



# The 31<sup>st</sup> Annual Report to Parliament of New South Wales Treasury Corporation

For the year ended 30 June 2013





## Access

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*For Registry locations see page 130.*

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## **TCorp's objectives**

### **TCorp's charter**

TCorp is the central financing authority for the New South Wales public sector. The *Treasury Corporation Act 1983* states that TCorp's principal objective is "to provide financial services for, or for the benefit of, the Government, public authorities and other public bodies".

In pursuing its objectives, TCorp has the same legal capacity, powers and authorities as a company under the *Corporations Act 2001* (Cth). Activities in which TCorp can engage include:

- provision of finance for the Government and NSW public authorities;
- management or advice on management of Government and public authority assets and liabilities;
- acceptance of funds for investment from the Government and public authorities;
- investment of funds; and
- management of TCorp's own assets and liabilities.

TCorp's powers to borrow, invest and undertake financial management transactions are regulated under the *Public Authorities (Financial Arrangements) Act 1987*.

### **TCorp's mission statement**

TCorp exists to deliver for New South Wales the best that the financial markets can offer.

### **TCorp's corporate objectives**

In line with the mission statement, the corporate objectives of TCorp are to:

- achieve cost-effective funding;
- effectively execute portfolio assignments;
- provide professional financial advisory services to TCorp's clients to ensure they achieve value for money from their strategic and commercial activities; and
- meet client needs through enhanced financial product innovation and service.

Objectives	Performance measures	Results for 2012/13
To achieve cost effective finance for clients through management of TCorp's funding programme and balance sheet activities.	To ensure a cost effective funding mix through diversification of sources of finance and efficient implementation of the annual funding programme.	TCorp issued over \$6.0 billion through its Benchmark Bond programme. Three new Benchmark Bond lines, July 2014, March 2019 and April 2023 were established. A number of significant offshore investors continued to be participants in this programme.  TCorp also issued a \$2.5 billion 3 year Floating Rate Note in March 2013, responding to investor demand from the banking sector.
	To meet or exceed budgeted revenue from managing TCorp's balance sheet, funding and risk management activities.	Management of the market risks inherent in TCorp's balance sheet produced significantly above budget results. TCorp's net profit was \$127.2m which was significantly higher than the previous year's net profit of \$76.6m.
To effectively execute portfolio assignments for clients through management of debt, asset management portfolios and Hour-Glass Investment Trusts.	To outperform neutral benchmarks for managed debt portfolios.	The historic low interest rates, particularly evident early in the financial year, provided an opportunity to lengthen client debt portfolios. This strategy resulted in clients locking in historically low interest costs and a very low refinancing requirement. As bond yields rose in the second half of the year, the strategy of lengthening produced positive outcomes for clients.
	To achieve the debt interest cost forecast for the general Government sector.	The debt interest outcome was in line with the agreed target range.
	To generate strong returns for the Hour-Glass Investment Trusts and outperform industry benchmarks.	All flagship Trusts – Cash, Strategic Cash, Medium Term Growth and Long Term Growth – posted solid absolute results and outperformed their respective benchmarks after deduction of all fees and expenses.

Objectives	Performance measures	Results for 2012/13
	To outperform neutral benchmarks for discretely managed cash and fixed income asset portfolios.	<p>Discretely managed cash and cash enhanced portfolios performed significantly in excess of their individual benchmarks.</p> <p>Highly liquid portfolios outperformed their benchmarks while still providing at call liquidity and processing significant cashflows.</p> <p>The fixed income asset portfolios also generated strong returns for most clients, when comparing performance against benchmarks.</p>
To provide professional financial advisory services to TCorp's clients to ensure they achieve value for money from their strategic and commercial activities.	<p>Service delivery, evidenced through:</p> <ul style="list-style-type: none"> <li>• demonstration of value-add to clients and the State;</li> <li>• formal client surveys and informal feedback;</li> <li>• retention and expansion of the client base;</li> <li>• fees generated; and</li> <li>• effective ongoing deal management and administration.</li> </ul>	<p>In addition to more traditional advisory and transaction management work, during the financial year TCorp's advisory activity was dominated by work in the Local Government sector where significant assignments for the Division of Local Government were completed.</p> <p>Client feedback was highly positive, as evidenced through formal client surveys, repeat business and referrals.</p> <p>Services are provided based on a user pays model. Revenue was above budget.</p>
To meet client needs through enhanced product innovation and service delivery.	To provide and develop relevant and cost efficient products and services to TCorp's client base.	Cost effective lending, investment, portfolio management, reporting and risk management solutions were provided to some 180 public sector clients, with business continuing to grow during the year.
	To maintain and improve client satisfaction as measured by an annual survey.	The 2012/13 survey showed excellent results, confirming TCorp's strong reputation and high service standards with clients throughout our business activities.

## Review of operations

TCorp marked its 30th year of operation with strong results across all business activities. Net profits generated were well above budget and managed debt portfolios outperformed benchmarks. Funds management activities also produced excellent results, with cash and fixed income portfolios registering consistent outperformance, and all Hour-Glass investment products generating very healthy returns and strong benchmark outperformance for clients. In addition, TCorp completed some important advisory assignments for Government, including the financial sustainability and benchmarking work for local councils.

From its inception in 1983, TCorp has continued to grow and evolve, responding to the needs of the NSW Government as the State's primary interface to financial markets. At year end TCorp's balance sheet size had grown to nearly \$73 billion, managed debt portfolios exceeded \$45 billion, and funds in TCorp's various investment management products and mandates were around \$17 billion.

## Environment

The year in review began with local and global sentiment being dominated by fears of a catastrophic outcome in Europe. As the year progressed, these fears dissipated and equity and bond markets moved to price out much of this extreme pessimism. More favourable economic indicators from the US and stimulatory policy settings in Japan helped fuel this improved global sentiment.

By contrast, business and consumer sentiment in Australia remained subdued throughout the year, largely at odds with price signals in equity and bond markets. Concerns about the pace of Chinese growth, Australia's transition from the mining investment boom, and political uncertainty at the Federal level, weighed heavily on sentiment and kept economic growth relatively subdued. In this environment the Reserve Bank of Australia (RBA) continued to lower the official cash rate from 3.5% at the start of the year to 2.75% by year end.

Notwithstanding this trend of lower short term interest rates, longer term yields moved higher, effectively unwinding some of the "safe haven" premium that was prevalent in mid-2012. 10 year Commonwealth Government bond yields, which began the year at historical lows around 3%, rose to 3.75% by year end. The Australian dollar, which traded above parity to the US dollar for most of the year, fell sharply in the final quarter, providing some welcome relief to businesses struggling to compete in global markets.

Similar to bond markets, equity markets moved to price out much of the extreme pessimism evident in 2012. The ASX200, which began the year below 4,100, finished above 4,800, while the US Dow Jones Index rose nearly 20% over the year to finish just shy of 15,000.

## Funding

As the worst concerns about peripheral Europe abated during the year, bond yields and credit spreads reflected this improved sentiment. TCorp continued to take advantage of strong investor demand for its AAA-rated Benchmark Bonds, issuing three new benchmark bond lines over the year, with maturities of 2014, 2019 and 2023. With over \$6 billion of funds raised from new issuance, face value outstandings of Benchmark Bonds increased to nearly \$51 billion by year end.

TCorp also issued a large \$2.5 billion 3-year Floating Rate Note in March 2013, responding to investor demand from the banking sector. Issuance of Capital Indexed Bonds was relatively light, with outstandings increasing by \$0.4 billion to stand at \$6.9 billion at year end.



Opportunities for non-A\$ funding were very limited during the year, reflecting offshore investors' strong preference for TCorp's A\$ Benchmark Bonds. Outstandings in offshore programmes reduced over the year, as TCorp repurchased or retired some seasoned deals in the Japanese market.

Since the very early days of the financial crisis TCorp has maintained high levels of surplus liquidity to ensure maximum flexibility and a prudent approach towards funding in volatile and fickle market conditions. Late in the year this strong liquidity position was further enhanced by the Government's long term lease on Port Botany and Port Kembla Ports, which generated proceeds in excess of \$5 billion. A portion of these funds went to pay down TCorp debt in these ports businesses, as well as reducing the Government's near-term borrowing needs. As a result TCorp enters the new financial year in a very healthy liquidity position, with around \$3.6 billion of surplus funding from its issuance activities in 2012/13.

This strong liquidity position and the term profile of TCorp's borrowings are important positive inputs to the State's AAA credit rating, supporting a critical strategy of the NSW Government. Both major rating agencies, Standard & Poor's and Moody's have noted the State's very strong liquidity position and the role of TCorp in managing this key variable.

## **Business trends and performance**

TCorp's profit before tax of \$127.2 million was significantly above budget, and represents the third time in the past five years where TCorp has been able to take advantage of market conditions and opportunities to generate outstanding financial returns for the Government. TCorp's proven track record of no credit losses on physical or derivative exposures throughout and beyond the financial crisis remains intact.

TCorp's performance as a manager of debt and asset portfolios for clients generated positive outcomes and benchmark outperformances across the board. Last year TCorp positioned client debt portfolios long of benchmark, and locked in low physical borrowing costs in the middle of 2012 as bond yields traded around historical lows. The subsequent rise in yields has been reflected in managed clients having either locked in physical debt at lower yields, or registering outperformance of neutral debt benchmarks.

Cash and fixed income portfolios managed for clients generated healthy returns and strong benchmark outperformance across all strategies. Outcomes for TCorp's Hour-Glass investment trusts were outstanding. Cash and Strategic Cash products produced solid returns and benchmark outperformance, while the Medium Term and Long Term Growth funds benefited from a combination of healthy equity returns, astute management of asset allocations, and strong investment manager performance. Both products substantially outperformed their benchmarks and provided excellent returns for clients, with the Long Term Growth fund generating an annual return in excess of 20.5%.

During the year TCorp's Risk Advisory, Corporate Finance and Client Services teams worked on a range of diverse assignments, in support of the Government's busy reform agenda. We continued to work closely with NSW Treasury and various Government agencies to help them manage a broad range of financial risks in a dynamic environment. This included working closely with the NSW electricity and water utilities, and their respective regulators, as the regulatory guidelines and financial markets inputs continue to evolve. Another important assignment undertaken during the year was in the Local Government area, where TCorp was appointed by the Division of Local Government to undertake a comprehensive financial sustainability and benchmarking review across the 152 NSW councils. This review, which was released in April 2013, provided the Government





with a consistent methodology and data base on councils' financial positions. This is an important step in enabling the Government to better understand the financial challenges facing councils.

## **Operating framework**

During the year TCorp progressed many important change management projects as our business needs continued to evolve. Further enhancements and migration of technology platforms ensured another very busy year for TCorp's IT and support teams. During the year we commenced an evaluation of TCorp's enterprise-wide system's needs, having regard to the dual roles of TCorp as debt issuer and investment manager for the State. This project will be a major focus for the coming year.

## **People**

Throughout TCorp's 30 year history the corporation has enjoyed continued success through dedicated, professional teams who have shared a passion for delivering good outcomes for the State of NSW. A feature of TCorp's history has been a strong sense of consistency in approach towards core aspects of our mandate, combined with a healthy attitude towards change as financial markets dynamics and the Government's priorities continuously evolve. This flexibility has been the key enabler of TCorp's success throughout and beyond the financial crisis, and leaves TCorp positioned with its strongest team of experienced, professional resources since its inception. The excellent results of the past year are a testament to their skills and efforts, and we thank them for their contribution to TCorp's success.

In March we farewelled Kevin Cosgriff from TCorp's Board. Kevin served as Deputy Chair since October 2006 in his role as Deputy Secretary, Fiscal and Economic Directorate within NSW Treasury. Kevin provided valuable guidance through his role on TCorp's Human Resources Board Committee, and we thank him sincerely for his contribution. Kevin's position of Deputy Chairman was filled by Tim Spencer, who joined NSW Treasury last year as Deputy Secretary Commercial Policy and Financing Directorate. Tim's knowledge of the State's Public Sector Trading Enterprises (PTE) sector, his prior experience with Queensland Treasury, and as a director of Queensland Treasury Corporation, brings a strong synergy to the TCorp Board.

In July 2013 we were saddened by the news of the passing of Jim Watt, TCorp's first Chief Executive (1987 – 1995). Jim was one of a number of individuals who were instrumental in the development and success of TCorp over its first 30 years. This group also includes past and present TCorp directors, senior management and Treasury officials, and we would like to acknowledge their significant contribution to the success of TCorp.

Reflecting on 30 years of TCorp's operations, the establishment of the central borrowing model and the evolution of TCorp's capabilities as a manager of financial markets risks for the State have generated a significant contribution for NSW. The cumulative financial benefit for the State from TCorp's activities runs into many billions of dollars. In its 30th year of operations TCorp has generated excellent results across all its business activities, and is actively working with its client base and with Government to assist the implementation of the Government's policy agenda. We look back on the last 30 years with tremendous pride. More importantly, we look forward to the challenges and opportunities of the future, knowing that TCorp is well placed to meet the challenges of a continuously changing environment, and to continue to provide strong results for NSW.



## Year in review

- A pre-tax operating profit of \$127 million, which was well ahead of budget and ahead of the \$77 million result last year.
- Strong balance sheet, with total assets exceeding \$72 billion by year end.
- Maintained exceptionally strong credit quality evidenced by uninterrupted record of no credit losses or expected write downs since the onset of the global financial crisis.
- Successfully sourced more than \$9 billion in new debt financing from domestic and offshore investors. Combined with a lower than forecast funding requirement this has enabled TCorp to be in a strong liquidity position to meet the coming year's financing task.
- Launched three new Benchmark Bond lines during the year, with maturities of 2014, 2019, and 2023, each of which drew strong investor demand. Successfully launched a \$2.5 billion 3 year Floating Rate Note issue.
- Very strong performance in cash and fixed income portfolios managed for clients.
- Returns on all Hour-Glass products recorded both healthy outright and strong performance against benchmarks, with the Long Term Growth fund generating an annual return for investors in excess of 20.5%.
- Significant added value for clients in a range of advisory and risk analysis work.
- AAA credit rating for New South Wales (NSW) reaffirmed by all major ratings agencies following the NSW Budget. TCorp's strategy of maintaining a strong liquidity position contributed positively to the assessment by ratings agencies.

## Performance indicators – Five year summary

	2013 \$m	2012 \$m	2011 \$m	2010 \$m	2009 \$m
<b>Profitability</b>					
Profit before income tax equivalent expense	127	77	151	66	167
<b>Balance sheet</b>					
Loans to public sector	59,331	58,407	49,516	44,628	37,889
Other assets	13,406	11,847	10,859	12,768	11,131
<b>Total assets</b>	<b>72,737</b>	<b>70,254</b>	<b>60,375</b>	<b>57,396</b>	<b>49,020</b>
Domestic benchmark bonds	53,561	49,623	41,312	37,106	30,815
Global exchangeable bonds	1,527	2,136	3,800	6,453	7,366
Due to Government Clients	220	748	1,100	1,005	889
Other borrowings and Liabilities	17,297	17,643	14,063	12,747	9,875
<b>Total liabilities</b>	<b>72,605</b>	<b>70,150</b>	<b>60,275</b>	<b>57,311</b>	<b>48,945</b>
<b>Difference represented by equity:</b>	<b>132</b>	<b>104</b>	<b>100</b>	<b>85</b>	<b>75</b>
<b>Investment management for State authorities</b>					
Funds under management					
-Investment Trusts <sup>1</sup>	12,862	11,951	11,321	10,105	7,478
-Specific fund mandates <sup>1</sup>	4,061	6,597	9,253	4,479	3,811
<b>Liability portfolio management for State authorities</b>					
Liability portfolio management <sup>1</sup>	45,389	45,519	36,016	31,039	25,357

<sup>1</sup> Refer to note 24 of the audited financial statements.

## **Nature and range of activities and significant operations**

### **Debt issuance**

TCorp raised new borrowings during the year to fund the infrastructure investment programmes of the Government, its agencies and public trading enterprises (PTEs). Most of the demand came from the Crown Finance Entity, electricity and water supply industries. Aggregate market value of loans to clients showed a net increase to \$59.3 billion at year end.

The lower growth in borrowings over the year, when compared to recent years, reflected the impact of the government strategy to apply proceeds from asset transactions to the repayment of debt. Over the last quarter of the year the long term lease of Port Botany and Port Kembla Ports generated proceeds in excess of \$5 billion. Existing TCorp borrowings of both these PTE's were repaid, with additional proceeds effectively reducing the immediate borrowing needs of the Crown Finance Entity.

### **A variety of loan products for clients**

TCorp provides a range of efficient loan products for public sector clients:

- Medium and long term fixed interest loans with semi-annual interest payments, repayable on a fixed maturity date. Interest coupons and maturity dates normally correspond with those of TCorp Benchmark Bonds issued in the wholesale market;
- Floating rate loans with interest rates periodically adjusted in line with market rates on bank bills, again with a fixed maturity date;
- Capital indexed loans with a fixed percentage interest coupon, but with the capital value adjusted periodically in line with the CPI;
- Year-on-year (YoY) inflation linked loans which are term loans where a fixed amount is repaid on maturity and the coupon paid reflects a fixed real rate adjusted for the impact of the CPI;
- Come-and-Go facility where clients can draw down or repay funds on same day notice, enabling them to rely on TCorp for short term liquidity, rather than hold substantial investments for liquidity purposes, with associated credit and market risks.

The different loan products are utilised by most borrowers as part of their overall strategy of financing their businesses and managing risk. The development of CPI linked loan products over recent years has provided increased flexibility to clients, particularly for those in the regulated electricity and water sectors where the financial performance of these businesses is impacted by the CPI. For clients whose funding requirements are not fully met by these standard products, TCorp provides other structures, for example loans with regularly reducing principal.

Interest rates on loans are based on the current TCorp Benchmark Nominal and Capital Indexed Bond yield curves in the Australian fixed interest market. A small margin, representing TCorp's administration costs, is added to the loan interest rate.

### **Infrastructure investment changes the pattern of borrowings**

TCorp's largest borrowers at 30 June 2013 were the Crown Finance Entity (\$25.7 billion), electricity generation and distribution (\$21.9 billion), water catchment and supply (\$8.1 billion) and transport (\$1.8 billion).

## Loans outstanding to authorities

As at June 2013	Market Value \$m
<b>New South Wales Authorities:</b>	
Ausgrid	9,274.3
Barangaroo Delivery Authority	157.0
Corporation Sole, Minister Administering the Environmental Planning and Assessment Act.	433.2
Crown Finance Entity	25,677.0
Department of Planning and Infrastructure	21.5
Delta Electricity	783.8
Department of Finance and Services - State Fleet	548.7
Endeavour Energy	3,631.1
Essential Energy	4,759.8
Forestry Corporation of NSW	143.3
Hawkesbury District Health Service	7.2
NSW Land and Housing Corporation	172.2
Hunter Water Corporation	1,055.8
Jenolan Caves Reserve Trust	1.2
Landcom	120.7
Legal Profession Admission Board	0.4
Macquarie Generation	780.6
Newcastle Port Corporation	72.8
NSW Businesslink Pty Ltd	12.8
Office of Community Housing	29.1
Rail Corporation New South Wales	509.5
Registry of Births, Deaths & Marriages	3.6
Roads and Maritime Services	517.4
State Transit Authority of New South Wales	351.6
State Water Corporation	175.4
Sydney Catchment Authority	480.7
Sydney Cricket & Sports Ground Trust	30.6
Sydney Harbour Foreshore Authority	5.2
Sydney Water Corporation	6,415.7
Taronga Conservation Society Australia	18.7

As at June 2013	Market Value \$m
Teacher Housing Authority of NSW	4.9
TransGrid	2,672.3
Transport for NSW	382.3
UrbanGrowth NSW Development Corporation	28.6
Waste Assets Management Corporation	7.5
<b>Total New South Wales Authorities</b>	<b>59,286.5</b>
<b>Other entities guaranteed by New South Wales Government</b>	
University of Technology, Sydney	44.3
<b>Total loans outstanding to Authorities<sup>1</sup></b>	<b>59,330.7</b>

<sup>1</sup> Refer Note 8 of the audited financial statements.

## Funding TCorp's loans to clients

TCorp's annual borrowing programme is driven by the funding needs of NSW public sector clients. TCorp seeks to meet these needs by providing funding at the lowest possible cost through efficient issuance and maximising value from the State's AAA credit rating.

The 2012/13 year saw increased stability in global financial markets. The strong demand for liquid, highly rated Australian dollar assets continued as international funds and reserve managers diversified into the currency. Domestic banks and fund managers also increased investment in TCorp bonds, driven by confidence over the State's AAA credit rating and solid performance.

The central financing model, implemented by the establishment of TCorp thirty years ago, proved its worth more than ever as investors continued to pay a significant premium for large and liquid bond lines, lowering interest costs for the State.

Funding rates achieved by TCorp's clients continued to fall for shorter dated issuance as the Reserve Bank of Australia reduced cash rates from 3.5% to 2.75% during the year. TCorp's longer rates, after a 1.5% fall late in the 2011/12 year, ended the year 2012/13 approximately 0.25% higher as improving confidence in global growth, driven by the United States recovery, saw bond yields begin to normalise.

## Benchmark Bond issuance

TCorp's Benchmark Bond programme continues to be the cornerstone of our funding strategy. The programme provides price transparency and liquidity to public sector borrowers and institutional investors in TCorp bonds.

TCorp issued three new benchmark bonds in 2012/13, with maturities of 2014, 2019 and 2023. These deals raised over \$6.0 billion and had widespread support, with international investors providing strong demand for all three maturities. Reflecting changing investor demands, and in particular the need by domestic banks to increase their holdings of prime liquidity assets, TCorp was able to take advantage of this opportunity and issue a \$2.5 billion floating rate note (FRN) with a 2016 maturity.



Continuing its commitment to the Capital Indexed Bond (CIB) programme, TCorp issued a further \$0.4 billion of CIBs. By year end, the market value of TCorp's CIB outstandings had reached \$6.9 billion.

## Offshore issuance

TCorp operates a number of non-benchmark programmes aimed at investor diversification, cost savings and providing clients with specific funding needs that local markets cannot achieve.

During the year TCorp repurchased Euro Medium Term Notes (EMTNs) as Japanese investors repatriated some of their investments given their currency weakness. Against this, TCorp saw strong demand all year for short term paper through the Euro Commercial Paper programme.

TCorp's funding strategy constantly evolves in response to market dynamics and investor requirements. Maintaining strong relationships with our borrowing clients, dealer panel members, financial markets institutions and investors has been crucial in accomplishing our funding needs.

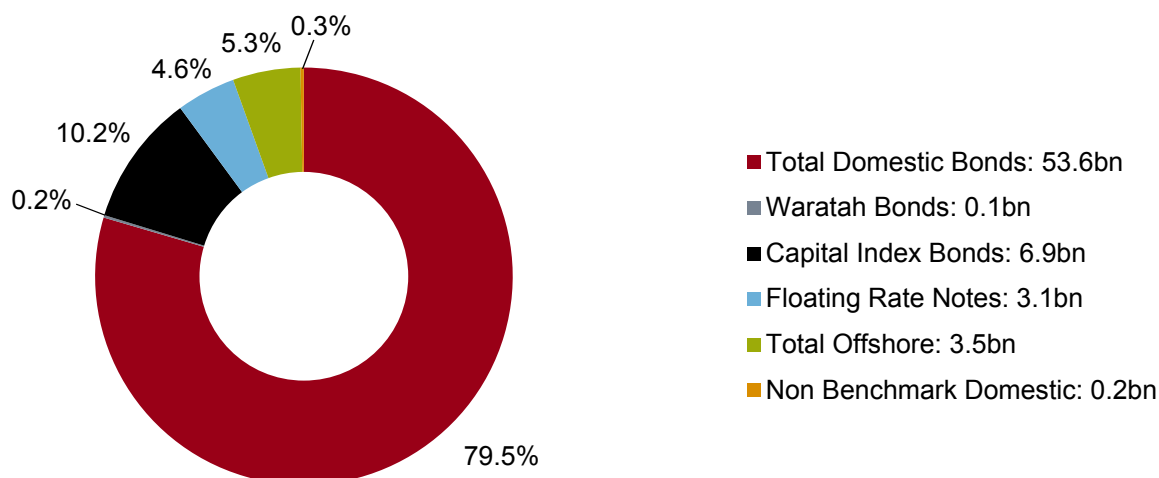
## Waratah Bond issuance

TCorp continued to see interest building in Waratah Bonds during 2012/13. There were two primary drivers of demand. Firstly, falling term deposit rates saw increased interest in fixed rate bonds as investors searched for yield. Secondly the introduction of the Significant Investor Visa saw increased flows as NSW sponsored applicants are required to help support state infrastructure through investment in Waratah Bonds.

The Waratah Annuity Bond, an annuity-style bond with inflation-linked safe and secure income, generated widespread interest although investments to date have been limited. However, inclusion on a widening number of approved product lists with financial planners should see flows pick up in the year ahead.

The total value of funds raised through the Waratah Bonds programme since its launch to 30 June 2013 was \$55.5 million (2012: \$19.1 million).

## Composition of borrowings 30 June 2013



## Funding facilities

Coupon (%)	Maturity	Market Value \$m	Panel Members
<b>Domestic Benchmark Bond programme</b>			
5.50	1-Aug-13	4,058	Australia and New Zealand Banking Group Ltd
2.75	8-Jul-14	1,671	Barclays Bank Plc
5.50	1-Aug-14	1,142	BNP Paribas, Sydney Branch
6.00	1-Apr-15	3,012	Citigroup Global Markets Australia Pty Ltd
6.00	1-Apr-16	5,323	Commonwealth Bank of Australia
4.00	20-Feb-17	3,527	Deutsche Bank AG, Sydney Branch
5.50	1-Mar-17	1,792	J.P. Morgan Australia Ltd
6.00	1-Feb-18	5,798	Merrill Lynch International (Australia) Ltd
3.50	20-Mar-19	2,872	National Australia Bank Ltd
6.00	1-Apr-19	1,924	Nomura International Plc
6.00	1-May-20	6,580	Royal Bank of Canada
6.00	1-Jun-20	208	The Toronto-Dominion Bank, London Branch
6.00	1-Mar-22	7,580	UBS AG, Australia Branch
4.00	20-Apr-23	1,424	Westpac Banking Corporation
6.00	1-May-23	2,482	
5.00	20-Aug-24	3,923	
6.00	1-May-30	245	
<b>Global Exchangeable Bond programme</b>			
5.50	1-Aug-14	584	Australia and New Zealand Banking Group Ltd
5.50	1-Mar-17	871	BNP Paribas, Sydney Branch
6.00	1-Apr-19	72	Citigroup Global Markets Ltd
			Commonwealth Bank of Australia
			Deutsche Bank AG, London Branch
			Merrill Lynch International (Australia) Ltd
			National Australia Bank Ltd
			Nomura International Plc
			Royal Bank of Canada Europe Ltd
			The Toronto-Dominion Bank
			UBS Ltd
			Westpac Banking Corporation



Coupon (%)	Maturity	Market Value \$m	Panel Members
<b>Capital Indexed Bonds</b>			
3.75	20-Nov-20	2,168	Australia and New Zealand Banking Group Ltd
2.75	20-Nov-25	3,562	Barclays Bank Plc, Australia Branch
2.50	20-Nov-35	1,127	Citigroup Global Markets Australia Pty Ltd
			Commonwealth Bank of Australia
			Deutsche Bank AG, Sydney Branch
			J.P. Morgan Australia Limited
			Merrill Lynch International (Australia) Ltd
			UBS AG, Australia Branch
			Westpac Banking Corporation
		Market Value \$m	Panel Members
<b>Euro Medium Term Note programme</b>			Citigroup Global Markets Ltd
			Commonwealth Bank of Australia
Total outstanding		2,009	Daiwa Capital Markets Europe Limited
			Deutsche Bank AG, London Branch
			J.P. Morgan Securities Ltd
			Merrill Lynch International
			Mitsubishi UFJ Securities International Plc
			National Australia Bank Limited
			Nomura International Plc
			Royal Bank of Canada Europe Ltd
			The Toronto-Dominion Bank
			The Royal Bank of Scotland Plc
			UBS Limited

	Market Value \$m	Panel Members
<b>Euro Commercial Paper programme</b>		Banc of America Securities Asia Ltd
		Barclays Bank Plc
Total outstanding	1,276	Citibank International Plc
		Commonwealth Bank of Australia
		Deutsche Bank AG, London Branch
		Goldman Sachs International
		The Hong Kong and Shanghai Banking Corporation Ltd
		National Australia Bank Limited
		Nomura International Plc
		Royal Bank of Canada
		Royal Bank of Scotland Plc
		UBS Limited
		Westpac Banking Corporation
<b>Domestic promissory notes</b>	2,834	
<b>Domestic cash market raisings (including client deposits)</b>	351	
<b>Floating rate notes</b>	3,076	
<b>Miscellaneous funding through non-programme bond issuance structured financing and other term borrowings</b>	307	
<i>Refer Notes 11, 12 and 13 of the audited financial statements</i>		
<b>Total Funding Facilities</b>	<b>71,798</b>	

## Debt and currency management

In addition to providing cost efficient funding to the NSW Government, its agencies and the PTEs, TCorp is mandated by a large number of clients to manage their debt portfolios. TCorp works with each client to establish a neutral benchmark debt framework, then manages the debt portfolio in line with the benchmark and to meet the clients' funding and risk needs, while minimising the cost of debt.

At 30 June 2013, TCorp managed 20 clients' debt portfolios totalling \$45.4 billion. Among these:

- The Crown Finance Entity represents the NSW General Government sector and is TCorp's largest managed debt client;
- The debt portfolios for several large electricity network and water regulated utilities. These businesses require a specialised risk management framework, including management of inflation risks;
- Other substantial borrowers include electricity generators and transport sectors utilities.

## Innovation in debt management

TCorp continues to develop its debt products to assist NSW public sector borrowers to manage financial risks and enhance flexibility in uncertain market conditions:

- Inflation linked loans: new types of inflation linked products were made available to clients at the end of the previous financial year. Over the year, a range of clients accessed these new loan types, and drawdowns were well above original forecasts. These new loan products have enabled clients to access an inflation linked exposure to better manage risk, at a lower cost than can be achieved by drawing down a capital indexed loan. Inflation linked loans are now a key risk management tool for TCorp's clients, and make up 15.7% of all TCorp loans.
- Liability risk management: a large proportion of TCorp's clients in the utility sector have revenues determined by independent regulators. An important input into the prices established by regulators is an estimate of the cost of capital. Over the past year, regulators, particularly in the electricity sector, have been reviewing the methodologies used to benchmark the cost of debt as part of the overall cost of capital determination. TCorp has been an active participant in the various reviews to gain an understanding of the implications of the changes proposed by the regulators. TCorp has been working closely with clients across the regulated utility sector to assist them in understanding the proposed changes and the implications for the future management of their debt portfolios. Work in this area will continue over the next year, and once the position of regulators is determined, then it is likely that TCorp will be required to assist clients to review their liability management strategies in line with the new regulatory models.
- Risk reporting; TCorp has developed new performance reporting metrics to provide greater transparency and reporting to clients of the risks within their debt portfolios. Further risk and performance reporting developments are planned for 2013/14 as new systems development projects are completed.

## Debt management strategies and outcomes

The historic low interest rates, particularly evident early in the financial year, provided an opportunity to lengthen client debt portfolios. This strategy resulted in clients locking in historically low interest costs and a very low refinancing requirement for the next financial year. The lower levels of refinancing risk have been noted in recent credit rating agencies' reviews as being very supportive of the State's AAA credit rating.



When managing client debt portfolios over the past decade, TCorp has used an active debt management strategy which seeks to take advantage of cyclical movements in market interest rates to reduce costs over the medium term. Strategies are executed within prudent risk exposure limits, and in line with client-approved mandates.

The dramatic fall in bond yields in the previous financial year resulted in underperformance of these strategies in 2012. However it also provided an opportunity for TCorp to lock in historically low borrowing costs for agency debt portfolios. During the year TCorp reviewed both the settings and the execution mechanisms of its debt management model. The review confirmed that the settings remain broadly appropriate, but execution of strategies would in future be undertaken through physical debt issuance rather than through futures markets. In light of this the majority of managed debt portfolios transitioned into longer duration physical debt in the early part of the financial year. As bond yields rose in the second half of the year, the strategy of lengthening produced positive outcomes for clients.

### **Currency management techniques and outcomes**

Since 2007, TCorp has provided currency management services for the Hour-Glass products. TCorp's currency management style adopts a model-based, low risk approach that takes advantage of extreme opportunities in market pricing.

TCorp continued to offer a currency overlay product for the Hour-Glass Listed Property Sector Trust, which has funds under management of \$200 million. This service is available to other clients across the public sector.

TCorp provides other treasury risk management transactions, including foreign exchange and commodity hedging, on behalf of clients.

### **Providing risk analysis and advice**

In the year to June 2013, TCorp further developed its risk advisory capabilities and advice to clients:

- TCorp was mandated to undertake a capital structure review for a major PTE client. The mandate also included an analysis of the impact of various scenarios on the credit rating of the business;
- A major public sector client in the electricity sector mandated TCorp to undertake a review of its Treasury Risk Management policy and strategies used to manage risk;
- TCorp provided input into a broad range of projects and policy issues being considered by various public sector agencies. Input and analysis was provided across a range of financial risk, capital management, credit metrics and structured finance transactions

### **Investment management**

#### **Hour-Glass Investment products**

Hour-Glass Investments are available to the wide range of NSW public authorities, including PTEs, the Government itself, and other public organisations including not-for-profits. They provide public clients with access to investment portfolios which are aligned to the public sector risk appetite.

2012/13 was an active year for clients as they sought to take advantage of market opportunities. It also saw the introduction of our Term Deposit distribution service.

Funds under management within Hour-Glass Investments grew from \$12.0 billion at 30 June 2012 to \$12.9 billion at 30 June 2013. All Hour-Glass Facilities outperformed their respective benchmarks over the financial year. The diversified facilities achieved double digit returns, driven by the underlying equity allocations.

Performance of equity and bond markets in 2012/13 was in stark contrast to the previous financial year. Following heavy falls across equity markets in the prior year, equity markets posted strong returns for the year as a result of the substantial stimulus measures implemented by central banks in the US, Europe and Japan.

In Australia, the equity market's strongest rally in six years was hit by major profit downgrades in May. The S&P/ASX 200 Index had returned 30.8% for the year to 30 April 2013, but by 30 June the financial year return had retreated to 21.9%. In addition to the profit downgrades, which were concentrated in the cyclical and mining services sectors, both foreign and local investors also sold out of the big four banks, which were trading at very high valuations. As in the prior year, the Materials (-9.2%) and Energy (+6.5%) sectors were the worst performing sectors, with all the other sectors posting positive double digit returns. Notwithstanding the strong equity market returns, the RBA reduced its target cash rate by 0.25% decrements in October and December 2012 and again in May 2013, to a 50 year low of 2.75%. The RBA pointed to concerns over a peak in resources investments, the slowing Chinese economy, significantly lower commodity prices and lack of growth drivers.

In Australian dollars, the MSCI World International Shares (ex-Australia) Index returned 33.1% for the year. Part of the strong returns was due to the sharp depreciation of the Australian dollar, which fell 10.7% against the US dollar and 12.8% against the Euro over the year.

In spite of their generally healthier economic outlook, emerging markets had another disappointing year relative to developed markets. While the MSCI Emerging Markets Index returned 15.2% in Australian dollars for the year, this was 17.9% below the return for the MSCI World (ex-Australia) Index. The Australian dollar finally capitulated and moved below parity against the US dollar in May 2013, after remaining above parity since June 2012. In addition to the falling Chinese demand for Australia's resources, the sharp decline in the Australian dollar can also be attributed to the diminishing risks of another major credit crisis in Europe, the expectations for higher bond yields in the US, the deteriorating local economic outlook and the RBA's 0.25% rate cut in May.

The Australian bond market delivered modest returns in line with historically low outright levels that prevailed over the year. This was following a double digit return in the previous financial year. The 10 year Australian Government Bond yield rose from 3.0% at the start of the year to 3.8% at 30 June 2013, which is still materially lower than its 5.3% level at 30 June 2011. The Hour-Glass Australian Bonds Sector Trust was positioned well for this environment and significantly outperformed its benchmark.

## Performance of the Hour Glass Facilities

Trust	1 Year %		3 Year % p.a.		5 Year % p.a.		7 Year % p.a.	
	Actual	Relative to Benchmark	Actual	Relative to Benchmark	Actual	Relative to Benchmark	Actual	Relative to Benchmark
Cash Facility	3.69	0.41	4.65	0.33	4.75	0.29	5.27	0.13
Strategic Cash Facility	4.16	0.88	4.92	0.60	5.03	0.57	n/a	n/a
Medium Term Growth Facility	10.74	1.18	7.35	0.27	6.26	0.34	5.56	0.22
Long Term Growth Facility	20.55	1.76	9.10	0.08	5.32	0.25	4.08	0.12

## Cash and fixed income

TCorp contributes to improved financial outcomes for clients through management of cash and bond portfolios. TCorp is also one of the Hour-Glass fund managers, managing the Core Liquidity fund, Strategic Cash and Bond funds. In executing these assignments directly for clients and the Hour-Glass Products, TCorp draws on its long experience in cash and fixed income markets and its understanding of managing public sector cash flows to deliver better outcomes.

Major agencies whose portfolios have been managed by TCorp for a number of years include NSW Fair Trading and the Lifetime Care & Support Authority. TCorp also directly manages fixed income investments for State Super and WorkCover Nominal Insurer. TCorp manages various strategies for these clients, including daily cash, enhanced cash, nominal bond, inflation linked and tail risk hedging.

Investment funds managed internally by TCorp fell from \$10.8 billion at 30 June 2012 to \$7.7 billion at 30 June 2013, of which \$3.6 billion was managed for the Hour-Glass Cash, Strategic Cash and Bond funds. The decrease in funds under management resulted from changes in how NSW Treasury manages the State's excess cash balances.

TCorp takes a conservative management approach for cash and fixed income portfolios, consistent with the risk profile of client mandates. A significant investment in IT, with a sophisticated risk management system, facilitates timely and accurate oversight of portfolio risks. This enables TCorp to add value through informed judgements about portfolio construction, the timing of investments and security selection. Daily forecasting and monitoring of large client cash flows and significant liquidity needs are key distinguishing features of TCorp's investment capabilities.

The investment process seeks to add value to client portfolios, using duration and yield curve management allocation among sovereign, semi-government and supranational sectors, with credit exposures limited to high quality banks. The ongoing borrowing requirement of the Commonwealth and State Governments and the corporate sector during 2013 has supported opportunities for TCorp's investment style and enhanced the risk and return profile of the internally managed fixed income portfolios.

Over the year, investment returns on most managed portfolios were significantly ahead of their benchmarks.

## Discrete client funds

Manager: TCorp

Statistics	2013 Return % pa	2013 Benchmark Return % pa	2013 Total FUM <sup>7</sup> \$m	2012 Return % pa	2012 Benchmark Return % pa	2012 Total FUM \$m
Hour-Glass Cash Sector Trust <sup>1</sup>	3.39	3.28	1,100	4.77	4.70	1,612
Treasury Surplus Working Fund <sup>1&amp;5</sup>	-	-	-	4.07	4.39	2,209
NSW Fair Trading <sup>2</sup>	5.74	5.74	1,024	6.06	6.04	964
NSW Trustee & Guardian <sup>2&amp;5</sup>	-	-	-	4.65	4.65	763
NSW Trustee & Guardian - Interest Suspense <sup>2&amp;5</sup>	-	-	-	4.57	4.57	105
NSW Trustee & Guardian - Estate & Guarantee Reserve <sup>2&amp;5</sup>	-	-	-	4.46	4.46	10
Financial Counselling Trust <sup>2</sup>	5.28	5.28	10	5.48	5.48	11
Hour-Glass TCorp Alpha Cash <sup>1</sup>	4.24	3.28	2,166	5.10	4.70	1,955
NSW Lotteries Transition Fund <sup>1&amp;3</sup>	9.62	3.28	8	8.70	4.70	7
Lifetime Care and Support Fund-Cash <sup>1</sup>	4.40	3.28	242	5.19	4.70	191
Lifetime Care and Support Fund-Bond <sup>1</sup>	(1.26)	(2.86)	606	21.88	25.51	644
Lifetime Care and Support Fund-Fixed Interest <sup>1</sup>	(1.24)	(1.23)	252	-	-	-
Dust Diseases Board <sup>1</sup>	7.75	3.28	2	3.85	2.50	4
TCorp Core Bond Portfolio <sup>1</sup>	2.99	2.22	365	12.68	12.89	612
NSW State Superannuation <sup>1</sup>	4.13	6.75 <sup>6</sup>	188	11.03	7.68	181
Workers Compensation Nominal Insurer Index Bond <sup>1</sup>	0.84	(0.50)	718	14.92	16.03	712
Workers Compensation Nominal Insurer Nominal Bond <sup>1</sup>	1.28	0.33	808	14.07	14.33	756
Workers Compensation Insurance Fund Tail Risk Hedging Portfolio <sup>1</sup>	-	-	12	-	-	39
Inflation Linked Bond – Dust Diseases Board <sup>1</sup>	(4.23)	(4.90)	190	-	-	-
<b>Total funds as at June<sup>4</sup></b>			<b>7,691</b>			<b>10,775</b>

<sup>1</sup> Market value based returns.

<sup>2</sup> Historical cost based returns.

<sup>3</sup> TCorp is assisting NSW Lotteries on an advisory basis to manage the remaining life of a portfolio previously managed externally by a private sector manager.

<sup>4</sup> In addition TCorp manages the Workers Compensation Tail Risk Hedging Portfolio which had total FUM of \$14m in 2013 (\$41m in 2012).

<sup>5</sup> Treasury Surplus Working Fund, NSW Trustee & Guardian, NSW Trustee & Guardian – Interest Suspense and NSW Trustee & Guardian – Estate & Guarantee Reserve were closed in 2013.

<sup>6</sup> Book value benchmark calculated as 4.50% + CPI target (i.e. not market valued).

<sup>7</sup> Funds under management.



## Authority deposits

TCorp accepts deposits as principal and provides a firm rate to clients. Consequently only average annual volumes on deposit are shown.

Statistics	2013 \$m	2012 \$m	2011 \$m	2010 \$m	2009 \$m
Average annual volume on deposit	251	226	396	455	510

## Investment management performance Hour-Glass Investment Trusts

Sector	Manager
Cash	Macquarie Investment Management Ltd NSW Treasury Corporation
Strategic Cash	NSW Treasury Corporation
Australian Bonds	NSW Treasury Corporation
Active Australian Shares	Colonial First State Global Asset Management Dimensional Fund Advisors Australia Ltd Integrity Investment Management Australia Ltd Northcape Capital Pty Ltd Perpetual Investment Management Ltd Solaris Investment Management Ltd
Indexed Australian Shares	Colonial First State Global Asset Management
Active International Shares	Dimensional Fund Advisors Australia Ltd Panagora Asset Management Schroder Investment Management Ltd
Indexed International Shares	State Street Global Advisors (Aust) Ltd
Emerging Markets Shares	MFS Investment Management Northcape Capital Global EM Schroder Investment Management Ltd
Listed Property	Perennial investment Partners Ltd
Unlisted Property	AMP Capital Investors Ltd Dexus Property Group
Unlisted Infrastructure	Industry Funds Management



Asset Allocation	Cash Facility %	Strategic Cash Facility %	Medium Term Growth Facility %	Long Term Growth Facility %
Cash	80.0	-	24.0	10.0
Strategic Cash	20.0	100.0	31.0	13.0
Australian Bonds	-	-	15.0	7.0
Indexed Australian Shares	-	-	3.0	7.8
Active Australian Shares	-	-	9.0	23.2
Indexed International Shares	-	-	2.5	7.0
Active International Shares	-	-	9.0	21.0
Emerging Markets Shares	-	-	2.5	5.0
Listed Property	-	-	4.0	6.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

### Pooled client facilities

Statistics	2013	2012	2011	2010	2009
Hour-Glass Cash Facility Return (% pa)	3.69	4.90	5.37	4.46	5.35
Benchmark Index Return (% pa)	3.28	4.70	4.98	3.89	5.48
<b>Total FUM as at 30 June (\$m)</b>	<b>3,023</b>	<b>4,113</b>	<b>3,747</b>	<b>3,465</b>	<b>3,053</b>
Hour-Glass Strategic Cash Facility Return (% pa) <sup>1</sup>	4.16	5.02	5.58	4.62	5.80
Benchmark Index Return (% pa)	3.28	4.70	4.98	3.89	5.48
<b>Total FUM as at 30 June (\$m)</b>	<b>2,166</b>	<b>1,955</b>	<b>1,724</b>	<b>1,632</b>	<b>990</b>
Hour-Glass Medium Term Growth Facility Return (% pa)	10.74	4.28	7.13	8.69	0.73
Benchmark Index Return (% pa)	9.56	4.69	7.06	8.39	0.15
<b>Total FUM as at 30 June (\$m)</b>	<b>194</b>	<b>183</b>	<b>231</b>	<b>372</b>	<b>337</b>
Hour-Glass Long Term Growth Facility Return (% pa)	20.55	(0.73)	8.51	11.28	(10.33)
Benchmark Index Return (% pa)	18.79	0.61	8.43	10.86	(10.88)
<b>Total FUM as at 30 June (\$m)</b>	<b>1,300</b>	<b>1,142</b>	<b>1,202</b>	<b>938</b>	<b>843</b>

## Direct sector investments

Statistics	2013	2012	2011	2010	2009
Hour-Glass Cash Sector Return (% pa)	3.54	4.85	5.30	4.41	5.22
Benchmark Index Return (% pa)	3.28	4.70	4.98	3.89	5.48
<b>Total FUM as at 30 June (\$m)</b>	<b>2,238</b>	<b>2,993</b>	<b>2,856</b>	<b>2,566</b>	<b>2,528</b>
Hour-Glass Australian Bonds Sector Return (% pa)	2.88	12.54	5.62	8.05	11.05
Benchmark Index Return (% pa)	2.22	12.89	5.22	7.59	11.48
<b>Total FUM as at 30 June (\$m)</b>	<b>365</b>	<b>612</b>	<b>700</b>	<b>765</b>	<b>184</b>
Hour-Glass International Bonds Sector Return (% pa)	-	-	-	-	12.03
Benchmark Index Return (% pa)	-	-	-	-	11.46
<b>Total FUM as at 30 June (\$m)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>553</b>
Hour-Glass Active Australian Shares Sector Return (% pa)	25.08	(7.88)	11.38	13.51	(14.02)
Benchmark Index Return (% pa)	21.90	(7.01)	11.90	13.05	(20.34)
<b>Total FUM as at 30 June (\$m)</b>	<b>3,135</b>	<b>2,652</b>	<b>2,687</b>	<b>2,659</b>	<b>1,131</b>
Hour-Glass Indexed Australian Shares Sector Return (% pa)	22.49	(6.78)	11.64	13.04	(19.89)
Benchmark Index Return (% pa)	22.75	(6.71)	11.73	13.15	(20.14)
<b>Total FUM as at 30 June (\$m)</b>	<b>435</b>	<b>634</b>	<b>688</b>	<b>607</b>	<b>459</b>
Hour-Glass International Shares Sector Return (% pa)	34.80	(4.75)	2.76	6.68	(18.34)
Benchmark Index Return (% pa)	33.30	(0.50)	2.66	5.22	(16.24)
<b>Total FUM as at 30 June (\$m)</b>	<b>2,362</b>	<b>1,384</b>	<b>1,248</b>	<b>1,067</b>	<b>932</b>
Hour-Glass Indexed International Shares Sector Return (% pa)	33.40	(0.36)	2.68	5.64	(16.03)
Benchmark Index Return (% pa)	33.30	(0.50)	2.66	5.22	(16.24)
<b>Total FUM as at 30 June (\$m)</b>	<b>417</b>	<b>421</b>	<b>408</b>	<b>411</b>	<b>400</b>
Hour-Glass Emerging Markets Sector Return (% pa) <sup>1</sup>	18.93	(9.31)	(3.27)	7.99	-
Benchmark Index Return (% pa)	15.21	(12.22)	0.83	1.34	-
<b>Total FUM as at 30 June (\$m)</b>	<b>683</b>	<b>469</b>	<b>299</b>	<b>55</b>	<b>-</b>
Hour-Glass Listed Property Sector Return (% pa)	17.01	9.83	23.63	30.33	(44.37)
Benchmark Index Return (% pa)	20.16	7.62	29.33	39.05	(43.37)
<b>Total FUM as at 30 June (\$m)</b>	<b>205</b>	<b>204</b>	<b>203</b>	<b>350</b>	<b>303</b>
Hour-Glass Unlisted Property Sector Return (% pa) <sup>2</sup>	7.50	8.05	11.45	-	-
Benchmark Index Return (% pa)	8.33	8.73	9.50	-	-
<b>Total FUM as at 30 June (\$m)</b>	<b>751</b>	<b>639</b>	<b>521</b>	<b>-</b>	<b>-</b>
Hour-Glass Unlisted Infrastructure Sector Return (% pa) <sup>3</sup>	2.23	-	-	-	-
Benchmark Index Return (% pa)	0.95	-	-	-	-
<b>Total FUM as at 30 June (\$m)</b>	<b>123</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

<sup>1</sup> For period since inception (8 March 2010), not annualised.

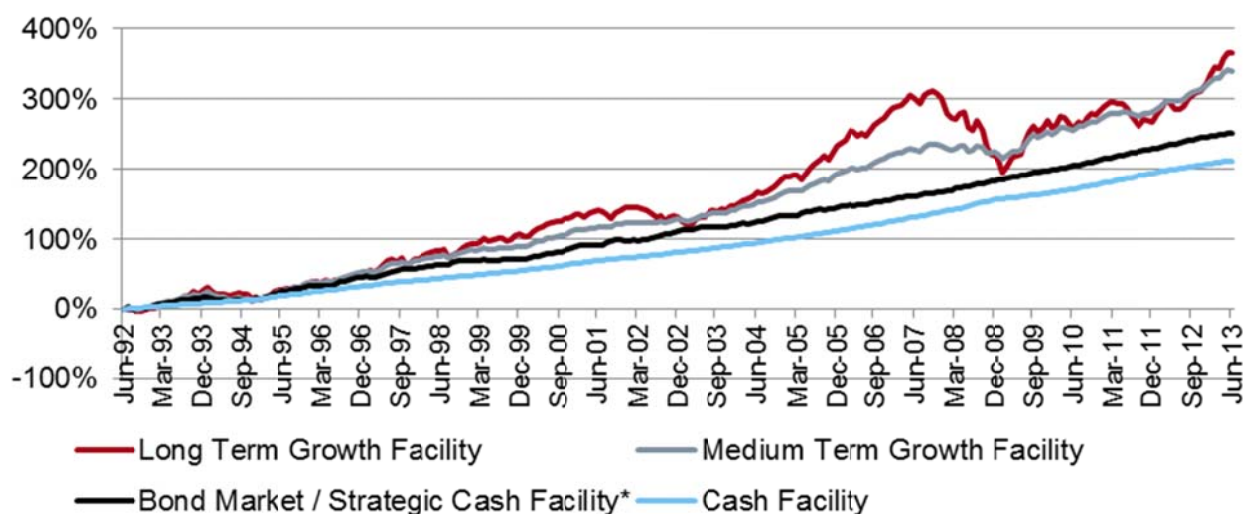
<sup>2</sup> For period since inception (27 August 2010), not annualised.

<sup>3</sup> For period since inception (16 May 2013), not annualised.

## Specific client facility

Statistics	2013	2012	2011	2010	2009
Combined Treasury Managed Fund Return (% pa)	18.64	(1.29)	8.56	8.37	(2.78)
Benchmark Index Return (% pa)	16.96	(0.45)	9.07	8.57	(3.99)
<b>Total FUM as at 30 June (\$m)</b>	<b>6,434</b>	<b>5,272</b>	<b>5,092</b>	<b>4,672</b>	<b>3,901</b>

## Hour-Glass cumulative returns since 1 June 1992



## Advisory and other services

### Corporate Finance

Complementing the activities of the broader risk advisory teams, the dedicated personnel in TCorp's Corporate Finance unit provide analytical, commercial and financial advice to NSW Treasury and other public sector entities. TCorp seeks to ensure that the client and the State achieve value for money and that results are within acceptable risk limits.

The Corporate Finance staff have considerable financial and commercial experience of public and private sector transactions, as well as highly developed quantitative and financial modelling skills. In carrying out its activities, the Corporate Finance unit is able to draw on the expertise of TCorp's Treasury and Economic resources. Corporate Finance also liaises with private sector participants and intermediaries, as part of TCorp's role as a bridge to the private sector financing community.

The 2013 financial year was an extremely busy and productive year for the Corporate Finance unit. Advisory work and the resulting fee income were dominated by work in the Local Government sector where significant assignments for the Division of Local Government were completed.

The Corporate Finance unit was initially engaged to undertake financial assessment and benchmarking reviews (financial assessment reports) for the 64 councils that applied for subsidised borrowings under the Government's Local Infrastructure Renewal Scheme (LIRS). This role was

subsequently expanded to cover sustainability assessments of all 152 NSW councils. Most of the financial assessment reports were completed during the year, with Corporate Finance required to supplement its resources with contracted credit analysts.

Corporate Finance prepared an overall report on the financial sustainability of Local Government in NSW, which was provided to the Independent Local Government Review Panel in April 2013. The Review Panel was established by the Government to develop options to improve the strength and effectiveness of Local Government in NSW.

Corporate Finance was also requested to undertake updated financial assessment reports of 49 councils that applied for subsidised borrowings under LIRS Round 2.

Other areas within NSW Treasury sought assistance on a number of projects and topics including:

- Investigation of the potential monetisation of part of future lotteries revenue duties;
- Social benefit bonds;
- Managed services contracts;
- Heavy vehicle charging and investment reform;
- Consideration of a potential German cross border lease;
- Appropriate discount rates;
- Fair value interest rates.

In the university sector, building on previous assignments and largely as a result of referrals, Corporate Finance undertook assignments assisting universities approaching the financial markets for debt facilities, in the evaluation of tender responses, and in obtaining the required NSW Government approvals, and other advisory work. Corporate Finance also assisted NSW Treasury in the review and approval of borrowing requests, and in some policy development initiatives.

Corporate Finance continued its funding and facility oversight role (in conjunction with State Fleet and NSW Treasury) for the budget sector agencies motor vehicle leasing arrangement which covers around 22,900 vehicles valued at more than \$540 million.

Management of various cross-border leases over rolling stock was active. Work included attending to the scheduled termination of several leases, attending to the impact of new Australian securities laws, administration of offshore entities including the liquidation of some, and the review and addressing of issues arising from the restructure of RailCorp and the creation of Sydney Trains and NSW Trains.

## Corporate governance

The Board of TCorp is committed to high standards of performance, accountability, ethical behaviour and corporate governance.

### Role of the Board

The Board's role, in accordance with the *Treasury Corporation Act 1983* (NSW), is to direct management in achieving the TCorp mission and to fulfil the annual agreement between the Board and the NSW Treasurer as set out in the Statement of Business Intent. The Board's primary responsibilities and corporate governance functions include:

- providing strategic direction and reviewing corporate strategy;
- identifying the principal risks of TCorp's business and, through rigorous inquiry, monitoring the risk management processes;
- determining an appropriate policy regime to control those risks within a risk spectrum acceptable to the NSW Government;
- regularly measuring financial performance against the Board approved annual budget;
- monitoring the conduct and the performance of TCorp and its senior management; and
- overseeing management's succession plans.

### Role of management

The Board has established a policy that documents the roles of the Board and the Chief Executive.

The Chairman of the Board is independent of the role of the Chief Executive.

### Board composition and appointments

The Board consists of:

- two ex-officio members from NSW Treasury;
- the Chief Executive, appointed by the NSW Governor on the recommendation of the NSW Treasurer; and
- five non-executive directors, appointed by the NSW Governor for a specified term on the recommendation of the NSW Treasurer.

The Chairman of the Board is the Secretary of NSW Treasury and the other member from NSW Treasury holds the position of Deputy Chairman.

### Conduct of Board business

The Board normally holds up to 12 Board meetings each year and will meet whenever necessary to carry out its responsibilities.

The Board has established a policy and a Code of Conduct and Ethics covering its conduct of Board business. The Board aims not only to comply with the requirements set out in the *Treasury Corporation Act 1983* (NSW), but also to incorporate practices commonly required by entities regulated by the *Corporations Act 2001* (Cth). The Board recognises that corporate governance is not an aspect of business that can be put in place and then forgotten; rather, it involves continuing

review and improvement, keeping track of industry trends and, after consideration and where appropriate, adopting them.

Board discussions, deliberations and decisions that are not required to be publicly disclosed are kept confidential by directors.

### **Conflicts of interest**

Directors must monitor and disclose any actual or potential conflicts of interest as these arise. The *Treasury Corporation Act 1983* (NSW) requires any director who has a pecuniary interest in a matter being considered, or to be considered, by the Board, to declare the nature of the interest. These declared interests are recorded in a publicly available register. Unless the NSW Treasurer determines otherwise, the director is required not to attend Board meetings about matters relating to declared pecuniary interests or to take part in decisions about these matters.

### **Committees**

Two Board committees, the Audit and Risk Committee and the Human Resources (HR) Committee, assist in decision making, oversight and control. Their contributions enable the Board to focus on strategy, planning and performance monitoring and enhancement.

#### **Audit and Risk Committee**

The Audit and Risk Committee acts as an advisory body to the Board on issues relating to internal and external audit, financial reporting, operational risk management and other accountabilities. The objectives of the Audit and Risk Committee are determined by the Board and codified in a charter. Consistent with best practice, all members of the Audit and Risk Committee are non-executive directors. The Audit and Risk Committee's primary responsibility is to provide independent assistance to the Board by overseeing, monitoring and reporting on:

- TCorp's governance, risk and controls frameworks (including internal and external audit functions), and its external accountability requirements; and
- TCorp's annual financial statements.

The Audit and Risk Committee meets a minimum of four times a year. The internal and external auditors have standing invitations to attend these meetings.

#### **Human Resources (HR) Committee**

The HR Committee acts as an advisory body to the Board on issues relating to TCorp's HR policies. The role of the HR Committee is to assure the Board that effective plans are in place to underpin continuous improvement in the return on TCorp's investment in people.

## Attendance at Board and Board Committee meetings

1 July 2012 - 30 June 2013

Board Members	Board		Audit and Risk Committee		HR Committee	
	Held	Attended	Held	Attended	Held	Attended
Philip Gaetjens Chairman	12	10				
Kevin Cosgriff <sup>1</sup> Deputy Chairman	8	8			1	1
Tim Spencer <sup>2, 3</sup> Deputy Chairman	4	4			2	2
Philip Chronican <sup>4</sup>	12	11	5	5		
Michael Cole <sup>3</sup>	12	11			3	3
Stephen Knight <sup>5</sup>	12	11	5	5	3	3
Kerry Schott <sup>3</sup>	12	9			3	3
Hon Alan Stockdale <sup>4</sup>	12	11	5	5		
Peter Warne <sup>4</sup>	12	11	5	4		

<sup>1</sup> Term as director finished effective 27 March 2013.

<sup>2</sup> Appointed as a director effective 28 March 2013.

<sup>3</sup> Member of HR Committee.

<sup>4</sup> Member of Audit and Risk Committee.

<sup>5</sup> Observer at both Audit and Risk Committee and HR Committee meetings.

## Board of Directors

TCorp's Directors in 2012/2013 were:

Director	Term	Qualifications and experience
P G (Philip) Gaetjens, Chairman	Ex-officio Appointed: 15 August 2011	BA (Hons) Grad Dip Prof Acc  Secretary, NSW Treasury and Board Member INSW Board. Over 30 years in Australian Commonwealth and State Government.
K F (Kevin) Cosgriff, Deputy Chairman	Ex-officio Appointed: 3 October 2006 Expired: 27 March 2013	BSc (Hons), M.A  Deputy Secretary, Fiscal and Economic NSW Treasury since 2001. Previously, NZ Treasury and UK Treasury – micro, macro policy.
T (Tim) Spencer, Deputy Chairman	Ex-officio Appointed: 28 March 2013	BEC (Hons)  Deputy Secretary, Commercial Policy and Financing NSW Treasury since 2012. Previously held senior appointments in Queensland Treasury, the South Australian Department of Treasury and Finance, the ACT Office of Financial Management and the Queensland Departments of Energy and Premier and Cabinet. Director, Port Botany Lessor Pty Ltd and Director, Port Kembla Lessor Pty Ltd
P W (Philip) Chronican	Expires: 31 October 2015	BCom (Hons), MBA (Dist)  Banking and finance industry for over 30 years. Chief Executive Officer Australia, Australia and New Zealand Banking Group Ltd. Former Group Executive Westpac Institutional Bank, and Chief Financial Officer, Westpac Banking Corporation.
M J (Michael) Cole	Expires: 30 September 2013	BEC, MEd, FFin  Banking and investment management for over 30 years. Chairman, Platinum Asset Management Ltd; Chairman, IMB Ltd; Chairman, Indemnified Loans Committee; Chairman, Ironbark Capital Ltd; Chairman, Challenger Listed Investments Ltd and Director, OneVue Ltd.
S W (Stephen) Knight	Ex-officio Appointed: 1 September 2005	BA, FAICD  Banking and public sector, financial management for over 30 years. Chief Executive, TCorp and Chairman, TCorp Nominees Pty Ltd. Director, Australian Financial Markets Association Ltd; Committee Member, Financial Services Council Investment Board and Member, CEDA NSW Advisory Council.



Director	Term	Qualifications and experience
K E (Kerry) Schott	Appointed: 16 January 2012 Expires: 15 January 2015	BA (Hons), MA, DPhil,  Director of Infrastructure Australia; Director, Whitlam Institute and Patron, National Advisory Board of Infrastructure Partnerships Australia, Board Member, Advisory Board of RREEF Infrastructure; Board Member of NBN Co and Chair, Moorebank Intermodal Company Ltd. Former Managing Director and Chief Executive of Sydney Water; Deputy Secretary of NSW Treasury; Managing Director of Deutsche Bank Australia and Executive Vice President Bankers Trust Australia.
Hon A R (Alan) Stockdale	Expires: 4 January 2014	BA, LLB  Barrister for 12 years. Chairman, Medical Research Commercialisation Fund Pty Ltd; Federal President, Liberal Party of Australia; Chairman, Master Builders' Association of Victoria Foundation; Chairman, City West Water; Syndicate Chairman, CEO Institute; Member of the Advisory Board of Lazard Australia Pty Ltd; Consultant, Yarris Pty Ltd; Consultant, Maddocks Lawyers; Strategic Adviser to the CEO, Metro Trains Melbourne Pty Ltd, Director EC Strategies Pty Ltd; Chairman, Advisory Board of CareerLounge Pty Ltd (Voluntary) and Consultant, Maddocks Lawyers. Member of Victorian Parliament for 15 years. Former Treasurer of Victoria and Minister for Information Technology and Multimedia. Former Executive Director, Macquarie Bank Ltd.
P H (Peter) Warne	Appointed: 16 January 2012 Expires: 15 January 2015	BA, FAICD  Director, Macquarie Group Ltd and Macquarie Bank Ltd. Director, ASX Limited, ASX Clearing Corporation Ltd, ASX Clear Pty Ltd, ASX Settlement Pty Ltd and Chairman, ASX Clear (Futures) Pty Ltd. Chairman, ALE Property Group; Director Crowe Horwath Australasia Ltd; Director, Securities Exchanges Guarantee Corporation Ltd; Director, Securities Research Centre of Asia Pacific; Director, Macquarie University Foundation; Member, Advisory Board of the Australian Office of Financial Management; Chairman, St. Andrew's Cathedral School Foundation and Chairman, OzForex Group Limited. Former head of Bankers Trust Australia Limited Financial Markets Group for 11 years.

## Risk management and compliance

Responsibility for risk management and compliance extends across the entire TCorp organisation.

The risk management framework and key financial parameters are established by the Board and documented in Board policies. This framework includes the establishment and regular monitoring of limits for market, credit and other risks.

In respect of risk management and compliance, the Audit and Risk Committee reports on whether management has in place a current and appropriate enterprise risk management process and a sound and effective internal control framework. To assist in this process, the Audit and Risk Committee receives regular reports from internal audit, external audit and TCorp management.

The Executive Risk and Compliance Committee (ERiCC) is a management committee reporting to the Chief Executive. It is charged with ensuring that Board policies are adequately embedded in business practice and that there are appropriate levels of supervision, controls, procedures, monitoring and training within the business units. ERiCC's activities are also subject to oversight by the Audit and Risk Committee. Risk management objectives are further supported by a range of management committees whose purpose is to oversee market and operational risk exposures and activities.

The Risk and Compliance department is the centralised function responsible for the day-to-day monitoring of Board policies, client mandates, management procedures and any other risk matters identified as potentially requiring attention. The department is responsible for daily reporting to management, monthly reporting to ERiCC and the Board, and quarterly reporting to the Audit and Risk Committee.

In conjunction with the Risk and Compliance department, the individual business units identify risks specific to their areas and develop controls to reduce those risks to acceptable levels. This decentralised approach ensures comprehensive identification of risks and entrenches management of them in the most appropriate areas.

This organisation-wide approach to risk management fosters a culture of risk awareness, with all levels of TCorp contributing to the framework and the detailed systems and processes that identify, control, monitor and report on risk.

## Legal and regulatory compliance

TCorp is regulated by several pieces of NSW legislation, including its own act, the *Treasury Corporation Act 1983* (NSW), as well as the *Public Finance and Audit Act 1983* (NSW), the *Annual Reports (Statutory Bodies) Act 1984* (NSW) and the *Public Authorities (Financial Arrangements) Act 1987* (NSW). TCorp is ultimately accountable to the NSW Parliament, through the NSW Treasurer.

TCorp is not regulated by the Australian Prudential Regulation Authority (APRA) or the Australian Securities and Investments Commission (ASIC), which govern most operators in the Australian financial markets. However, TCorp voluntarily adopts relevant industry practices which impose conventional market constraints.

TCorp's activities are subject to review and monitoring by a number of external parties, including:

- the NSW Treasurer, who is a Member of Parliament and the NSW Government shareholder representative;

- NSW Treasury, which maintains a shareholder monitoring role through quarterly and annual reporting requirements common to all NSW Government agencies and by representation on the TCorp Board; and
- the NSW Auditor-General, who reports to Parliament, provides an independent audit of TCorp's financial reports and expresses an opinion on those financial reports in line with the requirements of the *Public Finance and Audit Act 1983* (NSW).

Compliance is a key element of risk management and TCorp's compliance framework is structured to ensure adherence to applicable laws, regulations, contracts, industry standards and internal policies. Consistent with TCorp's risk management approach, compliance measures are subject to continuous monitoring and improvement. Any compliance issues are referred to the Chief Executive, ERiCC, the Audit and Risk Committee and/or the Board as appropriate.

### **Use of capital**

TCorp does not hold subscribed share capital in the conventional commercial sense. In consultation with its shareholder, the NSW Government, TCorp has retained from past profits an amount of \$132 million.

TCorp operates under self-imposed capital requirements based on prudential statements published by APRA. Within these TCorp specific capital constraints, TCorp manages market, credit and operational risks to ensure that the level of capital is sufficient to cover the financial risks incurred in its daily business.

Capital usage is calculated daily and monitored against Board approved limits. Management reports are produced daily and summary reports are presented monthly to the Board.

### **Market risk**

TCorp uses a Value-at-Risk model based on historical simulation to assess capital requirements arising from market risk. The model captures the potential for loss of earnings or changes in the value of TCorp's assets and liabilities arising from movements in interest rates and key credit spreads and from fluctuations in the prices of bonds or other financial instruments.

### **Credit risk**

In conducting its business, TCorp invests in high grade financial assets issued by parties external to the whole of the NSW Government grouping. The return achieved on these financial assets must be sufficient to protect against loss in value caused by a decline in the counterparty's creditworthiness or ultimate default.

Credit exposures are monitored daily against Board approved limits.

### **Operational risk**

Operational risk can arise from events such as settlement errors, system failures, procedure breakdowns and external factors. TCorp reviews all possible risks of this nature, assesses the mitigating factors and controls and evaluates the residual risks. TCorp uses Cura software to aid the identification and measurement of risk and implementation of associated internal controls. High risks are managed by improving procedures and process flows, ensuring appropriate segregation of duties, insurance cover and business continuity plans. TCorp allocates capital to cover operational risk.



## **Auditor independence**

TCorp is audited annually by the Audit Office of NSW. The *Public Finance and Audit Act 1983* (NSW) further promotes independence of the Audit Office by ensuring that only Parliament, not the Executive Government, can remove the Auditor-General and by precluding the provision of non-audit services to all public sector agencies.

PwC is engaged to undertake internal audit projects as approved by the Audit and Risk Committee under TCorp's Audit and Risk Committee and Internal Audit charters and to report findings independently to the Audit and Risk Committee.

## **Code of conduct and ethics**

All TCorp staff members sign the TCorp Code of Conduct and Ethics. The Code sets out what is expected of staff in their business affairs and in dealings with clients and other parties. It demands high standards of personal integrity and honesty in all dealings and a respect for the privacy of clients and others. By signing a copy of the Code, staff acknowledges that they have understood it and agree to act according to its requirements.

## **Service delivery**

TCorp as an integrated financial services provider, deliver comprehensive liability and investment management services for NSW Treasury and Government businesses. TCorp's client activities are subject to the governance oversight of its Board and management, supported by an excellent, market risk, IT and back office team.

Many Government businesses contract out their liability management to TCorp or retain TCorp as an advisor. Also, TCorp's investment management business has continued to evolve with the introduction of a new bank term deposit distribution services, which saw strong demand during the year. These are fully contestable activities and it is pleasing that TCorp has such a strong presence in these businesses.

In addition to portfolio management, major clients receive ancillary 'value add' services such as provision of portfolio risk and financial accounting reporting and input from TCorp's economics and risk advisory team. During the year TCorp worked with the NSW regulated utilities, regulators and industry groups in developing a new debt benchmark for the determination process. This will be finalised during FY14 and TCorp will assist our clients in managing the risks imposed by the new benchmark. TCorp's core lending business for the Government and agencies continued its significant growth over the year, and this involved considerable client servicing from TCorp, especially through advising on and implementing loan structures.

TCorp and its products and services again achieved high results in the annual client satisfaction survey. The level of client service achieved was supported by a detailed survey conducted with individual clients by an independent consulting firm.

## **Credit card certification**

In accordance with Treasury Policy and Guidelines Paper 05-01, the Chief Executive certifies that credit card use by TCorp staff complies with Board approved policies and procedures.

## Internal Audit and Risk Management Statement for the 2012-2013 Financial Year for NSW Treasury Corporation

The Directors are of the opinion that, in all material respects, NSW Treasury Corporation has internal audit and risk management processes in operation that are compliant with the core requirements set out in Treasury Circular NSW TC 09/08 Internal Audit and Risk Management Policy.

The Directors are of the opinion that the Audit and Risk Committee for NSW Treasury Corporation is constituted and operates in accordance with the independence and governance requirements of Treasury Circular NSW TC 09/08. At 30 June 2013, the Chair and Members of the Audit and Risk Committee were:

Member	Status	Commencement date
Mr Philip Chronican	Independent	March 2010
Mr Alan Stockdale	Independent	December 2010
Mr Peter Warne	Independent	March 2012

These processes provide a level of assurance that enables the senior management of NSW Treasury Corporation to understand, manage and satisfactorily control risk exposures

The Directors declare that this Internal Audit and Risk Management Attestation is made on behalf of the following controlled entities:

- Treasury Corporation Division of the Government Service
- TCorp Nominees Pty Limited

**Stephen Knight in accordance with a resolution of the Directors of NSW Treasury Corporation**



**30 August 2013**

## Human resources

The key issues for human resource (HR) management and their outcomes were:

### Organisational design and resourcing

The annual Strategic Plan identified potential threats and opportunities for Human Resources. Significant organisation design and structural changes were implemented in 2012/13 to better align resources and activities to meet strategic objectives and better reflect the current operations of TCorp. These changes took place throughout 2012/13 and across most business areas, resulting in a major re-organisation of TCorp and better alignment of management and business structures with its strategic focus. An outcome of this reorganisation was the flattening out of the reporting lines to the Chief Executive, specifically in relation to front office businesses, resulting in an increase in the number of Executive Officers from 6 to 8.

The project undertaken by Corporate Finance reviewing the State's councils required significant contingent resourcing throughout the course of FY13, which was proactively managed by Human Resources to ensure that resourcing did not impact key project objectives or milestones.

Significant projects in 2012/13 championed by the Information Technology team to ensure TCorp's ongoing ability to meet clients' needs and Financial Markets' best practice in respect of systems, processing and control resulted in higher than normal contingent workforce requirements. These requirements were fluctuating over the course of the period and diverse in skill set and length of engagement therefore requiring a strong focus on this specific segment of the workforce in terms of resource planning and support.

### Training, development and communication

TCorp continued to promote a culture of learning and development to support employee performance in their varied roles across the organisation. 100% of employees undertook training and development which is equivalent to the previous year. Training activities included industry events, financial markets training, compliance training, tertiary education and leadership development.

12 employees pursued post graduate qualifications in FY13. The range of qualifications includes CPA Program Foundation, CFA, Masters of Professional Accounting, Master of Management in Management, Masters of Applied Finance, Masters of Business in IT Management, Bachelor of Technology (Computing Science), Diploma in Law and Bachelor of Business.

In addition to individual specific training based on personal development plans typically sourced from third-party public courses, TCorp has taken an organisational wide programme approach to provide fundamental platforms for key organisational development areas, ensure consistency in language and approach as well as cost efficiencies from in-house course provision.

TCorp ran its second internal mentoring programme in FY13, "TCorp Meridian Mentoring Programme". The programme is run over a six month period and involves a series of training sessions for Mentors and Mentees, as well as MBTI and other tools. The programme received strong interest by employees and senior staff, and has received very positive feedback. Other employees requesting specific sector exposure were referred to industry body mentoring programmes and networking groups.



In FY13, TCorp continued with a programme of development focussing on communication, presentation and influencing skills which was introduced in FY12 to ensure consistency across TCorp, reflective of financial services best practice. All courses received an average rating from participants of 90% or above.

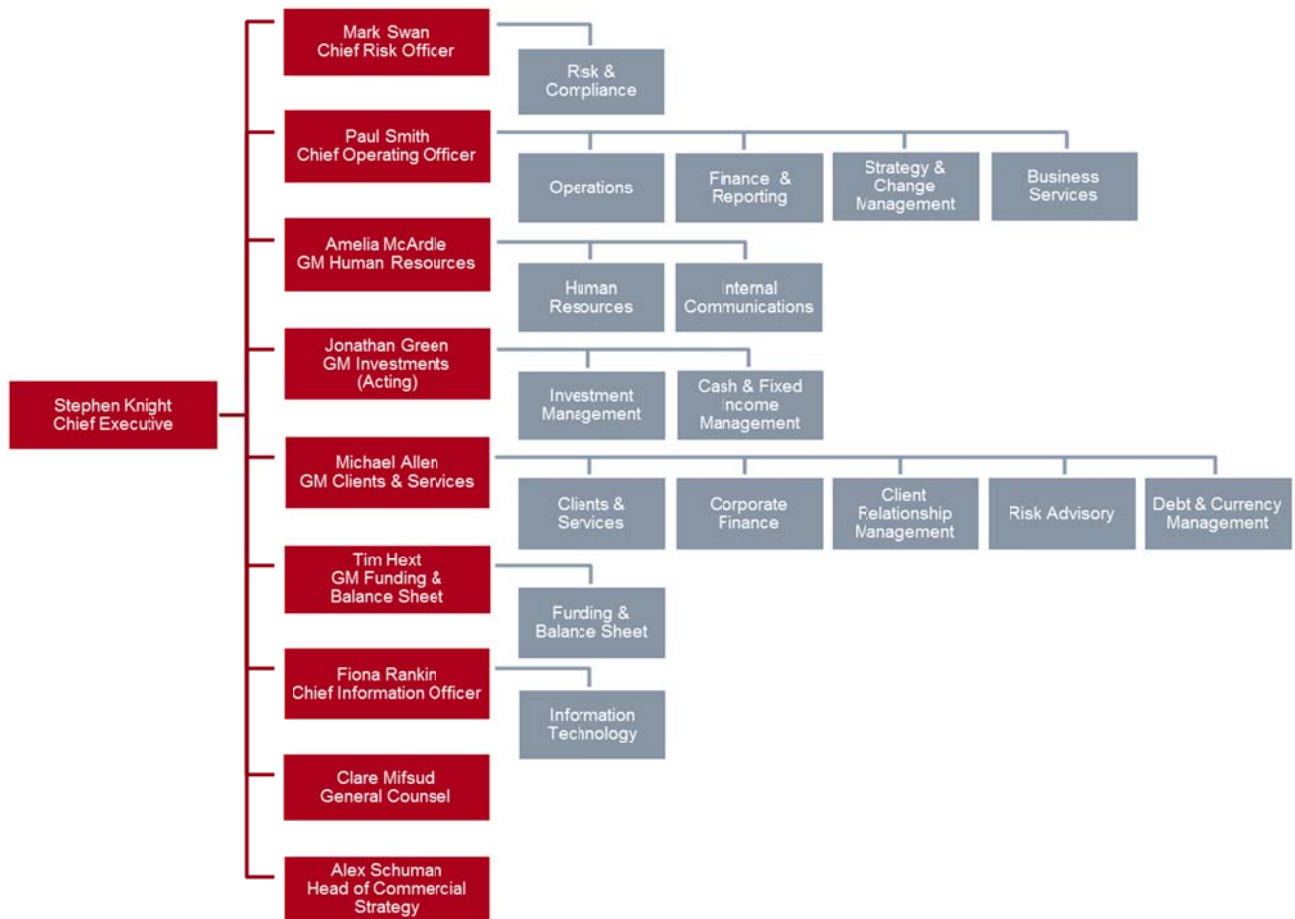
Senior management participated in various strategic industry conferences during the year hosted mainly by financial institutions including the Women in Banking & Finance NSW Network (WIB&F), the Committee for Economic Development of Australia (CEDA), and the Australian Financial Markets Association (AFMA).

### **Executive officers**

Chief Executive	S W Knight, BA FAICD
General Manager, Clients & Services	M J Allen, B.Ec
General Manager, Funding & Balance Sheet	T J Hext, BCom, MEconDev
General Manager, Investments (Acting)	J E Green, AssocDipBus, FIPASAFin
Chief Operating Officer	P A Smith, BCom, CA, FFin
Chief Risk Officer	M A Swan, B.Bus
General Manager, Human Resources	A J McArdle, BA
Chief Information Officer	F Rankin, BEc, MBus, AICD



## Organisation structure (current as at 30 June 2013)





## Executive performance

The Board adopts a balanced scorecard approach to assess and measure the effectiveness of TCorp's business and senior management. The performance related incentive payments are derived from the results of the balanced scorecard and individual performance indicators for the year ended 30 June 2013.

Name	Position	Remuneration & performance payment	Statement of performance
S Knight	Chief Executive	Remuneration: \$610,000 Performance Payment: \$281,000	The Chief Executive's Performance Related Incentive Payment is directly correlated to the outcome of TCorp's corporate balanced scorecard. These components include cost effective funding, debt and asset portfolio management, investment management, organisational capability, client service, and project & structured finance. The Chief Executive can earn a maximum incentive reward of 60% of his fixed remuneration in any one year. The assessment for each of the components of the balanced scorecard for the financial year resulted in an outcome of 76.8%.
M Allen	General Manager, Clients and Services	Remuneration: \$480,000 Performance Payment: \$254,000	The General Manager Clients and Services' Performance Related Incentive Payment is based on 70% weighting correlated to the outcomes of the corporate balanced scorecard, and 30% weighted against individual KPI results. For the 2012/13 year, the General Manager Clients and Services could earn a maximum incentive reward of 75% of his fixed remuneration. The assessment for the balanced scorecard and KPI's for the financial year resulted in an outcome of 71%.
T Hext	General Manager, Funding and Balance Sheet	Remuneration: \$344,000 Performance Payment: \$227,000	The General Manager, Funding and Balance Sheet's Performance Related Incentive Payment is based on 70% individual performance indicators and 30% corporate balanced scorecard. For the 2012/13 year, the General Manager, Funding and Balance Sheet could earn a maximum incentive reward of 80% of his fixed remuneration. The assessment for the balanced scorecard and KPI's for the financial year resulted in an outcome of 83%.

Name	Position	Remuneration & performance payment	Statement of performance
P Smith	Chief Operating Officer	Remuneration: \$292,000 Performance Payment: \$104,500	The Chief Operating Officer performance related incentive payment is based on 50% individual performance indicators and 50% corporate balanced scorecard. For the 2012/13 year, the Chief Operating Officer has delivered a strong, and at times exemplary, performance against established key performance indicators. The maximum eligible incentive reward is 45% of his fixed remuneration.
M Swan	Chief Risk Officer	Remuneration: \$256,500 Performance Payment: \$85,500	The Chief Risk Officer's performance related incentive payment is based on 50% individual performance indicators and 50% corporate balanced scorecard. For the 2012/13 year, the Chief Risk Officer has delivered a result that is above expected performance against established key performance indicators. The maximum eligible incentive reward is 45% of his fixed remuneration.
F Rankin	Chief Information Officer	Remuneration: \$287,000 Performance Payment: \$95,500	The Chief Information Officer's performance related incentive payment is based on 50% individual performance indicators and 50% corporate balanced scorecard. For the 2012/13 year, the CIO has delivered a strong, and at times exemplary, performance against established key performance indicators. The maximum eligible incentive reward is 45% of her fixed remuneration.

	2013	2012
Number of Executive Officers	8	6
Number of Female Executive Officers	2	2

### Number of employees

	F13	F12	F11	F10
Chief Executive	1	1	1	1
Executive Officers (excluding Chief Executive)	7	5	5	5
Senior Employees	73.33	61.45	50.50	53.23
Support Employees	18.91	25.35	26.40	23.08
<b>Total</b>	<b>100.24</b>	<b>92.80</b>	<b>92.90</b>	<b>81.31</b>



## **Performance reviews**

The Audit Office of NSW did not undertake any performance reviews of TCorp during the year. The outcome of all internal and external audits and reviews were satisfactory.

## **Exceptional movements in salaries**

There was one individual awarded an exceptional movement (ie greater than 10% increase) in salary in 2012/13. This increase was based on the fact that the individual had historically lagged behind the market median for the position by a substantial amount, and required a larger increment to bring them closer to a market based remuneration level. (TCorp overall movement in salaries including this exception was 2.5%).

## **Occupational health and safety**

There was one workers compensation injury for the year. TCorp followed due process in accordance with the Workers Compensation procedures, and WHS policies and procedures. The staff member has had consultations with treating specialist. The claim is still open.

## **Industrial relations policies**

There were no unfair dismissal claims during the year and no time was lost as a result of industrial disputes.

## **Multicultural policies and disability plan**

As TCorp activities are not generally directed toward or accessed by the general public, our disability planning is aligned to supporting our small workforce. The overarching framework of TCorp's disability plan is in compliance with the relevant legislation (both disability and anti-discrimination) of all policies, procedures and practices in respect of employment, including recruitment and selection, promotion and transfer, and training. Our office accommodation complies with the Australian Building Code and Standards. A recent review of emergency and evacuation procedures has been undertaken, with procedures and training updated to include specific new procedures catering for disabled and less mobile staff and visitors to TCorp. Currently TCorp does not employ any staff who have indicated that they are disabled or require workplace adjustments, however all employees are asked to indicate such needs at the time of their induction to ensure appropriate measures to accommodate their needs can be put in place.

TCorp does not provide services directly to the public however being a small employer we value the diversity of our workforce and the benefits this diversity brings to our organisation. This is demonstrated in our policies, values and the way we work together, ensuring adherence to ethnic affairs legislative requirements. In recognition of the multicultural workforce at TCorp, we hold an annual informal celebration of ethnicity and multiculturalism where employees can share foods, customs and stories of their cultural heritage. This event is a highlight of the employee annual calendar of events.

TCorp issues Waratah Fixed Rate Bonds as Complying Investments to meet investment conditions around immigration. The Waratah Bonds brochure has been translated into Arabic, Japanese, Korean, Chinese and Hindi. Copies of these translations are available on the Waratah Bonds website. TCorp has also advertised the Waratah Fixed Rate Bonds and Waratah Annuity Bonds in Greek, Chinese, Arabic, Italian, Korean and Vietnamese publications.



## **Equal Employment Opportunity (EEO) statistical information**

TCorp's Code of Conduct and Ethics is reviewed annually, and all staff are required to formally acknowledge they have read and understood the Code. The Code includes TCorp's policies on Harassment, Bullying and Discrimination and also details the organisation's procedures for dealing with such matters should they arise.

All staff at TCorp have undertaken compulsory annual Appropriate Workplace Behaviour training, which addresses discrimination in the workplace. In FY13, TCorp introduced an additional employee referral service which assists employees in sourcing dependent care and services and other lifestyle services. The provision of this service reinforces our support for a diverse workforce with diverse personal circumstances.

In FY14 TCorp will be conducting a series of appropriate workplace behaviour training as well as introducing a management training series on understanding unconscious bias in the workplace to further assist managers when making recruitment and management decisions. TCorp will be launching a refreshed online employee induction program to be completed by all employees within five days of joining the organisation. This program outlines the principles and objectives of TCorp's EEO and workplace policies, and the standards and behaviours expected of all employees.

**Table A. Trends in the representation of EEO groups <sup>1</sup>**

Trends in the representation of EEO groups	Benchmark or Target	% of Total staff <sup>2</sup>			
		2010 %	2011 %	2012 %	2013 %
Women	50%	39	43.2	38.8	40.7
Aboriginal people and Torres Strait Islanders	2.6% <sup>3</sup>	0	0	0	0
People whose first language was not English	19%	35	33.7	33.0	29.2
People with a disability	N/A <sup>4</sup>	0	0	0	0
People with a disability requiring work-related adjustment <sup>5</sup>	1.1% (2011) 1.3% (2012) 1.5% (2013)	0	0	0	0

**Table B. Trends in the distribution of EEO groups <sup>6</sup>**

Trends in the distribution of EEO groups	Benchmark or Target	Distribution Index <sup>7</sup>			
		2010	2011	2012	2013
Women	100	84	92	89	87
Aboriginal people and Torres Strait Islanders	100	N/A	N/A	N/A	N/A
People whose first language was not English	100	86	91	93	91
People with a disability	100	N/A	N/A	N/A	N/A
People with a disability requiring work-related adjustment <sup>5</sup>	100	0	0	0	0

<sup>1</sup> Staff numbers are as at 30 June.

<sup>2</sup> Excludes casual staff.

<sup>3</sup> Minimum target by 2015.

<sup>4</sup> Per cent employment levels are reported but a benchmark level has not been set.

<sup>5</sup> Minimum annual incremental target.

<sup>6</sup> A Distribution Index of 100 indicates that the centre of the distribution of the EEO group across salary levels is equivalent to that of other staff. Values less than 100 mean that the EEO group tends to be more concentrated at lower salary levels than is the case for other staff. The more pronounced this tendency is, the lower the index will be. In some cases the index may be more than 100, indicating that the EEO group is less concentrated at lower salary levels.

<sup>7</sup> Excludes casual staff.

## Other required disclosures

### Waste reduction and purchasing policy

TCorp's waste reduction and purchasing strategies focus on reducing energy consumption and waste and increasing the use of environmentally-friendly products.

TCorp's practices such as using default double-sided printing on multi-functional devices, implementing active energy manager functionality on IT equipment, using virtual servers rather than physical servers and installing more efficient lighting systems help to reduce energy consumption. TCorp purchases 25% of its power through an accredited Green Power contract.

Recycling is encouraged at TCorp through the use of a two bin system within the office, appropriately recycling material that is securely destroyed, recycling used printer and fax toner cartridges and using recycled paper where possible. Where feasible, TCorp also recycles obsolete technology equipment and uses a provider that is fully compliant with environmental legislation and international best practice standards for equipment disposal.

### Exemptions from the reporting provisions

TCorp has received an ongoing exemption from the provisions of clause 12(1) of the *Public Finance and Audit Regulation 2010* pertaining to the location of disclosures concerning deferred employee entitlements. In accordance with clause 12(4) of these regulations, details have been disclosed in the financial statements.

TCorp has also been granted exemptions from clauses 12 and 13 of the *Annual Reports (Statutory Bodies) Regulation 2010*, relating to reporting on the performance of the liability portfolio, benchmark portfolio and investments.

TCorp's prime business is the raising of debt in the private sector capital markets and the on-lending to the New South Wales government sector. The profile of the borrowings from the private sector is substantially determined by the amounts and maturities required by the government and public authorities. As such, unlike other authorities that fall under this legislation, TCorp is not in a position to actively manage its "liability portfolio" in a manner that is readily comparable with a "benchmark portfolio" as contemplated by the Regulation. Any savings made by TCorp in connection with its debt are however reflected in the statutory accounts for the year.

In conducting its prime business activity, TCorp maintains, for appropriate prudential reasons, a pool of financial assets that provide a necessary liquidity buffer. As such, unlike other authorities that fall under this legislation, with minor and immaterial exceptions, all of TCorp's assets, as well as its liabilities, are financial. The assets are not considered "surplus funds" in terms of the legislation, and can be seen as directly related to the prime business of TCorp, rather than an ancillary activity of an authority.

## Promotion

Overseas visits undertaken:

Officer	Visit undertaken	Purpose
M Allen	July 2012	Daiwa Central Bankers Seminar and Citi Asia Conference (Tokyo)
S Knight	Sep 2012	European Investor Roadshow (Rome, Amsterdam, Paris, Zurich, Warsaw, Vienna, Budapest, London)
M Allen	Sep 2012	Deutsche Bank Investor Mission (New York, Bogota, Lima, Mexico, L.A.)
T Hext	Sep 2012	Asia Roadshow and Deutsche Bank Investor Mission (Hong Kong, Beijing, Taipei)
F Trigona	Sep 2012	London Panel Meetings and Deutsche Bank Investor Mission (London)
S Knight	Feb 2013	Trip with Treasurer - Rating Agencies and Investor Meetings (London, New York, L.A.)
J Green	April 2013	Investment Operation and Custody Conference (Shanghai, Hangzhou)
F Trigona	May 2013	Nomura Central Bankers Seminar (Tokyo)
S Knight	June 2013	UBS Central Bankers Conference (Zurich)
J Green	June 2013	Investment Management Research Trip (Amsterdam, Stockholm, London, Toronto, Boston, New York)
K Willment	June 2013	Investment Management Research Trip (Amsterdam, Stockholm, London, Toronto, Boston, New York)

## Consultants

Consultant	2013 \$ Cost (inclusive of GST)
Blackdot Consulting Pty Ltd	181,500
<b>Consultancies equal to or more than \$50,000</b>	<b>181,500</b>
Information Technology Consulting	6,369
Human Resources Remuneration Consulting	12,210
Organisation Capital Management Consulting	41,954
<b>Consultancies less than \$50,000</b>	<b>60,533</b>

From time to time, TCorp may also engage consultants on behalf of other government agencies. To the extent that these costs are ultimately borne by those agencies, they are not reported here.



## **Annual report cost**

The total external cost to produce this report is less than \$100 (inclusive of GST).

## **Electronic service delivery**

TCorp has provided three primary interfaces for electronic communication with its customers and the general public at large. These sites provide information about the various areas of service and product that TCorp makes available.

### **Website [[www.tcorp.nsw.gov.au](http://www.tcorp.nsw.gov.au)]**

This site provides information relating to TCorp and the various activities in which it is engaged. The site has been designed to cater for the needs of all users including the financial markets, government agencies and retail investors (for Designated Investments and Complying Investments). The design aims at ensuring that the website is useable for all users irrespective of the technology employed or level of technical skill.

### **Clients' secure data site**

This site is only accessible to TCorp's agency customers and requires a valid user-ID and password for use. It provides information for agencies that outsource to TCorp the management of their debt or asset portfolios.

For those agencies investing with the Hour-Glass Investment Trusts, information is provided including both daily transactional and balance information and statements at month end. The data is updated each business day reflecting status as at the close of the previous business day.

For agencies which are using TCorp for management of their debt portfolio, the site again provides data refreshed each business day. It supplies reports showing transactional information and portfolios relating to cash positions and securities.

### **Website [[www.waratahbonds.nsw.gov.au](http://www.waratahbonds.nsw.gov.au)]**

This site provides information relating to TCorp's retail bond offerings. The site has been designed to cater for the needs of all users. The design aims at ensuring that the website is useable for all users irrespective of the technology employed or level of technical skill.

## **Consumer response**

During the year, TCorp continued to promote its products and services to public sector agencies and businesses. This was carried out by means of visits to clients (including their senior executives and boards of directors), as well as functions, educational seminars and publications. Similar promotional work was directed at private sector financial intermediaries and institutional investors, both in Australia and overseas.

TCorp again received largely positive feedback from clients and market participants, including excellent feedback through formal surveys.

TCorp strives to achieve an ethical and honest workplace. If your experience is otherwise please contact our Chief Executive, Mr Stephen Knight, on (02) 9325 9325.



#### **i. Hour-Glass Investment Trusts**

TCorp's Hour-Glass Investment Trusts are managed investment funds for NSW public sector investors. The Hour-Glass offers funds designed for the differing investment purposes and horizons of individual public sector investors. As at 30 June 2013 investments totalled \$12.9 billion. A register is kept of any significant complaints made regarding the Hour-Glass Investment Trusts.

No complaints were recorded during the year.

#### **ii. Waratah Bonds**

TCorp offers NSW Waratah Bonds to the public and a register is maintained of any complaints received.

No complaints were recorded during the year.

### **Public Interest Disclosures Act 1994**

The *Public Interest Disclosures Act* 1994 (PID Act) gives public sector employees a secure and confidential process for disclosing serious wrongdoing in the workplace, as well as protection from acts of reprisal. It is part of the Government's ongoing commitment to promoting ethical practices in the public sector.

TCorp's policy meets obligations under the PID Act to institute and enhance the internal reporting system. It allows for reporting disclosures of corrupt conduct, maladministration or serious and substantial waste of public money by staff. It also takes steps to protect staff that make such disclosures from any detrimental action or reprisals as a result of making those disclosures.

As a matter of course, all new staff are advised during induction, and existing staff are regularly advised, of their obligations under the PID Act and TCorp's internal reporting arrangements.

TCorp has appointed one Public Interest Disclosure Officer. No matters have been reported under the PID Act in 2013.

### **Privacy management**

In accordance with the *Privacy and Personal Information Protection Act* 1998 (PPIP Act), TCorp has prepared a Privacy Management Plan and has a designated Privacy Officer. There have been no Internal Reviews conducted by or on behalf of TCorp under Part 5 of the PPIP Act during the reporting period.



## Payment performance indicators

Aged analysis at end of each quarter

Quarter	Current (within due date) \$'000	Less than 30 days overdue \$'000	Between 30 and 60 days overdue \$'000	Between 61 and 90 days overdue \$'000	More than 90 days overdue \$'000
<b>All suppliers</b>					
September	994	0	0	0	0
December	87	0	0	0	0
March	867	0	0	0	0
June	127	1	0	0	0
<b>Small business suppliers</b>					
September	0	0	0	0	0
December	0	0	0	0	0
March	15	0	0	0	0
June	0	1	0	0	0

Accounts due or paid within each quarter

Measure	Sep 2012	Dec 2012	Mar 2013	Jun 2013
<b>All suppliers</b>				
Number of accounts due for payment	560	594	670	716
Number of accounts paid on time	560	594	670	715
Actual percentage of accounts paid on time (based on number of accounts)	100%	100%	100%	100%
Dollar amount of accounts due for payment	7,222,908	4,858,517	5,237,708	7,735,743
Dollar amount of accounts paid on time	7,222,908	4,858,517	5,237,708	7,734,893
Actual percentage of accounts paid on time (based on \$)	100%	100%	100%	99.99%
Number of payments for interest on overdue accounts	0	0	0	1
Interest paid on overdue accounts	0	0	0	0



Measure	Sep 2012	Dec 2012	Mar 2013	Jun 2013
<b>Small Business Suppliers</b>				
Number of accounts due for payment to small businesses	51	53	47	68
Number of accounts due to small business paid on time	51	53	47	67
Actual percentage of small business accounts paid on time (based on number of accounts)	100%	100%	100%	99%
Dollar amount of accounts due for payment to small business	294,605	265,834	227,750	308,502
Dollar amount of accounts due to small business paid on time	294,605	265,834	227,750	307,652
Actual percentage of small business accounts paid on time (based on \$)	100%	100%	100%	99.7%
Number of payments to small business for interest on overdue accounts	0	0	0	1
Interest paid to small business on overdue accounts	0	0	0	0

#### **Late payment interest**

No late payment interest was incurred in the year ended 30 June 2013.

## Budgets for the years ended 30 June 2013 and 30 June 2014

	2013 Budget \$'000	2013 Actual \$'000	2014 Proforma Budget \$'000
Management of balance sheet/capital markets activity	103,310	144,554	106,693
Management of client liabilities	6,642	6,717	5,967
Management of client assets	11,287	13,923	11,758
Corporate finance activity, guarantees and other fees	2,547	3,700	1,357
<b>Total income</b>	<b>123,786</b>	<b>168,894</b>	<b>125,775</b>
Transaction costs	2,747	2,119	2,113
Administration expenses			
Staff costs	24,639	23,575	24,990
Finance services costs	1,863	1,624	1,757
Promotion costs	973	634	1,018
Computer costs	8,206	8,088	8,198
Premises and administration costs	5,547	5,628	4,894
<b>Total transaction and administration costs</b>	<b>43,975</b>	<b>41,668</b>	<b>42,970</b>
<b>Operating profit before tax equivalent expense</b>	<b>79,811</b>	<b>127,226</b>	<b>82,805</b>

### Legal change

There were no significant legal changes during this financial year.

### Controlled entities

TCorp has two controlled entities; Treasury Corporation Division of the Government Service (Treasury Corporation Division) and its wholly owned subsidiary, TCorp Nominees Pty Limited.

The principal activity and objective of Treasury Corporation Division is to provide employment services to TCorp, pursuant to the requirements of the *Public Sector Employment and Management Act 2002*. Treasury Corporation Division is deemed a controlled entity of TCorp, in accordance with TC 11/19.

TCorp Nominees Pty Limited's principal activity and objective is to act as a security trustee in relation to financing of a hospital for which TCorp has advanced funds.

The audited financial reports of the controlled entities are included in this report.



### **Issues raised by the Auditor**

The Auditor-General's report under Section 43 of the *Public Finance and Audit Act* 1983 for the years ended 30 June 2013 and 30 June 2012 raised no significant issues.

The Auditor-General's Volume Five 2012 Report to Parliament tabled in November 2012 included a report on TCorp which raised no significant audit issues.

The Auditor-General's 2013 Report to Parliament concerning the year ended 30 June 2013 has not been received as at the date of this report.

### **Post balance date events**

No material post balance events have occurred up to the date of this report.



## **Financial statements**

### **TCorp**

The audited financial statements for TCorp for the year ended 30 June 2013 commence on the next page and finish on page 92.

### **Controlled entity – Treasury Corporation Division**

The audited financial statements for Treasury Corporation Division for the period ended 30 June 2013 commence on page 96 and finish on page 107.

### **Controlled entity – TCorp Nominees Pty Ltd**

The audited financial statements for TCorp Nominees Pty Ltd for the year ended 30 June 2013 commence on page 111 and finish on page 118.

All financial information quoted before this section and after page 121 is unaudited.



**NEW SOUTH WALES TREASURY CORPORATION  
STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2013**

**Statements of comprehensive income**

		<b>CONSOLIDATED</b>		<b>CORPORATION</b>	
		<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Income from changes in fair value	2	4,970,893	8,174,991	4,970,893	8,174,991
Less: Expenses from changes in fair value	3	(4,823,167)	(8,076,666)	(4,823,167)	(8,076,666)
<b>Net income from changes in fair value</b>		<b>147,726</b>	<b>98,325</b>	<b>147,726</b>	<b>98,325</b>
Fees and commissions	4	24,340	22,057	24,340	22,057
<b>Total net revenue</b>		<b>172,066</b>	<b>120,382</b>	<b>172,066</b>	<b>120,382</b>
<i>Less: General administrative expenses</i>					
Staff costs		(23,901)	(18,331)	(1,902)	(1,333)
Personnel services costs		-	-	(21,673)	(17,508)
Financial services costs		(1,624)	(1,681)	(1,624)	(1,681)
Information technology costs		(8,088)	(10,102)	(8,088)	(10,102)
Premises and administration costs		(6,262)	(6,265)	(6,262)	(6,265)
<b>Total general administrative expenses</b>		<b>(39,875)</b>	<b>(36,379)</b>	<b>(39,549)</b>	<b>(36,889)</b>
Transaction issuance fees		(3,172)	(4,501)	(3,172)	(4,501)
Other transaction costs		(2,119)	(2,351)	(2,119)	(2,351)
<b>Total transaction costs</b>		<b>(5,291)</b>	<b>(6,852)</b>	<b>(5,291)</b>	<b>(6,852)</b>
<b>Total general administrative and transaction costs</b>	4	<b>(45,166)</b>	<b>(43,231)</b>	<b>(44,840)</b>	<b>(43,741)</b>
<b>Profit before income tax equivalent expense</b>		<b>126,900</b>	<b>77,151</b>	<b>127,226</b>	<b>76,641</b>
Income tax equivalent expense	1(c)	(38,168)	(22,992)	(38,168)	(22,992)
<b>Profit for the year</b>		<b>88,732</b>	<b>54,159</b>	<b>89,058</b>	<b>53,649</b>
<b>Other comprehensive income/(loss)</b>					
<i>Items that will not be reclassified to profit or loss:</i>					
Actuarial gain/(loss) on defined benefit plans	4	326	(510)	-	-
<b>Total comprehensive income for the year</b>		<b>89,058</b>	<b>53,649</b>	<b>89,058</b>	<b>53,649</b>

The accompanying notes form part of these financial statements.



**NEW SOUTH WALES TREASURY CORPORATION  
STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2013**

**Balance sheets**

		CONSOLIDATED		CORPORATION	
		2013	2012	2013	2012
	Note	\$'000	\$'000	\$'000	\$'000
<b>Assets</b>					
Cash and liquid assets	5	952,827	1,650,752	952,827	1,650,752
Outstanding settlements receivable	1(e)	34,802	-	34,802	-
Due from financial institutions	6	6,285,218	3,353,203	6,285,218	3,353,203
Securities held	7	5,559,197	6,216,622	5,559,197	6,216,622
Derivative financial instruments receivable	14	553,068	594,085	553,068	594,085
Loans to government clients	8	59,330,677	58,406,519	59,330,677	58,406,519
Other assets	9	15,202	26,653	14,983	26,589
Plant and equipment	10	6,052	5,980	6,052	5,980
<b>Total assets</b>		<b>72,737,043</b>	<b>70,253,814</b>	<b>72,736,824</b>	<b>70,253,750</b>
<b>Liabilities</b>					
Due to financial institutions	11	4,240,775	6,639,725	4,240,775	6,639,725
Outstanding settlements payable	1(e)	144,249	25,155	144,249	25,155
Due to government clients	12	219,520	748,128	219,520	748,128
Borrowings	13	67,337,267	61,968,874	67,337,267	61,968,874
Derivative financial instruments payable	14	584,371	693,865	584,371	693,865
Income tax equivalent payable		7,381	5,322	7,381	5,322
Other liabilities and provisions	15	71,499	69,322	71,280	69,258
<b>Total liabilities</b>		<b>72,605,062</b>	<b>70,150,391</b>	<b>72,604,843</b>	<b>70,150,327</b>
<b>Net assets</b>		<b>131,981</b>	<b>103,423</b>	<b>131,981</b>	<b>103,423</b>
<i>Represented by:</i>					
<b>Equity</b>					
Retained earnings	18	131,981	103,423	131,981	103,423
<b>Total equity</b>		<b>131,981</b>	<b>103,423</b>	<b>131,981</b>	<b>103,423</b>

The accompanying notes form part of these financial statements.





**NEW SOUTH WALES TREASURY CORPORATION  
STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2013**

**Statements of changes in equity**

	Note	CONSOLIDATED		CORPORATION	
		Retained earnings \$'000	Total equity \$'000	Retained earnings \$'000	Total equity \$'000
<b>Total equity at 30 June 2011</b>		<b>100,274</b>	<b>100,274</b>	<b>100,274</b>	<b>100,274</b>
Profit for the year		54,159	54,159	53,649	53,649
Other comprehensive loss	4	(510)	(510)	-	-
Total comprehensive income for the year		53,649	53,649	53,649	53,649
Dividend payable	15	(50,500)	(50,500)	(50,500)	(50,500)
<b>Total equity at 30 June 2012</b>	<b>18</b>	<b>103,423</b>	<b>103,423</b>	<b>103,423</b>	<b>103,423</b>
Profit for the year		88,732	88,732	89,058	89,058
Other comprehensive income	4	326	326	-	-
Total comprehensive income for the year		89,058	89,058	89,058	89,058
Dividend paid		(5,000)	(5,000)	(5,000)	(5,000)
Dividend payable	15	(55,500)	(55,500)	(55,500)	(55,500)
<b>Total equity at 30 June 2013</b>	<b>18</b>	<b>131,981</b>	<b>131,981</b>	<b>131,981</b>	<b>131,981</b>

The accompanying notes form part of these financial statements.



**NEW SOUTH WALES TREASURY CORPORATION  
CASH FLOW STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2013**

**Cash flow statements**

		CONSOLIDATED		CORPORATION	
		2013	2012	2013	2012
	Note	\$'000	\$'000	\$'000	\$'000
<b>Cash (outflows)/inflows from operating activities</b>					
Interest and other costs of finance received		3,611,774	3,636,256	3,611,774	3,636,256
Interest and other costs of finance paid		(3,323,246)	(3,520,270)	(3,323,246)	(3,520,270)
Fees and commissions received		26,531	29,031	26,531	29,031
Payments of tax equivalents		(36,109)	(30,971)	(36,109)	(30,971)
Payments of Goods and Services Tax		(890)	(1,108)	(890)	(1,108)
Payments of administrative expenses		(39,448)	(42,176)	(39,448)	(42,176)
Loans to government clients made		(8,206,831)	(19,698,969)	(8,206,831)	(19,698,969)
Loans to government clients repaid		5,777,372	15,330,253	5,777,372	15,330,253
<b>Net cash used in operating activities</b>	29	<b>(2,190,847)</b>	<b>(4,297,954)</b>	<b>(2,190,847)</b>	<b>(4,297,954)</b>
<b>Cash outflows from investing activities</b>					
Purchases of plant and equipment and intangible assets		(4,085)	(9,655)	(4,085)	(9,655)
Net cash to securities held		(2,236,695)	(447,643)	(2,236,695)	(447,643)
<b>Net cash used in investing activities</b>		<b>(2,240,780)</b>	<b>(457,298)</b>	<b>(2,240,780)</b>	<b>(457,298)</b>
<b>Cash inflows/(outflows) from financing activities</b>					
Proceeds from issuance of borrowings and short term securities		61,595,580	52,251,192	61,595,580	52,251,192
Repayment of borrowings and short term securities		(57,354,313)	(46,357,824)	(57,354,313)	(46,357,824)
Net cash outflows from the purchase and repayment of other short term financial instruments		(452,065)	(409,174)	(452,065)	(409,174)
Dividends paid		(55,500)	(91,000)	(55,500)	(91,000)
<b>Net cash provided by financing activities</b>		<b>3,733,702</b>	<b>5,393,194</b>	<b>3,733,702</b>	<b>5,393,194</b>
<b>Net (decrease)/increase in cash held</b>		<b>(697,925)</b>	<b>637,942</b>	<b>(697,925)</b>	<b>637,942</b>
Cash and cash equivalents at the beginning of the year		1,650,752	1,012,810	1,650,752	1,012,810
<b>Cash and cash equivalents at the end of the year</b>	28	<b>952,827</b>	<b>1,650,752</b>	<b>952,827</b>	<b>1,650,752</b>

The accompanying notes form part of these financial statements.

## Notes to the financial statements

### 1 Summary of significant accounting policies

#### a) Basis of preparation

The financial statements of New South Wales Treasury Corporation ('the Corporation') are general purpose financial statements and have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2010* and the New South Wales Treasurer's Directions. They have also been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB).

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (IFRS). This financial report, comprising the financial statements and accompanying notes for the consolidated entity and Corporation, complies with IFRS.

#### Standards and Interpretations issued but not yet effective

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were issued but not yet effective.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 13 <i>Fair Value Measurement</i> and AASB 2011-8 <i>Amendments to Australian Accounting Standards arising from AASB 13</i>	1 January 2013	30 June 2014
AASB 127 (2011) <i>Separate Financial Statements</i>	1 January 2013	30 June 2014
AASB 119 (2011) <i>Employee Benefits</i>	1 January 2013	30 June 2014
AASB 10 <i>Consolidated Financial Statements</i>	1 January 2013	30 June 2014
AASB 2011-4 <i>Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements</i>	1 July 2013	30 June 2014
AASB 9 <i>Financial Instruments</i> , AASB 2012-6 <i>Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures</i> , AASB 2010-7 <i>Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)</i>	1 January 2015	30 June 2016

AASB 13 *Fair Value Measurement* does not establish new requirements for when fair value is required but provides a single source of guidance on how fair value is measured.

**NEW SOUTH WALES TREASURY CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2013**

**a) Basis of preparation (continued)**

AASB 9 Financial Instruments and its associated amending standards specify new recognition and measurement requirements for financial assets and financial liabilities within the scope of AASB 139 Financial Instruments: Recognition and Measurement.

Broadly, all of the amendments will require the Corporation to continue to measure financial assets and financial liabilities at fair value through profit or loss using current principles. Therefore when applied, all of these standards will impact only on the presentation of the financial statements and disclosures in the notes.

The financial statements are prepared on the basis of a 'for-profit' entity as determined by the accounting standards.

The financial statements are prepared using the accrual basis of accounting. Financial assets and financial liabilities are stated on a fair value basis of measurement. Plant and equipment is stated at the fair value of the consideration given at the time of acquisition. Employee benefits are recognised on a present value basis, as detailed in note 1(i). All other assets, liabilities and provisions are initially measured at historical cost and reported based on their recoverable or settlement amount.

All amounts are shown in Australian dollars and are rounded to the nearest thousand dollars unless otherwise stated. Assets and liabilities are presented on the Balance sheets in order of liquidity.

Accounting policies and the presentation adopted in these financial statements are consistent with the previous year. Comparative information has been reclassified, where necessary, to be consistent with the current year.

**b) Principles of consolidation**

The financial statements of the consolidated entity include the accounts of the Corporation, being the parent entity, its wholly-owned subsidiary, TCorp Nominees Pty Limited, and the special purpose service entity, Treasury Corporation Division of the Government Service ('TCorp Division').

TCorp Division is deemed to be a reporting entity, and a controlled entity of the Corporation, in accordance with New South Wales Treasury Circular TC 11/19 Financial Reporting and Annual Reporting Requirements Arising from Employment Arrangements. The effect of all transactions and balances between entities in the consolidated entity are eliminated in full. Information provided in the notes to these financial statements refers to the consolidated entity and the Corporation unless otherwise stated (refer notes 4, 9, 15 and 26), as there is no material difference between the results or financial position of the consolidated entity and the Corporation.

**c) Tax equivalents**

The Income Tax Assessment Act 1936 and the Income Tax Assessment Act 1997 exempt the Corporation and its controlled entities from liability for Commonwealth income tax. However, the Corporation is subject to tax equivalent payments to the New South Wales Government.

The Corporation's liability was determined to be an amount equal to 30% of the profit for the year to 30 June 2013 (2012: 30%).

**NEW SOUTH WALES TREASURY CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2013**

**d) Financial assets and financial liabilities**

The Corporation has elected to designate all financial assets and financial liabilities as 'fair value through profit or loss', consistent with the provisions of accounting standard AASB 139 Financial Instruments: Recognition and Measurement. The eligibility criteria for this election have been satisfied as the Corporation manages its Balance sheet on a fair value basis. This is actively demonstrated through the measurement and reporting of risks, limits, valuations and performance, consistent with risk management policies approved by the Board. Derivative financial instruments are deemed to be 'held for trading' under AASB 139 and must be accounted as 'fair value through profit or loss'. Therefore all financial assets, financial liabilities and derivative financial instruments are valued on a fair value basis as at balance date with resultant gains and losses from one valuation date to the next recognised in the Statement of comprehensive income.

Where an active market exists, fair values are determined by reference to the specific market quoted prices/yields at the year end. If no active market exists, judgement is used to select the valuation technique which best estimates fair value by discounting the expected future cash flows arising from the securities to their present value using market yields and margins appropriate to the securities. These margins take into account credit quality and liquidity of the securities. Market yields used for valuing loans to clients are derived from yields for similar debt securities issued by the Corporation which are detailed in note 19.

All financial assets, liabilities and derivatives are recognised on the Balance sheet at trade date being the date the Corporation becomes party to the contractual provisions of the instrument.

Financial assets are de-recognised when the Corporation's contractual rights to cash flows from the financial assets expire. Financial liabilities are de-recognised when the Corporation's contractual obligations are extinguished.

Securities sold under repurchase agreements are retained in the Securities Held classification on the Balance sheet (note 7). The Corporation's obligation to buy back these securities is recognised as a liability and disclosed in Due to Financial Institutions (note 11).

Transactions conducted on behalf of others are disclosed in Fiduciary Activities (note 24) and those transactions offset or contingent on future events are disclosed in Contingent Liabilities and Commitments (note 25).

**e) Outstanding settlements**

Outstanding settlements receivable comprise the amounts due to the Corporation for transactions that have been recognised, but not yet settled, as at the balance date. Outstanding settlements payable comprise amounts payable by the Corporation for transactions that have been recognised, but not yet settled, as at the balance date.

**f) Other assets and liabilities**

Other assets, including debtors, intangible assets, prepayments and deposits, and other liabilities, including creditors, expense accruals, and provisions, are all reported based on their recoverable or settlement amount.

**f) Other assets and liabilities (continued)**

Computer software is classified as an intangible asset and amortised on a straight line basis over the estimated useful life of the asset. Estimated useful lives are generally up to five years from the date the computer software is commissioned. The assets' useful lives are reviewed and adjusted if appropriate at each balance date. Systems projects that are implemented in stages are recorded as work-in-progress within the computer software classification until they are commissioned and commence amortising.

**g) Plant and equipment**

Plant and equipment comprising leasehold improvements, office furniture and equipment, computer hardware and motor vehicles are stated at cost less accumulated depreciation and impairment which approximates fair value. Cost includes expenditure that is directly attributable to the acquisition or construction of the item. Depreciation is calculated on a straight-line basis, from the date the assets are commissioned, over their estimated useful lives as follows:

Leasehold improvements (including the lease make good provision) over the term of the lease, which currently expires on 19 May 2018.

Equipment and vehicles

- Computer hardware - three years
- Motor vehicles - five years
- Furniture and fittings - over the term of the lease, which expires on 19 May 2018.

The assets' residual values, useful lives and depreciation method are reviewed at the end of each annual reporting period with the effects of any changes recognised on a prospective basis. Due to the nature of the assets an independent valuation is not required.

The gain or loss arising on disposal or retirement of an item of plant or equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Statements of comprehensive income.

**h) Impairment of assets**

Items of plant and equipment, intangible assets and receivables are assessed annually for any evidence of impairment. Where evidence of impairment is found, the carrying amount is reviewed and, if necessary, written down to the asset's recoverable amount.

**i) Employee benefits**

Provision for annual leave is recognised on the basis of statutory and contractual requirements and is measured at nominal values using the remuneration rate expected to apply at the time of settlement. The provision for long service leave represents the present value of the estimated future cash outflows to employees in respect of services provided by employees up to the year end, with consideration being given to expected future salary levels, previous experience of employee departures and periods of service.

**NEW SOUTH WALES TREASURY CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2013**

**j) Foreign currency transactions**

Foreign currency transactions are initially translated into Australian dollars at the rate of exchange at the date of the transaction. At year end, foreign currency monetary items are translated to Australian dollars at the spot exchange rate current at that date. Resulting exchange differences are recognised in the Statements of comprehensive income.

**k) Cash and liquid assets**

Cash and liquid assets includes cash and liquid assets that are readily convertible to cash. For the purpose of the Cash flow statements, cash and cash equivalents includes cash and liquid assets net of outstanding short-term borrowings.

**l) Leased assets**

Operating lease payments are recognised as an expense as incurred over the lease term. Lease incentives received are recognised in the Statements of comprehensive income as an integral part of the total lease expense (included in premises costs) and spread over the lease term.

**m) Fiduciary activities**

The Corporation acts as agent and manager for various client asset and debt portfolios and as trustee and manager of the Hour-Glass Investment Trusts (refer note 24). The associated liabilities and assets are not recognised in the Balance sheet of the Corporation. Management fees earned by the Corporation in carrying out these activities are included in the Statement of comprehensive income on an accruals basis.

**n) Set-off of assets and liabilities**

The Corporation from time to time may facilitate certain structured financing arrangements for clients. In such arrangements where a legally recognised right to set-off the assets and liabilities exists, and the Corporation intends to settle on a net basis, the assets and liabilities arising are set-off and the net amount is recognised in the Balance sheet.

**o) Income recognition**

Income is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Specific types of income are recognised as follows:

- Interest income

Interest income includes accrued interest, discount and premium.

- Fees and commissions

Fees and commissions for services provided are recognised in the period in which the service is provided.



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**p) Goods and Services Tax (GST)**

Income, expenses and assets (other than receivables) are recognised net of GST. The amount of GST on expenses that is not recoverable from the taxation authority is recognised as a separate item of administration expense. The amount of GST on assets that is not recoverable is recognised as part of the cost of acquisition. Receivables and payables are recognised inclusive of GST.

**q) Dividends**

The Corporation's commitment to pay a dividend to the New South Wales Government is ratified in a Statement of Business Intent. Additionally, the basis for determination of the year's dividend is recorded in a Board resolution prior to the end of the financial year.

**2 Income from changes in fair value**

	2013 \$'000	2012 \$'000
<i>Income from changes in fair value is comprised of:</i>		
Interest income received or receivable – government clients	3,037,768	2,905,434
Interest income received or receivable – financial institutions	486,517	634,130
Gains on derivative financial instruments	80,334	28,084
Increase/(decrease) in fair value of financial assets/(liabilities)	1,366,274	4,607,343
	<b>4,970,893</b>	<b>8,174,991</b>

**3 Expenses from changes in fair value**

	2013 \$'000	2012 \$'000
<i>Expenses from changes in fair value is comprised of:</i>		
Interest expense paid or payable – government clients	9,314	14,692
Interest expense paid or payable – financial institutions	3,190,254	3,265,723
Losses on derivative financial instruments	67,059	246,341
Net foreign exchange loss	276	174
Decrease/(increase) in fair value of financial assets/(liabilities)	1,556,264	4,549,736
	<b>4,823,167</b>	<b>8,076,666</b>

Derivative financial instruments are used to manage interest rate risk and foreign exchange risk. Gains or losses on derivative financial instruments are largely offset by changes in the fair value of financial assets and liabilities.



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**4 Total comprehensive income for the year**

	CONSOLIDATED		CORPORATION	
	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000
(a) The profit for the year includes the following specific items:				
<b><u>Fees and commissions</u></b>	<b>24,340</b>	<b>22,057</b>	<b>24,340</b>	<b>22,057</b>
<i>Comprising:</i>				
<b>Specific client mandates</b>	<b>12,771</b>	<b>13,491</b>	<b>12,771</b>	<b>13,491</b>
- asset portfolios	6,054	6,807	6,054	6,807
- debt portfolios	6,717	6,684	6,717	6,684
Hour-Glass Investment Trusts	7,869	6,760	7,869	6,760
Other fees and commissions from NSW government entities	3,243	1,800	3,243	1,800
Other fees and commissions from financial institutions	457	6	457	6
<b><u>Total general administrative and transaction costs</u></b>	<b>45,166</b>	<b>43,231</b>	<b>44,840</b>	<b>43,741</b>
<i>Includes:</i>				
<b>Auditors remuneration to the Audit Office of NSW</b>	<b>325</b>	<b>307</b>	<b>325</b>	<b>307</b>
- for audit of the financial report	294	284	294	284
- other services	31	23	31	23
Consultants' fees	220	136	220	136
Depreciation and amortisation	4,412	4,608	4,412	4,608
<b>Key management personnel compensation<sup>1</sup></b>	<b>3,962</b>	<b>2,516</b>	<b>3,962</b>	<b>2,516</b>
- Short-term employee benefits	3,766	2,345	3,766	2,345
- Post-employment benefits	161	143	161	143
- Other long-term employee benefits	35	28	35	28
Rental on operating leases	1,505	1,863	1,505	1,863
<b>Superannuation expense</b>	<b>1,121</b>	<b>1,065</b>	-	-
- Defined contribution plans	1,169	1,098	-	-
- Defined benefit plans	(48)	(33)	-	-
(b) Other comprehensive (income)/loss:				
Actuarial (gain)/loss on defined benefit plans	(326)	510	-	-

<sup>1</sup> Key management personnel includes the directors and executives with the authority and responsibility for managing the consolidated entity (note 26). The total compensation for non-executive directors for 2013 was \$371,000 (2012: \$367,000).

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**5 Cash and liquid assets**

	2013 \$'000	2012 \$'000
Cash on hand and at bank	11,898	22,908
Overnight and short term placements (unsecured)	940,929	1,627,844
	<b>952,827</b>	<b>1,650,752</b>

The overnight and short term placements for up to seven days are made to domestic financial institutions with principal and interest repayable at maturity date.

**6 Due from financial institutions**

	2013 \$'000	2012 \$'000
Short-term bank deposits	6,191,335	3,318,206
Cash collateral	93,883	34,997
	<b>6,285,218</b>	<b>3,353,203</b>

Cash collateral may be provided by the Corporation to support amounts payable to financial institutions in respect of certain derivative transactions (note 20).

**7 Securities held**

	2013 \$'000	2012 \$'000
Floating rate notes <sup>1</sup>	1,152,789	2,495,869
Bank bills and certificates of deposit	2,393,296	1,725,941
Securities sold under repurchase agreements	-	1,295,676
Commonwealth government bonds	207,602	-
Semi-government bonds	1,708,606	597,829
Other NSW Government related securities	96,904	101,307
	<b>5,559,197</b>	<b>6,216,622</b>

<sup>1</sup> Includes securities guaranteed by the Commonwealth of Australia totalling \$145.8 million (2012: \$881.9 million), which remains effective until maturity.

Securities held are used mainly to cover liquidity requirements and to support client deposits accepted. Of the above amounts, \$1,420.9 million (2012: \$2,430.6 million) is scheduled to mature more than twelve months from the balance date.

**NEW SOUTH WALES TREASURY CORPORATION  
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**8 Loans to government clients**

	2013	2012
	\$'000	\$'000
New South Wales public sector clients:		
- Crown entity	26,225,667	25,651,454
- Electricity sector	21,902,270	21,554,379
- Transport sector	1,760,840	1,299,296
- Water sector	8,127,766	7,851,155
- Other sectors	1,269,987	2,005,175
- Universities	44,147	45,060
	<b>59,330,677</b>	<b>58,406,519</b>

Loans to clients comprise financial accommodation on simple interest, fixed interest, floating rate or inflation indexed bases. Capital indexed loans, coupons and face value are indexed quarterly in line with changes in inflation. The fair value of these loans at balance date totalled \$6,780.6 million (2012: \$6,427.1 million). Year-on-year loans comprise a constant face value and a variable coupon that includes the fixed real rate and latest adjusted CPI. The fair value of these loans at balance date totalled \$2,546.7 million (2012: \$1,462.4 million).

Loans to New South Wales public sector clients and universities are guaranteed by the New South Wales Government. Of the above amounts, \$56,777.1 million (2012: \$56,253.9 million) is scheduled to mature more than twelve months from the balance date.

**NEW SOUTH WALES TREASURY CORPORATION  
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**9 Other assets**

	Note	CONSOLIDATED		CORPORATION	
		2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Debtors and fee accruals		7,836	14,437	7,836	14,437
Intangible assets		2,718	3,702	2,718	3,702
Security deposits		3,563	7,736	3,563	7,736
Lease incentive receivable		-	92	-	92
Prepaid superannuation	22	161	-	-	-
Other prepayments		924	686	866	622
		<b>15,202</b>	<b>26,653</b>	<b>14,983</b>	<b>26,589</b>
<b>Reconciliation of Intangible assets</b>					
Opening carrying value		3,702	5,993	3,702	5,993
Additions		2,172	1,523	2,172	1,523
Amortisation		(2,689)	(3,588)	(2,689)	(3,588)
Write-offs of redundant assets		(467)	(226)	(467)	(226)
<b>Carrying value at year end</b>		<b>2,718</b>	<b>3,702</b>	<b>2,718</b>	<b>3,702</b>

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**10 Plant and equipment**

	Leasehold Improvements		Equipment & Vehicles		Total	
	2013	2012	2013	2012	2013	2012
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening fair value	4,200	975	2,547	2,905	6,747	3,880
Opening accumulated depreciation	(110)	(710)	(657)	(1,621)	(767)	(2,331)
<b>Opening carrying amount</b>	<b>4,090</b>	<b>265</b>	<b>1,890</b>	<b>1,284</b>	<b>5,980</b>	<b>1,549</b>
<i>Changes during the year:</i>						
Additions at fair value	498	4,378	1,475	1,370	1,973	5,748
Net disposals and write-offs of redundant assets	-	(133)	(178)	(164)	(178)	(297)
Depreciation expense	(805)	(420)	(918)	(600)	(1,723)	(1,020)
<b>Closing carrying amount</b>	<b>3,783</b>	<b>4,090</b>	<b>2,269</b>	<b>1,890</b>	<b>6,052</b>	<b>5,980</b>
Closing fair value	4,652	4,200	3,356	2,547	8,008	6,747
Closing accumulated depreciation	(869)	(110)	(1,087)	(657)	(1,956)	(767)
<b>Carrying amount at year end</b>	<b>3,783</b>	<b>4,090</b>	<b>2,269</b>	<b>1,890</b>	<b>6,052</b>	<b>5,980</b>

**11 Due To financial institutions**

	2013	2013	2012	2012
	Face Value	Fair Value	Face Value	Fair Value
	\$'000	\$'000	\$'000	\$'000
Promissory notes	4,120,224	4,110,085	5,320,327	5,307,868
Cash collateral	130,700	130,690	34,920	34,917
Repurchase agreements	-	-	1,293,917	1,296,940
	<b>4,250,924</b>	<b>4,240,775</b>	<b>6,649,164</b>	<b>6,639,725</b>

Promissory notes are short term securities issued by the Corporation, usually for terms ranging up to six months.

Securities sold under repurchase agreements are secured by cash collateral (note 20). The Corporation has an obligation to buy back the securities on the dates agreed, usually for terms ranging up to thirty days.



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**12 Due to Government clients**

	2013	2013	2012	2012
	Face Value	Fair Value	Face Value	Fair Value
	\$'000	\$'000	\$'000	\$'000
Client deposits	219,497	219,520	748,014	748,128
	<b>219,497</b>	<b>219,520</b>	<b>748,014</b>	<b>748,128</b>

Deposits are received from clients on an unsecured basis either at call or for fixed terms of one year or less, with interest payable at maturity.

**13 Borrowings**

	2013	2013	2012	2012
	Face Value	Fair Value	Face Value	Fair Value
	\$'000	\$'000	\$'000	\$'000
Benchmark bonds				
- domestic	49,395,679	53,560,823	44,309,592	49,623,451
- global exchangeable	1,411,326	1,527,191	1,943,080	2,135,634
<b>Total benchmark bonds</b>	<b>50,807,005</b>	<b>55,088,014</b>	<b>46,252,672</b>	<b>51,759,085</b>
Euro Medium Term Notes	2,162,586	2,009,063	3,234,472	2,949,216
Capital indexed bonds	6,398,077	6,857,031	5,875,361	6,505,372
Floating rate notes	3,050,000	3,075,859	550,000	553,645
Other borrowings	295,200	307,300	192,690	201,556
	<b>62,712,868</b>	<b>67,337,267</b>	<b>56,105,195</b>	<b>61,968,874</b>

Domestic benchmark bonds and global exchangeable bonds pay semi-annual coupons with the face value repayable on maturity. Global exchangeable bonds are convertible to domestic benchmark bonds at the option of the holder.

Euro Medium Term Notes (EMTN) are issued via lead managers into both the Euro market and Japanese retail market. They are repayable at maturity with coupons payable either annually or semi-annually. In fair value terms, \$1,993.1 million (2012: \$2,949.2 million) is scheduled to mature more than twelve months from the balance date.

Callable notes are also issued under the EMTN programme. These notes have a maturity date of greater than five years, with an optional redemption date of one year or more. The fair value of callable notes at the balance date totalled \$306.56 million (2012: \$722.6 million).

Capital indexed bonds are domestic bonds with quarterly coupons and face value indexed in line with inflation. Capital indexed bonds are scheduled to mature more than twelve months from the balance date.

Floating rate notes are scheduled to mature more than twelve months from the balance date.

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### 13 Borrowings (continued)

Other borrowings include Waratah bonds and non-benchmark domestic bonds. In fair value terms, \$275.0 million (2012: \$113.6 million) is scheduled to mature more than twelve months from the balance date.

The Corporation does not provide any security in the form of asset and other pledges in relation to its borrowings and other amounts due to financial institutions.

The benchmark bonds on issue, by maturity were:

Maturity	Coupon % p.a.	2013	2013	2012	2012
		Face Value \$'000	Fair Value \$'000	Face Value \$'000	Fair Value \$'000
1 May 2013 <sup>1</sup>	5.25	-	-	497,048	510,289
1 August 2013	5.50	3,958,641	4,057,832	5,142,274	5,389,735
8 July 2014	2.75	1,646,253	1,670,753	-	-
1 August 2014 <sup>1</sup>	5.50	1,637,741	1,726,408	2,930,232	3,151,347
1 April 2015	6.00	2,813,950	3,011,690	2,651,350	2,883,915
1 April 2016	6.00	4,871,175	5,323,010	5,001,570	5,537,594
20 February 2017	4.00	3,396,742	3,526,977	2,502,683	2,590,621
1 March 2017 <sup>1</sup>	5.50	2,429,328	2,662,398	2,717,369	3,021,986
1 February 2018	6.00	5,136,934	5,798,013	5,336,620	6,096,957
20 March 2019	3.50	2,887,511	2,871,914	-	-
1 April 2019 <sup>1</sup>	6.00	1,759,596	1,996,367	2,561,851	2,974,719
1 May 2020	6.00	5,834,382	6,579,610	5,931,760	6,828,273
1 June 2020 <sup>1</sup>	6.00	183,392	207,539	1,056,974	1,237,719
1 March 2022	6.00	6,648,981	7,580,098	5,049,461	5,935,068
20 April 2023	4.00	1,472,245	1,424,362	-	-
1 May 2023 <sup>1</sup>	6.00	2,177,997	2,482,416	2,486,010	2,968,594
20 August 2024	5.00	3,734,150	3,922,650	2,175,000	2,373,360
1 May 2030	6.00	217,987	245,977	212,470	258,908
		<b>50,807,005</b>	<b>55,088,014</b>	<b>46,252,672</b>	<b>51,759,085</b>

<sup>1</sup> Commonwealth Government guaranteed borrowings at 30 June 2013 total \$9,075.13 million, fair value (2012: \$13,864.65 million, fair value). Refer to Other disclosures concerning financial liabilities (note 16).

### 14 Derivative financial instruments

A derivative financial instrument is a contract or agreement whose value depends on (or derives from) the value of (or changes in the value of) an underlying instrument, reference rate or index.

Derivative financial instruments include swaps, forward-dated client loans, futures, forward foreign exchange contracts and interest rate options. Forward dated loans are priced on a consistent basis

## 14 Derivative financial instruments (continued)

to other client loans. For all other derivative financial instruments the Corporation is not a price maker, but is a price taker in its use of derivatives.

Collateral may be obtained, or provided, by the Corporation when the market value of certain derivative transactions exceed thresholds agreed with the counterparty (note 20).

The policy of the Corporation is to account for derivative financial instruments on a fair value basis consistent with all other financial assets or liabilities as detailed in note 1(d). Accordingly, resultant profits and losses from one valuation date to the next are included in the Statement of comprehensive income as they arise.

### Net exposure

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

	2013 \$'000	2012 \$'000
<b>Derivative financial instruments receivable</b>		
Cross currency swaps <sup>1</sup>	23,910	3,586
Interest rate swaps	415,856	544,535
Forward foreign exchange contracts	107,312	29,235
Exchange traded futures	1,436	-
Forward dated loans	7	11,453
Interest rate options	4,547	5,276
	<b>553,068</b>	<b>594,085</b>
<b>Derivative financial instruments payable</b>		
Cross currency swaps <sup>1</sup>	(124,664)	(171,896)
Interest rate swaps	(444,735)	(513,078)
Forward foreign exchange contracts	(1,495)	(2,510)
Exchange traded futures	-	(1,105)
Forward dated loans	(8,930)	-
Interest rate options	(4,547)	(5,276)
	<b>(584,371)</b>	<b>(693,865)</b>
<b>Net amount payable under derivative financial instruments</b>	<b>(31,303)</b>	<b>(99,780)</b>

<sup>1</sup> Includes cross currency swaps to cover exposure to callable notes. Refer to note 17.



**NEW SOUTH WALES TREASURY CORPORATION  
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## 14 Derivative financial instruments (continued)

The majority of derivative financial instruments (with the exception of forward foreign exchange contracts and exchange traded futures) are scheduled to be recovered or due to be settled more than twelve months from the balance date.

## 15 Other liabilities and provisions

	Note	CONSOLIDATED		CORPORATION	
		2013	2012	2013	2012
		\$'000	\$'000	\$'000	\$'000
Provisions for employee benefits		6,367	2,436	-	-
Amounts due to service entity		-	-	6,204	2,630
Creditors, expense accruals and other provisions		7,567	13,653	7,511	13,640
Lease incentive		2,065	2,488	2,065	2,488
Unfunded superannuation liability	22	-	245	-	-
Dividend payable		55,500	50,500	55,500	50,500
		<b>71,499</b>	<b>69,322</b>	<b>71,280</b>	<b>69,258</b>

The Corporation's obligations relating to employee benefits are reflected as amounts due to service entity at the balance date. Refer to note 26.

## 16 Other disclosures concerning financial liabilities

### Guarantee of the State

All financial liabilities of the Corporation are guaranteed by the New South Wales Government under Sections 22A and 22B of the *Public Authorities (Financial Arrangements) Act 1987*.

### Guarantee of the Commonwealth

Certain benchmark bonds issued by the Corporation, identified in Borrowings (note 13) are guaranteed by the Commonwealth of Australia pursuant to the Australian Government Guarantee of State and Territory Borrowing Scheme dated 24 July 2009 (the "Scheme"). On 7 February 2010, the Commonwealth announced that the "Final Issuance Date" under the Scheme would be 31 December 2010. All Commonwealth Guaranteed benchmark bonds issued by the Corporation in existence as at the Final Issuance Date remain guaranteed by the Commonwealth, in accordance with the terms of the Scheme.

### Financing arrangements

The Corporation is able to access readily both domestic and offshore capital markets to ensure an adequate funding base. This ready market access is due to the Corporation having the highest level of credit ratings available to any Australian borrower, which derives from the guarantee of the New South Wales Government and the guarantee of the Commonwealth.

In addition to the Corporation's domestic benchmark, non-benchmark and promissory note issuances, the following offshore programmes are in place:

## 16 Other disclosures concerning financial liabilities (continued)

	2013	2012
	\$bn	\$bn
Global exchangeable bonds	AUD 18	AUD 18
Multi-currency Euro medium term note	USD 10	USD 10
Multi-currency Euro commercial paper	USD 5	USD 5
Multi-currency US medium term note	USD 10	USD 10

The programmes are not contractually binding on any provider of funds.

## 17 Fair value of financial assets and liabilities

All financial assets and liabilities are designated as fair value through profit or loss.

The Corporation's loans and borrowings are guaranteed by the New South Wales State Government, and certain benchmark borrowings are guaranteed by the Commonwealth Government (note 13). As a result, credit risk is not a significant factor in the determination of the fair value. Changes in fair value are therefore mainly attributable to fluctuations in market yields and prices arising from changes in market conditions.

The Corporation has classified fair value measurements using a fair value hierarchy that reflects the subjectivity of inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

There were no significant transfers between levels within the fair value hierarchy during the year.

The table below sets out the Corporation's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy.



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**17 Fair value of financial assets and liabilities (continued)**

2013	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	TOTAL \$'000
<b>Financial assets</b>				
Cash and liquid assets	952,827	-	-	952,827
Outstanding settlements receivable	34,802	-	-	34,802
Due from financial institutions	93,883	6,191,335	-	6,285,218
Securities held	2,061,971	3,497,226	-	5,559,197
Derivative financial instruments receivable	1,436	551,632	-	553,068
Loans to government clients	8,813	59,321,864	-	59,330,677
Debtors and fee accruals	7,836	-	-	7,836
Security deposits	3,563	-	-	3,563
<b>Financial assets</b>	<b>3,165,131</b>	<b>69,562,057</b>	<b>-</b>	<b>72,727,188</b>
<b>Financial liabilities</b>				
Due to financial institutions	(130,690)	(4,110,085)	-	(4,240,775)
Outstanding settlements payable	(144,249)	-	-	(144,249)
Due to government clients	-	(219,520)	-	(219,520)
Borrowings - callable notes	-	-	(306,556)	(306,556)
Borrowings - other	(65,142,224)	(1,888,487)	-	(67,030,711)
Derivative financial instruments payable	-	(504,755)	(79,616)	(584,371)
Creditors, expense accruals and other provisions	(7,567)	-	-	(7,567)
<b>Financial liabilities</b>	<b>(65,424,730)</b>	<b>(6,722,847)</b>	<b>(386,172)</b>	<b>(72,533,749)</b>

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**17 Fair value of financial assets and liabilities (continued)**

2012	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	TOTAL \$'000
<b>Financial assets</b>				
Cash and liquid assets	1,650,752	-	-	1,650,752
Due from financial institutions	34,997	3,318,206	-	3,353,203
Securities held	3,380,186	2,836,436	-	6,216,622
Derivative financial instruments receivable	-	590,499	3,586	594,085
Loans to government clients	178,750	58,227,769	-	58,406,519
Debtors and fee accruals	14,437	-	-	14,437
Security deposits	7,736	-	-	7,736
<b>Financial assets</b>	<b>5,266,858</b>	<b>64,972,910</b>	<b>3,586</b>	<b>70,243,354</b>
<b>Financial liabilities</b>				
Due to financial institutions	(34,917)	(6,604,808)	-	(6,639,725)
Outstanding settlements payable	(25,155)	-	-	(25,155)
Due to government clients	(491)	(747,637)	-	(748,128)
Borrowings - callable notes	-	-	(722,564)	(722,564)
Borrowings - other	(58,264,456)	(2,981,854)	-	(61,246,310)
Derivative financial instruments payable	(1,105)	(619,296)	(73,464)	(693,865)
Creditors, expense accruals and other provisions	(13,653)	-	-	(13,653)
<b>Financial liabilities</b>	<b>(58,339,777)</b>	<b>(10,953,595)</b>	<b>(796,028)</b>	<b>(70,089,400)</b>

Financial instruments classified at level 3 in the hierarchy include Power Reverse Dual Currency Bonds (PRDC's – callable notes – refer note 13) and associated cross currency swaps. PRDC's are structured callable notes denominated in Japanese Yen and issued into the Japanese market. The cashflows on each bond are hedged by entering into a structured cross currency swap, callable on the same basis as the corresponding bond.

The Corporation forecasts the cashflows on each bond and swap using the original contractual terms, and where known, the Yen cashflows. The fair value of each bond and swap is calculated as the present value of the Australian dollar cashflows using the original issue margin. The Corporation is of the opinion that no secondary market exists for PRDC's and there are no reasonably possible alternative assumptions that would significantly change the fair value.

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## 17 Fair value of financial assets and liabilities (continued)

### Reconciliation of level 3 fair value movements

		2013 \$'000	2012 \$'000
	Note		
Opening balance		(792,442)	(1,118,989)
Total gains and (losses) – realised <sup>1</sup>		166	5,869
Total gains and (losses) – unrealised <sup>1</sup>		82,302	30,111
Issues		-	-
Settlements		323,802	290,567
Transfers in or out of level 3		-	-
<b>Closing balance</b>		<b>(386,172)</b>	<b>(792,442)</b>

		2013 \$'000	2012 \$'000
Level 3 Financial Instruments:			
Callable Notes	13	(306,556)	(722,564)
Cross currency swaps receivable	14	-	3,586
Cross currency swaps payable	14	(79,616)	(73,464)
<b>Closing balance</b>		<b>(386,172)</b>	<b>(792,442)</b>

<sup>1</sup> Included in Net income from changes in fair value in the Statements of comprehensive income.

## 18 Financial risk

### Objectives and policies

The Corporation manages and monitors a variety of financial risks including Market Risk (interest rate risk and foreign exchange risk), Credit Risk and Liquidity Risk (refer notes 19, 20 & 21 respectively).

The boundaries within which these risks are undertaken and managed are established under Board policies, management guidelines and client defined mandates. The Corporation monitors compliance with Board policies and management and client constraints. This monitoring is appropriately segregated from the operating business units. Information is summarised daily and reported monthly to the Board.

All aspects of the treasury process are segregated between dealing, settlement, accounting and compliance. In addition, position limits, liquidity limits and counterparty credit limits have been established. These limits are monitored independently of the dealing and settlement functions, with utilisation of these limits summarised and reported to management on a daily basis.



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**18 Financial risk (continued)**

The nature of the Corporation's core business gives rise to maturity and repricing gaps within the Corporation's Balance sheet which alter from day to day. The Board of the Corporation has identified the risks that arise from these gaps and has established Board policies to prudently limit these risks. In managing the risks in accordance with the Board limits, the Corporation utilises derivative financial instruments.

Derivatives are used to manage interest rate risk and foreign exchange risk for certain assets and liabilities within the Balance sheets. Derivatives are accounted on a fair value basis with resultant gains and losses recognised in the Statements of comprehensive income.

**Equity**

The New South Wales Government is not required under legislation to contribute equity to the Corporation. Retained earnings are held in lieu of contributed equity and provide a capital base commensurate with the risks inherent in the Corporation's business.



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## 19 Market risk

### Interest rate risk

Interest rates equal to, or derived from, the Corporation's debt securities and used for valuation purposes were:

	Coupon % pa	Quoted Market Rates at 30-Jun-13 % pa	Quoted Market Rates at 30-Jun-12 % pa
<u>Nominal</u>			
Overnight	-	2.750	3.500
90 days	-	2.740	3.390
180 days	-	2.680	3.340
1 May 2013 <sup>1</sup>	5.250	-	3.040
1 August 2013	5.500	2.730	3.110
8 July 2014	2.750	2.585	-
1 August 2014 <sup>1</sup>	5.500	2.545	2.875
1 April 2015	6.000	2.743	3.215
1 April 2016	6.000	3.035	3.365
20 February 2017	4.000	3.313	3.525
1 March 2017 <sup>1</sup>	5.500	3.233	3.310
1 February 2018	6.000	3.528	3.653
20 March 2019	3.500	3.810	-
1 April 2019 <sup>1</sup>	6.000	3.670	3.543
1 May 2020	6.000	4.010	3.890
1 June 2020 <sup>1</sup>	6.000	3.890	3.590
1 March 2022	6.000	4.323	4.040
20 April 2023	4.000	4.518	-
1 May 2023 <sup>1</sup>	6.000	4.360	3.898
20 August 2024	5.000	4.623	4.223
1 May 2030	6.000	4.953	4.310
25 February 2039	4.750	5.184	4.270
26 April 2041	6.000	5.159	4.255
<u>Capital Indexed</u>			
20 November 2020	3.750	1.808	1.610
20 November 2025	2.750	2.225	1.925
20 August 2030	3.500	2.420	2.123
20 November 2035	2.500	2.590	2.373

<sup>1</sup> Securities covered by Commonwealth guarantee – refer note 16.

## **19 Market risk (continued)**

The Corporation measures its exposure to interest rate risk in terms of cash flows or notional cash flows generated by financial instruments. These cash flows are discounted to present values at appropriate market yields and margins as described in note 1(d). Interest rate risk can be in the form of 'fair value interest rate risk', such as fixed interest rate instruments which change in value as interest rates move and 'cash flow interest rate risk', such as floating interest rate instruments that are reset as market rates change.

The Corporation uses a Value at Risk (VaR) model to measure the market risk exposures inherent in the Balance sheet. VaR is measured on a rolling 2-year historical simulation basis using a 99% confidence interval and a 10-day holding period.

VaR is calculated daily and represents an estimate of the loss that can be expected over a 10-day period, with a 1% probability that this amount may be exceeded.

The historical database comprises observations relevant to the major market risk exposures faced by the Corporation including bank bills, bank bill futures, bond futures, Commonwealth and semi-government bonds, Commonwealth government guaranteed floating rate notes, capital indexed bonds and interest rate swaps. The simulation process captures movements in outright interest rate levels, yield curve tilts and changes in the basis spread between various groups of securities. All historical observations are equally weighted.

As an estimate of market risk, VaR has certain limitations including:

- a) Calculating VaR on an historical simulation basis implicitly assumes that returns in the future will have the same distribution as they had in the past. If this is not the case, VaR may overestimate or underestimate the actual losses experienced.
- b) In rapidly changing markets, the model can be slow to react with the result that VaR at the confidence interval is exceeded more often than statistically expected.
- c) The model quantifies the expected loss at the confidence interval. It does not however indicate the potential size of losses on days VaR is exceeded.

Given the Corporation's Balance sheet positions at 30 June 2013, the maximum potential loss expected over a 10-day period is \$14.1 million (2012: \$8.2 million), with a 1% probability that this maximum may be exceeded. The average VaR over the year ended 30 June 2013 was \$12.8 million (2012: \$10.5 million).

### **Foreign exchange risk**

The Corporation has policies and procedures in place to ensure that it has no material exposure to changes in foreign exchange rates. Foreign exchange risk arising from borrowings undertaken in foreign currencies through Promissory Notes (refer note 11) or Euro Medium Term Notes (refer note 13), to fund Australian dollar assets is covered by entering into Australian dollar cross currency swaps and forward foreign exchange contracts.

Forward foreign exchange contracts with clients are covered by corresponding forward foreign exchange contracts with market counterparties. In the majority of these arrangements, the clients indemnify the Corporation for any credit exposure arising from the corresponding transaction with the market counterparty.



## **19 Market risk (continued)**

### **Other price risk**

The Corporation has no material exposure to other price risk in relation to interest rate options as transactions with clients are covered by corresponding interest rate options with market counterparties. The clients indemnify the Corporation for any credit exposure arising from the corresponding transaction with the market counterparty.

## **20 Credit risk**

For all classes of financial assets, with the exceptions noted below, the maximum credit risk exposure is equal to the fair value already disclosed.

As loans and debtors from government clients are guaranteed by the New South Wales Government, no credit risk is deemed to arise.

Certain securities held by the Corporation are guaranteed by the Commonwealth of Australia (refer to note 16). These securities are separately identified by footnote.

Derivative financial instruments include swaps, forward dated loans, forward foreign exchange contracts, forward rate agreements, futures and options. The Corporation does not use credit derivatives, such as credit default swaps, to mitigate credit risks.

The market convention for the calculation of credit exposure for derivative financial instruments is to add to the market value an amount of potential exposure as determined by reference to the length of time to maturity and face value. The additional credit exposure is noted in the concentration of credit risks below.

For financial instruments where face value is greater than market value, the difference between the face value and the market value is disclosed to reflect the maximum potential credit exposure. The additional credit exposure is noted in the concentration of credit risks below.

The Corporation's exposure to settlement risk is represented by the amount of outstanding settlements receivable shown on the Balance sheet. These amounts were settled within seven days after the balance date and are excluded from the concentration of credit risk below.

### **Collateral**

At year end, the Corporation had transferred no securities (2012: \$1,295.7 million) to counterparties under repurchase agreements. Securities transferred under repurchase agreements are secured by cash collateral. The terms and conditions of the repurchase agreements are governed by standard industry agreements, reflecting current Australian market practice. In the event of default, the Corporation is immediately entitled to offset the cash collateral against the amounts owed by the defaulting counterparty.

Due to retention of substantially all the risks and rewards of these securities, the Corporation continues to recognise the assets on the Balance sheet and the collateral received as liabilities. The counterparties have an obligation to return the securities to the Corporation and the Corporation has an obligation to buy back the securities on the dates agreed, usually for terms ranging up to thirty days.

The following table sets out the carrying amount of transferred financial assets and the related liabilities along with the net impact on credit risk at the reporting date.

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**20 Credit risk (continued)**

		2013	2012
	Note	\$'000	\$'000
Carrying amount of Repurchase Agreements (transferred assets)	7	-	1,295,676
Carrying amount of collateral received	11	-	(1,296,940)
<b>Net credit risk</b>		<b>-</b>	<b>Nil</b>

The Corporation may obtain, or provide, collateral to support amounts due under derivative transactions with certain counterparties. The collateral may include cash or eligible securities obtained, or provided, when agreed market value thresholds are exceeded. These arrangements are agreed between the Corporation and each counterparty and take the form of annexures to the standard industry agreement governing the underlying derivative transaction. There was \$130.69 million of collateral received under these arrangements at balance date (2012: \$34.92 million). Refer below for the net impact of collateral received on credit risk.

		2013	2012
		\$'000	\$'000
Derivative financial instruments		101,686	45,118
Carrying amount of collateral received	11	(130,690)	(34,917)
<b>Net credit risk</b>		<b>Nil</b>	<b>10,201</b>

The Corporation had paid \$93.88 million of collateral under these arrangements at balance date (Amount paid in 2012: \$35.00 million). Refer note 6.

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## 20 Credit risk (continued)

### Concentration of credit risk

#### By credit rating – 2013<sup>1</sup>

	AAA	AA+	AA	AA-	A+	A	Other <sup>2</sup> Ratings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and liquid assets	10	-	-	650,760	-	301,977	80	952,827
Due from financial institutions	-	-	-	6,215,533	5,490	64,195	-	6,285,218
Securities held <sup>6</sup>	1,088,597	920,593	52,781	1,206,558	954,483	1,187,777	148,408	5,559,197
Derivative financial instruments	6,050	-	-	304,433	46,644	195,941	-	553,068
Security deposits	-	-	-	-	-	-	3,563	3,563
	<b>1,094,657</b>	<b>920,593</b>	<b>52,781</b>	<b>8,377,284</b>	<b>1,006,617</b>	<b>1,749,890</b>	<b>152,051</b>	<b>13,353,873</b>
Additional potential exposure to derivatives	871	580	-	91,561	57,250	60,121	-	210,383
Additional potential exposure to financial instruments	281	-	-	468	2,421	12,223	1,592	16,985
	<b>1,095,809</b>	<b>921,173</b>	<b>52,781</b>	<b>8,469,313</b>	<b>1,066,288</b>	<b>1,822,234</b>	<b>153,643</b>	<b>13,581,241</b>

#### By credit rating – 2012<sup>1</sup>

	AAA	AA+	AA	AA-	A+	A	Other <sup>2</sup> Ratings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and liquid assets	7	-	-	1,094,731	385,963	169,984	67	1,650,752
Due from financial institutions	-	-	-	3,332,255	20,948	-	-	3,353,203
Securities held <sup>6</sup>	1,580,209	1,195,181	-	2,013,194	935,626	354,259	138,153	6,216,622
Derivative financial instruments	17,035	-	-	401,749	79,743	93,699	1,859	594,085
Security deposits	-	-	-	-	-	-	7,736	7,736
	<b>1,597,251</b>	<b>1,195,181</b>	<b>-</b>	<b>6,841,929</b>	<b>1,422,280</b>	<b>617,942</b>	<b>147,815</b>	<b>11,822,398</b>
Additional potential exposure to derivatives	13,483	-	-	80,820	66,339	47,290	1,500	209,432
Additional potential exposure to financial instruments	-	-	-	790	27,681	741	1,847	31,059
	<b>1,610,734</b>	<b>1,195,181</b>	<b>-</b>	<b>6,923,539</b>	<b>1,516,300</b>	<b>665,973</b>	<b>151,162</b>	<b>12,062,889</b>

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## 20 Credit risk (continued)

### By classification of counterparty – 2013

	<b>Governments<sup>3</sup></b>	<b>Banks<sup>4, 5</sup></b>	<b>Other<sup>5</sup></b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Cash and liquid assets	10	952,817	-	952,827
Due from financial institutions	-	6,285,218	-	6,285,218
Securities held <sup>6</sup>	2,061,971	3,400,322	96,904	5,559,197
Derivative financial instruments	6,050	527,726	19,292	553,068
Security deposits	-	-	3,563	3,563
	<b>2,068,031</b>	<b>11,166,083</b>	<b>119,759</b>	<b>13,353,873</b>
Additional potential exposure to derivatives	-	207,836	2,547	210,383
Additional potential exposure to financial instruments	281	16,704	-	16,985
	<b>2,068,312</b>	<b>11,390,623</b>	<b>122,306</b>	<b>13,581,241</b>

### By classification of counterparty – 2012

	<b>Governments<sup>3</sup></b>	<b>Banks<sup>4, 5</sup></b>	<b>Other<sup>5</sup></b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Cash and liquid assets	7	1,650,745	-	1,650,752
Due from financial institutions	-	3,353,203	-	3,353,203
Securities held <sup>6</sup>	2,775,390	3,339,925	101,307	6,216,622
Derivative financial instruments	16,827	567,775	9,483	594,085
Security deposits	-	-	7,736	7,736
	<b>2,792,224</b>	<b>8,911,648</b>	<b>118,526</b>	<b>11,822,398</b>
Additional potential exposure to derivatives	-	197,860	11,572	209,432
Additional potential exposure to financial instruments	-	31,059	-	31,059
	<b>2,792,224</b>	<b>9,140,567</b>	<b>130,098</b>	<b>12,062,889</b>

<sup>1</sup> Credit rating as per Standard & Poor's or equivalent

<sup>2</sup> Other Ratings includes long term ratings of A- or lower, or when the counterparty has no long term rating, a short term rating of A-2 or lower.

<sup>3</sup> Governments – foreign, Commonwealth and other Australian states.

<sup>4</sup> Banks - An entity licensed as a Bank under the relevant Australian Law, or equivalent in offshore jurisdiction.

<sup>5</sup> A counterparty is required to carry a Standard and Poor's Banking Industry Country Risk Assessment (BICRA) rating of 1, 2 or 3.

<sup>6</sup> AAA rated government securities held include amounts guaranteed by the Commonwealth of Australia totalling \$145.8 million (2012: \$881.9 million).

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## 21 Liquidity risk

The Corporation maintains adequate levels of liquidity within minimum prudential and maximum ranges set by the Board. The minimum prudential level is defined as a percentage of total liabilities and is held to meet unanticipated calls and to cover temporary market disruptions. Additional levels of liquidity are maintained up to the maximum approved range to satisfy a range of circumstances, including client funding requirements, maturing commitments, and balance sheet management activities.

The following table summarises contractual (undiscounted) cash flows by time ranges. The amounts differ from the Balance sheet which is based on fair value or discounted cash flows.

2013	Up to 1 month \$'000	1 to 3 months \$'000	3 to 12 months \$'000	1 to 2 years \$'000	2 to 5 years \$'000	Over 5 years \$'000	Total \$'000
<b>Financial assets</b>							
Cash and liquid assets	952,898	-	-	-	-	-	952,898
Outstanding settlements receivable	34,807	-	-	-	-	-	34,807
Due from financial institutions	902,758	3,241,848	2,184,531	-	-	-	6,329,137
Securities held	1,238,561	1,342,857	1,651,811	161,632	1,279,538	87,502	5,761,901
Loans to government clients	884,065	1,874,479	2,150,750	7,910,066	19,791,282	43,819,350	76,429,992
Debtors and fee accruals	7,836	-	-	-	-	-	7,836
Security deposits	3,563	-	-	-	-	-	3,563
<b>Financial assets</b>	<b>4,024,488</b>	<b>6,459,184</b>	<b>5,987,092</b>	<b>8,071,698</b>	<b>21,070,820</b>	<b>43,906,852</b>	<b>89,520,134</b>
<b>Financial liabilities</b>							
Due to financial institutions	(2,077,973)	(1,969,567)	(203,385)	-	-	-	(4,250,925)
Outstanding settlements payable	(144,269)	-	-	-	-	-	(144,269)
Due to government clients	(209,097)	(8,595)	(1,920)	-	-	-	(219,612)
Borrowings - callable notes	(18,632)	(98,641)	(189,610)	-	-	-	(306,883)
Borrowings - other	(43,211)	(4,818,792)	(2,048,941)	(9,138,207)	(25,346,935)	(42,991,386)	(84,387,472)
Creditors, expense accruals and other provisions	(7,567)	-	-	-	-	-	(7,567)
<b>Financial liabilities</b>	<b>(2,500,749)</b>	<b>(6,895,595)</b>	<b>(2,443,856)</b>	<b>(9,138,207)</b>	<b>(25,346,935)</b>	<b>(42,991,386)</b>	<b>(89,316,728)</b>
<b>Net financial assets/(liabilities)</b>	<b>1,523,739</b>	<b>(436,411)</b>	<b>3,543,236</b>	<b>(1,066,509)</b>	<b>(4,276,115)</b>	<b>915,466</b>	<b>203,406</b>
<b>Derivatives</b>							
Derivatives receivable	98,580	133,552	313,670	408,834	859,764	822,028	2,636,428
Derivatives payable	(33,461)	(130,151)	(280,262)	(260,859)	(502,148)	(814,168)	(2,021,049)
<b>Net derivatives</b>	<b>65,119</b>	<b>3,401</b>	<b>33,408</b>	<b>147,975</b>	<b>357,616</b>	<b>7,860</b>	<b>615,379</b>
<b>Net</b>	<b>1,588,858</b>	<b>(433,010)</b>	<b>3,576,644</b>	<b>(918,534)</b>	<b>(3,918,499)</b>	<b>923,326</b>	<b>818,785</b>
<b>Cumulative</b>	<b>1,588,858</b>	<b>1,155,848</b>	<b>4,732,492</b>	<b>3,813,958</b>	<b>(104,541)</b>	<b>818,785</b>	<b>-</b>

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**21 Liquidity Risk (continued)**

2012	Up to 1 month \$'000	1 to 3 months \$'000	3 to 12 months \$'000	1 to 2 years \$'000	2 to 5 years \$'000	Over 5 years \$'000	Total \$'000
<b>Financial assets</b>							
Cash and liquid assets	1,650,908	-	-	-	-	-	1,650,908
Due from financial institutions	35,000	758,658	2,603,062	-	-	-	3,396,720
Securities held	2,121,555	1,311,190	1,220,766	614,473	1,149,642	32,040	6,449,666
Loans to government clients	859,852	2,450,958	3,062,355	4,413,910	21,537,873	42,513,833	74,838,781
Debtors and fee accruals	14,437	-	-	-	-	-	14,437
Security deposits	7,736	-	-	-	-	-	7,736
<b>Financial assets</b>	<b>4,689,488</b>	<b>4,520,806</b>	<b>6,886,183</b>	<b>5,028,383</b>	<b>22,687,515</b>	<b>42,545,873</b>	<b>86,358,248</b>
<b>Financial liabilities</b>							
Due to financial institutions	(5,077,576)	(1,071,234)	(503,829)	-	-	-	(6,652,639)
Outstanding settlements payable	(25,157)	-	-	-	-	-	(25,157)
Due to government clients	(694,856)	(13,418)	(40,563)	-	-	-	(748,837)
Borrowings - callable notes	(40,209)	(212,355)	(451,090)	(20,104)	-	-	(723,758)
Borrowings - other	(1,876)	(1,356,311)	(2,646,964)	(7,891,877)	(22,538,424)	(43,068,327)	(77,503,779)
Creditors, expense accruals and other provisions	(13,653)	-	-	-	-	-	(13,653)
<b>Financial liabilities</b>	<b>(5,853,327)</b>	<b>(2,653,318)</b>	<b>(3,642,446)</b>	<b>(7,911,981)</b>	<b>(22,538,424)</b>	<b>(43,068,327)</b>	<b>(85,667,823)</b>
<b>Net financial assets/(liabilities)</b>	<b>(1,163,839)</b>	<b>1,867,488</b>	<b>3,243,737</b>	<b>(2,883,598)</b>	<b>149,091</b>	<b>(522,454)</b>	<b>690,425</b>
<b>Derivatives</b>							
Derivatives receivable	137,186	337,374	656,630	407,242	813,819	3,593,310	5,945,561
Derivatives payable	(105,241)	(1,626,181)	(902,995)	(347,584)	(626,349)	(2,207,169)	(5,815,519)
<b>Net derivatives</b>	<b>31,945</b>	<b>(1,288,807)</b>	<b>(246,365)</b>	<b>59,658</b>	<b>187,470</b>	<b>1,386,141</b>	<b>130,042</b>
<b>Net</b>	<b>(1,131,894)</b>	<b>578,681</b>	<b>2,997,372</b>	<b>(2,823,940)</b>	<b>336,561</b>	<b>863,687</b>	<b>820,467</b>
<b>Cumulative</b>	<b>(1,131,894)</b>	<b>(553,213)</b>	<b>2,444,159</b>	<b>(379,781)</b>	<b>(43,220)</b>	<b>820,467</b>	<b>-</b>

Callable notes are issued under the Multi Currency Euro Medium Term Note Programme. These notes are issued with a maturity date greater than five years however are disclosed in the financial report at the first optional redemption date. Each of these notes is fully matched with a derivative transaction.

Contractual commitments are disclosed in note 23 and undrawn loan commitments are disclosed in note 25.

## 22 Superannuation

Amounts representing prepaid superannuation contributions arising from defined benefit schemes are recognised as an asset and included in other assets (note 9). (2012: Unfunded superannuation contributions arising from defined benefit schemes are recognised as a liability and included in other liabilities and provisions (note 15)). Actuarial gains and losses are recognised in the Statement of comprehensive income in the year they occur (note 4).

The funds below hold in trust the investments of the closed New South Wales public sector superannuation schemes:

- State Authorities Superannuation Scheme (SASS)
- State Superannuation Scheme (SSS)
- State Authorities Non-contributory Superannuation Scheme (SANCS)

These funds are all defined benefit schemes, where at least a component of the employee's final benefit is derived from a multiple of member salary and years of membership. All schemes are closed to new members.

All fund assets are invested at arms length. Payments may be made to Pillar Administration to reduce the superannuation liability. These payments are held in investment reserve accounts by Pillar Administration.

Superannuation obligations are the responsibility of Treasury Corporation Division of the Government Service (note 26).

The 2013 actuarial assessment of SASS, SANCS and SSS was based on the requirements of Australian Accounting Standard AASB 119 Employee Benefits. This standard requires that a market determined risk-adjusted discount rate be applied as a valuation interest rate in the calculation of the value of accrued benefits. To satisfy the AASB 119 requirements, the following principal actuarial assumptions were applied at the report date.

	2013	2012
	% pa	% pa
Discount rate at 30th June <sup>1</sup>	3.8	3.1
Expected return on assets backing current pension liabilities	8.6	8.6
Expected salary increases - next financial year	2.3	2.5
- 2014 / 2015	2.3	2.5
- 2015 / 2016 to 2019 / 2020	2.0	2.5
- thereafter	2.5	2.5
Expected rate of CPI Increase	2.5	2.5

<sup>1</sup> This rate reflects market yields of Commonwealth Government bonds at balance date.

**NEW SOUTH WALES TREASURY CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2013**

## 22 Superannuation (continued)

### Reconciliation of the movement in (net) Unfunded Liability/Prepaid Contribution

	<b>SASS</b>	<b>SANCS</b>	<b>SSS</b>	<b>TOTALS</b>	
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>2013</b>	<b>2012</b>
				<b>\$'000</b>	<b>\$'000</b>
Net (asset)/liability at start of year	(109)	31	323	245	(196)
Net (credit)/expense recognised in the Statement of comprehensive income	(130)	(31)	(245)	(406)	441
<b>Net (asset)/liability at end of year</b>	<b>(239)</b>	<b>-</b>	<b>78</b>	<b>(161)</b>	<b>245</b>

## 23 Contractual commitments

	<b>2013</b>	<b>2012</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Capital commitments</b>		
Not later than one year	90	1,064
	<b>90</b>	<b>1,064</b>
<b>Operating leases</b>		
Not later than one year	2,886	2,752
Later than one year but not later than five years	12,367	12,154
Later than five years	93	3,064
	<b>15,346</b>	<b>17,970</b>

Operating lease commitments primarily relate to obligations to Government Property NSW ("GPNSW") in respect of the business premises occupied by the Corporation.

The Corporation has entered into Occupancy Agreements ("Agreements") with GPNSW. Under these Agreements:

- GPNSW agrees to grant the right of occupancy of premises to the Corporation until 19 May 2018;
- The Corporation is liable for rent, charges and expenses in respect of the premises; and
- The Corporation must pay GPNSW a management fee of 2% (excluding GST) of gross rent, charges and expenses on the leased premises.

2013 Capital commitments relate to obligations associated with the purchase of computer software (2012: Capital commitments relate to obligations associated with the refurbishment of the Corporation's business premises).

Capital and operating lease commitments have been stated with the amount of Goods and Services Tax included, where applicable.



**NEW SOUTH WALES TREASURY CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2013**

## 24 Fiduciary activities

	2013	2012
	\$'000	\$'000
At the year end, the funds under management were:		
- Hour-Glass Investment Trusts	12,861,813	11,951,127
- Specific client mandates	4,061,361	6,597,030
	<b>16,923,174</b>	<b>18,548,157</b>
These funds were managed by:		
- External fund managers	9,232,073	7,773,043
- The Corporation	7,691,101	10,775,114
	<b>16,923,174</b>	<b>18,548,157</b>
Additionally, the Corporation has mandates from clients to manage their debt portfolios.		
At the year end the debt portfolios under management were:	<b>45,388,982</b>	<b>45,519,283</b>

The Corporation acts both as Trustee and as manager of funds for the Hour-Glass Investment Trusts and actively manages asset and debt portfolios on behalf of clients.

## 25 Contingent liabilities and commitments

- a) During the year, the Corporation provided short term liquidity facilities to approved client authorities. These facilities are offered on a revolving basis. At the year end, the total facilities were \$5,718.00 million (2012: \$6,173.50 million) and undrawn commitments were \$5,488.36 million (2012: \$5,982.01 million). Drawn commitments are recognised as loans to government clients on the Balance sheet.
- b) The Corporation has issued unconditional payment undertakings on behalf of some New South Wales public sector clients to pay to the system operator. The Australian Energy Market Operator (AEMO) can demand in writing any amount up to an aggregate maximum agreed with individual participants. At balance date, the amounts of these undertakings were as follows:

	2013	2012
	\$m	\$m
<b>Market participants</b>		
National Electricity Market (NEM)	0.06	14.17
Short Term Trading Market (STTM)	1.00	1.10
	<b>1.06</b>	<b>15.27</b>

The Corporation has also issued undertakings on behalf of other New South Wales public sector clients in respect of those clients' performance under contracts with third parties. At balance date, the amounts of these undertakings totalled \$142.85 million (2012: \$122.95 million).

**NEW SOUTH WALES TREASURY CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2013**

## **25 Contingent liabilities and commitments (continued)**

Amounts paid under these undertakings are recoverable from the New South Wales public sector agency participants. This financial accommodation is New South Wales Government guaranteed.

- c) The Corporation has a commitment totalling \$650.00 million (2012: \$650.00 million) to provide motor vehicle finance to the New South Wales Government. As at year end, the undrawn commitments under these commitments are \$107.47 million (2012: \$93.29 million). Drawn commitments are recognised on the Balance sheet as loans to government clients (note 8), included within Crown entity.

## **26 Related parties**

### **Key management personnel**

Key management personnel include the directors and executives with the authority and responsibility for managing the consolidated entity. Compensation for key management personnel is disclosed in note 4.

Where the Corporation's key management personnel are also considered to be key management personnel of entities with whom the Corporation transacts, those transactions are conducted on an arms length basis, under the Corporation's normal commercial terms and conditions.

### **Consolidated group**

The consolidated group consists of the Corporation, its wholly owned subsidiary, TCorp Nominees Pty Limited and the special purpose service entity, Treasury Corporation Division of the Government Service.

TCorp Nominees Pty Limited is incorporated in New South Wales and all ongoing costs of incorporation and audit are borne by the Corporation. Details in relation to TCorp Nominees Pty Limited are:

	<b>2013 &amp; 2012</b>
Class of shares held	Ordinary
Interest held	100%
Amount of investment	\$2
Dividends received or receivable	Nil
Contribution to profit	Nil
Principal activity	Security Trustee

There were no material transactions with or balances between TCorp Nominees Pty Limited and the Corporation or external parties.

From 17 March 2006, all employees of the Corporation (and concomitantly, legal responsibility to pay employee benefits including on-costs and taxes) and related administrative services were transferred from the Corporation to the Treasury Corporation Division of the Government Service in accordance with the Public Sector Employment Legislation Amendment Act 2006. This legal arrangement has no financial effect on the financial performance or position of the Corporation or

## 26 Related parties (continued)

the consolidated entity as the Corporation fully reimburses the Treasury Corporation Division of the Government Service for all employee-related costs and services. The Treasury Corporation Division of the Government Service is a not-for-profit entity.

In the financial report of the Corporation, on-going obligations to provide employee benefits are shown as amounts due to service entity under the heading Other liabilities and provisions in the Balance sheet. Staff costs are classified as personnel services costs in the Statement of comprehensive income. There are no material impacts on the financial results or position of the consolidated entity.

### Other statutory relationships

The Corporation is a statutory authority established under the Treasury Corporation Act 1983 of the New South Wales Parliament. Dividends payable by the Corporation are determined by the New South Wales Treasurer in accordance with the *Public Finance and Audit Act* 1983. The financial results of the Corporation are consolidated annually in the New South Wales Report on State Finances.

The *Public Authorities (Financial Arrangements) Act* 1987 requires New South Wales government authorities to borrow only from the Corporation unless a specific exemption is granted by the New South Wales Treasurer.

### Other NSW Government entities

Under the *Treasury Corporation Act* 1983 the Corporation's principal objective is to provide financial services for, or for the benefit of, the New South Wales government, public authorities and other public bodies. More specifically, the Corporation may engage in the following activities in relation to New South Wales government and New South Wales public authorities:

- The provision of finance;
- The management or advice on management of assets and liabilities;
- The acceptance of funds for investment.

All clients of the Corporation are New South Wales government entities. The Corporation transacts with its clients under the Corporation's normal terms and conditions.

## 27 Segment information

The Corporation has a single reportable operating segment. As the central financing authority for the New South Wales government, the entity operates solely within the capital markets, banking and finance industry to provide financial services to the New South Wales Public Sector.

The Corporation's major customer is the New South Wales government and all its agencies, which are considered to be under common control. Interest income (expense) received from (paid to) government clients are disclosed in notes 2 and 3. Revenues received from government clients in the form of fees and commissions are disclosed in note 4.

Given the nature of its core functions and the legislative intent, the Corporation operates within Australia, apart from a proportion of funding raised offshore. As such, no geographic location segment reporting is presented within these financial statements.

**NEW SOUTH WALES TREASURY CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2013**

## **28 Cash flow statement – Reconciliation of cash and liquid assets**

Cash and liquid assets as at the end of the year as shown in the Cash flow statement is reconciled to the related items in the Balance sheet.

		2013	2012
	Note	\$'000	\$'000
Cash and liquid assets	5	952,827	1,650,752
<b>Cash and cash equivalents</b>		<b>952,827</b>	<b>1,650,752</b>

## **29 Reconciliation of cash flow from operating activities to net profit**

	2013	2012
	\$'000	\$'000
Net cash used in operating activities	(2,190,847)	(4,297,954)
Add/(less) adjustments arising from:		
- net loans to clients	2,429,459	4,368,716
- net change in coupons accrued at each year end on financial assets and liabilities	54,296	44,302
- net change in other assets	(10,591)	(17,108)
- net change in other liabilities and provisions, excluding dividends	763	8,369
	<b>283,080</b>	<b>106,326</b>
Add/(less) amounts contributing to net profit but not generating operating cash flows:		
- actuarial (gain)/loss on defined benefit plans	(326)	510
- loss on disposal of plant and equipment and intangible assets	(460)	(343)
- loss on sale of financial instruments	(479,703)	(509,535)
- unrealised fair value gain on financial instruments	290,553	461,809
- depreciation and amortisation	(4,412)	(4,608)
<b>Profit for the year</b>	<b>88,732</b>	<b>54,159</b>

## **30 Subsequent events**

There have been no events subsequent to balance date which would have a material effect on the consolidated entity's financial statements as at 30 June 2013.

## **31 Authorisation date**

This financial report was authorised for issue in accordance with a resolution of the directors of New South Wales Treasury Corporation on 30 August 2013.

**- End of Audited Financial Report -**



**NEW SOUTH WALES TREASURY CORPORATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2013**

**Certificate under Section 41C(1B) and 41C(1C) of the *Public Finance and Audit Act 1983* and Clause 7 of the *Public Finance and Audit Regulation 2010*.**

In the opinion of the directors of New South Wales Treasury Corporation:

- a) the financial report and consolidated financial report have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2010* and the Treasurer's Directions. They have also been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.
- d) the financial report and consolidated financial report for the year ended 30 June 2013 exhibit a true and fair view of the position and transactions of New South Wales Treasury Corporation and its controlled entities; and
- e) the directors are not aware of any circumstances as at the date of this certificate which would render any particulars included in the financial report and consolidated financial report misleading or inaccurate.

Signed in accordance with a resolution of the Board of Directors:

A handwritten signature in blue ink, appearing to read 'P Gaetjens'.

P Gaetjens  
Director

A handwritten signature in blue ink, appearing to read 'S W Knight'.

S W Knight  
Director

Sydney, 30 August 2013



**INDEPENDENT AUDITOR'S REPORT**  
**New South Wales Treasury Corporation and controlled entities**

To Members of the New South Wales Parliament

I have audited the accompanying financial statements of New South Wales Treasury Corporation (TCorp), which comprise the statements of comprehensive income, the balance sheets as at 30 June 2013, the statements of changes in equity and the cash flow statements for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information of the TCorp and the consolidated entity. The consolidated entity comprises TCorp and the entities it controlled at the year's end or from time to time during the financial year.

**Opinion**

In my opinion, the financial statements:

- give a true and fair view of the financial position of TCorp and the consolidated entity as at 30 June 2013, and of their financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the *Public Finance and Audit Regulation 2010*
- comply with International Financial Reporting Standards as disclosed in Note 1a.

My opinion should be read in conjunction with the rest of this report.

**The Board's Responsibility for the Financial Statements**

The members of the Board are responsible for the preparation of the financial statements that give a true and fair view in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the members of the Board determine is necessary to enable the preparation of the financial statements that give a true and fair view and that are free from material misstatement, whether due to fraud or error.

In note 1a, the members of the Board also state, in accordance with Accounting Standard AASB 101 'Presentation of Financial Statements', that the financial statements comply with International Financial Reporting Standards.

**Auditor's Responsibility**

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with Australian Auditing Standards. Those standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

## NEW SOUTH WALES TREASURY CORPORATION

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by members of the Board, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My opinion does *not* provide assurance:

- about the future viability of TCorp or the consolidated entity
- that they have carried out their activities effectively, efficiently and economically
- about the effectiveness of internal control
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about any other information, which may have been hyperlinked to/from the financial statements.

### Independence

In conducting my audit, I have complied with the independence requirements of the Australian Auditing Standards and other relevant ethical pronouncements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision on non-audit services, thus ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their role by the possibility of losing clients or income.



Peter Achterstraat  
Auditor-General

2 September 2013  
SYDNEY

**TREASURY CORPORATION DIVISION OF THE GOVERNMENT SERVICE**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2013**

		2013	2012
	Note	\$'000	\$'000
<b>Income</b>			
Personnel services income	5	21,673	17,508
<b>Total income</b>		<b>21,673</b>	<b>17,508</b>
<b>Expenses</b>			
Staff costs	2	(21,999)	(16,998)
<b>Total expenses</b>		<b>(21,999)</b>	<b>(16,998)</b>
<b>(Deficit)/surplus for the year</b>		<b>(326)</b>	<b>510</b>
<b>Other comprehensive income/(loss)</b>			
<i>Items that will not be classified to profit or loss:</i>	8		
Actuarial gain/(loss) on defined benefit plans		326	(510)
<b>Other comprehensive income/(loss) for the year</b>		<b>326</b>	<b>(510)</b>

The accompanying notes form part of these financial statements.



**TREASURY CORPORATION DIVISION OF THE GOVERNMENT SERVICE  
BALANCE SHEET  
FOR THE YEAR ENDED 30 JUNE 2013**

		2013	2012
	Note	\$'000	\$'000
<b>Current assets</b>			
Amounts receivable from controlling entity	5	6,204	2,630
Other assets	3	220	64
<b>Total current assets</b>		<b>6,424</b>	<b>2,694</b>
<b>Current liabilities</b>			
Payables		57	12
Employee benefit provisions	4	6,367	2,437
Other liabilities	6	-	245
<b>Total current liabilities</b>		<b>6,424</b>	<b>2,694</b>
<b>Net assets</b>		<b>-</b>	<b>-</b>
<b>Equity</b>			
Retained earnings		-	-
<b>Total equity</b>		<b>-</b>	<b>-</b>

The accompanying notes form part of these financial statements.

**TREASURY CORPORATION DIVISION OF THE GOVERNMENT SERVICE  
STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2013**

	Retained earnings \$'000	Total equity \$'000
Total equity at 30 June 2011	-	-
Surplus for the year	510	510
Other comprehensive (loss)	(510)	(510)
Total comprehensive income for the year	-	-
<b>Total equity at 30 June 2012</b>	<b>-</b>	<b>-</b>
(Deficit) for the year	(326)	(326)
Other comprehensive income	326	326
Total comprehensive income for the year	-	-
<b>Total equity at 30 June 2013</b>	<b>-</b>	<b>-</b>

The accompanying notes form part of these financial statements.

**TREASURY CORPORATION DIVISION OF THE GOVERNMENT SERVICE  
CASH FLOW STATEMENT  
FOR THE YEAR ENDED 30 JUNE 2013**

		2013	2012
	Note	\$'000	\$'000
<b>Cash flows from operating activities</b>			
Net cash flows provided by operating activities	5	-	-
Cash at the beginning of the year		-	-
<b>Cash at the end of the year</b>		<b>-</b>	<b>-</b>

The accompanying notes form part of these financial statements.

**TREASURY CORPORATION DIVISION OF THE GOVERNMENT SERVICE  
FOR THE YEAR ENDED 30 JUNE 2013**

**1. Summary of significant accounting policies**

**(a) Reporting entity**

Treasury Corporation Division of the Government Service ('the Division') is a Division of the New South Wales Government Service, established pursuant to Part 2 of Schedule 1 to the Public Sector Employment and Management Act 2002. It is a not-for-profit entity as profit is not its principal objective. The Division is consolidated as part of the NSW Total State Sector Accounts. It is domiciled in Australia and its principal office is at Level 22, Governor Phillip Tower, 1 Farrer Place, Sydney, NSW, 2000.

The Division's objective is to provide personnel services to New South Wales Treasury Corporation.

The Division commenced operations on 17 March 2006 when it assumed responsibility for the employees, employee-related liabilities and related administrative services of New South Wales Treasury Corporation.

The financial report was authorised for issue by S W Knight the Division Head on 28 August 2013.

**(b) Basis of preparation**

The Division is deemed to be a reporting entity in accordance with NSW Treasury Circular NSW TC 11/19 Financial Reporting and Annual Reporting Requirements Arising from Employment Arrangements.

These are general purpose financial statements which are prepared in accordance with the requirements of Australian Accounting Standards, the *Public Finance and Audit Act* 1983, the *Public Finance and Audit Regulation* 2010, and specific directions issued by the NSW Treasurer.

Generally, the historical cost basis of accounting has been adopted and the financial statements do not take into account changing money values or current valuations except for certain assets and provisions which are measured at fair value (see notes 3 and 4). Cost is based on the fair values of the consideration given in exchange for assets.

The accrual basis of accounting has been adopted in the preparation of the financial statements, except for cash flow information.

**TREASURY CORPORATION DIVISION OF THE GOVERNMENT SERVICE  
FOR THE YEAR ENDED 30 JUNE 2013**

**1. Summary of significant accounting policies (continued)**

Standards and interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

<b>Standard/Interpretation</b>	<b>Effective for annual reporting periods beginning on or after</b>	<b>Expected to be initially applied in the financial year ending</b>
AASB 13 <i>Fair Value Measurement</i> and AASB 2011-8 <i>Amendments to Australian Accounting Standards arising from AASB 13</i> .	1 January 2013	30 June 2014
AASB 127 (2011) <i>Separate Financial Statements</i>	1 January 2013	30 June 2014
AASB 119 (2011) <i>Employee Benefits</i>	1 January 2013	30 June 2014
AASB 9 <i>Financial Instruments</i> , AASB 2012-6 <i>Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures</i> , AASB 2010-7 <i>Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)</i>	1 January 2015	30 June 2016

When applied, these standards will impact only on the presentation of the financial statements and disclosures in the notes.

Management's judgements, key assumptions and estimates are disclosed in the relevant notes to the financial statements. All amounts are rounded to the nearest one thousand dollars and are expressed in Australian dollars.

**(c) Comparative information**

Accounting policies and presentation adopted in these financial statements are consistent with the previous year. Comparative information has been reclassified, where necessary, to be consistent with the current year.

**(d) Income**

Income is measured at the fair value of the consideration received or receivable. Revenue from the rendering of personnel services is recognised when the service is provided and only to the extent that the associated recoverable expenses are recognised.

**(e) Receivables**

A receivable is recognised when it is probable that the future cash inflows associated with it will be realised and it has a value that can be measured reliably. It is derecognised when the contractual or other rights to future cash flows from it expire or are transferred.

**TREASURY CORPORATION DIVISION OF THE GOVERNMENT SERVICE  
FOR THE YEAR ENDED 30 JUNE 2013**

**1. Summary of significant accounting policies (continued)**

**(f) Payables**

Payables include creditors and accrued wages, salaries, and related on costs (such as fringe benefits tax and workers' compensation insurance) where there is certainty as to the amount and timing of settlement.

A payable is recognised when a present obligation arises under a contract or otherwise. It is derecognised when the obligation expires or is discharged, cancelled or substituted.

A short-term payable with no stated interest rate is measured at historical cost if the effect of discounting is immaterial.

**(g) Employee benefit provisions and expenses**

Provisions are recognised when the Division has a present obligation (legal or constructive) as a result of a past event, it is probable that the Division will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Employee benefit provisions represent expected amounts payable in the future in respect of unused entitlements accumulated as at the reporting date and associated liabilities (such as payroll tax).

Superannuation liabilities associated with defined benefit schemes and leave liabilities are recognised as expenses and provisions when the obligations arise, which is usually through the rendering of service by employees.

Superannuation is actuarially assessed prior to each reporting date and is measured at the present value of the estimated future payments.

All other employee benefit liabilities are assessed by management and are measured at the undiscounted amount of the estimated future payments.

The amount recognised for superannuation is the net total of the present value of the defined benefit obligation at the reporting date, minus the fair value at that date of any plan assets out of which the obligations are to be settled directly.

The amount recognised in the statement of comprehensive income for superannuation is the net total of current service cost, interest cost and the expected return on any plan assets. Actuarial gains or losses are recognised immediately as 'other comprehensive income' in the year in which they occur.

The actuarial assessment of superannuation uses the Projected Unit Credit Method and reflects estimated future salary increases and the benefits set out in the terms of the plan. The liabilities are discounted using the market yield rate on Commonwealth Government bonds of similar maturity to those obligations. Actuarial assumptions are unbiased and mutually compatible and financial assumptions are based on market expectations for the period over which the obligations are to be settled.

**TREASURY CORPORATION DIVISION OF THE GOVERNMENT SERVICE  
FOR THE YEAR ENDED 30 JUNE 2013**

**1. Summary of significant accounting policies (continued)**

**(h) Tax equivalents**

The Income Tax Assessment Act 1936 and the Income Tax Assessment Act 1997 exempts the Division, as a controlled entity of New South Wales Treasury Corporation (refer note 5), from liability for Commonwealth income tax.

Since the Division is legally established as a Division of the New South Wales Government Service (refer note 1 (a)), it is not subject to tax equivalents payments to the New South Wales Government.

**2. Staff costs**

		2013	2012
	Note	\$'000	\$'000
Staff costs for the period include:			
Remuneration costs		19,420	14,676
Defined contribution superannuation		1,169	1,098
Defined benefit superannuation	8	(48)	(33)
Other		1,458	1,257
		<b>21,999</b>	<b>16,998</b>

**3. Other assets**

		2013	2012
	Note	\$'000	\$'000
Prepaid superannuation	8	161	-
Prepaid operating expenses		59	64
		<b>220</b>	<b>64</b>

**4. Employee benefit provisions**

	2013	2012
	\$'000	\$'000
Opening Balance	2,437	5,530
Increase in provisions (net)	5,815	2,215
Payments	(1,885)	(5,308)
	<b>6,367</b>	<b>2,437</b>

**TREASURY CORPORATION DIVISION OF THE GOVERNMENT SERVICE  
FOR THE YEAR ENDED 30 JUNE 2013**

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**5. Related parties**

Controlling entity & economic dependency

New South Wales Treasury Corporation is deemed to control the Division in accordance with Treasury Circular NSW TC 11/19. The controlling entity is incorporated under the Treasury Corporation Act 1983 of the New South Wales Parliament.

Transactions and balances in this financial report relate only to the Division's function as provider of personnel services to the controlling entity.

The Division's total income is sourced from the New South Wales Treasury Corporation. Cash receipts and payments are affected by the New South Wales Treasury Corporation on the Division's behalf.

New South Wales Treasury Corporation guarantees payment of all the Division's liabilities.

**6. Other liabilities**

	Note	2013 \$'000	2012 \$'000
Superannuation – Unfunded Liability	8	-	245
		-	245

**7. Auditors remuneration**

Auditor's remuneration for the review of this financial report is borne by the controlling entity. The applicable audit fee amounted to \$7,200 (2012: \$6,900).

**8. Superannuation**

As per note 1(a), superannuation obligations were transferred from New South Wales Treasury Corporation to the Division on 17 March 2006.

Any unfunded superannuation liabilities arising from defined benefit schemes for employees are recognised as a liability in note 6. Amounts representing prepaid superannuation contributions are recognised as an asset and included in note 3. Actuarial gains and losses are recognised as other comprehensive income in the 'statement of comprehensive income' in the year they occur.

The funds below hold in trust the investments of the closed New South Wales public sector superannuation schemes:

State Authorities Superannuation Scheme (SASS)

State Superannuation Scheme (SSS)

State Authorities Non-contributory Superannuation Scheme (SANCS)

These funds are all defined benefit schemes, where at least a component of the employee's final benefit is derived from a multiple of member salary and years of membership. All schemes are closed to new members.



**TREASURY CORPORATION DIVISION OF THE GOVERNMENT SERVICE  
FOR THE YEAR ENDED 30 JUNE 2013**

## **8. Superannuation (continued)**

All fund assets are invested at arm's length. Payments may be made to Pillar Administration to reduce the superannuation liability. These payments are held in investment reserve accounts by Pillar Administration.

The 2013 actuarial assessment of SASS, SANCS and SSS was based on the requirements of Australian Accounting Standard AASB 119 Employee Benefits. This required that a market determined risk-adjusted discount rate be applied as a valuation interest rate in the calculation of the value of accrued benefits. To satisfy the AASB 119 requirements, the following principal actuarial assumptions were applied at the report date.

	2013	2012
Discount Rate at 30 <sup>th</sup> June <sup>(1)</sup>	3.80	3.06
Expected return on assets backing current pension liabilities	8.6	8.6
Expected salary increases - to next financial year	2.3	2.5
- 2014/2015	2.3	2.5
- 2015/2016 to 2019/2020	2.0	2.5
- thereafter	2.5	2.5
Expected rate of CPI Increase	2.5	2.5

<sup>(1)</sup> In accordance with AASB 119 this rate reflects market yields of Commonwealth Government bonds at balance date.

### **Actual return on fund assets**

	2013	2012
	\$'000	\$'000
Actual return on fund assets	270	2
	<b>270</b>	<b>2</b>

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each class. The returns used for each class are net of investment tax and investment fees.

### **Fund asset allocation**

	2013	2012
	%	%
Australian equities	30.4	28.0
Overseas equities	26.1	23.7
Australian fixed interest securities	6.9	4.9
Overseas fixed interest securities	2.2	2.4
Property	8.3	8.6
Cash	13.1	19.5
Other	13.0	12.9

**TREASURY CORPORATION DIVISION OF THE GOVERNMENT SERVICE  
FOR THE YEAR ENDED 30 JUNE 2013**

## **8. Superannuation (continued)**

### **Funding arrangements for employer contributions**

The following is a summary of the financial position of the Funds calculated in accordance with AAS 25 'Financial Reporting by Superannuation Plans':

		<b>2013</b>	<b>2012</b>
<b>(Surplus)/deficit</b>		<b>\$'000</b>	<b>\$'000</b>
Accrued benefits		1,265	1,170
Net market value of fund assets		(1,882)	(1,579)
<b>Net surplus</b>		<b>(617)</b>	<b>(409)</b>

<b>Contribution recommendations</b>			
	<b>Method</b>	<b>2013</b>	<b>2012</b>
SASS	Multiple of member contributions	0.00	0.00
SANCS	% Member Salary	0.00%	0.00%
SSS	Multiple of member contributions	0.00	0.00

### **Funding method**

The method used to determine the employer contribution recommendations in the 2012 triennial actuarial review was the *Aggregate Funding* method. The method adopted affects the timing of the cost to the employer.

Under the Aggregate Funding method, the employer contribution rate is determined so that sufficient assets will be available to meet the benefit payments to existing members, taking into account the current value of assets and future contributions.

### **Weighted-average assumptions**

	<b>2013</b>	<b>2012</b>
	<b>%</b>	<b>%</b>
Expected rate of return on Fund assets backing current pension liabilities	8.3	8.3
Expected rate of return on Fund assets backing other liabilities	7.3	7.3
Expected salary increase rate		
- for 6 years	2.7	4.0
- thereafter	4.0	4.0
Expected rate of CPI increase	2.5	2.5

The AAS 25 surplus will be higher than the AASB 119 net defined benefit asset recognised in the balance sheet, because the expected after tax rate of return on the plan assets is typically higher than the long-term Commonwealth Government bond rate.

**TREASURY CORPORATION DIVISION OF THE GOVERNMENT SERVICE  
FOR THE YEAR ENDED 30 JUNE 2013**

**8. Superannuation (continued)**

**Components recognised in the statement of comprehensive income**

	<b>2013</b>	<b>2012</b>
	<b>\$'000</b>	<b>\$'000</b>
Current service cost	32	30
Interest on obligation	56	70
Expected return on fund assets	(136)	(133)
<b>Total</b>	<b>(48)</b>	<b>(33)</b>

The charge/(credit) for the year is included in staff costs in the statement of comprehensive income.

**Net asset recognised in the balance sheet**

	<b>Total 2013 \$'000</b>	<b>Total 2012 \$'000</b>	<b>Total 2011 \$'000</b>	<b>Total 2010 \$'000</b>	<b>Total 2009 \$'000</b>
Fair value of fund assets at the beginning of the year	1,579	1,536	1,777	1,569	1,586
Expected return on fund assets	136	133	150	133	126
Actuarial gains/(losses)	139	(121)	(124)	32	(251)
Employer contributions	32	36	37	49	132
Employee contributions	15	14	17	17	16
Benefits paid	(19)	(19)	(321)	(23)	(40)
<b>Fair value of fund assets at the end of the year</b>	<b>1,882</b>	<b>1,579</b>	<b>1,536</b>	<b>1,777</b>	<b>1,569</b>
Present value of partly funded defined benefit obligations	(1,721)	(1,824)	(1,340)	(1,631)	(1,425)
Adjustment for limitation on net assets	-	-	-	-	-
<b>Net asset/(liability) recognised in balance sheet at the end of the year</b>	<b>161</b>	<b>(245)</b>	<b>196</b>	<b>146</b>	<b>144</b>
Experience adjustments – Fund liabilities	(187)	390	112	92	137
Experience adjustments – Fund assets	130	(121)	(124)	(31)	251

<b>Amounts recognised in the statement of comprehensive income</b>	<b>2013 \$'000</b>	<b>2012 \$'000</b>
Actuarial losses incurred during the year and recognised in the statement of comprehensive income	(326)	510
Adjustments recognised in the statement of comprehensive income for restrictions on the defined benefit asset	-	-
<b>Actuarial loss for the year as per the statement of comprehensive income</b>	<b>(326)</b>	<b>510</b>
<b>Cumulative actuarial losses recognised in the statement of comprehensive income</b>	<b>501</b>	<b>827</b>

**- End of Audited Financial Report -**

**TREASURY CORPORATION DIVISION OF THE GOVERNMENT SERVICE  
FOR THE YEAR ENDED 30 JUNE 2013**

**Certificate under Section 41C(1B) and 41C(1C) of the *Public Finance and Audit Act*, 1983 and  
Clause 11 of the *Public Finance and Audit Regulation*, 2010**

In the opinion of the Division Head of Treasury Corporation Division of the Government Service

- a) the financial report has been prepared in a form for consolidation in accordance with the provisions of the *Public Finance and Audit Act* 1983, the *Public Finance and Audit Regulation* 2010 and the Treasurer's Directions. It has also been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standard Board;
- f) the financial report for the year ended 30 June 2013 exhibits a true and fair view of the financial position and transactions of Treasury Corporation Division of the Government Service; and
- g) I am not aware, as at the date of this Certificate, of any circumstances which would render any particulars included in the financial report to be misleading or inaccurate.



S W Knight  
Division Head

28 August 2013  
Sydney

**TREASURY CORPORATION DIVISION OF THE GOVERNMENT SERVICE  
FOR THE YEAR ENDED 30 JUNE 2013**



**INDEPENDENT AUDITOR'S REPORT  
Treasury Corporation Division of the Government Service**

To Members of the New South Wales Parliament

I have audited the accompanying financial statements of New South Wales Treasury Corporation Division of the Government Service (the Division), which comprise the balance sheet as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and cash flow statement, for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

**Opinion**

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Division as at 30 June 2013, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the *Public Finance and Audit Regulation 2010*.

My opinion should be read in conjunction with the rest of this report.

**The Chief Executive's Responsibility for the Financial Statements**

The Chief Executive of New South Wales Treasury Corporation is responsible for the preparation of the financial statements that give a true and fair view in accordance with Australian Accounting Standards and the PF&A Act and for such internal control as the Chief Executive determines is necessary to enable the preparation of the financial statements that give a true and fair view and that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with Australian Auditing Standards. Those Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Division's preparation of the financial statements that give a true and fair view in order to design audit procedures appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Chief Executive, as well as evaluating the overall presentation of the financial statements.

**TREASURY CORPORATION DIVISION OF THE GOVERNMENT SERVICE  
FOR THE YEAR ENDED 30 JUNE 2013**

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My opinion does *not* provide assurance:

- about the future viability of the Division
- that it has carried out its activities effectively, efficiently and economically
- about the effectiveness of its internal control
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about other information which may have been hyperlinked to/from the financial statements.

**Independence**

In conducting my audit, I have complied with the independence requirements of the Australian Auditing Standards and other relevant ethical pronouncements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies, but precluding the provision on non-audit services, thus ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their role by the possibility of losing clients or income.



A Oyetunji  
Director, Financial Audit Services

2 September 2013  
SYDNEY

**TCORP NOMINEES PTY LIMITED**  
**A.B.N. 81 003 747 162**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2013**

		2013	2012
	Note	\$	\$
Income		-	-
Income tax equivalent expense	1(c)	-	-
Profit for the year		-	-
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>

The accompanying notes form part of these financial statements.

**TCORP NOMINEES PTY LIMITED**  
**A.B.N. 81 003 747 162**  
**BALANCE SHEET**  
**FOR THE YEAR ENDED 30 JUNE 2013**

		2013	2012
	Note	\$	\$
Cash	1(d)	2	2
Total assets		2	2
Total liabilities		-	-
<b>Net assets</b>		<b>2</b>	<b>2</b>
Contributed equity	2	2	2
Retained profits		-	-
<b>Total equity</b>		<b>2</b>	<b>2</b>

The accompanying notes form part of these financial statements.



**TCORP NOMINEES PTY LIMITED**  
**A.B.N. 81 003 747 162**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2013**

	Note	Retained earnings \$	Total equity \$
Total equity at 30 June 2011		2	2
Profit for the year		-	-
Other comprehensive income		-	-
Total comprehensive income for the year		-	-
<b>Total equity at 30 June 2012</b>		<b>2</b>	<b>2</b>
Profit for the year		-	-
Other comprehensive income		-	-
Total comprehensive income for the year		-	-
<b>Total equity at 30 June 2013</b>		<b>2</b>	<b>2</b>

The accompanying notes form part of these financial statements.

**TCORP NOMINEES PTY LIMITED**  
**A.B.N. 81 003 747 162**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 30 JUNE 2013**

	2013	2012
	\$	\$
<b>Cash inflows/(outflows) from operating activities</b>		
Net cash flows from operating activities	-	-
<b>Net increase in cash held</b>	<b>-</b>	<b>-</b>
Cash at the beginning of the year	2	2
<b>Cash at the end of the year</b>	<b>2</b>	<b>2</b>

The accompanying notes form part of these financial statements.

**TCORP NOMINEES PTY LIMITED**  
**A.B.N. 81 003 747 162**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2013**

**1. Summary of significant accounting policies**

**a) Basis of preparation**

These general purpose financial statements have been prepared in accordance with Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board, and comply with other requirements of the law.

Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards (IFRS). Compliance with Australian Equivalents to IFRS ensures this financial report complies with IFRS.

The financial statements also have regard to the requirements of the *Public Finance and Audit Act* 1983, the *Public Finance and Audit Regulation* 2010 and the Treasurer's Directions as the parent entity is required to report in accordance with provisions contained within that New South Wales legislation.

**Standards and interpretations in issue not yet adopted**

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

<b>Standard/Interpretation</b>	<b>Effective for annual reporting periods beginning on or after</b>	<b>Expected to be initially applied in the financial year ending</b>
AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13.	1 January 2013	30 June 2014
AASB 127 (2011) Separate Financial Statements	1 January 2013	30 June 2014

When applied, all of these standards will impact only on the presentation of the financial statements and disclosures in the notes.

The financial statements are prepared using the accrual basis of accounting. Financial assets and financial liabilities are stated on a fair value basis of measurement unless otherwise indicated. Other assets and liabilities are stated on an historical cost basis of measurement.

Management's judgements, key assumptions and estimates are disclosed in the relevant notes to the financial statements.

**TCORP NOMINEES PTY LIMITED**  
**A.B.N. 81 003 747 162**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2013**

**1. Summary of significant accounting policies (continued)**

**b) Company information and activities**

TCorp Nominees Pty Ltd (the company) is a company registered under the *Corporations Act 2001* and incorporated in New South Wales, Australia. The address of its registered office is:

Level 22  
Governor Phillip Tower  
1 Farrer Place  
SYDNEY NSW 2000

Other than disclosed in Note 6, there were no transactions undertaken by the company with any other party, including related parties, during the reporting period or the previous period. All ongoing costs of incorporation and audit are borne by the parent entity.

The company acts as a security trustee in relation to financing of a hospital for which the parent entity has advanced funds. As a security trustee, the company holds rights under a number of mortgages and charges on trust for the parent entity. Should the company take enforcement action against the security providers under the transaction, any moneys realised are to be paid to the parent entity. The company's actions as security trustee are supported by indemnities from the parent entity for losses incurred in connection with this role. As at 30 June 2013, the amount outstanding under the lending arrangements was approximately \$7.2 million (2012: \$9.3 million). At the date of this report, the company has not taken any enforcement action under the security held, nor are there any issues pending that would likely require such action to be taken in the future.

**c) Income tax**

The *Income Tax Assessment Act 1936* and *Income Tax Assessment Act 1997* exempts the company and its parent entity from liability for Commonwealth Income Tax. The parent entity is subject to a tax equivalent payment to the New South Wales Government on its consolidated results.

**d) Cash**

Cash comprises cash on hand.

**e) Presentation**

The financial report is presented in Australian dollars and amounts are rounded off to the nearest dollar.

Comparative information has been restated where necessary to be presented on a consistent basis to the current year information.

**TCORP NOMINEES PTY LIMITED**  
**A.B.N. 81 003 747 162**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2013**

**2. Contributed equity**

	2013	2012
	\$	\$
2 Ordinary shares issued and fully paid	2	2

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

**3. Dividends**

The directors recommend that no dividend be paid in respect of the current year. No dividend has previously been declared or paid.

**4. Remuneration of auditors**

Fees for services rendered to the company by the auditors are borne by the parent entity (note 6). The audit fee applicable to this company amounted to \$3,750 (2012: \$3,750).

**5. Key management personnel**

The key management personnel of the company during the year were the directors. The company has no employees.

The names of each person who were directors of the company at any time during the financial year are as follows:

Stephen William Knight  
Paul Anthony Smith  
Clare Sylvia Mifsud

The directors of the company did not receive any remuneration from the company or any related entity in relation to the management of the company.

**6. Related parties**

**Parent entity**

TCorp Nominees Pty Limited is a wholly-owned controlled entity of the parent entity, New South Wales Treasury Corporation. The parent entity was incorporated under the *Treasury Corporation Act* 1983 of the New South Wales Parliament.

**Related party non-cash transactions**

During the current financial year the company borrowed an amount of \$10 from the parent entity to invest in the initial units of the Hour-Glass Strategic Fixed Interest Sector Trust ("Trust"). On or after initial investment in the Trust, the company redeemed its units and repaid its loan to the parent entity.

**TCORP NOMINEES PTY LIMITED**  
**A.B.N. 81 003 747 162**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2013**

**Subsequent events**

No matter or circumstance has arisen since 30 June 2013 that has significantly affected, or may significantly affect:

- a) the company's operations in future years; or
- b) the results of those operations in future years; or
- c) the company's state of affairs in future years.

**7. Authorisation date**

This financial report was authorised for issue in accordance with a resolution of the directors of TCorp Nominees Pty Limited on 28<sup>th</sup> August 2013.

**- End of Audited Financial Report -**

**TCORP NOMINEES PTY LIMITED**  
**A.B.N. 81 003 747 162**

**Certificate under Section 41C (1B) and 41C (1C) of the *Public Finance and Audit Act 1983* and Clause 11 of the *Public Finance and Audit Regulation 2010*.**

In the opinion of the Directors of TCorp Nominees Pty Limited:

- a) The financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act 1983*, the *Public Finance and Audit Regulation 2010* and the Treasurer's Directions. They have also been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standard Board;
- b) the financial statements for the year ended 30 June 2013 exhibit a true and fair view of the financial position and transactions of TCorp Nominees Pty Limited; and
- c) the Directors are not aware, as at the date of this Certificate, of any circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.

Signed in accordance with a resolution of the Board of Directors:



SW Knight  
Director



P A Smith  
Director

28 August 2013  
Sydney



**INDEPENDENT AUDITOR'S REPORT**  
**TCorp Nominees Pty Limited**

To Members of the New South Wales Parliament

I have audited the accompanying financial statements of TCorp Nominees Pty Limited which comprise the balance sheet as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

**Opinion**

In my opinion, the financial statements:

- give a true and fair view of the financial position of TCorp Nominees Pty Limited as at 30 June 2013, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act), and the *Public Finance and Audit Regulation 2010*.

My opinion should be read in conjunction with the rest of this report.

**The Chief Executive's Responsibility for the Financial Statements**

The Chief Executive of New South Wales Treasury Corporation is responsible for the preparation of the financial statements that give a true and fair view in accordance with Australian Accounting Standards and the PF&A Act, and for such internal control as the Chief Executive determines is necessary to enable the preparation of the financial statements that give a true and fair view and that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with Australian Auditing Standards. Those Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the TCorp Nominees Pty Limited's preparation of the financial statements that give a true and fair view in order to design audit procedures appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of TCorp Nominees Pty Limited's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Chief Executive, as well as evaluating the overall presentation of the financial statements.



**TCORP NOMINEES PTY LIMITED**  
**A.B.N. 81 003 747 162**

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

My opinion does *not* provide assurance:

- about the future viability of the TCorp Nominees Pty Limited
- that it has carried out its activities effectively, efficiently and economically
- about the effectiveness of its internal controls
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented
- about other information which may have been hyperlinked to/from the financial statements.

**Independence**

In conducting my audit, I have complied with the independence requirements of the Australian Auditing Standards and other relevant ethical pronouncements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their role by the possibility of losing clients or income.



A Oyetunji  
Director, Financial Audit Services

2 September 2013  
SYDNEY

## Appendix A - Obligations under the GIPA Act

### 1. Review of proactive release program - Clause 7(a)

The *Government Information (Public Access) Act 2009* (GIPA Act) commenced on 1 July 2010. This legislation replaced the *Freedom of Information Act 1989* which was repealed as of 1 July 2010. The object of the GIPA Act is to open government information to the public by authorising and encouraging the proactive release of information, giving members of the public an enforceable right to obtain government information and ensuring that access to government information is only restricted in circumstances where there is an overriding public interest against disclosure.

As a matter of course, all new staff are advised during induction, and existing staff are regularly advised, of the importance of directing all requests for information immediately to the GIPA Coordinator so that they can be processed in accordance with the GIPA Act. TCorp has reviewed its obligations to proactively release government information in accordance with section 7(3) of the GIPA Act and is satisfied it has complied with the requirements of the GIPA Act. TCorp is exempt, under Schedule 2 (Excluded information of particular agencies) of the GIPA Act from disclosing competitive and market sensitive information including information relating to its borrowing, investment and liability and asset management functions.

### 2. Number of access applications received - Clause 7(b)

During the reporting period, TCorp received no formal access applications.

### 3. Number of refused applications for Schedule 1 information - Clause 7(c)

There were no refused applications during the reporting period.

#### 4. Statistical information about access applications - Clause 7(d) and Schedule 2

**Table A: Number of applications by type of applicant and outcome\***

Number of applications by type of applicant and outcome*	Access granted in full	Access granted in part	Access refused in full	Information not held	Information already available	Refuse to deal with application	Refuse to confirm / deny whether information is held	Application withdrawn
Media	0	0	0	0	0	0	0	0
Members of Parliament		0	0	0	0	0	0	0
Private sector business	0	0	0	0	0	0	0	0
Not for profit organisations or community groups	0	0	0	0	0	0	0	0
Members of the public (application by legal representative)	0	0	0	0	0	0	0	0
Members of the public (other)	0	0	0	0	0	0	0	0

\*More than one decision can be made in respect of a particular access application. If so, a recording must be made in relation to each such decision. This also applies to Table B.

**Table B: Number of applications by type of application and outcome**

Number of applications by type of application and outcome	Access granted in full	Access granted in part	Access refused in full	Information not held	Information already available	Refuse to deal with application	Refuse to confirm / deny whether information is held	Application withdrawn
Personal information applications*	0	0	0	0	0	0	0	0
Access applications (other than personal information applications)	0	0	0	0	0	0	0	0
Access applications that are partly personal information applications and partly other	0	0	0	0	0	0	0	0

\*A **personal information application** is an access application for personal information (as defined in clause 4 of Schedule 4 to the Act) about the applicant (the applicant being an individual).

**Table C: Invalid applications**

Invalid applications	
Reason for invalidity	Number of applications
Application does not comply with formal requirements (section 41 of the Act)	0
Application is for excluded information of the agency (section 43 of the Act)	0
Application contravenes restraint order (section 110 of the Act)	0
Total number of invalid applications received	0
Invalid applications that subsequently became valid applications	0

**Table D: Conclusive presumption of overriding public interest against disclosure: matters listed in Schedule 1 of the Act**

Conclusive presumption of overriding public interest against disclosure: matters listed in Schedule 1 of the Act	Number of times consideration used*
Overriding secrecy laws	0
Cabinet information	0
Executive Council information	0
Contempt	0
Legal professional privilege	0
Excluded information	0
Documents affecting law enforcement and public safety	0
Transport safety	0
Adoption	0
Care and protection of children	0
Ministerial code of conduct	0
Aboriginal and environmental heritage	0

\*More than one public interest consideration may apply in relation to a particular access application and, if so, each such consideration is to be recorded (but only once per application). This also applies in relation to Table E.

**Table E: Other public interest considerations against disclosure: matters listed in table to section 14 of the Act**

Other public interest considerations against disclosure: matters listed in table to section 14 of the Act	Number of occasions when application not successful
Responsible and effective government	0
Law enforcement and security	0
Individual rights, judicial processes and natural justice	0
Business interests of agencies and other persons	0
Environment, culture, economy and general matters	0
Secrecy provisions	0
Exempt documents under interstate Freedom of Information legislation	0

**Table F: Timeliness**

Timeliness	Number of applications
Decided within the statutory timeframe (20 days plus any extensions)	0
Decided after 35 days (by agreement with applicant)	0
Not decided within time (deemed refusal)	0
<b>Total</b>	<b>0</b>

**Table G: Number of applications reviewed under Part 5 of the Act (by type of review and outcome)**

Number of applications reviewed under Part 5 of the Act (by type of review and outcome)	Decision varied	Decision upheld	Total
Internal review	0	0	0
Review by Information Commissioner*	0	0	0
Internal review following recommendation under section 93 of Act	0	0	0
Review by ADT	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>

\*The Information Commissioner does not have the authority to vary decisions, but can make recommendation to the original decision-maker. The data in this case indicates that a recommendation to vary or uphold the original decision has been made.



**Table H: Applications for review under Part 5 of the Act (by type of applicant)**

Applications for review under Part 5 of the Act (by type of applicant)	Number of applications for review
Applications by access applicants	0
Applications by persons to whom information the subject of access application relates (see section 54 of the Act)	0

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**\* Key to legislative reference codes**

ARSBA	<i>Annual Reports (Statutory Bodies) Act, 1984</i>
ARSB	<i>Annual Reports (Statutory Bodies) Regulation 2005</i>
GIPAA	<i>Government Information (Public Access) Act 2009</i>
GIPAAR	<i>Government Information (Public Access) Regulation 2009</i>
IPARTA	<i>Independent Pricing and Regulatory Tribunal Act 1992</i>
PIDA	<i>Public Interest Disclosures Act 1994</i>
PIDR	<i>Public Interest Disclosures Regulation 2011</i>
PC	Premier's Circular
PM	Premier's Memorandum
PPIPA	<i>Privacy and Personal Information Protection Act 1998</i>
TC	Treasury Circular
TD	Treasurer's Direction



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