



# The 32<sup>nd</sup> Annual Report to Parliament of New South Wales Treasury Corporation

For the year ended 30 June 2014





## Access

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*For Registry locations see page 136.*

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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* (NSW) 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.
- 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* (NSW).

### 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:

- Deliver low cost funding for our clients.
- Be profitable and return a dividend to the State.
- Be a trusted partner to our clients.
- Be the State's provider of financial markets products and services.

Objectives	Performance Measures	Results for 2013/14
To deliver low cost funding for our clients.	To ensure a cost effective funding mix through diversification of sources of finance and efficient implementation of the annual funding programme.	TCorp issued over \$6.7 billion through its funding programme. Two new Benchmark Bond lines, September 2018, and April 2021 were established. A number of significant offshore investors continued to be participants in this programme.
To be profitable and return a dividend to the State.	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 above budget results. TCorp's net profit of \$96.2 million was above budget, but lower than the previous year's net profit of \$127.2 million.
To be a trusted partner to our clients.	Service delivery, evidenced through: <ul style="list-style-type: none"> <li>• Demonstration of value-add to clients and the State.</li> <li>• Maintaining and improve client satisfaction as measured by an annual clients survey, retention and expansion of the client base.</li> <li>• Effective ongoing deal management and administration.</li> </ul>	<p>Provided advice on a number of existing and new Public Private Partnerships (PPP) transactions on financing, interest rate and foreign exchange risk management issues.</p> <p>Continued to provide advice to the local government sector. On requests from councils, updated financial assessments and provided advice on issues raised in the review.</p> <p>Assisted clients to respond to public reviews by the NSW Independent Pricing and Regulatory Tribunal (IPART) and the Australian Energy Regulator (AER) on capital return, debt benchmarking and financeability reviews. Client feedback was positive for all advisory services, as shown through the client survey, repeat business and referrals.</p> <p>The 2013/14 client survey showed excellent results, confirming TCorp's strong reputation and maintenance of the existing high level of client satisfaction with service standards across our business activities.</p>
To be the State's provider of financial markets products and services.	To outperform neutral benchmarks for managed debt portfolios.	Interest rates remained below long term averages over the year which provided opportunities to lengthen debt portfolios. Debt managers took advantage of short term market volatility to lock-in interest

Objectives	Performance Measures	Results for 2013/14
		cost savings when compared to client debt portfolio benchmarks.
	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.	The Cash, Strategic Cash and Medium Term Growth Trusts posted solid absolute results and outperformed their respective benchmarks after deduction of all fees and expenses. The Long Term Growth Trust delivered a very strong absolute return, but slightly underperformed benchmark.
	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 clients, when comparing performance against benchmarks.</p>

## Review of Operations

TCorp generated strong results for clients and the NSW Government again in the 2013/14 financial year. Pre-tax net profit of \$96.2 million was above budget, though down on the previous year's extraordinary outcome. Debt issuance outcomes were strong, and continued to support the State's AAA credit rating. Funds management activities continued to perform well, with cash and fixed income funds handsomely outperforming benchmarks, and Hour-Glass investment products generating healthy returns and benchmark outperformance. During the year we undertook a broad range of advisory assignments across Government, including ongoing work with regulated utility clients on the changes in their regulatory settings and implications for risk management.

In March the NSW Government announced that the funds management activities of TCorp, State Super (STC) and Safety, Return to Work and Support (SRWS) will be amalgamated at TCorp. This will create a \$65 billion funds management activity, and be one of the largest in Australia. The team to manage this activity will be formed by bringing together the significant experience and expertise from the 3 agencies. TCorp has been working actively with the other agencies, and with Government, to plan for the implementation of this significant project, which will occur in 2014/15.

## Environment

The global economic recovery continued in 2013/14, with the US economy leading the way, and improved performances evident across Europe and Japan. Continued monetary stimulus across major economies is underpinning the recovery, and reflected in healthy performances across equity and credit markets. Credit spreads and peripheral European bond markets performed exceptionally well through the year, while the MSCI Global equity index rose by more than 20%.

In Australia, economic growth remained muted, as evidenced by the gradual rise in unemployment as Australia continues to transition away from the mining investment boom. On a state-by-state basis NSW outperformed the rest of Australia on all key economic indicators, as investment and activity shifts away from the resource states to the broader economy.

During the year the Reserve Bank of Australia (RBA) eased interest rates once (in August) from 2.75% to 2.5%. Ten year bond yields, which began the year at 3.75%, continued to sell off in the first half before rallying strongly from January, finishing the year just above 3.5%. Equity markets recorded another positive year, with the ASX200 rising by over 17% in 2013/14.

## Funding

Strong demand for TCorp bonds from domestic and offshore investors throughout the year enabled TCorp to comfortably meet its funding needs and maintain healthy levels of liquidity. In 2013/14 TCorp raised a total of \$6.7 billion in new borrowings, which included \$2.5 billion of surplus funding to meet the 2014/15 borrowing needs.

TCorp's Benchmark Bond Programme continued to provide the major source of funding, and to meet investor demand TCorp issued two new lines during the year, being a 2021 Fixed Rate Bond and a 2018 Floating Rate Note. TCorp's Capital Indexed Bond Programme saw very modest issuance of \$0.2 billion during the year, while Waratah Bond issuance was just under \$0.4 billion.

## Business Trends and Performance

TCorp's pre-tax profit of \$96.2 million was above budget, and reflects a strong performance across all business areas. We continued to source debt financing for clients at very low interest rates, and



TCorp's proven track record of high credit quality and excellent liquidity management are positive factors for the State's AAA credit rating.

TCorp's funds management activities generated excellent outcomes for clients. Cash and fixed income portfolios performed particularly well, with strong benchmark outperformance across the board. TCorp's Hour Glass investment trusts also provided benchmark outperformance across all products with the exception of the Long Term Growth Fund. The after fee return on this product was a very healthy 13.49%, but was marginally below its benchmark return.

During the year TCorp's Corporate Finance, Risk Advisory and Client Services teams worked on a range of diverse assignments for clients and for NSW Treasury. A continuing piece of work during the year involved working closely with regulated utilities and their respective regulators on their regulatory settings and the critical importance of using appropriate financial market inputs.

We continued to work closely with clients to enhance TCorp's client service offering. A major initiative here was the launch of TCorp's Client Portal, which enables streamlined access to information and transactional efficiency between TCorp and our public sector clients.

## **Operating Framework**

The 2013/14 financial year was another very busy year for TCorp in terms of the evolution of our operating environment. We progressed the evaluation of TCorp's core systems architecture and scoping of future needs, and this project will continue to be a key priority in 2014/15.

Following the ministerial announcement in March of the funds management amalgamation initiative, TCorp commenced work on the various aspects of this amalgamation. As we move into implementation phase in 2014/15 TCorp will be focussed on ensuring we have the appropriate staffing, organisational support, and risk management framework to manage all aspects of TCorp's business, and to continue to support the needs of our clients.

## **People**

The year in review was an immensely busy and challenging one for TCorp, as we worked to support the Government's substantial reform agenda, while continuing to generate sound financial performance for our clients and shareholder. The experience and professionalism of TCorp's staff are key to the delivery of excellent outcomes in an environment of constant change and challenge, and we thank them for their substantial contribution to TCorp's ongoing success.

In October we farewelled Michael Cole from TCorp's Board. Michael served on the Board since 2001 and was Chair of the Human Resources Board Committee. He provided valuable guidance and input during his time on the Board and we thank him sincerely for his contribution. During the year we welcomed Ilana Atlas to the Board. Ilana's credentials are evidenced through her roles on a number of boards of major listed companies, following her executive career as a lawyer and then senior executive of Westpac Banking Group.

The period ahead will be both exciting and challenging for TCorp. The quantum growth in our funds management activities and the integration of investment teams from STC and SRWS will transform TCorp's business mix. It will provide enhanced opportunities for staff and underpin the breadth and depth of TCorp's expertise across financial markets.

In the period ahead TCorp will continue to work to support the Government's policy agenda. We remain confident that the skills and experience of TCorp's Board, management and staff leave us well placed to continue to deliver substantial value for our clients and shareholder.





## Year in Review

- A pre-tax operating profit of \$96 million, which was well ahead of budget.
- Strong balance sheet, with total assets exceeding \$78 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 \$6.7 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 two new Benchmark Bond lines during the year with maturities of 2018 and 2021, each of which drew strong investor demand.
- Very strong performance in cash and fixed income portfolios managed for clients.
- Returns on Hour-Glass products recorded both healthy outright and strong performance against benchmarks.
- Significant added value for clients in a range of advisory and risk analysis work.
- AAA credit rating for 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.
- Commenced planning for the establishment of a \$65 billion amalgamated funds management activity for NSW Government agencies, following the Ministerial announcement in March to amalgamate the funds management activities of TCorp, STC and SRWS at TCorp.

## Performance Indicators – Five Year Summary

	2014 \$m	2013 \$m	2012 \$m	2011 \$m	2010 \$m
<b>Profitability</b>					
Profit before income tax equivalent expense	96	127	77	151	66
<b>Balance Sheet</b>					
Loans to Public Sector	64,520	59,331	58,407	49,516	44,628
Other Assets	13,664	13,406	11,847	10,859	12,768
<b>Total Assets</b>	<b>78,184</b>	<b>72,737</b>	<b>70,254</b>	<b>60,375</b>	<b>57,396</b>
Domestic Benchmark Bonds	56,264	53,561	49,623	41,312	37,106
Global Exchangeable Bonds	1,268	1,527	2,136	3,800	6,453
Due to Government Clients	601	220	748	1,100	1,005
Other Borrowings and Liabilities	19,910	17,297	17,643	14,063	12,747
<b>Total Liabilities</b>	<b>78,043</b>	<b>72,605</b>	<b>70,150</b>	<b>60,275</b>	<b>57,311</b>
<b>Difference Represented by Equity:</b>	<b>141</b>	<b>132</b>	<b>104</b>	<b>100</b>	<b>85</b>
<b>Investment Management for State Authorities</b>					
Funds Under Management					
-Investment Trusts <sup>1</sup>	13,304	12,862	11,951	11,321	10,105
-Specific Fund Mandates <sup>1</sup>	7,166	4,061	6,597	9,253	4,479
<b>Liability Portfolio Management for State Authorities</b>					
Liability Portfolio Management <sup>1</sup>	33,751 <sup>2</sup>	45,389	45,519	36,016	31,039

<sup>1</sup> Refer to note 25 of the audited financial statements.

<sup>2</sup> Two portfolios under management became advisory portfolios during the year.

## 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, regulated electricity and water supply industries. Aggregate market value of loans to clients showed a net increase to \$64.5 billion at year end.

The growth in borrowings over the year was higher than the previous year, but lower than recent years reflecting the impact of the government strategy to apply proceeds from asset transactions to the repayment of debt and lower capital expenditure across the PTE sector. Over the year the long term lease of Port of Newcastle generated proceeds in excess of \$1.7 billion. Existing TCorp borrowings of the Port of Newcastle 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, with a fixed maturity date.
- Capital indexed loans with a fixed percentage interest coupon, but with the capital value adjusted periodically in line with Consumer Price Index (CPI).
- Year-on-Year (YoY) inflation linked loans 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 CPI.
- The Come-and-Go facility allows clients to 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 used by 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 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 2014 were the Crown Finance Entity (\$28.5 billion), electricity generation and distribution (\$23.5 billion), and water catchment and supply (\$8.5 billion).

## Loans Outstanding to Authorities

As at June 2014	Market Value \$m
<b>New South Wales Authorities:</b>	
Ausgrid	9,695.2
Barangaroo Delivery Authority	234.8
Corporation Sole, Minister Administering the Environmental Planning and Assessment Act	449.4
Crown Finance Entity	29,039.9
Department of Planning and Environment	21.7
Delta Electricity	619.5
Endeavour Energy	4,102.4
Essential Energy	5,243.1
Forestry Corporation of NSW	120.0
Hawkesbury District Health Service	5.0
NSW Land and Housing Corporation	172.5
Hunter Water Corporation	1,130.9
Landcom	89.3
Macquarie Generation	782.0
Office of Community Housing	27.8
Rail Corporation New South Wales	901.0
Registry of Births, Deaths & Marriages	1.8
Roads and Maritime Services	506.4
State Transit Authority of New South Wales	306.9
State Water Corporation	181.1
Sydney Catchment Authority	483.8
Sydney Cricket & Sports Ground Trust	79.5
Sydney Water Corporation	6,733.4
Taronga Conservation Society Australia	18.6
Teacher Housing Authority of NSW	1.6
TransGrid	3,038.1
Transport for NSW	461.2
UrbanGrowth NSW Development Corporation	22.6
Waste Assets Management Corporation	7.5
<b>Total New South Wales Authorities</b>	<b>64,477.0</b>
<b>Other entities guaranteed by New South Wales Government</b>	
University of Technology, Sydney	43.5
<b>Total loans outstanding to Authorities<sup>1</sup></b>	<b>64,520.5</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 2013/14 year saw strong demand for TCorp bonds. High levels of global liquidity, driven by quantitative easing and low inflation across a number of major economies, meant global yields were chased. Even as global economic growth prospects improved, yields rallied. Therefore the strong demand for liquid, highly rated Australian dollar assets continued and NSW public sector borrowing rates fell. This was also helped by confidence over the State's AAA credit rating and the strong performance of the NSW economy.

The RBA reduced cash rates once early in the year, from 2.75% to 2.5%. However, it soon became apparent rates were to be on hold for a considerable period and investors then started to move longer on a steep yield curve. TCorp's 10 year bond rates fell from 4.70% to 3.88%, with 3 year rates falling from 3.35% to 2.80%.

## **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 two new benchmark bonds in 2013/14. In November 2013, we issued a new \$1.2 billion April 2021 Fixed Rate Bond, reflecting clients borrowing shorter in a steep yield curve. In April 2014, we issued a new \$1.25 billion September 2018 Floating Rate Note to meet demand from bank liquidity books for assets in this format. These deals formed part of the \$6.7 billion raised in TCorp's funding programme during the year. Demand was driven by both domestic and international money managers. Offshore central banks and domestic banks remained net buyers, but in smaller amounts than previous years.

The Capital Indexed Bond (CIB) programme was only lightly used during the year, with a further \$0.2 billion issued. By year end, the market value of TCorp's CIB outstandings had reached \$7.7 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 there were few opportunities offshore for non-\$A term funding as the demand for Australian dollars and liquidity saw lower borrowing rates achieved in the benchmark domestic programmes. TCorp saw ongoing demand through the 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**

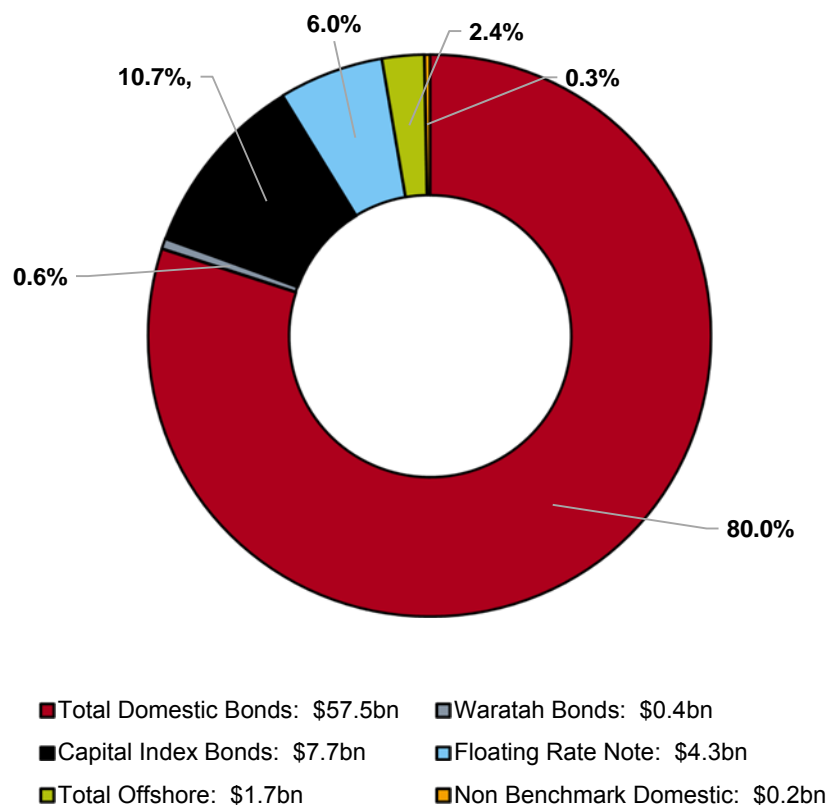
The Waratah Bond programme generated inflows of \$368 million during the 2013/14 financial year. While investments from Significant Investor Visa applicants made up the bulk of inflows during the

year, a substantial number of holders with Waratah Bond investments maturing in September 2013 chose to roll over their investments for a further term.

Inflows into the Waratah Annuity Bond, which offers investors an inflation-linked safe and secure monthly income, continue to be slow. This is expected given the prevailing low interest rates, however demographic shifts and the need for secure post retirement income streams are expected to underpin demand for this product over the longer term.

All funds raised through the Waratah Bond Programme are directed to help support infrastructure investment in New South Wales.

### Composition of Borrowings 30 June 2014 (Market Value)





Coupon (%)	Maturity	Market Value \$m	Panel Members
<b>Capital Indexed Bonds</b>			
3.75	20-Nov-20	2,461	Australia and New Zealand Banking Group Ltd
2.75	20-Nov-25	3,918	Citigroup Global Markets Australia Pty Ltd
2.50	20-Nov-35	1,358	Commonwealth Bank of Australia
			Deutsche Bank AG, Sydney Branch
			J.P. Morgan Australia Ltd
			Merrill Lynch International (Australia) Ltd
			National Australia Bank Limited
			Nomura International plc
			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		1,667	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 Merrill Lynch International Limited
			Barclays Bank Plc
	Total outstanding	1,412	Citibank International Plc
			Commonwealth Bank of Australia
			Deutsche Bank AG, London Branch
			The Hong Kong and Shanghai Banking Corporation Ltd
			National Australia Bank Limited
			Nomura International Plc
			RBC Europe Limited
			Royal Bank of Scotland Plc
			UBS Limited
			Westpac Banking Corporation
<b>Domestic promissory notes</b>		3,195	
<b>Domestic cash market raisings (including client deposits)</b>		715	
<b>Floating rate notes</b>		4,306	
<b>Miscellaneous funding through non-programme bond issuance structured financing and other term borrowings</b>		648	
<i>Refer Notes 11, 12 and 13 of the audited financial statements</i>			
<b>Total</b>		<b>77,212</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 debt benchmark, 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 2014, TCorp managed 17 clients' debt portfolios totalling \$33.8 billion. These include:

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

TCorp is mandated as Debt Advisor in the regulated electricity utility sector. For these clients, TCorp provides advice on liability management strategies, debt benchmarks and market execution strategies, but the clients manage the execution task themselves. The total value of Advisory client portfolios is \$22.0 billion.

## 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

Client take-up of new Inflation Linked Loans was strong over the year and remains well above original forecasts. The Year-on-Year Inflation Linked Loan product continued to provide clients with the opportunity to manage inflation risk at a much lower cost than can be achieved by drawing down a Capital Indexed Loan. The proportion of Inflation Linked Loans to total client loans increased from 15.7% to 16.9%.

### • Liability Risk Management

A large proportion of TCorp's clients are regulated utilities where the rate of return on capital employed is determined by a regulator. The regulator benchmarks the cost of debt by referencing market estimates for the risk free rate and credit spread. In the previous financial year regulators in the electricity and water sectors commenced public reviews of how the rate of return on capital is compensated. TCorp assisted clients to provide input into their various submissions to AER for regulated electricity clients and IPART for regulated water clients.

TCorp advocated to clients that they should encourage regulators to change current debt benchmark approach of referencing rates over a very narrow window around each regulatory determination (each 4 or 5 years). TCorp advocated that market observations should be made over a 10 year horizon as it provides a much more stable cost benchmark, and better reflects commercial practice of funding long economic life assets with long term debt.

Towards the end of 2013 the regulators provided guidance on how they intend to benchmark the cost of debt in the future. The AER accepted the position advocated by TCorp's clients and others across the industry to move to a benchmark with a 10 year horizon. IPART accepted the approach, but only intends a partial adoption of the proposed new benchmark.

TCorp is now reviewing the impact of the changes to the benchmarks and is assisting clients in understanding the implications, particularly with respect to identifying a target debt benchmark to manage their actual portfolios against.

- **Risk Reporting**

TCorp has continued to develop new performance reporting metrics to provide greater transparency and reporting to clients of the risks within their debt portfolios. The first stage of the implementation of a new risk system to automate the forecasting of debt interest expense was completed over the year. The next stage of this project is planned to be completed over 2014/15.

## **Debt Management Strategies and Outcomes**

Over the year interest rates were maintained in a range well below long term averages. This provided opportunities at various points in the year to lengthen client debt portfolios. In particular, the strong rally in interest rates over the last quarter of the financial year enabled clients to lengthen debt at rates slightly above the low point experienced during the Global Financial Crisis (GFC). The low historic rate for clients also reflected the impact of the significant contraction in the TCorp to Commonwealth Bond spread which occurred over the year.

Lengthening the debt maturity profiles of clients has enabled clients to lock in historically low interest rates and this is consistent with minimising the State's refinancing risk. This strategy has been noted as being very supportive of the State's AAA credit rating.

## **Currency Management Techniques and Outcomes**

Since 2007, TCorp has provided currency management services for the Hour-Glass products.

TCorp continued to provide a currency overlay product for the Hour-Glass Listed Property Sector Trust, although the service was suspended over the last quarter following a decision by Investment Management to change the Fund Manager for the Trust. A review of the scope of TCorp's currency overlay product is planned over 2014/15.

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

## **Risk 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 risk management and economic resources.

Continuing on from the substantial work undertaken in the sector over the two previous years, local government work was the major focus of the Corporate Finance unit in the 2013/14 financial year. Work included:

- Assisting NSW Treasury, and the Office of Local Government in policy development initiatives.

- Attending, and presenting at, a number of conferences and meetings to expand awareness of TCorp's work, and more generally promoting TCorp to the local government sector.
- Further development of TCorp's financial sustainability methodology.
- Financial assessments for a number of councils who applied under Round 3 of the Local Infrastructure Renewal Scheme.
- Conducting a number of updated financial sustainability assessments at the request of individual councils.

**Other Advisory Work Included:**

- Assisting Transport for NSW and NSW Treasury in financial markets related aspects of the tender phase of North West Rail Link PPP contract.
- Working with NSW National Parks and Wildlife Service in the tender for the operating lease of two helicopters.
- Providing the Office of Finance and Services (OFS) with financial capacity assessments for short listed tenderers.
- Assisting two universities to secure debt facilities for student accommodation projects.
- Ongoing commercial advice and policy input in relation to managed services contract proposals being promoted by OFS.
- Providing support to NSW Treasury's Infrastructure Finance Unit on a variety of matters from existing infrastructure projects to new initiatives.
- Assisting NSW Treasury in the review and approval of borrowing requests from universities, and in some policy development initiatives for the sector.

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 22,700 vehicles valued at more than \$530.0 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 and US securities laws, and administration of offshore entities including the liquidation of some of them.

**Providing Risk Analysis and Advice**

In the year to June 2014, clients accessed TCorp's Risk Advisory capabilities on a range of projects:

- Advised regulated utility clients as they responded to public enquires undertaken by regulators into the debt benchmarks used within the Weighted Average Cost of Capital (WACC) to assess the rate of return on capital employed.
- Provided advice to clients and NSW Treasury on a broad range policy issues relating to capital structure, credit metrics and financial risk management issues.
- Undertook analysis of interest rate and foreign currency risk exposures in a large PPP infrastructure and procurement project.
- Undertook debt and liability benchmarking mandates for clients in the university and co-operative sectors.

- 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 NSW Government itself, and other public organisations, including not-for-profit organisations. They provide public sector clients with access to investment products which are aligned to the public sector risk appetite.

Funds under management within Hour-Glass Investments grew from \$12.9 billion as at 30 June 2013 to \$13.3 billion as at 30 June 2014. The Cash Facility, Strategic Cash Facility and Medium Term Growth Facility all outperformed their respective benchmarks over the financial year, while the Long Term Growth Facility marginally underperformed its benchmark for the financial year after fees, but remained ahead over the three, five and seven years' time horizon.

The 2013/14 financial year was a strong year for absolute returns for the Hour-Glass Investments, with both share and bond markets having strong positive returns for the year.

### **Economic Overview**

The global economic recovery continued in 2013/14, helped by easing monetary policy from central banks and the improving global outlook. The recovery was led by the US, however Europe continued to improve and the Japanese economy was boosted by a continuation of fiscal stimulus as well as monetary easing and structural reforms that were announced in 2012.

Global share markets saw positive returns for a fifth year with the MCSI World ex-Australia index up 20.4%. Share markets were boosted by solid earnings growth on the back of cost cutting, lower debt costs and merger and acquisition activity. Equity market volatility, which spiked during the global financial crisis, has continued to fall over the year and has now returned to pre-crisis levels.

In China, the country's economic outlook continued to be a key concern throughout 2013/14. Chinese economic data was weaker than previous years, with both the manufacturing sector and industrial production slowing. Chinese shares ended the year broadly flat following four years of negative performance.

The Chinese slowdown and weak consumer confidence weighed on the Australian economy. Falling business investment in the mining sector more than offset the accommodative interest rates from the RBA. Non-mining sectors of the economy took longer to respond to low interest rates than in previous interest rate cutting cycles. Unemployment continued to rise over the year, starting the financial year at 5.7%, rising to 6.0% in January, before falling back to 5.8% by June, however the number of participants in the workforce decreased over the year. Also, near the end of the financial year the Federal Budget was one of fiscal tightening which impacted confidence data. Australian house prices increased markedly over the year, however credit growth remained within levels that would otherwise alarm the RBA.

The Australian equity market responded to the softer economic environment. Falling commodity prices, slowing business investment and weak consumer confidence all weighed on the Australian equity market. However the ASX 200 still grew 17.4% for 2013/14, however it underperformed other

global developed equity markets. The Australian Share Sector outperformed its benchmark over the financial year.

In Australian dollars, the MSCI World International Shares (ex-Australia) Index returned 20.5% for the year. The International Share Sector outperformed its benchmark over the financial year.

US equities experienced very low volatility over the year, with a solid first six months, including strong performance into the Christmas period. January saw the largest correction of the year with a fall of approximately 6%. An improving economic outlook, strong company earnings, low interest costs and M&A activity all contributed to solid returns for the S&P500.

Other global developed markets followed a similar pattern, with the German equity market up 23.5%, the UK market up 12.4% and Japan up 10.9%.

The German equity market was buoyed by the expectation of further monetary easing by the ECB which came at the end of the year. Japanese equities followed on from a strong return in 2012/13, returning 10.9% in 2013/14. These two years of positive performance for Japanese equities follows 20 years of poor performance since the Japanese equity market bubble ended in 1989.

Emerging Markets underperformed developed markets over the year as investors feared that the low interest rate environment in the US, that had enabled cheap borrowing to fund higher yielding investments in the emerging world, would end. This saw large cash outflows from Emerging Market shares to developed markets. Geopolitical events dominated 2013/14 with a range of countries, such as Indonesia and India, holding elections. Late in the year the Russian occupation of Eastern Ukraine caused a significant sell-off in the Russian share market, although it did retrace this fall towards the end of the financial year. The Emerging Market Shares Sector underperformed its benchmark over the financial year following solid gains in previous years. The sector remains above its benchmark over three years, and since inception (March 2010).

Following poor outright returns from Australian Bonds in 2012/13, falling yields in 2013/14 boosted returns. It was a year of two halves. Bond yields first moved substantially higher as the global economic outlook improved, but quickly fell back in the second half of the financial year. Economic data started to disappoint and investors sought higher yielding assets in the credit and equity markets. The Australian Bond Index returned 6.0% over the financial year.

The Australian Bond Sector was overweight Semi-Government Bonds (Semis) which contracted significantly against Commonwealth Government Securities (CGS) over the year at all points on the bond curve. Also, lower-rated Semis contracted significantly to the Triple-A rated Semis, which added to performance. The portfolio has a small allocation to Covered Bonds and is underweight CGS. The Australian bond sector outperformed its benchmark over the financial year.

## 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	2.92	0.24	3.83	0.28	4.26	0.36	4.78	0.17
Strategic Cash Facility	3.23	0.55	4.13	0.58	4.52	0.62	n/a	n/a
Medium Term Growth Facility	7.65	0.07	7.53	0.27	7.68	0.24	5.45	0.29
Long Term Growth Facility	13.49	(0.08)	10.74	0.02	10.40	0.11	4.04	0.21

## 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 Core Bond portfolios. In executing these assignments directly for clients and the Hour-Glass products, TCorp draws on its long experience in managing cash and fixed income investments and its understanding of managing public sector cash flows to deliver better outcomes.

Major clients 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 bonds, inflation linked bonds and tail risk hedging.

Investment funds managed internally by TCorp grew from \$7.7 billion at 30 June 2013 to \$10.4 billion at 30 June 2014, of which \$3.2 billion was managed for the Hour-Glass Cash, Strategic Cash and Core Bond Trusts. Funds under management grew over the year as WorkCover Nominal Insurer awarded a new mandate to TCorp to manage a \$1.9 billion semi-government bond portfolio in September 2013. Clients also added more money to their investment portfolios and the value of existing portfolios increased as bond prices rose over the year.

TCorp takes a conservative management approach for cash and fixed income portfolios, consistent with the risk profile of client mandates. A significant investment in Information Technology (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 2014 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	2014 Return % pa	2014 Benchmark Return % pa	2014 Total FUM <sup>5</sup> \$m	2013 Return % pa	2013 Benchmark Return % pa	2013 Total FUM \$m
Hour-Glass Cash Sector Trust <sup>1</sup>	2.76	2.68	1,219	3.39	3.28	1,100
NSW Fair Trading <sup>2</sup>	5.32	5.32	1,186	5.74	5.74	1,024
Financial Counselling Trust <sup>2</sup>	5.33	5.33	9	5.28	5.28	10
Hour-Glass Strategic Cash Facility Trust <sup>1</sup>	3.31	2.68	1,481	4.24	3.28	2,166
NSW Lotteries Transition Fund	5.01	2.00	-	9.62	3.28	8
Lifetime Care and Support Fund-Cash <sup>1</sup>	3.19	2.68	140	4.40	3.28	242
Lifetime Care and Support Fund-Bond <sup>1</sup>	11.44	10.81	836	(1.26)	(2.86)	606
Lifetime Care and Support Fund-Fixed Interest <sup>1</sup>	5.52	5.01	341	(1.24)	(1.23)	252
Dust Diseases Board <sup>1 &amp; 3</sup>	-	-	-	7.75	3.28	2
Hour-Glass Australian Bond Sector Trust <sup>1</sup>	6.40	5.99	508	2.99	2.22	365
SAS Trustee Corporation <sup>1</sup>	6.30	7.32 <sup>5</sup>	200	4.13	6.75 <sup>5</sup>	188
Workers Compensation Nominal Insurer Index Bond <sup>1</sup>	7.71	6.82	1,319	0.84	(0.50)	718
Workers Compensation Nominal Insurer Nominal Bond <sup>1</sup>	5.57	5.01	923	1.28	0.33	808
Workers Compensation Nominal Insurer Passive AFI <sup>1&amp;6</sup>	5.99	6.01	1,930	-	-	-
Workers Compensation Insurance Fund Tail Risk Hedging Portfolio	-	-	28	-	-	12
Inflation Linked Bond – Dust Diseases Board <sup>1</sup>	9.39	8.63	254	(4.23)	(4.90)	190
<b>Total Funds as at June</b>			<b>10,374</b>			<b>7,691</b>

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

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

<sup>3</sup> Dust Diseases Board was closed in 2014.

<sup>4</sup> Book value benchmark calculated as 4.50% + CPI target (i.e. not market valued).

<sup>5</sup> Funds under management.

<sup>6</sup> Workers Compensation Nominal Insurer Passive AFI opened on 30 September 2013.





## Authority Deposits

TCorp accepts deposits as principal and provides a firm rate to clients.

Statistics	2014 \$m	2013 \$m	2012 \$m	2011 \$m	2010 \$m
Average annual volume on deposit	100	251	226	396	455

## Investment Management Performance Hour-Glass Investment Facilities

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	Vanguard Investments Australia Ltd
Unlisted Property	AMP Capital Investors Ltd Dexus Property Group
Unlisted Infrastructure	Industry Funds Management Hastings
Multi-Asset Class	UBS Global Asset Management Pyrford International

## Strategic Asset Allocation

	Cash Facility %	Strategic Cash Facility %	Medium Term Growth Facility %	Long Term Growth Facility %
Cash	80.00	-	25.00	12.00
Strategic Cash	20.00	100.00	32.00	14.00
Australian Bonds	-	-	15.00	7.00
Indexed Australian Shares	-	-	2.50	6.50
Active Australian Shares	-	-	7.50	19.50
Indexed International Shares	-	-	3.50	8.25
Active International Shares	-	-	10.00	24.75
Emerging Markets Shares	-	-	2.50	5.00
Listed Property	-	-	2.00	3.00
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

## Pooled Client Facilities

Statistics	2014	2013	2012	2011	2010
Hour-Glass Cash Facility Return (% pa)	2.92	3.69	4.90	5.37	4.46
Benchmark Index Return (% pa)	2.68	3.28	4.70	4.98	3.89
<b>Total FUM as at 30 June (\$m)</b>	<b>2,120</b>	<b>3,023</b>	<b>4,113</b>	<b>3,747</b>	<b>3,465</b>
Hour-Glass Strategic Cash Facility Return (% pa)	3.23	4.16	5.02	5.58	4.62
Benchmark Index Return (% pa)	2.68	3.28	4.70	4.98	3.89
<b>Total FUM as at 30 June (\$m)</b>	<b>1,482</b>	<b>2,166</b>	<b>1,955</b>	<b>1,724</b>	<b>1,632</b>
Hour-Glass Medium Term Growth Facility Return (% pa)	7.65	10.74	4.28	7.13	8.69
Benchmark Index Return (% pa)	7.58	9.56	4.69	7.06	8.39
<b>Total FUM as at 30 June (\$m)</b>	<b>107</b>	<b>194</b>	<b>183</b>	<b>231</b>	<b>372</b>
Hour-Glass Long Term Growth Facility Return (% pa)	13.49	20.55	(0.73)	8.51	11.28
Benchmark Index Return (% pa)	13.57	18.79	0.61	8.43	10.86
<b>Total FUM as at 30 June (\$m)</b>	<b>662</b>	<b>1,300</b>	<b>1,142</b>	<b>1,202</b>	<b>938</b>

## Direct Sector Investments

Statistics	2014	2013	2012	2011	2010
Hour-Glass Cash Sector Return (% pa)	2.79	3.54	4.85	5.30	4.41
Benchmark Index Return (% pa)	2.68	3.28	4.70	4.98	3.89
<b>Total FUM as at 30 June (\$m)</b>	<b>2,084</b>	<b>2,238</b>	<b>2,993</b>	<b>2,856</b>	<b>2,566</b>
Hour-Glass Australian Bonds Sector Return (% pa)	6.27	2.88	12.54	5.62	8.05
Benchmark Index Return (% pa)	5.99	2.22	12.89	5.22	7.59
<b>Total FUM as at 30 June (\$m)</b>	<b>508</b>	<b>365</b>	<b>612</b>	<b>700</b>	<b>765</b>
Hour-Glass Active Australian Shares Sector Return (% pa)	18.39	25.08	(7.88)	11.38	13.51
Benchmark Index Return (% pa)	17.25	21.90	(7.01)	11.90	13.05
<b>Total FUM as at 30 June (\$m)</b>	<b>2,998</b>	<b>3,135</b>	<b>2,652</b>	<b>2,687</b>	<b>2,659</b>
Hour-Glass Indexed Australian Shares Sector Return (% pa)	17.34	22.49	(6.78)	11.64	13.04
Benchmark Index Return (% pa)	17.43	22.75	(6.71)	11.73	13.15
<b>Total FUM as at 30 June (\$m)</b>	<b>381</b>	<b>435</b>	<b>634</b>	<b>688</b>	<b>607</b>
Hour-Glass International Shares Sector Return (% pa)	20.74	34.80	(4.75)	2.76	6.68
Benchmark Index Return (% pa)	20.54	33.30	(0.50)	2.66	5.22
<b>Total FUM as at 30 June (\$m)</b>	<b>2,952</b>	<b>2,362</b>	<b>1,384</b>	<b>1,248</b>	<b>1,067</b>
Hour-Glass Indexed International Shares Sector Return (% pa)	20.59	33.40	(0.36)	2.68	5.64
Benchmark Index Return (% pa)	20.54	33.30	(0.50)	2.66	5.22
<b>Total FUM as at 30 June (\$m)</b>	<b>391</b>	<b>417</b>	<b>421</b>	<b>408</b>	<b>411</b>
Hour-Glass Emerging Markets Sector Return (% pa) <sup>1</sup>	5.85	18.93	(9.31)	(3.27)	7.99
Benchmark Index Return (% pa)	10.91	15.21	(12.22)	0.83	1.34
<b>Total FUM as at 30 June (\$m)</b>	<b>803</b>	<b>683</b>	<b>469</b>	<b>299</b>	<b>55</b>
Hour-Glass Listed Property Sector Return (% pa)	10.01	17.01	9.83	23.63	30.33
Benchmark Index Return (% pa)	12.78	20.16	7.62	29.33	39.05
<b>Total FUM as at 30 June (\$m)</b>	<b>233</b>	<b>205</b>	<b>204</b>	<b>203</b>	<b>350</b>
Hour-Glass Unlisted Property Sector Return (% pa) <sup>2</sup>	8.63	7.50	8.05	11.45	-
Benchmark Index Return (% pa)	8.74	8.33	8.73	9.50	-
<b>Total FUM as at 30 June (\$m)</b>	<b>910</b>	<b>751</b>	<b>639</b>	<b>521</b>	<b>-</b>
Hour-Glass Unlisted Infrastructure Sector Return (% pa) <sup>3</sup>	12.49	2.23	-	-	-
Benchmark Index Return (% pa)	8.00	0.95	-	-	-
<b>Total FUM as at 30 June (\$m)</b>	<b>228</b>	<b>123</b>	<b>-</b>	<b>-</b>	<b>-</b>
Hour-Glass Multi-Asset Class Sector Return (% pa) <sup>4</sup>	0.11	-	-	-	-
Benchmark Index Return (% pa)	0.74	-	-	-	-
<b>Total FUM as at 30 June (\$m)</b>	<b>340</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

1 For period since inception (8 March 2010), not annualised.

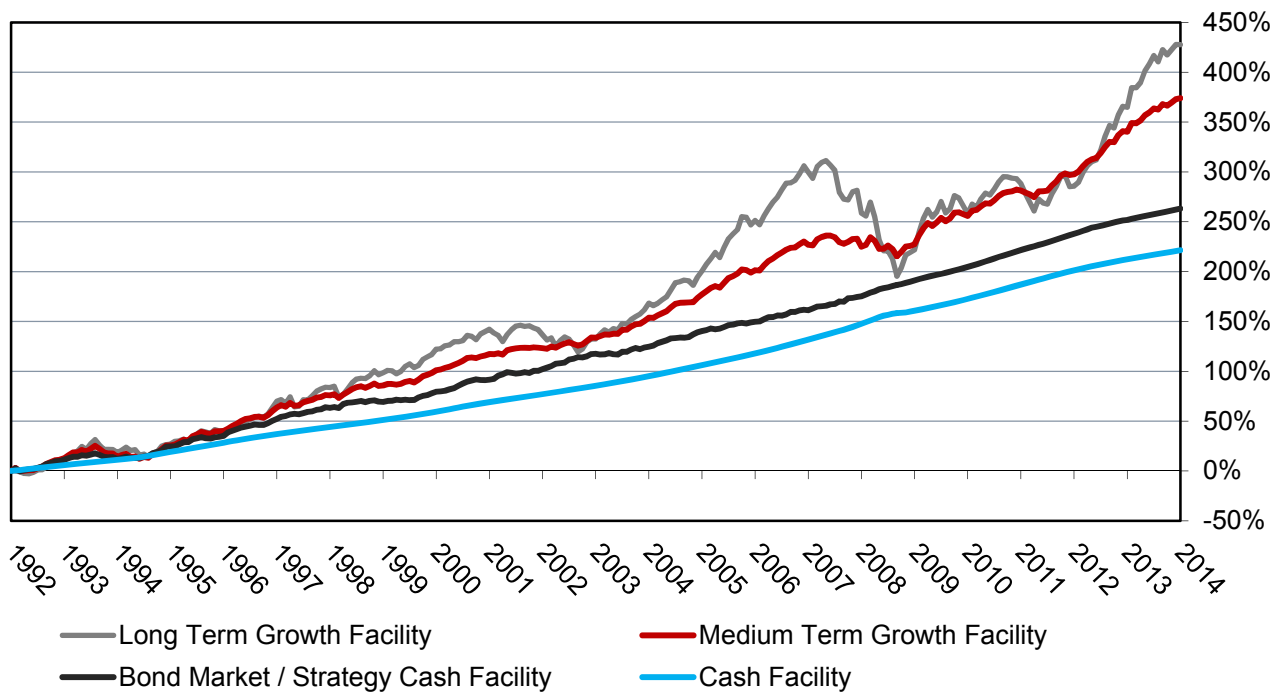
2 For period since inception (27 August 2010), not annualised.

3 For period since inception (16 May 2013), not annualised.

4 For period since inception (5 June 2014), not annualised.



## Hour-Glass Cumulative Returns Since 1 June 1992





## 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 approving the 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 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.
- 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.
- 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, enterprise 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.
- 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 2013 - 30 June 2014

Board Members	Board		Audit and Risk Committee		HR Committee	
	Held	Attended	Held	Attended	Held	Attended
Philip Gaetjens Chairman	10	9				
Tim Spencer <sup>1</sup> Deputy Chairman	10	9			5	4
Ilana Atlas <sup>1,2</sup>	7	6			4	2
Philip Chronican <sup>3</sup>	10	9	5	5		
Michael Cole <sup>4</sup>	3	3			1	1
Stephen Knight <sup>5</sup>	10	10	5	5	5	5
Kerry Schott <sup>1</sup>	10	10			5	5
Hon Alan Stockdale <sup>3</sup>	10	10	5	5		
Peter Warne <sup>3</sup>	10	9	5	5		

<sup>1</sup> Member of HR Committee.

<sup>2</sup> Appointed as a Director effective 1 October 2013.

<sup>3</sup> Member of Audit and Risk Committee.

<sup>4</sup> Retired as a Director effective 30 September 2013.

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



## Board of Directors

TCorp's Directors in 2013/2014 were:

Director	Term	Qualifications and experience
<b>P G (Philip) Gaetjens, Chairman</b>	Ex-officio Appointed: 15 August 2011	BA (Hons) Grad Dip Prof Acc  Secretary, NSW Treasury Board Member Infrastructure NSW. Chair of NSW Government's ICT Board and Procurement Board.  More than 35 years public policy experience for Commonwealth and State Governments.
<b>T (Tim) Spencer Deputy Chairman</b>	Ex-officio Appointed: 28 March 2013	BEC (Hons)  Deputy Secretary, Commercial Policy and Financing NSW Treasury since 2012.  Director of Port Botany Lessor Pty Limited and Port Kembla Lessor Pty Limited.  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.
<b>I (Ilana) Atlas</b>	Appointed: 1 October 2013 Expires: 30 September 2016	B.Juris (Hons), LLB (Hons), LLM  Non-executive director of Suncorp Group Limited, Coca-Cola Amatil Limited, Westfield Corporation Limited, Westfield Holdings Limited (to 30 June 2014), Oakridge Wines Limited and the Human Rights Law Centre. Chairman of Bell Shakespeare Company and Pro-Chancellor of the Australian National University (to 30 June 2014). Member, Commonwealth Public Service Medal Committee.  Appointed to the Australian Institute of Company Directors Corporate Governance Committee effective 4 September, 2014.  Former Group Executive at Westpac Group and a former partner in law firm Mallesons Stephen Jaques.



<b>P W (Philip) Chronican</b>	Expires: 31 October 2015	BCom (Hons), MBA (Dist)  Chief Executive Officer Australia, Australia and New Zealand Banking Group Limited.  Banking and finance industry for over 30 years. Former Group Executive Westpac Institutional Bank, and Chief Financial Officer, Westpac Banking Corporation.
<b>S W (Stephen) Knight</b>	Ex-officio Appointed: 1 September 2005	BA, FAICD  Chief Executive, TCorp and Chairman, TCorp Nominees Pty Limited.  Banking and public sector financial management for over 30 years.  Director of Australian Financial Markets Association Limited. Committee Member of Financial Services Council Investment Board. Member of CEDA NSW Advisory Council.
<b>K E (Kerry) Schott</b>	Expires: 15 January 2015	BA (Hons), MA, DPhil,  Director of Infrastructure Australia. Director, Whitlam Institute and Patron, National Advisory Board of Infrastructure Partnerships Australia. Member of Advisory Board of Deutsche Asset & Wealth Management. Board Member of NBN Co. Chair, Moorebank Intermodal Company Ltd. Member, Macquarie University Council.  Former roles include 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.
<b>Hon A R (Alan) Stockdale</b>	Expires: 4 January 2017	BA, LLB  Chairman, Medical Research Commercialisation Fund Pty Limited. Federal President, Liberal Party of Australia (to 28 June 2014). 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 Limited, Director EC Strategies Pty Limited. Chairman, Advisory Board of CareerLounge Pty Limited (Voluntary).

Barrister for 12 years.

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**

Expires:  
15 January 2015

BA, FAICD

Director, Macquarie Group Limited and Macquarie Bank Limited. Director, ASX Limited, ASX Clearing Corporation Limited. Chairman, ALE Property Group; Director Crowe Horwath Australasia Limited. Director, Securities Exchanges Guarantee Corporation Limited. Director, Securities Research Centre of Asia Pacific Limited. Patron, 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.

**M J (Michael)  
Cole**

Expired:  
30 September  
2013

BEC, MEd, FFin

Banking and investment management for over 30 years.

Chairman of Platinum Asset Management Limited, IMB Limited, Indemnified Loans Committee, Ironbark Capital Limited, and Challenger Listed Investments Limited. Directors of OneVue Limited.

## Risk Management and Compliance

Responsibility for risk management and compliance extends across the entire 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.
- 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 \$141 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.

PricewaterhouseCoopers (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 acknowledge 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. 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 continued the work which was commenced in the previous year on the review of debt benchmarks. The outcomes of the reviews were announced late in 2013 and confirmed that the future benchmark will be changed to the model recommended by TCorp. A review of client benchmarks to reflect the regulatory changes has been commenced. TCorp's core lending business for the Government and agencies continued to grow over the year, and this involved considerable client servicing from TCorp, especially through advising on and implementing loan structures and managing interest rate risk.

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.

### **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 2013-2014 Financial Year for NSW Treasury Corporation

The Directors are of the opinion that NSW Treasury Corporation has internal audit and risk management processes in operation that are, in all material respects, compliant with the core requirements set out in Treasury Circular NSW TC 09/08 Internal Audit and Risk Management Policy. 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 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 2014, the Chair and Members of the Audit and Risk Committee were:

Member	Qualification	Status	Commencement Date
Mr Philip Chronican	BCom (Hons), MBA (Dist)	Independent Chair	March 2010 (Committee) December 2010 (Chair)
Mr Alan Stockdale	BA, LLB	Independent	December 2010
Mr Peter Warne	BA, FAICD	Independent	March 2012

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**



**29 August 2014**

## 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. In March 2014, the NSW Treasurer and Minister for Finance and Services announced the Government will amalgamate the funds management activities of NSW Treasury Corporation (TCorp), Safety, Return to Work and Support (SRWS), and SAS Trustee Corporation (STC) within TCorp. Since this announcement, 36 employees across the three organisations, including three General Managers, have been appointed to positions within the future state amalgamated business. Completion of the amalgamation, including final organisation design and appointments, is expected in 2014/15.

### 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.

Eight employees pursued post graduate qualifications in 2013/14. The range of qualifications includes CPA Program Foundation, CFA, Masters of Applied Finance, Diploma in Law, Graduate Certificate in Applied Finance, Certificate 4 in Record Keeping and Graduate Diploma in Applied Finance.

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.

Two employees participated in external mentoring programmes in 2013/14. One employee participated as a Mentee in the Women in Banking & Finance (WiBF) Mentoring Programme and the second employee participated as a Mentor in the Lucy Mentoring Programme (Lucy). Both programmes partner Mentees with Mentors at a Senior Executive Level, with Mentees in the Lucy programme being female university students.

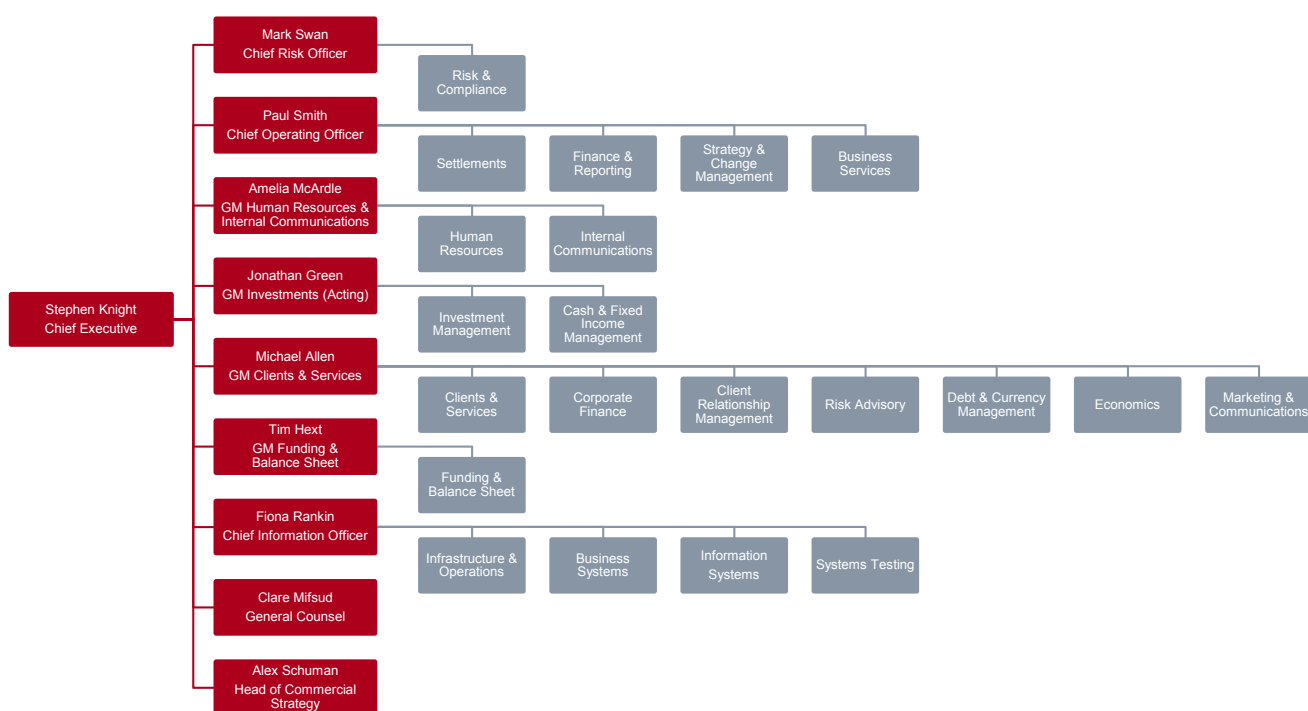
In 2013/14, TCorp continued with a programme of development focussing on leadership and communication skills. Specifically courses on skills around interpersonal communication, conflict resolution and unconscious bias were focussed on, assisting in creating a more productive, efficient and fulfilling workplace culture.

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).

## Senior Officers

Chief Executive	S W Knight, BA FAICD
General Manager, Clients & Services	M J Allen, BEc
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, BBus
General Manager, Human Resources	A J McArdle, BA
Chief Information Officer	F Rankin, BEc, MBus, AICD

## Organisation Structure (current as at 30 June 2014)





## Senior Executive Reporting

Band	Female	Male
Band 4	0	2
Band 3	0	3
Band 2	2	1
Band 1	0	0
Total	2	6

Band	Range \$	Average Remuneration
Band 4*	\$422,501 - \$650,000	\$545,000
Band 3	\$299,751 - \$422,500	\$312,500
Band 2	\$238,301 - \$299,750	\$273,333
Band 1	\$167,100 - \$238,300	NA

\*Band 4 has been expanded to adequately accommodate the remuneration of the incumbents of Band 4.

19.6% of the TCorp's employee related expenditure in 2013/2014 was related to senior executives, who represent 7.8% of full time equivalent employees as at year end.

	2014	2013
Number of Executive Officers	8	8
Number of Female Executive Officers	2	2

## Number of Employees

	2014	2013	2012	2011
Chief Executive	1	1	1	1
General Managers	7	7	5	5
Senior Employees	71.15	73.33	61.45	60.5
Support Employees	23.34	18.91	25.35	26.4
Total	102.49	100.24	92.8	92.9

## 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 were 6 individuals awarded an exceptional movement (i.e. greater than 10% increase) in salary in 2013/14. This increase was based on the fact that the individuals 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 exceptions 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 specialists. The claim is now closed.

During 2013/14, TCorp employees were offered the opportunity to have influenza immunisations. 34 employees received the immunisation.

## **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's activities are not generally directed toward or accessed by the general public, our multicultural policies and disability planning continues to be aligned to supporting our small workforce.

The overarching framework of TCorp's multicultural policies and disability plan is compliance with the relevant legislation (both disability and anti-discrimination) as it relates to all TCorp policies, procedures and practices in respect of employment. This includes the areas of recruitment and selection, promotion and transfer, and training. In addition, our office accommodation complies with Australian Building Codes and Standards. 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.

Although TCorp is 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 have continued to hold an informal celebration of ethnicity and multiculturalism where employees can share foods, customs and stories of their cultural heritage. This event is held on an annual basis and is a highlight of the employee annual calendar of events.

In 2013/14 TCorp ran a series of training programmes for all staff addressing "unconscious bias" and separately "embracing diversity in the workforce".

In addition, an annual HR and Internal Communications Services Survey is conducted seeking responses and feedback from TCorp employees on a variety of topics, including diversity in the workplace. Specific statements relating to diversity included in the survey for 2013/14 were:

- TCorp supports and encourages a diverse workforce (equality between women and men, religious beliefs, ethnicity).



- TCorp upholds the EEO policies (Diversity, Professional Behaviour, Harassment Bullying & Discrimination).

with 94% and 93% of respondents agreeing with these statements respectively.

Moving forward, TCorp is in the process of seeking admittance to the Jawun Programme for the next financial year. The Jawun Programme is a secondment programme to indigenous organisations across Australia from Government and Corporate employers. Secondees skills are matched to the skills required by the indigenous organisation, with secondees assisting on and being involved in a variety of projects. Short term placements are for a period of five to six weeks, with long term placements running over a three, six or nine month period.

### **Workforce Diversity 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 most recent review and acknowledgement was finalised in June 2014. 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.

TCorp continues to make available an employee referral service which assists employees in sourcing dependent care and services and other lifestyle services. This is in addition to the Employee Assistance Programme also made available – a confidential counselling service to support employees and their families in managing personal and/or workplace issues. The provision of these services reinforces our support for a diverse workforce with diverse personal circumstances.

In 2013/14, a management training series was introduced on understanding unconscious bias in the workplace to further assist managers when making recruitment and management decisions. TCorp also launched a refreshed online employee induction programme to be completed by all employees within five days of joining the organisation. This programme outlines the principles and objectives of TCorp's EEO and workplace policies, and the standards and behaviours required of all employees.

TCorp requires all staff to undertake compulsory Appropriate Workplace Behaviour training, which addresses discrimination, bullying and harassment in the workplace.

**Table A. Trends in the Representation of Diversity Groups <sup>1</sup>**

	Benchmark or Target	% of Total Staff <sup>2</sup>			
		2011	2012	2013	2014
Woman	50%	43.2	38.8	40.7	41.7
Aboriginal people and Torres Strait Islanders	2.6% <sup>3</sup>	0	0	0	0
People whose first language was not English	19%	33.7	33.0	29.2	25.4
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
	1.5% (2013)				

**S**

**Table B. Trends in the Distribution of Diversity Groups <sup>6</sup>**

	Benchmark or Target	Distribution Index <sup>7</sup>			
		2011	2012	2013	2014
Woman	100%	92	89	87	84
Aboriginal people and Torres Strait Islanders	100%	N/A	N/A	N/A	N/A
People whose first language was not English	100%	91	93	91	90
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

### Exemptions from the Reporting Provisions

TCorp has been granted exemptions from clauses 12 and 13 of the *Annual Reports (Statutory Bodies) Regulation 2010* (NSW), 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.

Pursuant to clause 20 of the *Annual Reports (Statutory Bodies) Regulation 2005* (NSW) TCorp will not be providing a statement on its implementation of the Government's Waste Reduction and Purchasing Policy for 2013/2014.

### Promotion

Overseas visits undertaken:

Officer	Visit Undertaken	Purpose
S Knight	Sep 2013	European Investor Roadshow (Paris, Helsinki, Oslo, Stockholm, Munich, Frankfurt, Cologne, Madrid, London, Copenhagen, Edinburgh)
I Poole	Sep 2013	Deutsche Bank Investor Mission (Hong Kong, Tokyo, New York, London, Frankfurt)
T Hext	Sep 2013	Asian Development Bank & Bank of Korea conference (Seoul)
K Palmer	Sep 2013	London Panel Meetings (London)
T Hext	Nov 2013	Asia Roadshow and Investor meetings (Jakarta, Singapore, Kuala Lumpur, Bangkok)
K Palmer	Nov 2013	Asia Roadshow and Investor meetings (Jakarta, Singapore, Kuala Lumpur, Bangkok)
F Trigona	Nov 2013	Daiwa Central Bankers Seminar and Investor Meetings (Tokyo)
S Knight	Dec 2013	Australian Office of Financial Management Conference and Investor meetings (Tokyo)

S Knight	Jan 2014	Trip with Treasurer - Rating Agencies and Investor Meetings (London, Singapore, Tokyo)
J Green	Jan 2014	Investment Management Due Diligence meetings (Los Angeles, Boston, New York, London)
K Willment	Jan 2014	Investment Management Due Diligence meetings (Los Angeles, Boston, New York, London)
F Trigona	March 2014	Nomura Central Bankers Seminar (Tokyo)
O. Ozer	March 2014	Best of Breed Global Research and Investment Seminar (London)
W. Freeman	May 2014	Best of Breed Global Research and Investment Seminar (Chicago, San Francisco, Los Angeles)
K. Palmer	June 2014	Asia Roadshow and Investor meetings (Jakarta, Singapore, Kuala Lumpur)

## Consultants

Consultant	2014 \$ Cost (inclusive of GST)
Information Technology Consulting	26,624
Human Resources Remuneration Consulting	50,985
Organisation Capital Management Consulting	29,695
<b>Consultancies less than \$50,000</b>	<b>107,304</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.



## **Client Portal (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.com.au](http://www.waratahbonds.com.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 requirements and horizons of individual public sector investors. As at 30 June 2014 investments totalled \$13.3 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* (NSW) (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 Government sector.

TCorp's PID Act policy meets its 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.

All new staff are advised during induction and existing staff are regularly reminded of their obligations under the PID Act and TCorp's PID Act policy.

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

### **Privacy Management**

In accordance with the *Privacy and Personal Information Protection Act 1998 (NSW)* (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 year.

### **Digital Information Security Annual Attestation Statement for the 2013-2014 Financial Year for New South Wales Treasury Corporation**

I, Stephen Knight, am of the opinion that New South Wales Treasury Corporation had an Information Security Management System in place during the financial year being reported on is materially consistent with the Core Requirements set out in the Digital Information Security Policy for the NSW Public Sector.

I, Stephen Knight, am of the opinion that the security controls in place to mitigate identified risks to the digital information and digital information systems of New South Wales Treasury Corporation are adequate for the foreseeable future.

I, Stephen Knight, am of the opinion that all Public Sector Agencies, or part thereof, under the control of New South Wales Treasury Corporation with a risk profile sufficient to warrant an independent Information Security Management System have developed an Information Security Management System in accordance with the Core Requirements of the Digital Information Security Policy for the NSW Public Sector.

I, Stephen Knight, am of the opinion that, in accordance with the Digital Information Security Policy for the NSW Public Sector, certified compliance with AS/NZS ISO/IEC 27001 Information technology - Security techniques - Information security management systems - Requirements is not required.

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

S W Knight

Director





## 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	100	0	0	0	0
December	194	0	0	0	0
March	94	0	0	0	0
June	112	0	0	0	0
<b>Small business suppliers</b>					
September	31	0	0	0	0
December	0	0	0	0	0
March	25	0	0	0	0
June	1	0	0	0	0

Accounts due or paid within each quarter

Measure	Sep 2013	Dec 2013	Mar 2014	Jun 2014
<b>All suppliers</b>				
Number of accounts due for payment	536	586	562	591
Number of accounts paid on time	531	581	555	590
Actual percentage of accounts paid on time (based on number of accounts)	99%	99%	99%	100%
Dollar amount of accounts due for payment (\$)	4,224,759	6,951,014	5,366,901	5,723,015
Dollar amount of accounts paid on time (\$)	4,201,946	6,938,453	5,333,846	5,718,615
Actual percentage of accounts paid on time (based on \$)	99.5%	99.8%	99.4%	99.9%
Number of payments for interest on overdue accounts	0	4	0	0
Interest paid on overdue accounts (\$)	0	133	0	0

Measure	Sep 2013	Dec 2013	Mar 2014	Jun 2014
<b>Small Business Suppliers</b>				
Number of accounts due for payment to small businesses	68	80	44	47
Number of accounts due to small business paid on time	66	76	44	47
Actual percentage of small business accounts paid on time (based on number of accounts)	97%	95%	100%	100%
Dollar amount of accounts due for payment to small business (\$)	272,376	417,846	196,111	202,723
Dollar amount of accounts due to small business paid on time (\$)	261,847	406,485	196,111	202,723
Actual percentage of small business accounts paid on time (based on \$)	96.1%	97.3%	100%	100%
Number of payments to small business for interest on overdue accounts	0	4	0	0
Interest paid to small business on overdue accounts (\$)	0	133	0	0

#### Late Payment Interest

Late payment interest of \$133 was incurred and paid in the year ended 30 June 2014.

## Budgets for the years ended 30 June 2014 and 30 June 2015

	2014 Budget \$'000	2014 Actual \$'000	2015 Proforma Budget \$'000
Management of balance sheet/capital markets activity	106,693	116,077	101,124
Management of client liabilities	5,967	6,062	6,280
Management of client assets	11,758	14,862	15,259
Corporate finance activity, guarantees and other fees	1,357	1,359	558
<b>Total income</b>	<b>125,775</b>	<b>138,360</b>	<b>123,221</b>
Transaction costs	2,113	1,871	2,136
Administration expenses			
Staff costs	24,990	24,329	25,239
Finance services costs	1,757	1,685	1,805
Promotion costs	1,018	681	842
Computer costs	8,198	8,339	8,904
Premises and administration costs	4,894	5,285	5,272
<b>Total transaction and administration costs</b>	<b>42,970</b>	<b>42,190</b>	<b>44,198</b>
<b>Operating profit before tax equivalent expense</b>	<b>82,805</b>	<b>96,170</b>	<b>79,023</b>

## Legal Change

The *Government Sector Employment Act 2013 (NSW)* (GSEA) came into force on 24 February 2014 at which time the *Public Sector Employment Management Act 2002* (PSEMA) under which TCorp employed its staff was repealed.

On 24 February 2014 the *Government Sector Employment Regulation 2014 (NSW)* came into force and provided that, notwithstanding the repeal of the PSEMA, the act would continue to apply to the employment of staff in the Treasury Corporation Division until such time as TCorp's enabling legislation was amended to provide TCorp with the power to employ staff on or from 1 June 2015, whichever occurred first.

The *Statute Law (Miscellaneous Provisions) Act 2014 (NSW)* commenced on 4 July 2014 and amended the *Treasury Corporation Act 1983* to enable TCorp to employ staff directly on and from 1 August 2014.

As a result of the repeal of the PSEMA and the enactment of the GSEA, TCorp is classified as a Public Financial Corporation which does not fall within the statutory definition of Public Service for the purposes of the GSEA. Therefore, from 1 August 2014, TCorp employees are subject to the provisions of the Commonwealth *Fair Work Act 2009* and the National Employment Standards.

## Controlled Entities

For the year ended 30 June 2014 TCorp had two controlled entities: the Treasury Corporation Division of the Government Service (Treasury Corporation Division) and its wholly owned subsidiary, TCorp Nominees Pty Limited.

For the period from 1 July 2013 to 30 June 2014 the principal activity and objective of the Treasury Corporation Division was to provide employment services to TCorp, pursuant to the *Public Sector Employment and Management Act 2002 (NSW)* and following the repeal of this act on 24 February 2014 pursuant to the *Statute Law (Miscellaneous Provisions) Act 2014 (NSW)*. For this period, Treasury Corporation Division was deemed a controlled entity of TCorp, in accordance with TC11/19.

The Treasury Corporation Division was dissolved on 1 August 2014 and ceased to be a controlled entity of the Corporation.

## Issues Raised by the Auditor

The Auditor-General's report under section 43 of the *Public Finance and Audit Act 1983 (NSW)* for the years ended 30 June 2014 and 30 June 2013 raised no significant issues.

The Auditor-General's Volume Seven 2013 Report to Parliament tabled in November 2013 included a report on TCorp which raised no significant audit issues.

The Auditor-General's 2014 Report to Parliament concerning the year ended 30 June 2014 has not been received as at the date of this report.



## **Financial Statements**

### **TCorp**

The audited financial statements for TCorp for the year ended 30 June 2014 commences on the next page and finished on page 96.

### **Controlled Entity – Treasury Corporation Division**

The audited financial statements for Treasury Corporation Division for the year ended 30 June 2014 commences on page 97 and finished on page 116.

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

The audited financial statements for TCorp Nominees Pty Ltd for the year ended 30 June 2014 commences on page 117 and finished on page 124.

All financial information quoted before this section and after page is unaudited 124.

**New South Wales Treasury Corporation**  
**Statement of Comprehensive Income**  
**For the year ended 30 June 2014**

**Statement of Comprehensive Income**

	Note	Consolidated		Corporation	
		2014	2013	2014	2013
		\$'000	\$'000	\$'000	\$'000
Income from changes in fair value	2	5,208,371	4,970,893	5,208,371	4,970,893
Less: Expenses from changes in fair value	3	(5,089,968)	(4,823,167)	(5,089,968)	(4,823,167)
<b>Net income from changes in fair value</b>		<b>118,403</b>	<b>147,726</b>	<b>118,403</b>	<b>147,726</b>
Fees and commissions	4	22,282	24,340	22,282	24,340
<b>Total net revenue</b>		<b>140,685</b>	<b>172,066</b>	<b>140,685</b>	<b>172,066</b>
Less: Administrative expenses					
Staff costs		(24,361)	(23,988)	(1,098)	(1,902)
Personnel services costs		-	-	(23,231)	(21,673)
Financial services costs		(1,685)	(1,624)	(1,685)	(1,624)
Information technology costs		(8,339)	(8,088)	(8,339)	(8,088)
Premises and administration costs		(5,966)	(6,262)	(5,966)	(6,262)
<b>Total administrative expenses</b>		<b>(40,351)</b>	<b>(39,962)</b>	<b>(40,319)</b>	<b>(39,549)</b>
Transaction issuance fees		(2,325)	(3,172)	(2,325)	(3,172)
Other transaction costs		(1,871)	(2,119)	(1,871)	(2,119)
<b>Total transaction costs</b>		<b>(4,196)</b>	<b>(5,291)</b>	<b>(4,196)</b>	<b>(5,291)</b>
<b>Total administrative and transaction costs</b>	4	<b>(44,547)</b>	<b>(45,253)</b>	<b>(44,515)</b>	<b>(44,840)</b>
<b>Profit before income tax equivalent expense</b>		<b>96,138</b>	<b>126,813</b>	<b>96,170</b>	<b>127,226</b>
Income tax equivalent expense	1(c)	(28,851)	(38,168)	(28,851)	(38,168)
<b>Profit for the year</b>		<b>67,287</b>	<b>88,645</b>	<b>67,319</b>	<b>89,058</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	32	413	-	-
<b>Total comprehensive income for the year</b>		<b>67,319</b>	<b>89,058</b>	<b>67,319</b>	<b>89,058</b>

The accompanying notes form part of these financial statements.



**New South Wales Treasury Corporation**  
**Statement of Balance Sheets**  
**For the year ended 30 June 2014**

**Balance Sheets**

		<b>Consolidated</b>		<b>Corporation</b>	
		<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Assets</b>					
Cash and liquid assets	5	1,531,888	952,827	1,531,888	952,827
Outstanding settlements receivable	1(e)	283,685	34,802	283,685	34,802
Due from financial institutions	6	7,645,312	6,285,218	7,645,312	6,285,218
Securities held	7	3,710,710	5,559,197	3,710,710	5,559,197
Derivative financial instruments receivable	14	463,862	553,068	463,862	553,068
Loans to government clients	8	64,520,472	59,330,677	64,520,472	59,330,677
Other assets	9	23,516	15,202	23,314	14,983
Plant and equipment	10	4,783	6,052	4,783	6,052
<b>Total assets</b>		<b>78,184,228</b>	<b>72,737,043</b>	<b>78,184,026</b>	<b>72,736,824</b>
<b>Liabilities</b>					
Due to financial institutions	11	4,720,085	4,240,775	4,720,085	4,240,775
Outstanding settlements payable	1(e)	220,864	144,249	220,864	144,249
Due to government clients	12	601,011	219,520	601,011	219,520
Borrowings	13	71,890,836	67,337,267	71,890,836	67,337,267
Derivative financial instruments payable	14	533,828	584,371	533,828	584,371
Income tax equivalent payable		5,468	7,381	5,468	7,381
Other liabilities and provisions	15	70,836	71,499	70,634	71,280
<b>Total liabilities</b>		<b>78,042,928</b>	<b>72,605,062</b>	<b>78,042,726</b>	<b>72,604,843</b>
<b>Net assets</b>		<b>141,300</b>	<b>131,981</b>	<b>141,300</b>	<b>131,981</b>
<i>Represented by:</i>					
<b>Equity</b>					
Retained earnings	19	141,300	131,981	141,300	131,981
<b>Total equity</b>		<b>141,300</b>	<b>131,981</b>	<b>141,300</b>	<b>131,981</b>

The accompanying notes form part of these financial statements.



**New South Wales Treasury Corporation**  
**Statement of Changes in Equity**  
**For the year ended 30 June 2014**

**Statement of Changes in Equity**

		<b>Consolidated</b>		<b>Corporation</b>	
		<b>Retained earnings</b>	<b>Total equity</b>	<b>Retained earnings</b>	<b>Total equity</b>
	<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Total equity at 30 June 2012</b>		<b>103,423</b>	<b>103,423</b>	<b>103,423</b>	<b>103,423</b>
Profit for the year		88,645	88,645	89,058	89,058
Other comprehensive income	4	413	413	-	-
<b>Total comprehensive income for the year</b>		<b>89,058</b>	<b>89,058</b>	<b>89,058</b>	<b>89,058</b>
<i>Transactions with owners in their capacity as owners:</i>					
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>19</b>	<b>131,981</b>	<b>131,981</b>	<b>131,981</b>	<b>131,981</b>
Profit for the year		67,287	67,287	67,319	67,319
Other comprehensive income	4	32	32	-	-
<b>Total comprehensive income for the year</b>		<b>67,319</b>	<b>67,319</b>	<b>67,319</b>	<b>67,319</b>
<i>Transactions with owners in their capacity as owners:</i>					
Dividend payable	15	(58,000)	(58,000)	(58,000)	(58,000)
<b>Total equity at 30 June 2014</b>	<b>19</b>	<b>141,300</b>	<b>141,300</b>	<b>141,300</b>	<b>141,300</b>

The accompanying notes form part of these financial statements.





**New South Wales Treasury Corporation**  
**Cash Flow Statements**  
**For the year ended 30 June 2014**

## Cash Flow Statements

	Note	Consolidated		Corporation	
		2014	2013	2014	2013
		\$'000	\$'000	\$'000	\$'000
<b>Cash (outflows)/inflows from operating activities</b>					
Interest and other costs of finance received		3,580,391	3,611,774	3,580,391	3,611,774
Interest and other costs of finance paid		(3,220,115)	(3,323,246)	(3,220,115)	(3,323,246)
Fees and commissions received		24,892	26,531	24,892	26,531
Payments of tax equivalents		(30,763)	(36,109)	(30,763)	(36,109)
Payments of Goods and Services Tax		(977)	(890)	(977)	(890)
Payments of administrative expenses and transaction costs		(40,923)	(39,448)	(40,923)	(39,448)
Loans to government clients made		(7,533,392)	(8,206,831)	(7,533,392)	(8,206,831)
Loans to government clients repaid		3,951,713	5,777,372	3,951,713	5,777,372
<b>Net cash used in operating activities</b>	30	<b>(3,269,174)</b>	<b>(2,190,847)</b>	<b>(3,269,174)</b>	<b>(2,190,847)</b>
<b>Cash inflows/(outflows) from investing activities</b>					
Purchases of plant and equipment and intangible assets		(2,909)	(4,085)	(2,909)	(4,085)
Net cash from/(to) securities held		559,520	(2,236,695)	559,520	(2,236,695)
<b>Net cash provided by/(used in) investing activities</b>		<b>556,611</b>	<b>(2,240,780)</b>	<b>556,611</b>	<b>(2,240,780)</b>
<b>Cash inflows/(outflows) from financing activities</b>					
Proceeds from issuance of borrowings and short term securities		72,788,314	61,595,580	72,788,314	61,595,580
Repayment of borrowings and short term securities		(69,625,203)	(57,354,313)	(69,625,203)	(57,354,313)
Net cash inflows/(outflows) from the purchase and repayment of other financial instruments		149,016	(452,065)	149,016	(452,065)
Dividends paid		(55,500)	(55,500)	(55,500)	(55,500)
<b>Net cash provided by financing activities</b>		<b>3,256,627</b>	<b>3,733,702</b>	<b>3,256,627</b>	<b>3,733,702</b>
<b>Net increase/(decrease) in cash held</b>		<b>544,064</b>	<b>(697,925)</b>	<b>544,064</b>	<b>(697,925)</b>
Cash and cash equivalents at the beginning of the year		952,827	1,650,752	952,827	1,650,752
<b>Cash and cash equivalents at the end of the year</b>	29	<b>1,496,891</b>	<b>952,827</b>	<b>1,496,891</b>	<b>952,827</b>

The accompanying notes form part of these 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* (NSW), the *Public Finance and Audit Regulation 2010* (NSW) 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.

<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 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 2017	30 June 2018
AASB 2013-9 <i>Amendments to Australian Accounting Standards – Conceptual Framework, Materiality &amp; Financial Instruments</i>	1 January 2017	30 June 2018

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

## 1 Summary of Significant Accounting Policies (continued)

AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities* was adopted for the first time during the year. The amendment requires additional disclosures to enable users of financial statements to evaluate the effect or the potential effects of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendments did not have any impact on the financial position or performance, however, has resulted in additional disclosure in the notes to the financial statements.

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 27), 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* (Cth) and the *Income Tax Assessment Act 1997* (Cth) 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 2014 (2013: 30%).

## 1 Summary of Significant Accounting Policies (continued)

### (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.

The Corporation measures fair value of financial assets and financial liabilities in accordance with AASB 13 *Fair Value Measurement*. 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 20.

The Corporation manages market risk it is exposed to through its financial assets and financial liabilities on the basis of its net exposure, in accordance with its risk management strategy. As a result the Corporation utilises the exception permitted within AASB 13 *Fair Value Measurement* to measure a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net asset position or paid to transfer a net liability position for a particular risk exposure.

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 offset or contingent on future events are disclosed in contingent liabilities and commitments (note 26).

### (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.

## 1 Summary of Significant Accounting Policies (continued)

### (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.

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.

Expenditure on plant and equipment is capitalised where it relates to identifiable assets that result in a material enhancement to the asset base of the Corporation and it is probable that these assets will provide the Corporation with an on-going benefit.

### (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.

## **1 Summary of Significant Accounting Policies (continued)**

### **(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.

### **(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 25). 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 statements of comprehensive income on an accruals basis.

### **(n) Offsetting Financial Assets and Financial Liabilities**

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

## 1 Summary of Significant Accounting Policies (continued)

### (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.

### (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**

	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Income from changes in fair value is comprised of:</i>		
Interest income received or receivable – government clients	3,060,819	3,037,768
Interest income received or receivable – financial institutions	417,573	486,517
Gains on derivative financial instruments	28,779	80,334
Increase/(decrease) in fair value of financial assets/(liabilities)	1,701,200	1,366,274
	<b>5,208,371</b>	<b>4,970,893</b>

## **3 Expenses from Changes in Fair Value**

	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Expenses from changes in fair value is comprised of:</i>		
Interest expense paid or payable – government clients	1,380	9,314
Interest expense paid or payable – financial institutions	3,117,796	3,190,254
Losses on derivative financial instruments	118,766	67,059
Net foreign exchange loss	70	276
Decrease/(increase) in fair value of financial assets/(liabilities)	1,851,956	1,556,264
	<b>5,089,968</b>	<b>4,823,167</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.



## 4 Total Comprehensive Income for the Year

	<b>Consolidated</b>		<b>Corporation</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
(a) The profit for the year includes the following specific items:				
<b>Fees and commissions</b>	<b>22,282</b>	<b>24,340</b>	<b>22,282</b>	<b>24,340</b>
<i>Comprising:</i>				
<b>Specific client mandates</b>	<b>11,594</b>	<b>12,771</b>	<b>11,594</b>	<b>12,771</b>
- asset portfolios	5,532	6,054	5,532	6,054
- debt portfolios	6,062	6,717	6,062	6,717
Hour-Glass Investment Trusts	8,845	7,869	8,845	7,869
Other fees and commissions from NSW government entities	1,359	3,243	1,359	3,243
Other fees and commissions from financial institutions	484	457	484	457
<b>Total administrative and transaction costs</b>	<b>44,547</b>	<b>45,253</b>	<b>44,515</b>	<b>44,840</b>
<i>Includes:</i>				
<b>Auditors remuneration to the Audit Office of NSW</b>	<b>333</b>	<b>325</b>	<b>333</b>	<b>325</b>
- for audit of the financial report	303	294	303	294
- other services	30	31	30	31
Consultants' fees	107	220	107	220
Depreciation and amortisation	4,300	4,412	4,300	4,412
<b>Key management personnel compensation<sup>1</sup></b>	<b>4,366</b>	<b>3,962</b>	<b>4,366</b>	<b>3,962</b>
- Short-term employee benefits	4,150	3,766	4,150	3,766
- Post-employment benefits	185	161	185	161
- Other long-term employee benefits	31	35	31	35
Rental on operating leases	1,574	1,505	1,574	1,505
<b>Superannuation expense</b>	<b>1,254</b>	<b>1,121</b>	-	-
- Defined contribution plans	1,229	1,082	-	-
- Defined benefit plans	25	39	-	-
(b) Other comprehensive (income)/loss:				
Actuarial (gain)/loss on defined benefit plans	(32)	(413)	-	-

<sup>1</sup> Key management personnel includes the directors and executives with the authority and responsibility for managing the consolidated entity (note 27). The total compensation for non-executive directors for 2014 was \$370,000 (2013: \$371,000).

## **5 Cash and Liquid Assets**

	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash on hand and at bank	8,992	11,898
Overnight and short term placements (unsecured)	1,522,896	940,929
	<b>1,531,888</b>	<b>952,827</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**

	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Short-term bank deposits	7,537,319	6,191,335
Cash collateral	107,993	93,883
	<b>7,645,312</b>	<b>6,285,218</b>

Cash collateral may be provided by the Corporation to support amounts payable to financial institutions in respect of certain derivative transactions (note 21).

## **7 Securities Held**

	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Floating rate notes <sup>1</sup>	-	1,152,789
Certificates of deposit	2,329,706	2,393,296
Commonwealth government bonds	-	207,602
Semi-government bonds	1,058,359	1,708,606
Other NSW Government related securities	26,735	96,904
Supranational bonds	295,910	-
	<b>3,710,710</b>	<b>5,559,197</b>

<sup>1</sup> Includes securities guaranteed by the Commonwealth of Australia totalling \$0.0 million (2013: \$145.8 million), which remain effective until maturity.

Securities held are used mainly to cover liquidity requirements. Of the above amounts, \$1,381.0 million (2013: \$1,420.9 million) is scheduled to mature more than twelve months from the balance date.

## **8 Loans to Government Clients**

	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
New South Wales public sector clients:		
Crown Entity	29,039,916	26,225,667
Electricity sector	23,480,278	21,902,270
Transport sector	2,175,543	1,760,840
Water sector	8,529,231	8,127,766
Other sectors	1,251,980	1,269,987
Universities	43,524	44,147
	<b>64,520,472</b>	<b>59,330,677</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 \$7,766.3 million (2013: \$6,780.6 million). Year-on-year indexed 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 \$3,121.8 million (2013: \$2,546.7 million).

Loans to New South Wales public sector clients and universities are guaranteed by the New South Wales Government. Of the above amounts, \$59,493.0 million (2013: \$56,777.1 million) is scheduled to mature more than twelve months from the balance date.

## 9 Other Assets

	Note	Consolidated		Corporation	
		2014	2013	2014	2013
		\$'000	\$'000	\$'000	\$'000
Debtors and fee accruals		8,074	7,836	8,075	7,836
Intangible assets		2,361	2,718	2,361	2,718
Security deposits		11,500	3,563	11,500	3,563
Prepaid superannuation	23	202	161	-	-
Other prepayments		1,379	924	1,378	866
		<b>23,516</b>	<b>15,202</b>	<b>23,314</b>	<b>14,983</b>
<i>Reconciliation of Intangible assets</i>					
Opening carrying value		2,718	3,702	2,718	3,702
Additions		2,305	2,172	2,305	2,172
Amortisation		(2,578)	(2,689)	(2,578)	(2,689)
Write-offs of redundant assets		(84)	(467)	(84)	(467)
<b>Carrying value at year end</b>		<b>2,361</b>	<b>2,718</b>	<b>2,361</b>	<b>2,718</b>

## 10 Plant and Equipment

	Leasehold Improvements		Equipment & Vehicles		Total	
	2014	2013	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening fair value	4,652	4,200	3,356	2,547	8,008	6,747
Opening accumulated depreciation	(869)	(110)	(1,087)	(657)	(1,956)	(767)
<b>Opening 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>
<i>Changes during the year:</i>						
Additions at fair value	3	498	672	1,475	675	1,973
Net disposals and write-offs of redundant assets	(109)	-	(113)	(178)	(222)	(178)
Depreciation expense	(776)	(805)	(946)	(918)	(1,722)	(1,723)
<b>Closing carrying amount</b>	<b>2,901</b>	<b>3,783</b>	<b>1,882</b>	<b>2,269</b>	<b>4,783</b>	<b>6,052</b>
Closing fair value	4,493	4,652	3,461	3,356	7,954	8,008
Closing accumulated depreciation	(1,592)	(869)	(1,579)	(1,087)	(3,171)	(1,956)
<b>Carrying amount at year end</b>	<b>2,901</b>	<b>3,783</b>	<b>1,882</b>	<b>2,269</b>	<b>4,783</b>	<b>6,052</b>

## 11 Due to Financial Institutions

		2014	2014	2013	2013
		Face Value	Fair Value	Face Value	Fair Value
	Note	\$'000	\$'000	\$'000	\$'000
Promissory notes		4,613,045	4,606,913	4,120,224	4,110,085
Cash collateral	21	78,180	78,175	130,700	130,690
Short term borrowings		35,000	34,997	-	-
		<b>4,726,225</b>	<b>4,720,085</b>	<b>4,250,924</b>	<b>4,240,775</b>

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

Short term borrowings are overnight deposits borrowed from domestic financial institutions on an unsecured basis, with face value and interest repayable at maturity date.

## 12 Due to Government Clients

	2014	2014	2013	2013
	Face Value	Fair Value	Face Value	Fair Value
	\$'000	\$'000	\$'000	\$'000
Client deposits	601,018	601,011	219,497	219,520
	<b>601,018</b>	<b>601,011</b>	<b>219,497</b>	<b>219,520</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

	2014	2014	2013	2013
	Face Value	Fair Value	Face Value	Fair Value
	\$'000	\$'000	\$'000	\$'000
Benchmark bonds				
- domestic	51,200,559	56,264,219	49,395,679	53,560,823
- global exchangeable	1,187,692	1,268,364	1,411,326	1,527,191
<b>Total benchmark bonds</b>	<b>52,388,251</b>	<b>57,532,583</b>	<b>50,807,005</b>	<b>55,088,014</b>
Euro Medium Term Notes	1,599,348	1,666,729	2,162,586	2,009,063
Capital indexed bonds	6,756,243	7,736,726	6,398,077	6,857,031
Floating rate notes	4,281,000	4,306,445	3,050,000	3,075,859
Other borrowings	629,237	648,353	295,200	307,300
	<b>65,654,079</b>	<b>71,890,836</b>	<b>62,712,868</b>	<b>67,337,267</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, \$1,666.7 million (2013: \$1,993.1 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 \$23.37 million (2013: \$306.56 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.

In fair value terms, \$4,023.8 million (2013: \$3,075.9 million) of floating rate notes are scheduled to mature more than twelve months from the balance date.

### 13 Borrowings (continued)

Other borrowings include Waratah bonds and non-benchmark domestic bonds. The fair value of Waratah bonds at the balance date totalled \$431.98 million (2013: \$77.16 million). In fair value terms, \$615.8 million (2013: \$275.0 million) of other borrowings is scheduled to mature more than twelve months from the balance date.

All financial liabilities of the Corporation are guaranteed by the New South Wales Government (Note 16). The Corporation does not provide any further 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.	2014	2014	2013	2013
		Face Value \$'000	Fair Value \$'000	Face Value \$'000	Fair Value \$'000
1 August 2013	5.50	-	-	3,958,641	4,057,832
8 July 2014	2.75	1,608,276	1,629,692	1,646,253	1,670,753
1 August 2014 <sup>1</sup>	5.50	1,140,890	1,170,186	1,637,741	1,726,408
1 April 2015	6.00	2,507,400	2,607,780	2,813,950	3,011,690
1 April 2016	6.00	4,109,925	4,406,139	4,871,175	5,323,010
20 February 2017	4.00	4,367,134	4,564,831	3,396,742	3,526,977
1 March 2017 <sup>1</sup>	5.50	2,097,457	2,286,244	2,429,328	2,662,398
1 February 2018	6.00	6,047,054	6,822,926	5,136,934	5,798,013
20 March 2019	3.50	3,763,112	3,857,383	2,887,511	2,871,914
1 April 2019 <sup>1</sup>	6.00	1,261,681	1,444,706	1,759,596	1,996,367
1 May 2020	6.00	6,353,992	7,313,629	5,834,382	6,579,610
1 June 2020 <sup>1</sup>	6.00	136,814	158,062	183,392	207,539
8 April 2021	4.00	2,108,500	2,189,629	-	-
1 March 2022	6.00	6,333,450	7,468,865	6,648,981	7,580,098
20 April 2023	4.00	3,129,640	3,208,315	1,472,245	1,424,362
1 May 2023 <sup>1</sup>	6.00	1,486,432	1,764,707	2,177,997	2,482,416
20 August 2024	5.00	5,527,250	6,144,397	3,734,150	3,922,650
1 May 2030	6.00	409,244	495,092	217,987	245,977
		<b>52,388,251</b>	<b>57,532,583</b>	<b>50,807,005</b>	<b>55,088,014</b>

<sup>1</sup> Commonwealth Government guaranteed borrowings at 30 June 2014 total \$6,823.90 million, fair value (2013: \$9,075.13 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 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 21).

### Net Exposure

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

	2014	2013
	\$'000	\$'000
<i>Derivative financial instruments receivable</i>		
Cross currency swaps <sup>1</sup>	51,371	23,910
Interest rate swaps	390,397	415,856
Forward foreign exchange contracts	2,552	107,312
Exchange traded futures	-	1,436
Forward dated loans	15,351	7
Interest rate options	4,191	4,547
	<b>463,862</b>	<b>553,068</b>
<i>Derivative financial instruments payable</i>		
Cross currency swaps <sup>1</sup>	(57,634)	(124,664)
Interest rate swaps	(459,947)	(444,735)
Forward foreign exchange contracts	(9,040)	(1,495)
Exchange traded futures	(3,016)	-
Forward dated loans	-	(8,930)
Interest rate options	(4,191)	(4,547)
	<b>(533,828)</b>	<b>(584,371)</b>
<b>Net amount payable under derivative financial instruments</b>	<b>(69,966)</b>	<b>(31,303)</b>

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

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

	Consolidated		Corporation	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Provisions for employee benefits	6,834	6,367	-	-
Amounts due to service entity	-	-	6,810	6,204
Creditors, expense accruals and other provisions	4,360	7,567	4,182	7,511
Lease incentive	1,642	2,065	1,642	2,065
Dividend payable	58,000	55,500	58,000	55,500
	<b>70,836</b>	<b>71,499</b>	<b>70,634</b>	<b>71,280</b>

The Corporation's obligations relating to employee benefits are reflected as amounts due to service entity at the balance date. Refer to note 27.

## 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:

	2014	2013
	\$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 10	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 Measurement

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 uses a discounted cash flow valuation technique in determining the fair value of its financial assets and financial liabilities.

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

**Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities.

**Level 2:** 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). This includes quoted or observable prices combined with margins derived from appropriate benchmarks.

**Level 3:** Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs). Power Reverse Dual Currency Bonds (PRDC's – callable notes – refer note 13) and associated cross currency swaps are classified at level 3 in the hierarchy. PRDC's are structured callable notes denominated in Japanese Yen and issued into the Japanese market. The cash flows 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 cash flows on each bond and swap using the original contractual terms, and where known, the Yen cash flows. The fair value of each bond and swap is calculated as the present value of the Australian dollar cash flows 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. There were no significant inter-relationships between unobservable inputs that materially affect fair value.

## 17 Fair Value Measurement (continued)

The table below sets out the Corporation's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

2014	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets</b>				
Cash and liquid assets	1,531,888	-	-	1,531,888
Outstanding settlements receivable	283,685	-	-	283,685
Due from financial institutions	107,992	7,537,320	-	7,645,312
Securities held	1,354,269	2,356,441	-	3,710,710
Derivative financial instruments receivable	-	463,862	-	463,862
Loans to government clients	12,159	64,508,313	-	64,520,472
Security deposits	11,500	-	-	11,500
<b>Financial assets</b>	<b>3,301,493</b>	<b>74,865,936</b>	<b>-</b>	<b>78,167,429</b>
<b>Financial liabilities</b>				
Due to financial institutions	(78,175)	(4,641,910)	-	(4,720,085)
Outstanding settlements payable	(220,864)	-	-	(220,864)
Due to government clients	-	(601,011)	-	(601,011)
Borrowings - callable notes	-	-	(23,366)	(23,366)
Borrowings - other	(68,427,128)	(3,440,342)	-	(71,867,470)
Derivative financial instruments payable	(3,016)	(523,027)	(7,785)	(533,828)
<b>Financial liabilities</b>	<b>(68,729,183)</b>	<b>(9,206,290)</b>	<b>(31,151)</b>	<b>(77,966,624)</b>

## 17 Fair Value Measurement (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
Security deposits	3,563	-	-	3,563
<b>Financial assets</b>	<b>3,157,295</b>	<b>69,562,057</b>	<b>-</b>	<b>72,719,352</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)
<b>Financial liabilities</b>	<b>(65,417,163)</b>	<b>(6,722,847)</b>	<b>(386,172)</b>	<b>(72,526,182)</b>

There were no significant transfers between levels within the fair value hierarchy during the year. The Corporation's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

### Reconciliation of Level 3 Fair Value Movements

		2014 \$'000	2013 \$'000
	Note		
Opening balance		(386,172)	(792,441)
Total gains and (losses) – realised <sup>1</sup>		(2,258)	13,843
Total gains and (losses) – unrealised <sup>1</sup>		(25,594)	(8,778)
Settlements		382,873	401,204
<b>Closing balance</b>		<b>(31,151)</b>	<b>(386,172)</b>

		2014 \$'000	2013 \$'000
	Note		
Level 3 Financial Instruments:			
Callable notes	13	(23,366)	(306,556)
Cross currency swaps payable	14	(7,785)	(79,616)
<b>Closing balance</b>		<b>(31,151)</b>	<b>(386,172)</b>

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

## 18 Offsetting Financial Assets and Financial Liabilities

Financial assets and liabilities are permitted to be offset and the net amount reported in the balance sheet where the Corporation currently has a legally enforceable right to set off the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

The Corporation enters into derivative transactions governed by master netting arrangements set out in International Swaps and Derivatives Association (ISDA) agreements between the Corporation and market counterparties. In certain circumstances, such as a credit default, all outstanding transactions under the ISDA agreement are terminated, the termination value is determined and only a single net amount is payable to/receivable from a counterparty in settlement of all transactions. The Corporation's ISDA agreements do not currently meet the criteria for offsetting in the balance sheet. This is because the Corporation does not currently have a legally enforceable right to offset recognised amounts, as the right to offset is enforceable only on the occurrence of future events. These amounts have therefore not been offset in the balance sheet, but have been presented separately in the following table. The table also presents the gross amounts of financial assets and financial liabilities that are offset in the balance sheet. The column "Net amount" shows the impact on the Corporation's balance sheet if all set-off rights were exercised.

2014	Effects of offsetting on the Balance sheet				Related amounts not offset		
		Gross amounts	Gross amounts set off in the Balance sheets	Net amounts presented in the Balance sheets	Amounts subject to master netting arrangements	Financial instrument collateral / margins	Net amount
	Note	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>							
Derivative financial instruments (excluding futures)		463,862	-	463,862	(368,552)	(64,009)	31,301
<b>Total derivative financial instruments receivable</b>	14	<b>463,862</b>	<b>-</b>	<b>463,862</b>	<b>(368,552)</b>	<b>(64,009)</b>	<b>31,301</b>
Security deposits	9	11,500	-	11,500	-	(3,129)	8,371
<b>Financial assets</b>		<b>475,362</b>	<b>-</b>	<b>475,362</b>	<b>(368,552)</b>	<b>(67,138)</b>	<b>39,672</b>
<b>Financial liabilities</b>							
Derivative financial instruments (excluding futures)		(530,812)	-	(530,812)	368,552	93,970	(68,290)
Derivative financial instruments - futures		(3,016)	-	(3,016)	-	3,016	-
<b>Total derivative financial instruments payable</b>	14	<b>(533,828)</b>	<b>-</b>	<b>(533,828)</b>	<b>368,552</b>	<b>96,986</b>	<b>(68,290)</b>
Futures margins <sup>1</sup>		(113)	-	(113)	-	113	-
<b>Financial liabilities</b>		<b>(533,941)</b>	<b>-</b>	<b>(533,941)</b>	<b>368,552</b>	<b>97,099</b>	<b>(68,290)</b>

<sup>1</sup> Included in note 15 creditors, expense accruals and other provisions.

## 18 Offsetting Financial Assets and Financial Liabilities (continued)

2013	Effects of offsetting on the Balance sheet				Related amounts not offset		
		Gross amounts	Gross amounts set off in the Balance sheets	Net amounts presented in the Balance sheets	Amounts subject to master netting arrangements	Financial instrument collateral / margins	Net amount
	Note	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>							
Derivative financial instruments (excluding futures)		551,631	-	551,631	(415,452)	(99,536)	36,643
Derivative financial instruments - futures		1,436	-	1,436	-	-	1,436
<b>Total derivative financial instruments receivable</b>	14	<b>553,067</b>	<b>-</b>	<b>553,067</b>	<b>(415,452)</b>	<b>(99,536)</b>	<b>38,079</b>
Security deposits	9	3,563	-	3,563	-	(2,916)	647
<b>Financial assets</b>		<b>556,630</b>	<b>-</b>	<b>556,630</b>	<b>(415,452)</b>	<b>(102,452)</b>	<b>38,726</b>
<b>Financial liabilities</b>							
Derivative financial instruments (excluding futures)		(584,371)	-	(584,371)	415,452	56,048	(112,871)
<b>Total derivative financial instruments payable</b>	14	<b>(584,371)</b>	<b>-</b>	<b>(584,371)</b>	<b>415,452</b>	<b>56,048</b>	<b>(112,871)</b>
Futures margins <sup>1</sup>		(2,916)	-	(2,916)	-	2,916	-
<b>Financial liabilities</b>		<b>(587,287)</b>	<b>-</b>	<b>(587,287)</b>	<b>415,452</b>	<b>58,964</b>	<b>(112,871)</b>

<sup>1</sup> Included in note 15 creditors, expense accruals and other provisions.

## 19 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 20, 21 and 22 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, monitored and reviewed 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.



**New South Wales Treasury Corporation  
Notes to the Financial Statements  
For the year ended 30 June 2014**

## **19 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.

### **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.

## 20 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-14 % pa	Quoted Market Rates at 30-Jun-13 % pa
<b>Nominal</b>			
Overnight	-	2.500	2.750
90 days	-	2.610	2.740
180 days	-	2.630	2.680
1 August 2013	5.500	-	2.730
8 July 2014	2.750	2.560	2.585
1 August 2014 <sup>1</sup>	5.500	2.520	2.545
1 April 2015	6.000	2.605	2.743
1 April 2016	6.000	2.640	3.035
20 February 2017	4.000	2.783	3.313
1 March 2017 <sup>1</sup>	5.500	2.708	3.233
1 February 2018	6.000	2.940	3.528
20 March 2019	3.500	3.150	3.810
1 April 2019 <sup>1</sup>	6.000	3.045	3.670
1 May 2020	6.000	3.320	4.010
1 June 2020 <sup>1</sup>	6.000	3.198	3.890
8 April 2021	4.000	3.510	-
1 March 2022	6.000	3.603	4.323
20 April 2023	4.000	3.768	4.518
1 May 2023 <sup>1</sup>	6.000	3.640	4.360
20 August 2024	5.000	3.875	4.623
1 May 2030	6.000	4.253	4.953
25 February 2039	4.750	-	5.184
20 November 2040	5.000	4.533	-
26 April 2041	6.000	4.503	5.159
<b>Capital Indexed</b>			
20 November 2020	3.750	1.000	1.808
20 November 2025	2.750	1.480	2.225
20 August 2030	3.500	1.850	2.420
20 November 2035	2.500	1.930	2.590

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



## **20 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, 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:

- 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.
- 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.
- 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 2014, the maximum potential loss expected over a 10-day period is \$11.2 million (2013: \$14.1 million), with a 1% probability that this maximum may be exceeded. The average VaR over the year ended 30 June 2014 was \$14.6 million (2013: \$12.8 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, clients indemnify the Corporation for any credit exposure arising from the corresponding transaction with the market counterparty.

### **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

## 20 Market Risk (continued)

counterparties. The clients indemnify the Corporation for any credit exposure arising from the corresponding transaction with the market counterparty.

## 21 Credit Risk

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

As loans and receivables 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.

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 risk table 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 risk table 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

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. In the event of default, the Corporation is immediately entitled to offset the cash collateral against the amounts owed by the defaulting counterparty. There was \$78.18 million of collateral received under these arrangements at balance date (2013: \$130.69 million). Refer below for the net impact of collateral received on credit risk.

		2014	2013
		\$'000	\$'000
Derivative financial instruments		66,524	101,686
Carrying amount of collateral received	11	(78,175)	(130,690)
<b>Net credit risk</b>		<b>Nil</b>	<b>Nil</b>

The Corporation had paid \$107.99 million of collateral under these arrangements at balance date (amount paid in 2013: \$93.88 million). Refer note 6.

## 21 Credit Risk (continued)

### Concentration of Credit Risk

#### By Credit Rating – 2014<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	13	-	-	1,531,715	-	160	-	1,531,888
Due from financial institutions	-	-	-	7,567,437	-	77,875	-	7,645,312
Securities held <sup>6</sup>	969,244	385,025	-	499,710	435,695	1,247,923	173,113	3,710,710
Derivative financial instruments	19,650	-	-	296,841	65,764	80,006	1,601	463,862
Security deposits	-	-	-	-	-	-	11,500	11,500
	<b>988,907</b>	<b>385,025</b>	<b>-</b>	<b>9,895,703</b>	<b>501,459</b>	<b>1,405,964</b>	<b>186,214</b>	<b>13,363,272</b>
Additional potential exposure to derivatives	47	-	-	87,139	52,672	68,743	1,051	209,652
Additional potential exposure to financial instruments	-	-	-	290	1,040	2,077	1,887	5,294
	<b>988,954</b>	<b>385,025</b>	<b>-</b>	<b>9,983,132</b>	<b>555,171</b>	<b>1,476,784</b>	<b>189,152</b>	<b>13,578,218</b>

#### 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>

## 21 Credit Risk (continued)

### By Classification of Counterparty – 2014

	<b>Governments<sup>3</sup></b>	<b>Banks<sup>4</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	13	1,531,875	-	1,531,888
Due from financial institutions	-	7,645,312	-	7,645,312
Securities held <sup>6</sup>	1,058,359	2,329,706	322,645	3,710,710
Derivative financial instruments	19,650	444,212	-	463,862
Security deposits	-	-	11,500	11,500
	<b>1,078,022</b>	<b>11,951,105</b>	<b>334,145</b>	<b>13,363,272</b>
Additional potential exposure to derivatives	47	209,234	371	209,652
Additional potential exposure to financial instruments	-	5,294	-	5,294
	<b>1,078,069</b>	<b>12,165,633</b>	<b>334,516</b>	<b>13,578,218</b>

### By Classification of Counterparty – 2013

	<b>Governments<sup>3</sup></b>	<b>Banks<sup>4</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>

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

2 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.

3 Governments – foreign, Commonwealth and other Australian states.

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

5 Other counterparties include Supranational organisations.

6 AAA rated government securities held include amounts guaranteed by the Commonwealth of Australia totalling \$0.0 million (2013: \$145.8 million).

## 22 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.

2014	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	1,531,992	-	-	-	-	-	1,531,992
Outstanding settlements receivable	283,713	-	-	-	-	-	283,713
Due from financial institutions	2,326,407	2,022,382	3,350,705	-	-	-	7,699,494
Securities held	1,032,250	1,160,061	202,024	174,547	1,065,320	263,390	3,897,592
Loans to government clients	1,148,144	1,882,371	3,912,575	6,370,689	22,705,382	43,028,658	79,047,819
Debtors and fee accruals	8,074	-	-	-	-	-	8,074
Security deposits	11,500	-	-	-	-	-	11,500
<b>Financial assets</b>	<b>6,342,080</b>	<b>5,064,814</b>	<b>7,465,304</b>	<b>6,545,236</b>	<b>23,770,702</b>	<b>43,292,048</b>	<b>92,480,184</b>
<b>Financial liabilities</b>							
Due to financial institutions	(3,447,761)	(1,190,465)	(88,000)	-	-	-	(4,726,226)
Outstanding settlements payable	(220,886)	-	-	-	-	-	(220,886)
Due to government clients	(596,669)	(4,379)	-	-	-	-	(601,048)
Borrowings - callable notes <sup>1</sup>	-	(21,252)	(2,122)	-	-	-	(23,374)
Borrowings - other	(1,649,147)	(1,977,635)	(4,917,419)	(9,640,487)	(25,854,036)	(42,890,225)	(86,928,949)
Creditors, expense accruals and other provisions	(4,360)	-	-	-	-	-	(4,360)
<b>Financial liabilities</b>	<b>(5,918,823)</b>	<b>(3,193,731)</b>	<b>(5,007,541)</b>	<b>(9,640,487)</b>	<b>(25,854,036)</b>	<b>(42,890,225)</b>	<b>(92,504,843)</b>
<b>Net financial assets/(liabilities)</b>	<b>423,257</b>	<b>1,871,083</b>	<b>2,457,763</b>	<b>(3,095,251)</b>	<b>(2,083,334)</b>	<b>401,823</b>	<b>(24,659)</b>
<b>Derivatives</b>							
Derivatives receivable	28,427	70,042	316,698	427,366	848,614	822,652	2,513,799
Derivatives payable	(33,214)	(123,152)	(199,098)	(258,822)	(478,586)	(714,834)	(1,807,706)
<b>Net derivatives</b>	<b>(4,787)</b>	<b>(53,110)</b>	<b>117,600</b>	<b>168,544</b>	<b>370,028</b>	<b>107,818</b>	<b>706,093</b>
<b>Net</b>	<b>418,470</b>	<b>1,817,973</b>	<b>2,575,363</b>	<b>(2,926,707)</b>	<b>(1,713,306)</b>	<b>509,641</b>	<b>681,434</b>
<b>Cumulative</b>	<b>418,470</b>	<b>2,236,443</b>	<b>4,811,806</b>	<b>1,885,099</b>	<b>171,793</b>	<b>681,434</b>	<b>-</b>

## 22 Liquidity Risk (continued)

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 <sup>1</sup>	(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>

<sup>1</sup>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 24 and undrawn loan commitments are disclosed in note 26.

## 23 Superannuation

Amounts representing prepaid superannuation contributions arising from defined benefit schemes are recognised as an asset and included in other assets (note 9). 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 27).

The 2014 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.

	2014	2013
	% pa	% pa
Discount rate at 30th June <sup>1</sup>	3.6	3.8
Expected return on assets backing current pension liabilities	8.3	8.6
Expected salary increases - 2013 / 2014	-	2.3
- 2014 / 2015	2.3	2.3
- 2015 / 2016 to 2017 / 2018	2.5	2.0
- 2018 / 2019 to 2019 / 2020	3.0	2.0
- 2020 / 2021 to 2022 / 2023	3.0	2.5
- thereafter	3.5	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.

## 23 Superannuation (continued)

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

	SASS	SANCS	SSS	2014	Totals
	\$'000	\$'000	\$'000	\$'000	2013
					\$'000
Net (asset)/liability at start of year	(239)	-	78	(161)	245
Net (credit)/expense recognised in the Statement of comprehensive income	(19)	12	(34)	(41)	(406)
<b>Net (asset)/liability at end of year</b>	<b>(258)</b>	<b>12</b>	<b>44</b>	<b>(202)</b>	<b>(161)</b>

## 24 Contractual Commitments

	2014	2013
	\$'000	\$'000
<b>Capital commitments</b>		
Not later than one year	283	90
<b>Total (including GST)<sup>1</sup></b>	<b>283</b>	<b>90</b>
<b>Operating lease commitments</b>		
Not later than one year	3,144	2,886
Later than one year but not later than five years	9,435	12,367
Later than five years	-	93
<b>Total (including GST)<sup>1</sup></b>	<b>12,579</b>	<b>15,346</b>
<b>Other expenditure commitments</b>		
Not later than one year	334	-
Later than one year but not later than five years	219	-
<b>Total (including GST)<sup>1</sup></b>	<b>553</b>	<b>-</b>

<sup>1</sup> Total commitments above include input tax credits of \$1.2 million (2013: \$1.4 million) of which a portion are expected to be recoverable from the ATO.

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.
- The Corporation must pay GPNSW a management fee of 2% (excluding GST) of gross rent, charges and expenses on the leased premises.



## 24 Contractual Commitments (continued)

2014 Capital commitments relate to obligations associated with the purchase of computer software and minor office works (2013: Capital commitments relate to obligations associated with the purchase of computer software).

Other expenditure commitments include licence costs on significant Information Technology related contracts.

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

## 25 Fiduciary Activities

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

	2014	2013
	\$'000	\$'000
At the year end, the funds under management were:		
- Hour-Glass Investment Trusts	13,304,009	12,861,813
- Specific client mandates	7,165,565	4,061,361
	<b>20,469,574</b>	<b>16,923,174</b>
These funds were managed by:		
- External fund managers	10,095,586	9,232,073
- The Corporation	10,373,988	7,691,101
	<b>20,469,574</b>	<b>16,923,174</b>
<b>At the year end the debt portfolios under management were:</b>	<b>33,751,080</b>	<b>45,388,982</b>

Two debt portfolios under management became advisory portfolios during the year. The value of these portfolios as at 30 June 2013 was \$14,034.33 million.

During the year the New South Wales Government announced that it will amalgamate the funds management activities of SAS Trustee Corporation and Safety, Return to Work and Support Division at the Corporation. This will significantly increase the Corporation's funds under management progressively from next financial year.

## 26 Contingent Liabilities and Commitment

- 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 \$5,955.00 million (2013: \$5,718.00 million) and undrawn commitments were \$5,712.20 million (2013: \$5,488.36 million). Drawn commitments are recognised as loans to government clients on the balance sheets.
- b. The Corporation has issued unconditional payment undertakings on behalf of some New South Wales public sector clients to pay to the Australian Energy Market Operator (AEMO). 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.

	2014	2013
	\$'000	\$'000
<b>Market participants</b>		
National Electricity Market (NEM)	100	60
Short Term Trading Market (STTM)	1,000	1,000
	<b>1,100</b>	<b>1,060</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 \$163.52 million (2013: \$142.85 million).

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 (2013: \$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 \$111.35 million (2013: \$107.47 million). Drawn commitments are recognised on the balance sheets as loans to government clients (note 8), included within Crown entity.

## 27 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 arm's 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.

## 27 Related Parties (continued)

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:

	2014 & 2013
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* (NSW). This legal arrangement has no financial effect on the financial performance or position of the Corporation or 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 which continues to employ all employees of the Corporation under the *Government Sector Employment Regulation 2014* (NSW). On 1 August 2014, the Treasury Corporation Division ceased to exist. Refer to Note 31.

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* (NSW) 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* (NSW). 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* (NSW) 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* (NSW) the Corporation's principal objective is to provide financial services for, or for the benefit of, the New South Wales government, public authorities and

## 27 Related Parties (continued)

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.

## 28 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.

## 29 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.

		2014	2013
	Note	\$'000	\$'000
Cash and liquid assets	5	1,531,888	952,827
Short term borrowings	11	(34,997)	-
<b>Cash and cash equivalents</b>		<b>1,496,891</b>	<b>952,827</b>

### **30 Reconciliation of Cash Flow from Operating Activities to Net Profit**

	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Net cash used in operating activities	(3,269,174)	(2,190,847)
Add/(less) adjustments arising from:		
- net loans to clients	3,581,679	2,429,459
- net change in coupons accrued at each year end on financial assets and liabilities	(9,794)	54,296
- net change in other assets	8,589	(10,591)
- net change in other liabilities and provisions, excluding dividends	5,076	763
	<b>316,376</b>	<b>283,080</b>
Add/(less) amounts contributing to net profit but not generating operating cash flows:		
- actuarial (gain)/loss on defined benefit plans	(32)	(413)
- loss on disposal of plant and equipment and intangible assets	(155)	(460)
- loss on sale of financial instruments	(322,666)	(479,703)
- unrealised fair value gain on financial instruments	78,064	290,553
- depreciation and amortisation	(4,300)	(4,412)
<b>Profit for the year</b>	<b>67,287</b>	<b>88,645</b>

### **31 Subsequent Events**

On 1 August 2014, the Treasury Corporation Division of the Government Service ('the Division') ceased to exist.

As a result, on 1 August 2014:

- All employees (along with legal responsibility to pay employee benefits including on-costs and taxes) and related administrative services were transferred from the Division to the Corporation.
- The Division ceased to be a controlled entity of the Corporation.

This arrangement has no financial impact on the financial performance or position of the consolidated Corporation.

### **32 Authorisation Date**

This financial report was authorised for issue in accordance with a resolution of the directors of New South Wales Treasury Corporation on 29 August 2014.

#### **END OF AUDITED FINANCIAL REPORT**



**New South Wales Treasury Corporation  
Notes to the Financial Statements  
For The Year Ended 30 June 2014**

**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.
- b. The financial report and consolidated financial report for the year ended 30 June 2014 exhibit a true and fair view of the position and transactions of New South Wales Treasury Corporation and its controlled entities; and
- c. 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 'T. Spencer'.

T. Spencer  
Director

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

S W Knight  
Director

Sydney, 29 August 2014

## New South Wales Treasury Corporation



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 2014, 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 2014, 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.



Grant Hehir  
Auditor-General

1 September 2014  
SYDNEY





**Treasury Corporation Division of the Government Service**  
**Statement of Comprehensive Income**  
**For the year ended 30 June 2014**

		2014	2013
	Note	\$'000	Restated \$'000
<b>Income</b>			
Personnel services income	5	23,232	21,673
<b>Total income</b>		<b>23,232</b>	<b>21,673</b>
<b>Expenses</b>			
Staff costs	2	(23,264)	(22,086)
<b>Total expenses</b>		<b>(23,264)</b>	<b>(22,086)</b>
<b>(Deficit)/surplus for the year</b>		<b>(32)</b>	<b>(413)</b>
<b>Other comprehensive income/(loss)</b>			
<i>Items that will not be classified to profit or loss:</i>			
Actuarial gain/(loss) on defined benefit plans	7	32	413
<b>Other comprehensive income/(loss) for the year</b>		<b>32</b>	<b>413</b>
<b>Total comprehensive income/(loss) for the year</b>		<b>-</b>	<b>-</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 2014**

	<b>Note</b>	<b>2014 \$'000</b>	<b>2013 \$'000</b>
<b>Current assets</b>			
Amounts receivable from controlling entity	5	6,810	6,204
Other assets	3	202	220
<b>Total current assets</b>		<b>7,012</b>	<b>6,424</b>
<b>Current liabilities</b>			
Payables		178	57
Employee benefit provisions	4	6,834	6,367
<b>Total current Liabilities</b>		<b>7,012</b>	<b>6,424</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 2014**

	<b>Retained Earnings \$'000</b>	<b>Total Equity \$'000</b>
<b>Total equity at 30 June 2012</b>	-	-
(Deficit) for the year – restated	(413)	(413)
Other comprehensive income - restated	413	413
Total comprehensive income for the year	-	-
<b>Total equity at 30 June 2013</b>	-	-
(Deficit) for the year	(32)	(32)
Other comprehensive income	32	32
Total comprehensive income for the year	-	-
<b>Total equity at 30 June 2014</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 2014**

	Note	2014 \$'000	2013 \$'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>		-	-

The accompanying notes form part of these financial statements

## 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. 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 under the *Government Sector Employment Regulation 2014* (NSW).

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.

On 1 August 2014 the Division ceased to exist. As a result, from 1 August 2014, Division no longer assumes responsibility for the employees, employee-related liabilities and related administrative services of New South Wales Treasury Corporation.

From 1 August 2014 all employees (along with, legal responsibility to pay employee benefits including on-costs and taxes) and related administrative services were transferred to New South Wales Treasury Corporation.

The financial report was authorised for issue by S W Knight the Division Head on 20 August 2014.

### (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* (NSW), the *Public Finance and Audit Regulation 2010* (NSW), 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.

The financial statements have been prepared on a non-going concern basis. Assets and liabilities as at 30 June 2014 have been measured on a consistent basis to the amounts realised on transfer to New South Wales Treasury Corporation.

## **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.

## **1 Summary of Significant Accounting Policies (continued)**

<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 9 Financial Instruments, AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)	1 January 2015	30 June 2016
AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality & Financial Instruments	1 January 2017	30 June 2018

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 except as stated in note 1(g). 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.

## 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

In the current year, the Division adopted AASB 119 (2011) *Employee Benefits*. As a result, the Division has changed its accounting policy with respect to accounting for defined benefit plans and has restated comparative information. The impact on the financial statements on initial application of the revised AASB 119 has been summarised in note 8.

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.

## 2 Staff Costs

	Note	2014 \$'000	2013 Restated \$'000
<b>Staff costs for the period include:</b>			
Remuneration costs		20,425	19,420
Defined contribution superannuation		1,261	1,169
Defined benefit superannuation	7	25	39
Other		1,553	1,458
		<b>23,264</b>	<b>22,086</b>

## 3 Other Assets

	Note	2014 \$'000	2013 \$'000
Prepaid superannuation	7	202	161
Prepaid operating expenses		-	59
		<b>202</b>	<b>220</b>

## 4 Employee Benefit Provisions

	2014 \$'000	2013 \$'000
Opening Balance	6,367	2,437
Increase in provisions (net)	6,269	5,815
Payments	(5,802)	(1,885)
	<b>6,834</b>	<b>6,367</b>



## 5 Related Parties

### Controlling Entity and 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* (NSW) 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 effected 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 Auditors Remuneration

Auditor's remuneration for the review of this financial report is borne by the controlling entity. The applicable audit fee amounted to \$7,600 (2013: \$7,200).

## 7 Superannuation

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

There has been no unfunded superannuation liabilities arising from defined benefit schemes for employees that are recognised as a liability (2013: \$nil). 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 Pooled Fund ('the Fund') holds in trust the investments of the closed New South Wales public sector superannuation schemes ('the Schemes'):

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

These 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. Members receive lump sum or pension benefits on retirement, death, disablement and withdrawal. All schemes are closed to new members.

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.

### Description of other Entities' Responsibilities for the Governance of the Fund

The SAS Trustee Corporation ('the Trustee') is responsible for the governance of the Schemes in the Fund. The Trustee has a legal obligation to act solely in the best interests of the fund beneficiaries. The Trustee has the following roles:

- Administration of the fund and payment to the beneficiaries from fund assets when required in accordance with the fund rules.
- Management and investment of the fund assets.
- Compliance with other applicable regulations.

### Description of Risks

There are a number of risks to which the Fund exposes the Division. The more significant risks relating to the defined benefits are:

- **Investment risk:** The risk that investment returns will be lower than assumed and the Division will need to increase contributions to offset this shortfall.
- **Longevity risk:** The risk that pensioners live longer than assumed, increasing future pensions.

## 7 Superannuation (continued)

- **Pension indexation risk:** The risk that pensions will increase at a rate greater than assumed, increasing future pensions.
- **Salary growth risk:** The risk that wages or salaries (on which future benefit amounts for active members will be based) will rise more rapidly than assumed, increasing defined benefit amounts and thereby requiring additional employer contributions.
- **Legislative risk:** The risk is that legislative changes could be made which increase the cost of providing the defined benefits.

The defined benefit fund assets are invested with independent fund managers and have a diversified asset mix. The Fund has no significant concentration of investment risk or liquidity risk.

### Description of the Regulatory Framework

The Schemes are established and governed by the following NSW legislation: *Superannuation Act 1916 (NSW)*, *State Authorities Superannuation Act 1987 (NSW)*, *State Authorities Non-Contributory Superannuation Scheme Act 1987 (NSW)*, and their associated regulations.

The Schemes are exempt public sector superannuation schemes under the *Commonwealth Superannuation Industry (Supervision) Act 1993 (NSW) (SIS)*. The SIS Legislation treats exempt public sector superannuation funds as complying funds for concessional taxation and superannuation guarantee purposes.

Under a Heads of Government agreement, the New South Wales Government undertakes to ensure that the Fund will conform with the principles of the Commonwealth's retirement incomes policy relating to preservation, vesting and reporting to members and that members' benefits are adequately protected.

The New South Wales Government prudentially monitors and audits the Fund and the Trustee activities in a manner consistent with the prudential controls of the SIS legislation. These provisions are in addition to other legislative obligations on the Trustee Board and internal processes that monitor the Trustee's adherence to the principles of the Commonwealth's retirement incomes policy.

An actuarial investigation of the Fund is performed every three years. The last actuarial investigation was performed as at 30 June 2012.

The 2014 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.

## 7 Superannuation (continued)

	2014	2013
Discount Rate at 30 <sup>th</sup> June <sup>(1)</sup>	3.57	3.80
Expected return on assets backing current pension liabilities	8.3	8.6
Expected salary increases - 2013 / 2014	-	2.3
- 2014 / 2015	2.3	2.3
- 2015 / 2016 to 2017 / 2018	2.5	2.0
- 2018 / 2019 to 2019 / 2020	3.0	2.0
- 2020 / 2021 to 2022 / 2023	3.0	2.5
- thereafter	3.5	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.

## 7 Superannuation (continued)

### Sensitivity Analysis

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase, mortality and changes to the indexation. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

	Base Case \$'000	Discount Rate	
		-1.0% \$'000	+1.0% \$'000
Discount rate	3.57%	2.57%	4.57%
Rate of CPI increase	2.50%	2.50%	2.50%
Salary inflation rate	As above	As above	As above
<b>Defined benefit obligation</b>	<b>1,912</b>	<b>2,113</b>	<b>1,747</b>

	Base Case \$'000	Rate of Indexation	
		-0.5% \$'000	+0.5% \$'000
Discount rate	3.57%	3.57%	3.57%
Rate of CPI increase	2.50%	2.00%	3.00%
Salary inflation rate	As above	As above	As above
<b>Defined benefit obligation</b>	<b>1,912</b>	<b>1,853</b>	<b>1,979</b>

	Base Case \$'000	Salary Inflation Rate	
		-0.5% \$'000	+0.5% \$'000
Discount rate	3.57%	3.57%	3.57%
Rate of CPI increase	2.50%	2.50%	2.50%
Salary inflation rate	As above	As above less 0.5% p.a	As above plus 0.5% p.a
<b>Defined benefit obligation</b>	<b>1,912</b>	<b>1,884</b>	<b>1,942</b>

	Base Case \$'000	Pensioner Mortality Rate	
		-5.0% \$'000	+5.0% \$'000
<b>Defined benefit obligation</b>	<b>1,912</b>	<b>1,919</b>	<b>1,906</b>

## 7 Superannuation (continued)

### Asset-Liability Matching Strategies

The Trustee monitors its asset-liability risk continuously in setting its investment strategy. It also monitors cashflows to manage liquidity requirements.

### Description of Significant Events

There were no fund amendments, curtailments or settlements during the year.

### Actual Return on Fund Assets

	2014 \$'000	2013 Restated \$'000
Actual return on fund assets	186	227
<b>Total</b>	<b>186</b>	<b>227</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

	2014 %	2013 %
Australian equities	30.9	30.4
Overseas equities	28.8	26.1
Australian fixed interest securities	6.2	6.9
Overseas fixed interest securities	2.3	2.2
Property	8.6	8.3
Cash	6.5	13.1
Other	16.7	13.0

### 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':

	2014 \$'000	2013 \$'000
Accrued benefits	1,394	1,265
Net market value of fund assets	(2,140)	(1,882)
<b>Net surplus</b>	<b>(746)</b>	<b>(617)</b>

## 7 Superannuation (continued)

### Contribution Recommendations

	Method	2014 %	2013 %
SASS	Multiple of member	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

	2014 %	2013 %
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 4 years	2.7	2.7
- 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.

## 7 Superannuation (continued)

### Net Asset Recognised in the Balance Sheet

	2014 \$'000	2013 Restated \$'000
Fair value of fund (assets)/liabilities at the beginning of the year	(161)	245
Current service cost	32	32
Past service cost	-	-
Interest cost / (income)	(7)	7
<b>Components of defined benefit costs recognised in profit or loss</b>	<b>25</b>	<b>39</b>
Actual return on fund assets less interest income	(186)	(226)
Actuarial loss/(gain) arising from:		
- Demographic assumptions	-	5
- Financial assumptions	72	(158)
- Experience adjustments	56	(34)
Adjustments for effect of asset ceiling	26	-
<b>Components of defined benefit costs recognised in other comprehensive income</b>	<b>(32)</b>	<b>(413)</b>
Employer contributions	(34)	(32)
Employee contributions	-	-
Benefits paid	-	-
<b>Other</b>	<b>(34)</b>	<b>(32)</b>
<b>Net (asset)/liability recognised in the balance sheet at the end of the year</b>	<b>(202)</b>	<b>(161)</b>

## 7 Superannuation (continued)

### Amounts Recognised in the Statement of Comprehensive Income

	2014 \$'000	2013 Restated \$'000
Actuarial (gains)/losses incurred during the year and recognised in the statement of comprehensive income	128	(187)
Actual return on assets less interest income	(186)	(226)
Adjustments recognised in the statement of comprehensive income for restrictions on the defined benefit asset	26	-
<b>Actuarial (gain)/loss for the year as per the statement of comprehensive income</b>	<b>(32)</b>	<b>(413)</b>

### Reconciliation of the Effect of the Asset Ceiling

	2014 \$'000	2013 Restated \$'000
Adjustment for effect of asset ceiling at beginning of the year	-	-
Change in the effect of asset ceiling	26	-
<b>Adjustment of the effect of asset ceiling at the end of the year</b>	<b>26</b>	<b>-</b>



## 8 Impact of Accounting Policy Change

The impact on the financial statements on initial application of the revised AASB 119 has been summarised below.

30 June 2013	As Previously Reported \$'000	Impact of Change in AASB 119 \$'000	As Requested \$'000
Staff costs	(21,999)	(87)	(22,086)
<b>Total Expenses</b>	<b>(21,999)</b>	<b>(87)</b>	<b>(22,086)</b>
<b>(Deficit)/surplus for the year</b>	<b>(326)</b>	<b>(87)</b>	<b>(413)</b>
Actuarial gain/(loss) on defined benefit plans	326	87	413
<b>Other comprehensive income/(loss) for the year</b>	<b>326</b>	<b>87</b>	<b>413</b>

30 June 2014	Impact of Change in AASB 119 \$'000
Staff costs	(90)
<b>Total Expenses</b>	<b>(90)</b>
<b>(Deficit)/surplus for the year</b>	<b>(90)</b>
Actuarial gain/(loss) on defined benefit plans	90
<b>Other comprehensive income/(loss) for the year</b>	<b>90</b>

## 9 Subsequent Events

On 1 August 2014 the Division ceased to exist. As a result, the Division no longer assumes responsibility for the employees, employee-related liabilities and related administrative services of New South Wales Treasury Corporation.

From 1 August 2014 all employees (along with, legal responsibility to pay employee benefits including on-costs and taxes) and related administrative services were transferred to New South Wales Treasury Corporation.

**-END OF AUDITED FINANCIAL REPORT-**



**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.
- b) The financial report for the year ended 30 June 2014 exhibits a true and fair view of the financial position and transactions of Treasury Corporation Division of the Government Service.
- c) 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.

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

S W Knight  
Division Head

20 August 2014  
Sydney

**Treasury Corporation Division of the Government Services  
For the year ended 30 June 2014**



**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 2014, 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 2014, 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

**Treasury Corporation Division of the Government Services**  
**For the year ended 30 June 2014**

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.

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

20 August 2014  
SYDNEY



**TCorp Nominees Pty Limited**  
**Statement of Comprehensive Income**  
**For the year ended 30 June 2014**

	Note	2014 \$	2013 \$
Income		-	-
Income tax equivalent expense	1(c)	-	-
Profit for the year		-	-
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		-	-

The accompanying notes form part of these financial statements.



**TCorp Nominees Pty Limited**  
**Balance Sheet**  
**As at 30 June 2014**

	Note	2014 \$	2013 \$
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**  
**Statement of Changes in Equity**  
**For the year ended 30 June 2014**

	<b>Retained earnings \$</b>	<b>Total equity \$</b>
<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>
Profit for the year	-	-
Other comprehensive income	-	-
Total comprehensive income for the year	-	-
<b>Total equity at 30 June 2014</b>	<b>2</b>	<b>2</b>

The accompanying notes form part of these financial statements.



**TCorp Nominees Pty Limited**  
**Cash Flow Statement**  
**For the year ended 30 June 2014**

	<b>2014</b>	<b>2013</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows 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.



## **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 (NSW)*, the *Public Finance and Audit Regulation 2010 (NSW)* 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 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality & Financial Instruments	1 January 2017	30 June 2018

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.

### **(b) Company Information and Activities**

TCorp Nominees Pty Ltd (the company) is a company registered under the *Corporations Act 2001 (Cth)* 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



**TCorp Nominees Pty Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2014**

## **1 Summary of Significant Accounting Policies (continued)**

Other than disclosed in Note 6, there were no transactions undertaken by the company with any other party 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 2014, the amount outstanding under the lending arrangements was approximately \$5.0 million (2013: \$7.2 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* (Cth) and *Income Tax Assessment Act 1997* (Cth) 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**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2014**

## **2 Contributed Equity**

	2014 \$	2013 \$
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 \$4,000 (2013: \$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* (NSW) of the New South Wales Parliament.

### **Related Party Non-Cash Transactions**

On the 19<sup>th</sup> November 2013 the company borrowed an amount of \$10 from the parent entity to invest in the initial units of the Long Service Corporation Investment Facility Trust. On or after the initial investment, the company redeemed its units and repaid its loan to the parent entity.



**TCorp Nominees Pty Limited  
Notes to the Financial Statements  
For the year ended 30 June 2014**

## **6 Related Parties (continued)**

On the 3<sup>rd</sup> October 2012 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. On or after the initial investment, the company redeemed its units and repaid its loan to the parent entity.

## **7 Subsequent Events**

No matter or circumstance has arisen since 30 June 2014 that has significantly affected, or may significantly affect:

- the company's operations in future years
- the results of those operations in future years
- the company's state of affairs in future years.

## **8 Authorisation Date**

This financial report was authorised for issue in accordance with a resolution of the directors of TCorp Nominees Pty Limited on 20<sup>th</sup> August 2014.

**END OF AUDITED FINANCIAL REPORT**



**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 2014 exhibit a true and fair view of the financial position and transactions of TCorp Nominees Pty Limited.
- 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:

A handwritten signature in purple ink, appearing to read 'SW Knight'.

SW Knight  
Director

A handwritten signature in purple ink, appearing to read 'P A Smith'.

P A Smith  
Director

20 August 2014  
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 2014, 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 2014, 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

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

20 August 2014  
SYDNEY

## **Appendix A – Obligations under the GIPA Act**

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

The *Government Information (Public Access) Act 2009 (NSW)* (GIPA Act) commenced on 1 July 2010. This legislation replaced the *Freedom of Information Act 1989 (NSW)* 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

**Table C: Invalid Applications**

<b>Invalid Applications Reasons for invalidity</b>	<b>Number of Application</b>
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**

<b>Conclusive presumption of overriding public interest against disclosure: matters listed in Schedule 1 of the Act</b>	<b>Number of times consideration used*</b>
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)**

<b>Applications for review under Part 5 of the Act (by type of applicant)</b>	<b>Number of applications for review</b>
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 *Annual Reports (Statutory Bodies) Act* 1984 (NSW)

ARSBR *Annual Reports (Statutory Bodies) Regulation* 2005 (NSW)

GIPAA *Government Information (Public Access) Act* 2009 (NSW)

GIPAAR *Government Information (Public Access) Regulation* 2009 (NSW)

IPARTA *Independent Pricing and Regulatory Tribunal Act* 1992 (NSW)

PIDA *Public Interest Disclosures Act* 1994 (NSW)

PIDR *Public Interest Disclosures Regulation* 2011 (NSW)

PC Premier's Circular

PM Premier's Memorandum

PPIPA *Privacy and Personal Information Protection Act* 1998 (NSW)

TC Treasury Circular

TD Treasurer's Direction



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