The increase in base salaries for 2021 when compared to 2020 is the result of an additional day of pay being included in the payment cycle. In addition, the Deputy Chief Executive took unpaid leave in 2020, reducing total remuneration in that year.

The change in the STI outcomes between 2020 and 2021 reflects the level of Board moderation applied in those years. In 2020, in recognition of the wide-ranging and significant fiscal, economic and social impacts of COVID-19, the Board applied a moderation to performance outcomes. In 2021, the Board applied moderation at a lower level, reflecting the ongoing impact of COVID-19 throughout Queensland and the transition to the revised remuneration framework.

	SHORT-TERM EMPLOYMENT BENEFITS			POST-EMPLOYMENT BENEFITS	LONG-TERM BENEFITS	TOTAL
30 JUNE 2020	BASE $	SHORT-TERM INCENTIVE $	NON-MONETARY $	$	$	$
Chief Executive	736 162	391 875	17 148	20 931	20 906	1 187 022
Deputy Chief Executive and Managing Director, Funding and Markets	570 528	377 747	18 005	20 931	15 747	1 002 958
Managing Director, Client	392 179	182 081	16 727	20 931	13 491	625 409
Managing Director, Corporate Services and Chief Risk Officer	367 552	164 531	16 047	20 913	10 671	579 714
Managing Director, Finance, Data and Compliance	347 620	156 094	17 148	20 931	10 124	551 917
Total	2 414 041	1 272 328	85 075	104 637	70 939	3 947 020

State Investment Operations

(iii) 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	
	2021 $	2020 $	2021 $	2020 $	2021 $	2020 $
Rachel Hunter - Chair (1)(2)	**-**	-	**-**	-	**-**	-
Leon Allen - Chair (1)(3)	**-**	-	**-**	-	**-**	-
Glenn Miller (1)(4)	**-**	-	**-**	-	**-**	-
William Ryan (1)(5)	**-**	-	**-**	-	**-**	-
Maria Wilton	**33 551**	33 551	**3 187**	3 187	**36 738**	36 738
Philip Graham	**33 551**	33 551	**3 187**	3 187	**36 738**	36 738
Tony Hawkins	**33 551**	33 551	**3 187**	3 187	**36 738**	36 738
Total	**100 653**	100 653	**9 561**	9 561	**110 214**	110 214

(1) Queensland Treasury representative. No additional remuneration is paid for this appointment. (2) Ceased 29 April 2021 (3) Appointed 29 April 2021
(4) Ceased 19 November 2020 (5) Appointed 19 November 2020

(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.

Notes to the Financial Statements

Other information

For the year ended 30 June 2021

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:

	2021 $	2020 $
Audit services		
Audit and review of QTC financial statements	**368 000**	368 000

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 several 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% beneficial interest in the companies listed above. QTC does not apply the equity method to its investment in QTH (refer note 2 (o) Judgments and assumptions).

24 Dividends

Each year the Board determines the appropriate level of dividends to be declared taking into consideration the financial situation of the Corporation. A dividend of $50 million (2020: $50 million) was paid to the Queensland Government in June 2021.

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 operations of QTC, the results of those operations or the state of affairs of QTC in future years.