



# The 34<sup>th</sup> Annual Report to Parliament of New South Wales Treasury Corporation

For the year ended 30 June 2016

New South Wales Treasury Corporation





## **Access**

<b>Principal Office</b>	Level 22, Governor Phillip Tower 1 Farrer Place Sydney NSW 2000
<b>Business Hours</b>	Monday to Friday 8:30am to 5:00pm
<b>Postal Address</b>	Level 22, Governor Phillip Tower 1 Farrer Place Sydney NSW 2000
<b>Email</b>	generalq@tcorp.nsw.gov.au
<b>Website</b>	www.tcorp.nsw.gov.au
<b>Telephone</b>	(02) 9325 9325 (General) (02) 9325 9267 (Hour-Glass Fund Transactions)
<b>Facsimile</b>	(02) 9325 9333

## **TCorp Dealing Desk**

Bonds	(02) 9247 5211
Money Market	(02) 9247 5633
Authority Deposits	(02) 9247 5488
Client Transaction Line	(02) 9247 5501
Asset Management	(02) 9325 9282

## **Settlements**

Telephone	(02) 9325 9203
Facsimile	(02) 9325 9355

*For Registry location see page 125.*



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## TCorp's Objectives

### TCorp's Charter

New South Wales Treasury Corporation (TCorp) is the financial services provider for the New South Wales (NSW) 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; and
- Management of TCorp's own assets and liabilities.

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

### TCorp's Mission

To provide best-in-class financial management and advice for the NSW Government Family.

### TCorp's Strategic Direction

In June 2015, in line with NSW Government policy, the funds management operations of TCorp, SAS Trustee Corporation (STC) and what is now Insurance & Care NSW (icare) were amalgamated at TCorp. This saw TCorp's funds under management and administration increase more than threefold to over \$65 billion. Whilst the amalgamation provided significant opportunities for TCorp, its clients and the State, the scale of the amalgamation also required significant change within TCorp.

In response to this changing environment and the increased organisational responsibilities, the Board and newly appointment Chief Executive established a new and more ambitious strategic direction in May 2016.

This strategic direction reflects and responds to:

- Evolving Government financial management policy and in particular TCorp's role in:
  - Realising the benefits from the amalgamation of the State's funds management activities in TCorp; and
  - Managing the debt retirement associated with the Government's electricity leasing programme;
- NSW Treasury's new strategic direction ('Building a world class Treasury'); and
- TCorp's role on the NSW Treasury's Asset & Liability Committee (ALCO).



## **TCorp's Corporate Objectives**

In line with the mission and TCorp's new strategic direction, TCorp's corporate objectives for 2016/17 and onwards are to:

- Be regarded as a best-in class provider of financial management and advice;
- Be sought after by our clients for the capability of our people and the way we conduct ourselves; and
- Have a sustainable and aligned organisation always delivering whole-of-State solutions.

As TCorp's new strategic direction was set at the end of the financial year, TCorp operated under its previous strategy and corporate objectives for the 2015/16 financial year. The 2015/16 corporate objectives, all of which are captured in the new strategic direction, were to:

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

TCorp's performance against these objectives is detailed in the following table:

Objectives	Performance Measures	Results for 2015/16
To deliver low cost funding for TCorp's clients.	To ensure a cost effective funding mix through diversification of sources of finance and efficient implementation of the annual funding programme.	TCorp has been active in the market throughout the year despite a net term debt requirement of zero. This included buybacks to support the NSW government asset leasing programme and supporting the lengthening of client debt portfolios by issuing a new A\$1bn 2028 benchmark bond.
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 throughout the year. Historic low rates and narrow spreads to the Commonwealth bond curve provided opportunities to lengthen client debt portfolios.
	To generate strong returns for the TCorp Investment Funds and outperform industry benchmarks.	TCorp's Cash and Strategic Cash Funds posted solid absolute results and outperformed their respective benchmarks after deduction of all fees and expenses.  In a challenging economic environment, TCorp's Medium and Long-Term Funds posted positive absolute returns for the year albeit less than their respective benchmarks.
	To outperform neutral benchmarks for discretely managed cash and fixed income asset portfolios.	Discretely managed active fixed interest, inflation linked and floating rate portfolios performed in excess of their individual benchmarks.  Highly liquid portfolios outperformed their benchmarks while still providing at call liquidity and processing significant cash flows.  The passive fixed income asset portfolios also provided strong absolute returns.
	TCorp will be the central provider of funds management services to SAS Trustee Corporation (STC) and Insurance & Care NSW (icare).	TCorp continued to move towards a Target Operating Model for its Investment Management business to provide the benefits of amalgamating the States Funds Management activities within TCorp.  TCorp began generating the benefits of the amalgamation to STC, icare and other government investment clients through external cost savings, operational efficiencies and consolidated investment capabilities.

Objectives	Performance Measures	Results for 2015/16
To be a trusted partner to TCorp's clients.	<p>Service delivery, evidenced through:</p> <ul style="list-style-type: none"> <li>Demonstration of value-add to clients and the State.</li> <li>Maintain and improve client satisfaction as measured by annual client surveys, retention and expansion of the client base.</li> <li>Effective ongoing deal management and administration.</li> </ul>	<p>The 2015/16 client surveys revealed excellent results, confirming TCorp's existing strong reputation and continuation of a high level of client satisfaction with service standards across TCorp's business activities.</p> <p>TCorp successfully delivered the following services to its clients and the State:</p> <ul style="list-style-type: none"> <li>provided advice and supported the leasing of the State's electricity programme, primarily in regards to repayment and/or repositioning of the State's debt;</li> <li>provided its first ever loans to the Local Government sector during the year;</li> <li>assisted regulated utility borrowers to re-structure their borrowings during the year; and</li> <li>provided advisory services to a wide range of public sector clients on financial risk management issues. Client feedback was positive for all advisory services, as indicated in client surveys, repeat business and referrals.</li> </ul>
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.	<p>Management of TCorp's balance sheet and funding task produced strong results. TCorp's pre-tax profit of \$104 million was significantly above budget.</p>



## Review of Operations

TCorp continued to generate excellent outcomes for clients and for the NSW Government in the 2015/16 financial year. TCorp's pre-tax net profit of \$104 million was well above budget though down on the previous year's extraordinary outcome. TCorp continued to support the State's AAA credit rating during the year as well as providing important advice and support on the leasing of the State's electricity assets, primarily in regards to the repayment and repositioning of the State's debt.

TCorp's first full year as the State's Investment Management business began generating the positive benefits of combining the funds management activities of SAS Trustee Corporation (STC) and Insurance & Care NSW (icare) within TCorp. TCorp continues to be one of the largest fund managers in Australia with over \$65 billion of funds under management, bringing together the significant experience and expertise from the three agencies which has provided benefits across a number of fronts.

## Environment

The global economy continued to record sustained but moderate growth in 2015/16. The ongoing recovery in the US enabled the US Federal Reserve to lift interest rates for the first time since the Global Financial Crisis. Other central banks, however, including the Bank of Japan and European Central Bank eased policy further. This included the unusual step of setting negative policy interest rates. These actions resulted in further strong gains in bond prices, although investors were less convinced that it would be effective in supporting growth. As a result, the MSCI World Equity (Hedged) Index fell modestly over the year.

Australian economic growth remained reasonably solid over 2015/16 with support from strong growth in the quantity of exports, as well as rising levels of housing construction. While the Reserve Bank of Australia's (RBA) commodity price index fell by 10% over 2015/16, the low point for commodity prices came in January 2016 with commodity prices rising over the remainder of the financial year. This turnaround in commodity prices also provided some support for the Australian dollar (AUD) which fell by just 2.8% over 2015/16, after several years of steep declines. The NSW economy continued to record brisk growth, with infrastructure spending ramping up and some signs that businesses are beginning to boost investment.

While Australian growth met expectations, inflation proved to be surprisingly weak and it fell below the RBA's 2-3% inflation target band in 2016. This prompted the RBA to reduce interest rates in May 2016, when it cut the cash rate from 2.0% to 1.75%. The combination of RBA rate cuts, negative policy rates overseas and further quantitative easing by overseas central banks resulted in a sharp decline in Australian bond yields. Ten-year bond yields began the year at 3.01% and ended the year at 1.98%. The Australian equity market declined by 3.9% over 2015/16 with many companies reporting a lack of pricing power which has raised concerns about the sustainability of earnings.

## Funding

TCorp's funding programme was relatively modest in 2015/16. This was the result of the NSW Government's strong budget position, proceeds from asset recycling and lower borrowing requirements from public sector agencies.

Notwithstanding this lower funding requirement, TCorp was active in issuing and repositioning debt across domestic and offshore markets during the course of the year. In April 2016, TCorp launched a \$1 billion 2028 Benchmark Bond and remained active in its existing benchmark bonds lines to manage exposures on its balance sheet.





In offshore markets, there was ongoing demand throughout the year for TCorp short term paper through the Euro Commercial Paper programme.

## **Investment Management**

TCorp is a top ten Australian investment manager with more than \$65 billion of funds under management and provides the New South Wales Government family with investment opportunities across a range of assets.

TCorp manages investments for a significant number of New South Wales public sector entities. As a public sector risk manager, TCorp adopts a prudent approach to investment management, in alignment with the risk preferences and interests of its investors. TCorp currently provides its investment management services through its Investment Trusts (Hour-Glass Funds), through customised client investment solutions including cash and fixed income mandates as well as providing attractive returns through a centralised term deposit distribution service.

TCorp provides advice to clients to ensure their investment requirements are matched to the most suitable TCorp products and services. Where appropriate, TCorp constructs individually-tailored solutions to cater for specific investment objectives. A good example of this is the creation and investment design of the State's Infrastructure Future Fund which is expected to be funded in 2017.

In 2016 and in line with the Government's policy, TCorp began generating the benefits of the amalgamation of the State's investment management activities. External cost savings have been achieved and continue to be pursued by TCorp from a variety of sources which reflects the scale and benefits that a centralised investment management service provides. These cost savings directly benefit the State's balance sheet and bottom line.

With the amalgamation of three agencies, a key enabler for achieving further efficient investment and operational outcomes is to have one common custodian across the State's investment funds. Work commenced on the move towards a common custodian across the investment management business and activities to achieve this goal will continue into 2016/17.

Another benefit of the amalgamation has been TCorp's provision of individually tailored investment solutions across the government to cater for specific investment objectives. This includes the creation and investment design of the State's Infrastructure Future Fund which is expected to be funded in 2017.

Refer to pages 23-31 for further information on investment management along with performance and returns.

## **Business Trends and Performance**

TCorp's pre-tax profit of \$104 million was significantly above budget and reflects strong performance across all business areas. The major contributors to this result came from the management of TCorp's balance sheet risks where TCorp has been able to take advantage of market conditions and opportunities to generate outstanding financial returns for the NSW Government. TCorp continued to generate sound results from liquidity management and TCorp's track record of no credit losses or impaired assets during or since the global financial crisis (GFC) remained intact. TCorp's sound liquidity management continues to be a positive contributor to the State's AAA stable credit rating.

Cash and fixed income portfolios managed for clients continue to generate healthy returns and strong benchmark outperformance across all strategies. Outcomes for TCorp Investment Funds provided mixed results, with the Cash and Strategic Cash products producing solid returns and



benchmark outperformance. The Medium and Long Term Growth Funds generated positive returns, albeit below their benchmarks for the year. Both these products continue to provide strong outright returns across the medium to long term horizon.

During the year, TCorp's Risk Advisory and Client Services teams worked on a range of diverse assignments for clients and for NSW Treasury. As part of the Government's "Fit for the Future" policy and following a significant amount of preparation to establish a new lending function, TCorp began offering loans to local councils who met the Government's policy criteria during the year.

## **Operating Framework**

The 2015/16 financial year was another very busy year for TCorp in terms of the evolution of its operating environment. TCorp continued to scope the future needs of its core operating systems architecture and will further progress this important initiative in 2016/17.

Following on from the funds management amalgamation in 2014/15, TCorp's operating environment underwent substantial change as it positioned itself to meet the evolving needs of its clients and stakeholders. TCorp continued to focus on ensuring the appropriate staffing, organisational support, and risk management framework for its Investment Management business.

## **People**

The 2015/16 financial year saw the retirement of TCorp's former Chief Executive, Steven Knight, and the appointment of TCorp's current Chief Executive, David Deverall, who commenced on 8 February 2016. As an experienced Chief Executive, Mr Deverall has led companies in the financial services sector for over 13 years of his successful 27-year career in finance.

The 2014/15 year saw the completion of the amalgamation of the investment management activities for TCorp, icare and STC within TCorp. During 2015/16, the focus shifted to the next phase which involves supporting the new Investment Management structure to achieve its target operating outcomes.

In June 2016, Rob Whitfield was replaced by Philip Chronican as Chairperson of the TCorp Board. Rob, in his capacity as Secretary of NSW Treasury, continues to remain on the TCorp Board as a Deputy Chairperson. An additional Director, Susan Doyle, joined the Board during the year. Ms Doyle brings her investment management expertise and experience to complement TCorp's existing Board Directors.

During the year a review of TCorp's organisational structure was undertaken to effect key action items under TCorp's new strategic direction. The outcome of this review is a new organisational structure aligned to the new strategic direction which is to be implemented in 2016/17.



## Year in Review

- A pre-tax operating profit of \$104 million which was above budget.
- Strong balance sheet with total assets exceeding \$80 billion by year end.
- Top 10 Australian Investment Manager with more than \$65 billion of funds under management/administration at year end.
- Maintained exceptionally strong credit quality evidenced by uninterrupted record of no credit losses or expected write downs since the onset of the GFC.
- Launched a new Benchmark Bond line during the year with a maturity of 2028.
- Supported the leasing of the State's electricity programme, primarily in regards to repayment and/or repositioning of the State's debt.
- First loans made to the Local Government Sector.
- Strong performance in cash and fixed income portfolios managed for clients.
- Returns on TCorp Investment Funds recorded mixed results in both healthy outright returns and 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 release of the NSW Budget. TCorp's strategy of maintaining a strong liquidity position contributed positively to the assessment by ratings agencies.

## Performance Indicators – Five Year Summary

	2016 \$m	2015 \$m	2014 \$m	2013 \$m	2012 \$m
<b>Profitability</b>					
Profit before income tax equivalent expense	104	151	96	127	77
<b>Balance Sheet</b>					
Loans to Public Sector	66,238	66,091	64,520	59,331	58,407
Other Assets	14,080	11,947	13,664	13,406	11,847
<b>Total Assets</b>	<b>80,318</b>	<b>78,038</b>	<b>78,184</b>	<b>72,737</b>	<b>70,254</b>
Domestic Benchmark Bonds	51,671	55,203	56,264	53,561	49,623
Global Exchangeable Bonds	483	581	1,268	1,527	2,136
Due to Government Clients	4,939	307	601	220	748
Other Borrowings and Liabilities	23,006	21,780	19,910	17,297	17,643
<b>Total Liabilities</b>	<b>80,099</b>	<b>77,871</b>	<b>78,043</b>	<b>72,605</b>	<b>70,150</b>
<b>Difference Represented by Equity</b>	<b>219</b>	<b>167</b>	<b>141</b>	<b>132</b>	<b>104</b>
<b>Funds Management and Administration for State Authorities</b>					
Funds Under Management					
- Investment Funds <sup>1</sup>	14,826	13,811	13,304	12,862	11,951
- Specific Fund Mandates <sup>1</sup>	9,660	13,191	7,166	4,061	6,597
Funds Under Administration <sup>1</sup>	41,483 <sup>2</sup>	43,769 <sup>2</sup>	-	-	-
<b>Liability Portfolio Management for State Authorities</b>					
Liability Portfolio Management <sup>1</sup>	33,716	32,970	33,751 <sup>3</sup>	45,389	45,519

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

<sup>2</sup> Funds under administration represents the amalgamation of the investment management activities of Insurance & Care NSW (icare) and SAS Trustee Corporation (STC).

<sup>3</sup> Two portfolios under management became advisory portfolios during the year.



## **Nature and Range of Activities and Significant Operations**

### **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.

During the 2015/16 financial year, TCorp bonds continued to be sought after by domestic and global investors. Low inflation across a number of major economies meant global yields continued to be sought throughout the year. The RBA eased monetary policy once during the year, taking cash rates from 2.0% to 1.75%. TCorp 10 year bond rates fell from 3.25% to 2.24% over the year.

The strong budgetary position of NSW and asset leases saw further confidence in the State's AAA credit rating. TCorp bonds finished the year at the tightest levels to Australian Government Bonds in almost a decade with the 10 year TCorp bond closing at 22 basis points over the equivalent government bond.

### **Benchmark Bond Issuance**

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

Activity in benchmark bonds was strongly influenced by the asset recycling programme underway in NSW. The long term lease of TransGrid saw \$2.8 billion in loans retired from TCorp's balance sheet. The demand for longer dated issuance increased over the year as clients extended their duration.

TCorp issued one new Benchmark Bond in 2015/16. In April 2016, a new \$1 billion March 2028 fixed rate bond was issued, extending the nominal curve beyond ten years.

Risk exposures on the balance sheet was managed via TCorp's market activities in its benchmark bond lines.

### **Offshore Issuance**

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

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 last financial year, the costs related to offshore issuance increased, inhibiting new issuance opportunities. TCorp will however continue to pursue cost effective funding in offshore markets.

There was ongoing demand throughout the year for TCorp short term paper through the Euro Commercial Paper programme.

### **Waratah Bond Issuance**

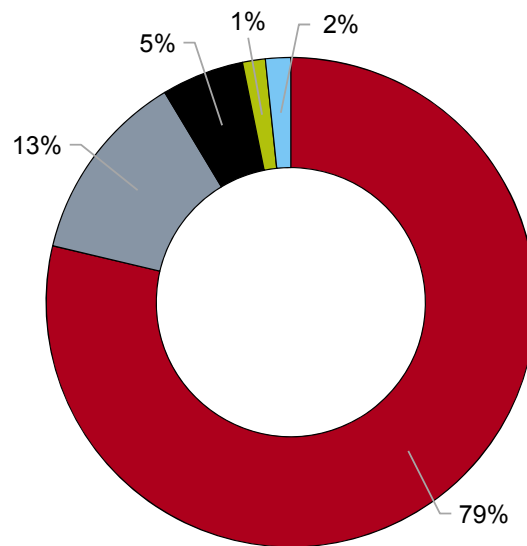
The Waratah Bond Programme generated inflows of \$110 million during the 2015/16 financial year. Investments from Significant Investor Visa applicants made up the bulk of inflows, although



regulatory changes in relation to requirements for complying investments saw a decline in flow during the year. The total Waratah Bonds outstanding at June 30 2016 amounted to \$908 million.

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

### Composition of Borrowings 30 June 2016 (Market Value)



■ Domestic Benchmark Bonds \$52.1bn	■ Capital Indexed Bonds \$8.4bn
■ Floating Rate Notes \$3.6bn	■ Waratah Bonds and other \$1.0bn
■ Offshore \$1.1bn	

## Funding Facilities

Coupon (%)	Maturity	Market Value \$m	Panel Members
<b>Domestic Benchmark Bond Programme</b>			
4.00	20-Feb-17	3,737	Australia and New Zealand Banking Group Ltd
5.50	1-Mar-17	719	BNP Paribas, Sydney Branch
6.00	1-Feb-18	5,103	Citigroup Global Markets Australia Pty Ltd
3.50	20-Mar-19	4,871	Commonwealth Bank of Australia
6.00	1-Apr-19	610	Deutsche Bank AG, Sydney Branch
6.00	1-May-20	7,244	J.P. Morgan Australia Ltd
6.00	1-Jun-20	119	Merrill Lynch International (Australia) Ltd
4.00	8-Apr-21	3,833	National Australia Bank Ltd
6.00	1-Mar-22	7,200	Nomura International plc
4.00	20-Apr-23	4,822	Royal Bank of Canada
6.00	1-May-23	1,293	The Hong Kong and Shanghai Banking Corporation Ltd
5.00	20-Aug-24	7,806	The Toronto-Dominion Bank, London Branch
4.00	20-May-26	2,142	UBS AG, Australia Branch
3.00	20-Mar-28	1,656	Westpac Banking Corporation
6.00	1-May-30	514	Australia and New Zealand Banking Group Ltd
<b>Global Exchangeable Bond Programme</b>			
5.50	1-Mar-17	411	
6.00	1-Apr-19	72	
<b>Capital Indexed Bonds</b>			
3.75	20-Nov-20	2,402	Australia and New Zealand Banking Group Ltd
2.75	20-Nov-25	4,416	Citigroup Global Markets Australia Pty Ltd
2.50	20-Nov-35	1,590	Commonwealth Bank of Australia
			Deutsche Bank AG, Sydney Branch
			J.P. Morgan Australia Ltd
			Merrill Lynch International (Australia) Ltd
			Nomura International plc
			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	1,106	Daiwa Capital Markets Europe Ltd
		Deutsche Bank AG, London Branch
		J.P. Morgan Securities Ltd
		Merrill Lynch International
		Mitsubishi UFJ Securities International plc
		National Australia Bank Ltd
		Nomura International plc
		Royal Bank of Canada Europe Ltd
		The Toronto-Dominion Bank
		The Royal Bank of Scotland plc
		UBS Ltd
<b>Euro Commercial Paper Programme</b>		Banc of America Merrill Lynch International Ltd
		Barclays Bank plc
Total outstanding	220	Citibank International plc
		Commonwealth Bank of Australia
		Deutsche Bank AG, London Branch
		The Hong Kong and Shanghai Banking Corporation Ltd
		National Australia Bank Ltd
		Nomura International plc
		RBC Europe Ltd
		The Royal Bank of Scotland plc
		UBS Limited
		Westpac Banking Corporation
<b>Domestic promissory notes</b>	7,270	
<b>Domestic cash market raisings (including client deposits)</b>	5,465	
<b>Floating rate notes</b>	3,576	
<b>Miscellaneous funding through non-programme bond issuance structured financing and other term borrowings</b>	1,008	
<i>Refer Notes 11, 12 and 13 of the audited financial statements</i>		
<b>Total</b>	<b>79,205</b>	





## 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 water, electricity and transport sectors. The aggregate market value of loans to clients was \$66.2 billion at 30 June 2016 (\$66.1 billion at 30 June 2015).

During the year, outstanding loans to clients were impacted by TransGrid's repayment of its debt portfolio following the completion of the lease transaction with the private sector. This lease transaction enabled \$2.8 billion of loans to be repaid. The impact of the decline in client loans was offset by new borrowings by regulated electricity, water PTEs and the transport sector. The requirement of the PTE sector for new capital expenditure remained at relatively low levels compared with previous years.

## A Variety of Loan Products for Clients

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

- The Come-and-Go facility allows clients to draw down or repay funds on the same day as notice is given enabling them to rely on TCorp for short term liquidity rather than hold substantial investments for liquidity purposes with associated credit and market risks.
- Floating rate loans with interest rates periodically adjusted in line with market rates on bank bills, with a fixed maturity date.
- 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.
- 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 where a fixed amount is repaid on maturity and the coupon paid reflects a fixed real rate adjusted for the impact of CPI.

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 or an agreed transparent market benchmark yield curve in the Australian debt capital markets. A small margin which represents TCorp's administration costs is added to the loan interest rate.

TCorp's largest borrowers at 30 June 2016 were Crown Entity (\$31.7 billion), the electricity sector (\$20.7 billion) and the water sector (\$9.5 billion).

## Loans Outstanding to Authorities

As at June 2016	Market Value \$m
<b>NSW Authorities</b>	
Ausgrid	10,355.9
Barangaroo Delivery Authority	521.6
Central Coast Regional Development Corporation	0.9
Corporation Sole, Minister Administering the Environmental Planning and Assessment Act, 1979	239.5
Crown Finance Entity	31,703.5
Endeavour Energy	4,616.2
Essential Energy	5,743.9
Forestry Corporation of NSW	72.4
Hunter Water Corporation	1,207.2
NSW Department of Planning & Environment	21.4
NSW Land and Housing Corporation	174.1
Port Authority of NSW	2.0
Rail Corporation NSW	2,490.5
State Transit Authority of NSW	232.0
Sydney Cricket & Sports Ground Trust	86.8
Sydney Water Corporation	7,548.6
Taronga Conservation Society Australia	17.4
Transport for NSW	399.5
Water NSW	704.9
<b>Total NSW Authorities</b>	<b>66,138.3</b>
<b>Other entities guaranteed by NSW Government</b>	
Local Government	58.8
University of Technology, Sydney	40.9
<b>Total loans outstanding to Authorities<sup>1</sup></b>	<b>66,238.0</b>

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



## 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 number of clients to manage their debt portfolios. Under these arrangements TCorp works with each client to establish a debt benchmark, then manages the debt portfolio in line with the benchmark with the objective of minimising costs. This objective is managed alongside ensuring that the funding needs of clients are met on a timely basis.

At 30 June 2016, TCorp managed 12 clients' debt portfolios totalling \$34 billion. These include:

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

TCorp is a debt advisor in the regulated electricity utility sector. For these clients TCorp provides advice on liability management strategies, debt benchmarks and market execution strategies however the client is responsible for managing execution. The total value of advisory client portfolios at 30 June 2016 was \$21 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.

### • Liability Risk Management

A large proportion of TCorp's loans are to regulated utilities. In this sector, the rate of return on capital employed is determined by a regulator. As part of this process, the regulator benchmarks the cost of debt by referencing market estimates for the risk free interest rate and credit spreads. Following a period of extensive consultation, regulators in the electricity and water sectors changed the way in which the cost of debt is confirmed. This was an important consideration for clients in the water sector as the Independent Pricing & Regulatory Tribunal (IPART) undertook a review of revenues over the year. TCorp worked with water sector clients to assist them with the orderly transition to the new methodology used to determine how the cost of debt is benchmarked.

### • Resettable Interest Rate Loans

In the previous financial year TCorp developed a new loan product to assist borrowers in the regulated utility sector with managing their risk more effectively. The new loan product has an interest expense which can be set at the same time the regulator re-sets the cost of the debt benchmark used to establish the revenues that the utility can charge its customers. This loan type enables regulated utility clients to better manage the risk that actual interest expense is not in line with the level of cost recovery allowed by the regulator. A water sector utility client accessed this loan product to assist with managing the risk associated with the regulatory revenue review over the year.



- **Risk Reporting**

TCorp has continued to develop performance reporting metrics to provide greater transparency and information to clients of the risks within their debt portfolios. Recent improvements in the systems used to forecast debt interest expense for large clients has resulted in a significant improvement in the time taken to provide forecasts to clients.

## **Debt Management Strategies and Outcomes**

Over the year interest rates continued in a range well below long term averages, with the TCorp 10 year bond reaching a historic low of 2.24% at June 30. The strong rally in interest rates over the second half of the financial year enabled clients undertaking new infrastructure investment to lock-in the cost of new debt and refinancing at very attractive levels. Clients have also continued to benefit from the impact of further contraction in the TCorp to Commonwealth Bond interest rate spread. This spread has now contracted toward historic lows of around 20 basis points.

Lengthening the debt maturity profiles of clients also delivers the benefit of minimising the State's refinancing risk. This strategy has been noted as being very supportive of the State's AAA credit rating.

## **Currency Overlay Management and Outcomes**

Since 2007, TCorp has provided currency management services for the TCorp Investment Funds.

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

## **Risk Advisory Services**

TCorp provides advisory services to a wide range of public sector clients on financial risk management issues. TCorp's advisory team has a broad range of skills and commercial experience with public and private sector transactions. The expertise in the team also includes highly developed quantitative and financial modelling skills. Over the year the team provided advice on a wide variety of assignments including:

- Advice to regulated utility clients as they responded to public enquires undertaken by regulators into the debt benchmarks used within the Weighted Average Cost of Capital to assess the rate of return on capital employed;
- Advice to clients and NSW Treasury on a broad range of policy issues relating to capital structure, credit metrics and financial risk management issues;
- Advice on strategies to restructure the client debt portfolios of a range of State owned enterprises to improve their standalone credit ratings;
- Assistance to Transport for NSW and NSW Treasury in financial markets related aspects on the Sydney Light Rail PPP contract;
- Advice to a large water sector client on the restructure of their debt portfolio to improve credit metrics;
- Advice to WestConnex on interest rate and foreign currency risk hedging;
- Working with Sydney Trains in relation to foreign exchange risk exposure in a large infrastructure contract;



- Ongoing commercial advice and policy input in relation to managed services contracts within the Department of Finance, Services & Innovation;
- Support to NSW Treasury's Infrastructure Finance Unit on a variety of matters from existing infrastructure projects to new initiatives;
- 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; and
- Management of the termination of various cross-border leases.

### **Local Government Services**

Continuing on from the substantial work undertaken in the Local Government sector over the three previous years and following on from a decision by the Government that TCorp provide lending and financial advisory services to the local government sector, TCorp established a separate business unit to commence lending to councils. TCorp's lending activities is limited to councils that have been formally deemed by the Government as "Fit for the Future". TCorp's participation in the sector has led to increased competition which has resulted in direct benefits for councils when borrowing and investing.

Major achievements in this sector over the year were:

- TCorp approved fourteen loan applications to councils totalling \$81 million. At June 2016 the total loan drawdowns by twelve councils totalled \$57.6 million;
- TCorp held meetings with 96 councils to inform them of TCorp's initiatives and services offered to this sector. This resulted in increased client activity from clients, particularly in TCorp's Investment Fund products;
- TCorp assisted NSW Treasury and the Office of Local Government in policy development initiatives;
- TCorp attended and presented at a number of conferences and meetings to expand awareness of TCorp's work and more generally promoted TCorp to the local government sector;
- TCorp provided advice to councils on treasury and investment management policies; and
- TCorp conducted a number of updated financial sustainability assessments at the request of individual councils.

### **Service Delivery**

TCorp is an integrated financial services provider that delivers 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 following a change to the methodology used by utility regulators to establish the cost of debt. TCorp's core lending business



for the Government and agencies continued to grow over the year, although the level of increase was lower than that of recent years.

TCorp and its products and services again achieved high results in the annual client satisfaction surveys. 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 the Premier's Memoranda and Treasurer's Directions.



## **Investment Management**

TCorp is a top ten Australian investment manager with more than \$65 billion of funds under management and provides the New South Wales Government family with investment opportunities across a range of assets.

TCorp manages investments for a significant number of New South Wales public sector entities. As a public sector risk manager, TCorp adopts a prudent approach to investment management, in alignment with the risk preferences and interests of its investors. TCorp currently provides its investment management services through its Investment Funds (Hour-Glass Funds), through customised client investment solutions including cash and fixed income mandates as well as providing attractive returns through a centralised term deposit distribution service.

TCorp provides advice to clients to ensure their investment requirements are matched to the most suitable TCorp products and services. Where appropriate, TCorp constructs individually-tailored solutions to cater for specific investment objectives. A good example of this is the creation and investment design of the State's Infrastructure Future Fund which is expected to be funded in 2017.

During 2015/16, the focus for TCorp has shifted to the next phase of supporting the new Investment Management business to achieve its target operating outcomes.

Consistent with the Government's policy, the amalgamation of the State's investment management activities at TCorp began generating benefits in 2016. Cost savings have been achieved and continue to be pursued by TCorp from a variety of sources which reflects the scale and benefits a centralised investment management service can provide. These cost savings provide a direct benefit to the State's bottom line.

Work continues in relation to the move towards a common custodian across the investment management business. With the amalgamation of three agencies, a key enabler to achieve further efficient investment and operational outcomes is to have one common custodian across the State's investment funds. It is expected that the implementation of one custodian will begin in the second half of 2016/17.

### **TCorp Investment Funds (including Hour-Glass Funds)**

The TCorp Investment Funds are a series of comingled managed fund investment products designed to cater for the investment needs of a broad range of NSW public entities. Investors in the TCorp Investment Funds include State Government departments, agencies, PTEs, State owned corporations, local government councils and public bodies, such as not-for-profit organisations. TCorp utilises its investment expertise to deliver significant benefits to TCorp Investment Fund clients, including economies of scale and robust risk management.

Funds under management within the TCorp Investment Funds grew over the financial year from \$13.8 billion at 30 June 2015 to \$14.8 billion at 30 June 2016. The financial year saw significant volatility in financial markets. While many major equity markets experienced a negative return, the diversified nature of the TCorp Investment Funds meant that all Funds produced a positive return for the year. Although the returns were subdued for those Funds that have exposure to equity markets.

The Hour-Glass Cash Fund and Hour-Glass Strategic Cash Fund outperformed their benchmarks over the financial year (net of fees and expenses). The Hour-Glass Medium Term Growth Fund and Hour-Glass Long Term Growth Fund experienced a moderate level of underperformance in the volatile market environment.

Hour-Glass Fund	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 Fund	2.48	0.24	2.71	0.20	3.34	0.24	3.79	0.31
Strategic Cash Fund	2.57	0.33	2.89	0.38	3.57	0.47	4.00	0.52
Medium Term Growth Fund	2.22	(0.79)	5.72	(0.23)	6.41	0.00	6.84	0.06
Long Term Growth Fund	0.57	(1.50)	8.75	(0.54)	9.01	(0.29)	9.26	(0.14)

## Environment

The global economy continued to record sustained but moderate growth in 2015/16. The ongoing recovery in the US enabled the US Federal Reserve to lift interest rates for the first time since the GFC. Other central banks, however, including the Bank of Japan and the European Central Bank eased policy further. This included the unusual step of setting negative policy interest rates. These actions resulted in further strong gains in bond prices, although investors were less convinced that it would be effective in supporting growth. As a result, the MSCI World Equity (Hedged) Index fell modestly over the year.

Australian economic growth remained reasonably solid over 2015/16 with support from strong growth in the quantity of exports as well as rising levels of housing construction. While the Reserve Bank of Australia's (RBA) commodity price index fell by 10% over 2015/16, the low point for commodity prices came in January 2016, with commodity prices rising over the remainder of the financial year. This turnaround in commodity prices also provided some support for the Australian dollar (AUD) which fell by just 2.8% over 2015/16, after several years of steep declines. The NSW economy continued to record brisk growth, with infrastructure spending ramping up and some signs that businesses are beginning to boost investment.

While Australian growth met expectations, underlying inflation proved to be surprisingly weak as it fell below the RBA's 2-3% inflation target band in 2016. This prompted the RBA to reduce interest rates in May 2016, when it cut the cash rate from 2.0% to 1.75%. The combination of RBA rate cuts, negative policy rates overseas and further quantitative easing by overseas central banks resulted in a sharp decline in Australian bond yields. Ten-year bond yields began the year at 3.01% and ended the year at 1.98%. The Australian equity market declined by 3.9% over 2015/16 with many companies reporting a lack of pricing power which has raised concerns about the sustainability of earnings.

## Economic Overview

Global economic growth remained around 3% over 2015/16, around the same pace as the previous year. While this pace of growth is reasonable, what is disappointing both policymakers and investors is the lack of any positive momentum. For example, a year ago the International Monetary Fund (IMF) had expected the global economy would grow by 3.8% in 2016, while its latest forecast is for growth of just 3.1%.

But while overall growth remains lacklustre, what has changed is the composition of that growth. Over 2015/16, it has been the advanced economies that have disappointed while the emerging market economies appear to have stabilised after a period of weakness. In the US, economic activity was hindered by a stronger US\$ and a decline in the energy sector. Despite those factors,



the US labour market has been resilient and this suggests that growth should improve in the year ahead. Japanese growth has also disappointed, while the Eurozone has performed adequately supported by extraordinary policy measures undertaken by the European Central Bank. The decision of United Kingdom voters to exit the European Union has cast considerable uncertainty over its economic outlook, but occurred too late to affect activity in 2015/16. But while this has affected confidence, so far, however, the effects appear to be largely confined to the UK itself.

The outlook for the Chinese economy was firmly in the spotlight in the first half of 2015/16, as Chinese policymakers experimented with a weaker currency and the Chinese equity market continued to suffer sharp declines. Extensive policy stimulus in early 2016 resulted in growth stabilising and most analysts now seem more relaxed about the short-term outlook for Chinese growth. Emerging market growth has also been supported by improving outlooks for Brazil and Russia as they recover from severe recessions.

Despite firmer commodity prices, mining investment continues to remain a major drag on Australian growth as a number of very large projects reach completion. On the upside, however, is that growth has been supported by a surge in exports as the newly constructed facilities ramp up production. The other major support for the Australian economy has been strong housing construction, particularly in NSW and Victoria. And while building approvals now appear to have peaked, there should be sufficient work in the construction pipeline to sustain activity at a high level for the next year at least.

### **Financial Market Overview**

In AUD terms, the MSCI World International Shares Index fell by 1.4%. This relatively flat performance, however, masks considerable volatility over the year, with the index initially rising by as much as 7.6% up until November 2015 and then falling sharply to be as much as 8% below its starting point in February 2016. Another wave of global policy stimulus then resulted in the index recovering much of those losses by June.

The US S&P500 equity index increased by 1.7% over 2015/16. While there were periodic fears about the impact of a stronger US\$, weaker global growth or Fed rate hikes on US corporate earnings, the persistence of accommodative monetary policy settings as well as more resilient-than-expected earnings growth were sufficient to ensure that US stock prices ended the year slightly higher.

In a reversal of the performance of the previous year, the European and Japanese markets lagged their US counterpart and recorded substantial losses. The European market fell by 14.4%, caused in part by sharp declines in some banking stocks. The Japanese market was undermined by a resurgent Japanese Yen which increased by 15.8% over 2015/16 and resulted in Japanese stock prices dropping by 23%.

The Australian equity market fell by around 4% over 2015/16. This reflected declines in the price of bank stocks, while resource companies were also lower than a year ago, albeit well above their recent lows. Real estate investment trusts were the star performer of the Australian market, rising by nearly 19% as they benefited from lower bond yields.

As discussed earlier, Australian bond yields fell sharply over 2015/16. The same factors that have driven global yields lower in recent years – lower policy interest rates and quantitative easing by central banks – continued to be a major theme in 2015/16. For Australia, however, yields were also driven lower by surprisingly weak domestic inflation outcomes as well as falling inflation expectations.



## Cash and Fixed Income

TCorp contributes to improved financial outcomes for clients through management of cash and bond portfolios. This includes managing the Hour-Glass Liquidity Cash Fund, Hour-Glass Strategic Cash Fund and Hour-Glass Australian Bond Fund. In executing this role directly for clients and the Hour-Glass Funds, 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 STC and Workers Compensation 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 were \$12.3 billion as at 30 June 2016, including \$2.7 billion managed for the Hour-Glass Liquidity Cash Fund, Hour-Glass Strategic Cash Fund and Hour-Glass Australian Bond Fund.

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 requirements of the Commonwealth and State Governments and the corporate sector during 2016 has supported opportunities for TCorp's investment style and enhanced the risk and return profile of TCorp's internally managed fixed income portfolios.

Over the financial year investment returns were strong with the performance of most managed portfolios ahead of their respective benchmarks.



## Discrete Cash & Fixed Income Portfolios

Manager: TCorp

Statistics	2016 Return % pa	2016 Benchmark Return % pa	2016 Total FUM <sup>4</sup> \$m	2015 Return % pa	2015 Benchmark Return % pa	2015 Total FUM <sup>4</sup> \$m
Hour-Glass Liquidity Cash Fund <sup>1</sup>	2.50	2.24	975	2.71	2.60	1,169
NSW Fair Trading <sup>2</sup>	4.45	4.45	1,376	4.95	4.95	1,293
Financial Counselling Trust <sup>2</sup>	1.99	1.99	6	8.75	8.75	8
Hour-Glass Strategic Cash Fund <sup>1</sup>	2.66	2.24	1,255	2.94	2.60	1,179
Lifetime Care and Support Fund-Cash <sup>3</sup>	-	-	-	0.09	0.09	-
Lifetime Care and Support Fund-Bond <sup>1</sup>	5.84	5.61	870	8.10	8.01	941
Lifetime Care and Support Fund-Fixed Interest <sup>1</sup>	7.99	7.88	433	5.82	5.80	406
Hour-Glass Australian Bond Fund <sup>1</sup>	7.44	7.27	443	5.69	5.66	415
SAS Trustee Corporation <sup>1</sup>	(0.28)	6.11 <sup>10</sup>	206	3.26	6.29 <sup>10</sup>	206
Workers Compensation Nominal Insurer Index Bond <sup>1</sup>	4.39	4.27	1,362	5.80	5.50	1,316
Workers Compensation Nominal Insurer Nominal Bond <sup>1</sup>	10.11	9.98	2,391	5.75	5.80	1,072
Workers Compensation Nominal Insurer Passive AFI <sup>1</sup>	13.68	13.68	1,144	5.76	5.73	2,140
Workers Compensation Nominal Insurers Transition	-	-	1,301	-	-	-
Insurer's Guarantee Fund AFI <sup>1&amp;5</sup>	9.87	9.99	98	(3.27)	(3.30)	91
Workers Compensation Insurance Fund Tail Risk Hedging Portfolio	-	-	18	-	-	63
Dust Diseases Board Tail Risk Hedging Portfolio <sup>6</sup>	-	-	2	-	-	8
Lifetime Care and Support Tail Risk Hedging Portfolio <sup>7</sup>	-	-	8	-	-	23
Inflation Linked Bond – Dust Diseases Board <sup>1</sup>	4.91	4.51	287	6.68	6.44	267
Nominal Bond – Dust Diseases Board <sup>1&amp;8</sup>	12.25	11.94	158	(3.14)	(3.05)	150
Treasury Surplus Working Fund <sup>1&amp;9</sup>	-	-	-	0.31	0.28	5,206
<b>Total Funds as at June</b>			<b>12,333</b>			<b>15,953</b>

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

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

<sup>3</sup> Lifetime Care and Support Fund – Cash was closed in 2015.

<sup>4</sup> Funds under management.

<sup>5</sup> Insurer's Guarantee Fund AFI opened on 22 January 2015.

<sup>6</sup> Dust Diseases Board Tail Risk Hedging Portfolio opened on 3 July 2014.

<sup>7</sup> Lifetime Care and Support Tail Risk Hedging Portfolio opened on 2 July 2014.

<sup>8</sup> Dust Diseases Board Nominal Bond opened on 6 February 2015.

<sup>9</sup> Treasury Surplus Working Fund opened on 8 May 2015 and closed on 1 February 2016.

<sup>10</sup> Book value benchmark calculated as 4.50% + CPI target (i.e. not market valued).



## Authority Deposits

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

Statistics	2016 \$m	2015 \$m	2014 \$m	2013 \$m	2012 \$m
Average annual volume on deposit	4,176	698	626	251	226

## Investment Management Performance

TCorp Investment - Asset Class Funds	Managers
Liquidity Cash Fund	Macquarie Investment Management Ltd New South Wales Treasury Corporation
Strategic Cash Fund	New South Wales Treasury Corporation
Australian Bond Fund	New South Wales Treasury Corporation
Australian Share Fund	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 Share Fund	Colonial First State Global Asset Management
International Share (Unhedged) Fund	Dimensional Fund Advisors Australia Ltd Panagora Asset Management Schroder Investment Management Ltd
Indexed International Share (Unhedged) Fund	State Street Global Advisors (Aust) Ltd
Emerging Market Share Fund	MFS Investment Management Northcape Capital Global EM Schroder Investment Management Ltd Investec Asset Management
Listed Property Fund	Vanguard Investments Australia Ltd
Unlisted Property Fund	AMP Capital Investors Ltd Dexus Property Group Investa
Unlisted Infrastructure Fund	IFM Infrastructure Hastings
Multi-Asset Class Fund	PineBridge Investments Fulcrum Asset Management LLP Pyrford International
TCorp Specialist Emerging Market Share Fund	Robeco
TCorp Direct Infrastructure Fund A	Hermes GPE
International Share (Hedged) Fund	New South Wales Treasury Corporation



## Strategic Asset Allocation

TCorp Investment Funds	Hour-Glass Cash Fund %	Hour-Glass Strategic Cash Fund %	Hour-Glass Medium Term Growth Fund %	Hour-Glass Long Term Growth Fund %
Liquidity Cash Fund	80.00	-	18.00	3.00
Strategic Cash Fund	20.00	100.00	32.00	14.00
Australian Bond Fund	-	-	15.00	7.00
Indexed Australian Share Fund	-	-	2.50	5.50
Australian Share Fund	-	-	7.50	19.50
Indexed International Share (Unhedged) Fund	-	-	3.50	8.25
International Share (Unhedged) Fund	-	-	8.00	21.75
International Share (Hedged) Fund	-	-	2.00	3.00
Emerging Market Share Fund	-	-	2.50	5.00
Listed Property Fund	-	-	2.00	3.00
Multi-Asset Class Fund	-	-	7.00	10.00
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

## TCorp Investment - Core Funds

Statistics	2016	2015	2014	2013	2012
Hour-Glass Cash Fund Return (% p.a.)	2.48	2.73	2.92	3.69	4.90
Benchmark Index Return (% p.a.)	2.24	2.60	2.68	3.28	4.70
<b>Total FUM as at 30 June (\$m)</b>	<b>1,491</b>	<b>1,710</b>	<b>2,120</b>	<b>3,023</b>	<b>4,113</b>
Hour-Glass Strategic Cash Fund Return (% p.a.)	2.57	2.88	3.23	4.16	5.02
Benchmark Index Return (% p.a.)	2.24	2.60	2.68	3.28	4.70
<b>Total FUM as at 30 June (\$m)</b>	<b>1,255</b>	<b>1,179</b>	<b>1,482</b>	<b>2,166</b>	<b>1,955</b>
Hour-Glass Medium Term Growth Fund Return (% p.a.)	2.22	7.37	7.65	10.74	4.28
Benchmark Index Return (% p.a.)	3.01	7.32	7.58	9.56	4.69
<b>Total FUM as at 30 June (\$m)</b>	<b>151</b>	<b>130</b>	<b>107</b>	<b>194</b>	<b>183</b>
Hour-Glass Long Term Growth Fund Return (% p.a.)	0.57	12.68	13.49	20.55	(0.73)
Benchmark Index Return (% p.a.)	2.07	12.62	13.57	18.79	0.61
<b>Total FUM as at 30 June (\$m)</b>	<b>820</b>	<b>784</b>	<b>662</b>	<b>1,300</b>	<b>1,142</b>



## TCorp Investment - Asset Class Funds

Statistics	2016	2015	2014	2013	2012
Hour-Glass Liquidity Cash Fund Return (% p.a.)	2.44	2.69	2.79	3.54	4.85
Benchmark Index Return (% p.a.)	2.24	2.60	2.68	3.28	4.70
<b>Total FUM as at 30 June (\$m)</b>	<b>1,376</b>	<b>1,856</b>	<b>2,084</b>	<b>2,238</b>	<b>2,993</b>
Hour-Glass Australian Bond Fund Return (% p.a.)	7.26	5.58	6.27	2.88	12.54
Benchmark Index Return (% p.a.)	7.27	5.66	5.99	2.22	12.89
<b>Total FUM as at 30 June (\$m)</b>	<b>443</b>	<b>415</b>	<b>508</b>	<b>365</b>	<b>612</b>
Hour-Glass Australian Share Fund Return (% p.a.)	(0.59)	6.54	18.39	25.08	(7.88)
Benchmark Index Return (% p.a.)	0.87	5.61	17.25	21.90	(7.01)
<b>Total FUM as at 30 June (\$m)</b>	<b>3,217</b>	<b>3,157</b>	<b>2,998</b>	<b>3,135</b>	<b>2,652</b>
Hour-Glass Indexed Australian Share Fund Return (% p.a.)	0.52	5.64	17.34	22.49	(6.78)
Benchmark Index Return (% p.a.)	0.56	5.68	17.43	22.75	(6.71)
<b>Total FUM as at 30 June (\$m)</b>	<b>306</b>	<b>306</b>	<b>381</b>	<b>435</b>	<b>634</b>
Hour-Glass International Share (Unhedged) Fund Return (% p.a.)	(0.34)	23.55	20.74	34.80	(4.75)
Benchmark Index Return (% p.a.)	(0.08)	25.12	20.54	33.30	(0.50)
<b>Total FUM as at 30 June (\$m)</b>	<b>3,309</b>	<b>3,096</b>	<b>2,952</b>	<b>2,362</b>	<b>1,384</b>
Hour-Glass Indexed International Share (Unhedged) Fund Return (% p.a.)	0.08	25.20	20.59	33.40	(0.36)
Benchmark Index Return (% p.a.)	(0.08)	25.12	20.54	33.30	(0.50)
<b>Total FUM as at 30 June (\$m)</b>	<b>480</b>	<b>482</b>	<b>391</b>	<b>417</b>	<b>421</b>
Hour-Glass International Share (Hedged) Fund Return (% p.a.) <sup>1</sup>	(2.81)	0.01	-	-	-
Benchmark Index Return (% p.a.)	(1.96)	(0.09)	-	-	-
<b>Total FUM as at 30 June (\$m)</b>	<b>551</b>	<b>580</b>	<b>-</b>	<b>-</b>	<b>-</b>
Hour-Glass Emerging Market Share Fund Return (% p.a.) <sup>2</sup>	(5.09)	15.59	5.85	18.93	(9.31)
Benchmark Index Return (% p.a.)	(9.45)	16.54	10.91	15.21	(12.22)
<b>Total FUM as at 30 June (\$m)</b>	<b>826</b>	<b>908</b>	<b>803</b>	<b>683</b>	<b>469</b>
Hour-Glass Listed Property Fund Return (% p.a.)	18.64	16.19	10.01	17.01	9.83
Benchmark Index Return (% p.a.)	18.66	15.93	12.78	20.16	7.62
<b>Total FUM as at 30 June (\$m)</b>	<b>279</b>	<b>250</b>	<b>233</b>	<b>205</b>	<b>204</b>
Hour-Glass Unlisted Property Fund Return (% p.a.) <sup>3</sup>	14.75	9.46	8.63	7.50	8.05
Benchmark Index Return (% p.a.)	12.67	9.98	8.74	8.33	8.73
<b>Total FUM as at 30 June (\$m)</b>	<b>1,317</b>	<b>1,116</b>	<b>910</b>	<b>751</b>	<b>639</b>

Statistics	2016	2015	2014	2013	2012
Hour-Glass Unlisted Infrastructure Fund Return (% pa) <sup>4</sup>	16.60	5.62	12.49	2.23	-
Benchmark Index Return (% pa)	8.02	8.00	8.00	0.95	-
<b>Total FUM as at 30 June (\$m)</b>	<b>527</b>	<b>295</b>	<b>228</b>	<b>123</b>	-
Hour-Glass Multi-Asset Class Fund Return (% pa) <sup>5</sup>	(5.69)	8.81	0.11	-	-
Benchmark Index Return (% pa)	5.07	7.81	0.74	-	-
<b>Total FUM as at 30 June (\$m)</b>	<b>952</b>	<b>859</b>	<b>340</b>	-	-
TCorp Direct Infrastructure Fund A (% pa) <sup>6</sup>	12.11	-	-	-	-
Benchmark Index Return (% pa)	-	-	-	-	-
<b>Total FUM as at 30 June (\$m)</b>	<b>169</b>	-	-	-	-
TCorp Specialist Emerging Market Share Fund (% pa) <sup>7</sup>	3.34				
Benchmark Index Return (% pa)	3.12				
<b>Total FUM as at 30 June (\$m)</b>	<b>463</b>				

1 For period since inception (31 March 2015), not annualised

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

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

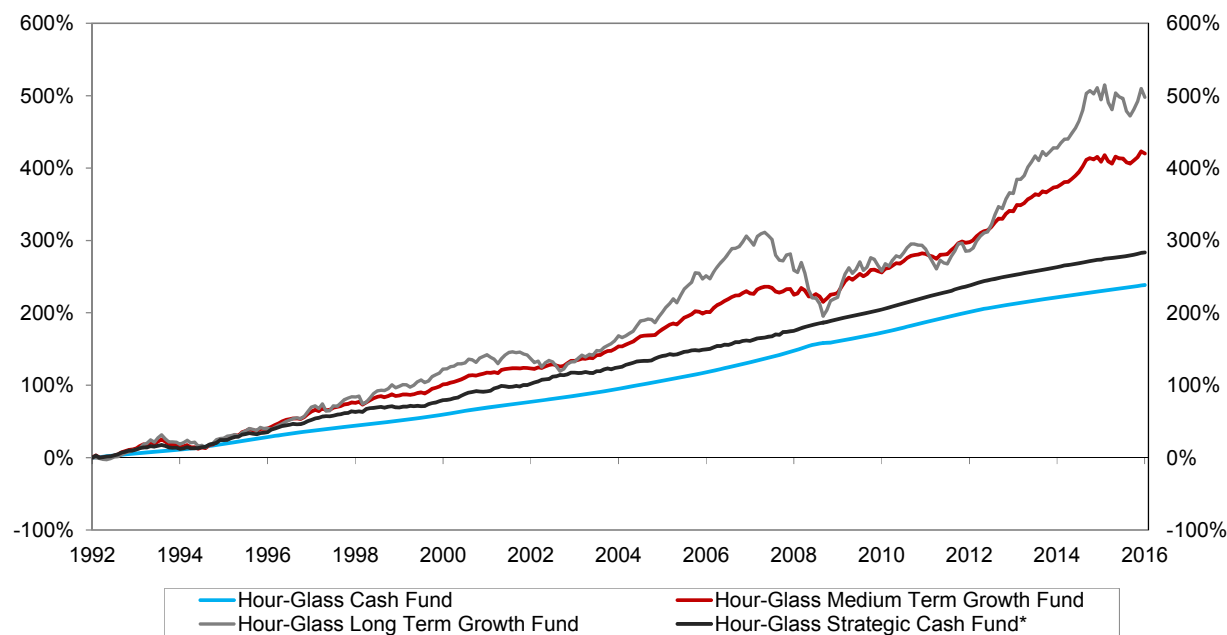
4 For period since inception (19 May 2013), not annualised.

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

6 For period since inception (27 September 2015), not annualised

7 For period since inception (14 June 2016), not annualised

## TCorp Investment - Core Funds Cumulative Returns since 1 July 1992





## Corporate Governance

TCorp's Board 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; and
- Overseeing management's succession plans.

### Role of Management

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

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

### Board Composition and Appointments

Under the *Treasury Corporation Act 1983* (NSW), TCorp's Board is to consist of the following:

- a) the Chief Executive;
- b) the Secretary of the Treasury;
- c) another officer of the Treasury (if any) nominated by the Secretary of Treasury to represent Treasury; and
- d) no fewer than 3 and not more than 7 Directors appointed by the Treasurer.

The Chairperson of TCorp's Board is Philip Chronican. The Secretary of NSW Treasury, Rob Whitfield, holds the position of Deputy Chairman.





## Conduct of Board Business

The Board meets regularly throughout the year and will meet whenever necessary to discharge its responsibilities.

The Board has established a policy and a Code of Conduct and Ethics which sets out matters relating to its governance and operation as well as the role of the Chief Executive. The Board aims to comply with the requirements set out in the *Treasury Corporation Act 1983* (NSW) and to incorporate practices commonly required by entities regulated by the *Corporations Act 2001* (Cth). The Board recognises that corporate governance involves ongoing 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 they 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 that interest. Declared interests are recorded in a publicly available register. Unless the NSW Treasurer determines otherwise, Directors who declare conflicts of interest must not attend Board Meetings that address or take part in a decision about those matters.

## Committees

The Board has established three standing committees being the Audit and Risk Committee, Board Investment Committee and the Human Resources Committee to assist with discharging its responsibilities. The contributions of these Committees enable the Board to focus on strategy, planning along with 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; and
- TCorp's annual financial statements.

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

## Board Investment Committee

The Board Investment Committee (BIC) was established in 2015 to support the Board in discharging its investment governance responsibilities in respect of managing funds on behalf of the NSW Government and its agencies, departments and businesses.

The BIC has oversight over all investment activities undertaken by TCorp in its capacity as trustee, investment manager, administrator, advisor and/or agent on behalf of another NSW Government entity.

## Human Resources Committee

The Human Resources Committee acts as an advisory body to the Board on issues relating to TCorp's human resources policies. The role of the Human Resources 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 2015 - 30 June 2016

Board Member	Board		Audit and Risk Committee		Human Resources Committee		Board Investment Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Rob Whitfield	11	9						
Tim Spencer	11	10			3	3		
Philip Chronican <sup>1</sup>	11	10	3	3	2	2		
Peter Warne <sup>3</sup>	11	8	5	5			11	11
Kerry Schott <sup>2, 1</sup>	11	11	2	2	1	1	2	2
Stephen Knight <sup>4, 6</sup>	4	4					4	4
Paul Smith <sup>4, 5</sup>	2	2					2	2
David Deverall <sup>4, 7</sup>	5	5					5	5
Alan Stockdale	11	11	5	5				
Ilana Atlas <sup>2</sup>	11	11			3	3		
Susan Doyle <sup>3</sup>							9	8
Tony Cole <sup>8</sup>							9	8

<sup>1</sup> Chair of Audit and Risk Committee.

<sup>2</sup> Chair of Human Resources Committee.

<sup>3</sup> Chair of Board Investment Committee.

<sup>4</sup> Observer at both Audit and Risk Committee and Human Resource Committee meetings.

<sup>5</sup> Acting Chief Executive for period between retirement of Stephen Knight and commencement of David Deverall

<sup>6</sup> Employment with TCorp concluded on 30 October 2015

<sup>7</sup> Employment with TCorp commenced on 8 February 2016

<sup>8</sup> Independent member, but not a Director

## Board of Directors

TCorp's Directors as at 30 June 2016 were:

Director	Term	Qualifications and Experience
P W (Philip) Chronican Chairman	Expires: 15 June 2020	<p>BCom (Hons), MBA (Dist)</p> <p>Banking and finance industry for over 30 years.</p> <p>Non-executive director of National Australia Bank (NAB), Banking &amp; Finance Oath and Juvenile Diabetes Research Foundation.</p> <p>Former Chief Executive Officer Australia, Australia and New Zealand Banking Group Ltd, Group Executive Westpac Institutional Bank, and Chief Financial Officer, Westpac Banking Corporation.</p>
R (Robert) Whitfield Deputy Chairman	Ex-officio Appointed: 13 July 2015	<p>BCom, Grad Dip Banking, Grad Dip Fin, AMP (Harvard)</p> <p>Secretary, NSW Treasury and Chief Executive Officer of Long Service Corporation. Board Member, Infrastructure NSW and NSW Government's Information and Communications Technology (ICT) Board and Procurement Board and NSW Public Service Commission Advisory Board (Board Member). Member of Greater Sydney Committee.</p> <p>Former Chief Executive Officer of Westpac's Institutional Bank and Chairman of Westpac's Asia Advisory Board, in addition to other key Westpac roles over the course of a 30 year career in transactional banking, structured finance and business development.</p>
T (Tim) Spencer	Ex-officio Appointed: 28 March 2013	<p>PSM, BEc (Hons)</p> <p>Deputy Secretary, Commercial Policy and Financing NSW Treasury since 2012.</p> <p>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.</p>
I (Ilana) Atlas	Expires: 30 September 2020	<p>B Juris (Hons), LLB (Hons), LLM</p> <p>Non-executive director of Australia and New Zealand Banking Group Limited, Coca-Cola Amatil Limited, Jawun Pty Limited, Oakridge Wines Pty Limited, Westfield America Management Limited, Westfield Corporation Limited, the Human Rights Law Centre and Chairman of Bell Shakespeare Company.</p> <p>Member of the Australian Institute of Company Directors - Corporate Governance Committee, Member of Panel and Advisory Board of Adara Partners, and Fellow of the Senate of the University of Sydney. Former Group Executive at Westpac Group and a former</p>

Director	Term	Qualifications and Experience
		partner in law firm Mallesons Stephen Jaques. Former non-executive director of Suncorp Group Limited.
D M (David) Deverall	Ex-officio Appointed: 8 February 2016	BE (Hons), MBA  David joined TCorp as Chief Executive in February 2016.  Before joining TCorp, David was CEO of Hunter Hall International. Prior to that, David was CEO of Perpetual Limited, where he was also Chairman of the peak wealth management industry body of The Financial Services Council. Before he joined Perpetual, David was Group Head of Funds Management and Head of Strategy at Macquarie Group.
K E (Kerry) Schott	Expires: 15 January 2019	AO, DPhil, MA, BA (Hons)  Chair of Transgrid and Sydney Metro Advisory Board NSW, Director of Infrastructure Australia, NBN Co Limited; Chair of Moorebank Intermodal Company Limited and Patron, National Advisory Board of Infrastructure Partnerships Australia. Member of Sydney Light Rail Advisory Board and Advisory Panellist of FSS Investment Committee.  Former Managing Director and Chief Executive of Sydney Water; Deputy Secretary of NSW Treasury; Managing Director of Deutsche Bank Australia and Executive Vice President Bankers Trust Australia.
Hon A R (Alan) Stockdale	Expires: 4 January 2017	AO, BA, LLB, FAICD  Chairman, Medical Research Commercialisation Fund Pty Ltd; Chairman, Master Builders' Association of Victoria Foundation; Chairman, Knosys Limited; Director, EC Strategies Pty Ltd; Syndicate Chairman, CEO Institute; Member of the Advisory Board of Lazard Australia Pty Ltd; Consultant, Yarris Pty Ltd; Consultant, Maddocks Lawyers and Strategic Adviser to the CEO, Metro Trains Melbourne Pty Ltd.  Barrister for 12 years. Member of Victorian Parliament for 15 years. Former Treasurer of Victoria and Minister for Information Technology and Multimedia. Former Federal President of the Liberal Party of Australia. Former Executive Director, Macquarie Bank Ltd.
P H (Peter) Warne	Expires: 15 January 2020	BA, FAICD  Chairman of Macquarie Group Ltd and Director of Macquarie Bank Ltd. Director of ASX Limited and related entities. Chairman, Australian Leisure and Entertainment Property Group Limited and OFX Group Limited; Director, Securities Exchanges Guarantee

Director	Term	Qualifications and Experience
		<p>Corporation Ltd; Member, Macquarie University Foundation Limited; and Chairman, St. Andrew's Cathedral School Foundation.</p> <p>Former head of Bankers Trust Australia Limited Financial Markets Group for 11 years.</p>
S M (Susan) Doyle	Expires: 27 April 2019	<p>BA</p> <p>Director, Taronga Conservation Society (Taronga and Western Plains Zoo), LawCover Insurance Ltd, Securities Exchanges Guarantee Corporation Ltd and Trustee of Anindilyakwa Mining Council.</p> <p>Former Chief General Manager of IAG Asset Management, Insurance Australia Group. Susan has served as a Member of the Future Fund Board of Guardians and a Director of South Australian Water Corporation, among others. Susan has also been Chairman of the Australian Government Employees Superannuation Trust and Commonwealth Superannuation Corporation.</p>

## 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 with this process, the Audit and Risk Committee receives regular reports from internal audit, external audit and TCorp management.

The Enterprise Risk and Compliance Committee (ERiCC) is a management committee responsible for 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 monitoring of Board policies, management procedures and any other risk matters identified as potentially requiring attention. The department reports daily to management, monthly to ERiCC and the Board, and quarterly to the Audit and Risk Committee. The Risk and Compliance department and the Investment Implementation and Operations department are responsible for the day-to-day monitoring of client mandates.

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 APRA or the Australian Securities and Investments Commission, 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 the NSW 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 Board; and



- The NSW Auditor-General, who reports to the NSW 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, the relevant investment 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 \$219 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 and operational 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 enterprise risk management 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 the NSW 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 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.



## Internal Audit and Risk Management Attestation for the 2015-2016 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 compliant with the eight core requirements set out in *Internal Audit and Risk Management Policy for the NSW Public Sector*, specifically:

Core Requirements	Compliance
<b>Risk Management Framework</b>	
1.1 The agency head is ultimately responsible and accountable for risk management in the agency.	<b>Compliant</b>
1.2 A risk management framework that is appropriate to the agency has been established and maintained and the framework is consistent with AS/NZS ISO 31000:2009.	<b>Compliant</b>
<b>Internal Audit Function</b>	
2.1 An internal audit function has been established and maintained.	<b>Compliant</b>
2.2 The operation of the internal audit function is consistent with the International Standards for the Professional Practice of Internal Auditing.	<b>Compliant</b>
2.3 The agency has an Internal Audit Charter that is consistent with the content of the 'model charter'.	<b>Compliant</b>
<b>Audit and Risk Committee</b>	
3.1 An independent and Audit and Risk Committee with appropriate expertise has been established.	<b>Compliant</b>
3.2 The Audit and Risk Committee is an advisory committee providing assistance to the agency head on the agency's governance processes, risk management and control frameworks, and its external accountability obligations.	<b>Compliant</b>
3.3 The Audit and Risk Committee has a Charter that is consistent with the content of the 'model charter'.	<b>Compliant</b>



## Membership

The chair and members of the Audit and Risk Committee are:

Member	Status	Appointed	Retired
Mr Philip Chronican	Independent Chair	March 2010 (Committee) December 2010 (Chair)	30 November 2015
Dr Kerry Schott	Independent Chair	1 December 2015	
Mr Alan Stockdale	Independent member	December 2010	
Mr Peter Warne	Independent member	March 2012	

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

- TCorp Nominees Pty Limited

**David Deverall in accordance with a resolution of the Directors of NSW Treasury Corporation**

A handwritten signature in grey ink, appearing to read 'David Deverall'.

**26 August 2016**

### Contact Officer

Mark Swan  
Chief Risk Officer  
mark.swan@tcorp.nsw.gov.au



## Human Resources

Over the course of 2015/16 there were a number of key issues for human resource management. These issues and their outcomes are detailed below.

### Organisational Design and Resourcing

The 2014/15 financial year saw the completion of the amalgamation of the investment management activities of TCorp, SRWS and STC within TCorp. During 2015/16, the focus moved to the next phase of embedding the new Investment Management structure with nine employees recruited and onboarded to fill remaining vacant positions. Recruitment to support the NSW Common Custodian project, required for the implementation of the Target Operating Model for the Investment Management division, has also commenced.

The 2015/16 financial year also saw the retirement of TCorp's former Chief Executive Stephen Knight and the recruitment and onboarding of TCorp's current Chief Executive, David Deverall. On 30 October 2015, Stephen Knight's employment in the position of Chief Executive concluded. Upon his exit a transition of responsibilities was effected with Paul Smith, Chief Operating Officer acting in the position of Chief Executive until the commencement of David Deverall on 8 February 2016.

In consideration of industry and regulatory changes and to ensure TCorp is in the best position to continue to meet internal and external demands, restructures of the Information Technology function and the Finance & Reporting function were also completed.

A review of TCorp's organisational structure was undertaken during the financial year in support of key action items listed in TCorp's Strategy. The outcomes of this review, which included a new functional design to be implemented in 2017, was approved in May 2016 and endorsed by TCorp's Board in June 2016.

### Training, Development and Communication

During 2015/16, TCorp continued to promote a strong culture of learning and development, supporting employees' development needs across the whole organisation. A wide range of technical and soft-skill training initiatives were offered both on and off site, facilitated by either human resources or external subject matter experts. Activities undertaken included industry events, financial markets training, compliance training, tertiary education, and mentoring and leadership development. The participation of TCorp's employees in training and development activities during the year was 100%.

Compulsory compliance training across a range of different topics was conducted during the period via blended learning solutions with topics covering key risk management policies and practices, Work Health and Safety (WHS) and Appropriate Workplace Behaviour.

In January 2016 Human Resources held information sessions for employees and people managers on setting a Personal Development Plan and provided guidance on how to align this with their career objectives and business needs. This session was underpinned by the Learning and Development Policy.

The 2015/16 financial year also saw four employees complete the Return to Work Coaching program offered to returning parental leavers.

TCorp employees were offered the opportunity to enrol in an external mentoring programme facilitated through Serendis on behalf of Women in Banking and Finance. Several TCorp employees participated in the mentoring programme as both mentors and mentees.



The TCorp internal mentoring programme, “Meridian”, was also successfully concluded. Six suitable matches were made for participation, with mentors and mentees trained in the programme and their roles.

TCorp has continued to adopt an ‘organisational wide’ programme approach to provide fundamental platforms for key organisational development areas to ensure consistency in language and approach as well as cost efficiencies from providing such courses in-house. A key example of this in 2015/16 was the continued rollout of the ‘Scrum’ and ‘Agile’ project management methodology platform across the organisation, including training programmes and examination processes. A number of employees were trained in the Scrum methodology and have been accredited.

The key focus area for the development of TCorp’s management focused in 2015/16 continued to be Performance Management. A tailored program for TCorp people managers exploring potential stumbling blocks that managers may encounter at performance appraisal time and with ongoing performance management, was delivered by external vendor Preferred Training Networks in January 2016.

Seven senior members of staff participated in UNSW Leadership Education programs delivered through the AGSM in a range of key areas including Women in Leadership, Management and Communication and Negotiation.

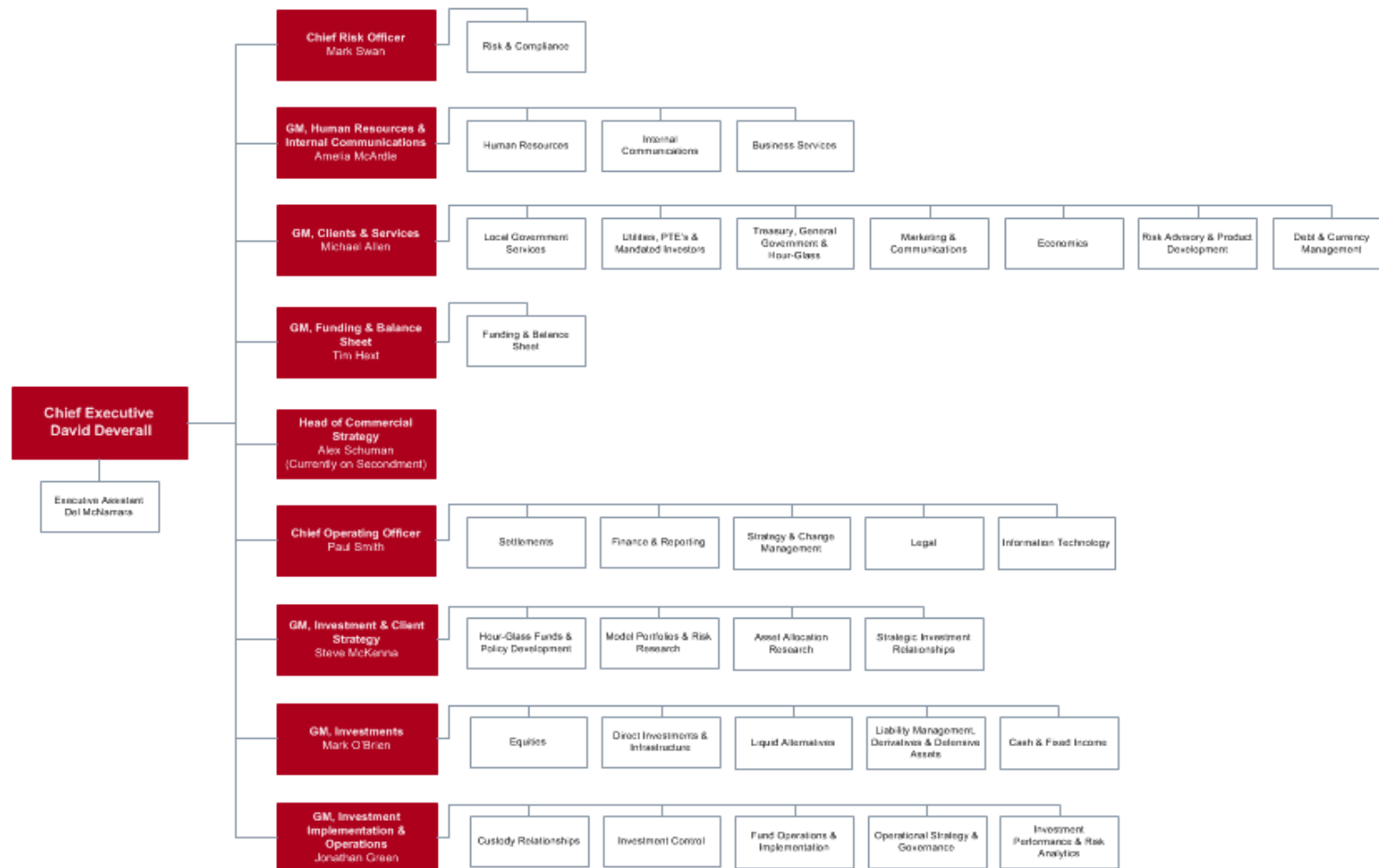
Senior management participated in various strategic industry conferences during the year hosted mainly by financial institutions including the Women in Banking & Finance NSW Network, the Committee for Economic Development of Australia and the Australian Financial Markets Association.

### Senior Officers

Chief Executive	D M Deverall, BE, MBA
General Manager, Clients and Services	M J Allen, B.Ec
General Manager, Funding and Balance Sheet	T J Hext, B.Com, M.Econ.Dev
General Manager, Investment Implementation and Operations	J E Green, Assoc.Dip.Bus, FIPASAFin
General Manager, Investment and Client Strategy	S McKenna, B.Ec, M.App.Fin, CIMA
General Manager, Investments	M O'Brien, BA. Sc, MBA, F.Fin
Chief Operating Officer	P A Smith, B.Com, CA, F.Fin
Chief Risk Officer	M A Swan, B.Bus
General Manager, Human Resources & Internal Communications	A J McArdle, BA



## Organisation Structure (current as at June 2016)



## Senior Executive Reporting

Band	2016 Female	Male	2015 Female	Male
Band 4	0	6	0	6
Band 3	1	2	1	2
Band 2	0	0	0	0
Band 1	0	0	0	0
<b>Total</b>	<b>1</b>	<b>8</b>	<b>1</b>	<b>8</b>

Band	Range \$	Average Remuneration 2015/2016	Average Remuneration 2014/2015
Band 4	\$441,201 –	\$598,750	\$559,208
Band 3	\$313,051 - \$441,200	\$409,333	\$370,833
Band 2	\$248,851 - \$313,050	N/A	N/A
Band 1	\$174,500 - \$248,850	N/A	N/A

17.6% of TCorp's employee related expenditure in 2015/16 was related to senior executives, who represent 6.2% of full time equivalent employees as at year end.

	2016	2015
Number of Executive Officers	9	9
Number of Female Executive Officers	1	1

## Number of Employees

	2016	2015	2014	2013
Chief Executive	1	1	1	1
General Managers	8	8	7	7
Professional Employees	113.7	101.1	71.2	73.3
Support Employees	23.3	22.6	23.3	18.9
<b>Total</b>	<b>146.0</b>	<b>132.7</b>	<b>102.5</b>	<b>100.2</b>

## Performance Reviews

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



## **Exceptional Movements in Salaries**

There were three individuals awarded an exceptional movement (i.e. greater than 10% increase) in salary in 2015/16. These increases were the result of the positions performed by the individuals being re-evaluated and re-categorised to ensure correct alignment and an accurate reflection of the roles and breadth of activities performed.

The overall movement in salaries, including exceptions, was 2.51%.

## **Work Health and Safety**

There were four workers compensation injuries for 2015/16.

During 2015/16, as part of TCorp's ongoing promotion of health and wellbeing, employees were again offered the opportunity to have influenza immunisations. In this financial year, 32 employees received the immunisation.

An annual review of WHS activities at TCorp was provided to Directors in June 2016. This included current legislative matters and case law to provide a broad overview of WHS management and to assist them with discharging their due diligence obligations.

TCorp joined the 2016 Global Corporate Challenge which began at the end of May 2016, with a total of 63 employees participating in the 100-day challenge. The program focuses on the physical and mental health and wellbeing of participants and aims to increase movement and improve nutrition, mindfulness and sleep.

In addition, TCorp provided corporate sponsorship to employees wishing to participate in team sports, specifically netball and touch football, to promote and encourage employees to consider their health and wellbeing while in the workplace.

The lunchtime education "Health & Wellbeing" series has also continued during 2015/16, providing employees with an opportunity to attend seminars covering a range of health and lifestyle topics presented by professionals or experts in the field.

## **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 Inclusion Action Plan**

Due to TCorp's relatively small workforce, the focus of TCorp's multicultural policies and ongoing disability planning is directed internally as opposed to being accessible by the wider public.

TCorp ensures compliance with the relevant legislation (disability and anti-discrimination) as it relates to all policies, procedures and practises, including areas of recruitment and selection, internal promotions and transfers, training and development. In addition to this, TCorp's premises complies with the Australian Building Codes and Standards.

TCorp currently has no employees who have declared a disability or who require modifications to the workplace to perform their roles. When employees commence their employment with TCorp they are asked to notify TCorp of their requirements so that relevant modifications or adjustments can be made.



As part of TCorp's ongoing commitment to the community, 2015/16 saw TCorp employees nominate and vote for two new charity partners that TCorp will support from 2016 through to 2018. The charities that were nominated during this cycle are ReachOut Australia and UNHCR Australia. TCorp has created a programme of various events and activities designed to raise awareness and funds for both charities while promoting team work and collaboration.

TCorp encourages and celebrates diversity in its workforce. Ongoing commitment to this is demonstrated in its policies, values and the way that work is done and through initiatives that promote diversity in the workplace.

The 2015/16 financial year also saw the rebranding and relaunch of TCorp's international flavours lunch as 'A Taste of Harmony' in alignment with Harmony Day. 'A Taste of Harmony' recognises the diverse multicultural background of TCorp's workforce by inviting staff to share a plate of food from their cultural background or a country they have recently visited and to share details of their country or family heritage.

In March 2016, TCorp engaged external consultancy Diversity Partners to complete a diversity diagnostic to inform the formulation of TCorp's Diversity & Inclusion strategy and subsequent action plans. TCorp became a member of Diversity Council of Australia (DCA) in FY16, and will partner with DCA in the formulation of a best practice Diversity Strategy and Action Plan during FY17.

Additionally, in June 2016, a post pay audit was completed along with the implementation of performance moderation to ensure that no diversity biases were evident during performance assessment, which would have a subsequent impact on reward.

TCorp's staff continued to be offered and participated in flexible working arrangements in 2015/16. As an extension of this, TCorp has introduced the filming of critical staff briefings which are made available to all staff on TCorp's intranet following the event, so that those who cannot attend can still view and have access to information that may be relevant to them in a timely manner.

### **Workforce Diversity Statistical Information**

TCorp commenced a detailed annual review of the Code of Conduct and Ethics in 2015/16. The Code of Conduct and Ethics (Code) represents the standards required by staff in carrying out their duties. The Code includes TCorp's policies on harassment, bullying and discrimination. It also outlines how such matters should be handled. It is a mandatory requirement of employment that all staff formally acknowledge that they have read and understood the Code.

Optum, TCorp's contracted employee assistance program provider, continued to provide employees with external assistance and support. This service, in conjunction with TCorp's other support programme, Work Life Links, an external, confidential information and resource service that assists individuals find information about dependent care, health and lifestyle services, helped TCorp provide its employees with sources of information to assist in achieving a healthy work life balance for people having diverse personal backgrounds and circumstances. These programmes successfully continued to support TCorp's employees evidenced by the use of the services throughout the year.



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

		% of Total Staff <sup>2</sup>			
	Benchmark or Target (%)	2013	2014	2015	2016
Women	50	40.7	41.7	39.2	36.5
Aboriginals and Torres Strait Islanders	2.6 <sup>3</sup>	0	0	0	0
People whose first language was not English	19	29.2	25.4	24.3	25.8
People with a disability	N/A <sup>4</sup>	0	0	0	0
People with a disability requiring work-related adjustment <sup>5</sup>	1.3 (2012) 1.5 (2013) 1.5 (2014) 1.5 (2015)	0	0	0	0

**Table 2 - Trends in the Distribution of Diversity Groups<sup>6</sup>**

		Distribution Index <sup>7</sup>			
	Benchmark or Target (%)	2013	2014	2015	2016
Women	100	87	84	76	80
Aboriginal people and Torres Strait Islanders	100	N/A	N/A	N/A	N/A
People whose first language was not English	100	91	90	78	79
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 10 and 11 of the *Annual Reports (Statutory Bodies) Regulation 2015* (NSW), relating to reporting on the performance of the liability portfolio, benchmark portfolio and investments.

One of TCorp's core businesses is the raising of debt in the private sector capital markets and the on-lending to the NSW 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 the Regulation, 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 such Regulation. Any savings made by TCorp in connection with its debt are, however, reflected in the statutory accounts for the year.

In conducting this core 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 the Regulation, 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 Regulation, and can be seen as directly related to the core business of TCorp, rather than an ancillary activity of an authority.

### Promotion

Overseas visits undertaken:

Officer	Visit Undertaken	Purpose
S Knight	September 2015	European Investor Meetings (Warsaw, Vienna, Edinburgh, Paris, Frankfurt, Stockholm, London)
T Hext	September 2015	Deutsche Bank Investor Mission (London, New York, Philadelphia, Boston, Los Angeles)
K Palmer	September 2015	London Investor Meetings (Edinburgh, London)
J Green	September 2015	Investment Management Due Diligence Meetings (Mumbai, London, Copenhagen, New York, Chicago, Austin)
P Laity	September 2015	Investment Management Due Diligence and Research Trip (Hong Kong, Edinburgh, Copenhagen, London, Montreal, Boston, New York, Austin, Memphis)
S Vincent	September 2015	Investment Management Due Diligence and Research Trip (London, Boston, New York, Philadelphia, San Francisco, Los Angeles)
A Polley	September 2015	Fund Manager Meetings (London, Montreal, Chicago, Boston, New York, Austin, Memphis)
F Trigona	September 2015	Japan Investor Meetings (Tokyo)
S Toumasatos	October 2015	Swift International Banking Operations Seminar (SIBOS) (Singapore)
L Buck	October 2015	Investment Management Due Diligence and Research Trip (Stockholm, London, Amsterdam)
J Green	November 2015	Custodian Operational Due Diligence Review (Chennai, Bangalore, Hong Kong, Hangzhou, Manila)

Officer	Visit Undertaken	Purpose
C Marull	November 2015	Custodian Operational Due Diligence Review (Chennai, Bangalore, Hong Kong, Hangzhou, Manila)
P Smith	February 2016	Central Funding Agency CFO Conference (Wellington)
R Kalendarian	February 2016	Central Funding Agency CFO Conference (Wellington)
J Zavone	March 2016	Fund Manager Meetings (Hong Kong, London, Boston, New York, Austin, Los Angeles)
T Hext	March 2016	Investor Meetings (Beijing, Hong Kong)
F Trigona	March 2016	Investor Meetings (Beijing, Hong Kong)
K Palmer	April 2016	Asia Investor Meetings (Manila, Kuala Lumpur, Singapore)
P Laity	April 2016	Investment Management Due Diligence and Research Trip (Hong Kong, Edinburgh, London, Chicago, Boston, New York, Austin, Los Angeles)
K Willment	April 2016	Investment Management Consultants Australia Conference (Orlando)
J Green	May 2016	Investment Management Operational Due Diligence and Benchmarking Reviews (London, Boston, New York, Salt Lake City, Los Angeles)
I Hagtharp	May 2016	Global Technology and Operations Symposium (San Francisco)
L Buck	May 2016	Investment Management Due Diligence and Research Trip (Stockholm, London, Brussels)
V Rati	May 2016	Best of Breeds Global Research and Investment Program (London)

As a result of the amalgamation of the States Investment Management activities at TCorp, overseas travel from 2015/16 will include travel previously undertaken by icare and STC.

## Consultants

Consultant	2016 \$ Cost (inclusive of GST)
Mercer (Australia) Pty Ltd	89,532
Ernst & Young	82,066
Towers Watson Australia	66,000
Ferrier Hodgson Corporate Advisory	75,377
Calder Consultants	85,617
<b>Consultancies equal to or more than \$50,000</b>	<b>398,592</b>
Information Technology Consulting	4,994
Human Resources Consulting	14,700
Strategy Consulting	22,000

Consultant	2016 \$ Cost (inclusive of GST)
Investment Management Corporate Structuring	7,040
Storage Audit Consulting	5,720
Board Effectiveness	35,200
Office Relocation Consulting	16,720
<b>Consultancies less than \$50,000</b>	<b>106,374</b>

Consultancy costs in 2015/16 include costs associated with the implementation of the amalgamation of the State's Investment Management activities at TCorp.

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 clients and the general public at large. These sites provide information about the various areas of service and products that TCorp makes available.

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

This website 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 and Government agencies. 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 clients and requires a valid user identity and password for use.

For those agencies investing with the TCorp Investment Funds, information provided includes 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 borrow through TCorp, the site again provides data refreshed each business day. It supplies reports showing transactional and debt portfolio valuation information.

#### Website [[www.waratahbonds.com.au](http://www.waratahbonds.com.au)]

This website 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 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 Investment Funds (including Hour-Glass Funds)**

The TCorp Investment Funds are managed investment funds for NSW public sector investors.

The TCorp Investment Funds offer investment options designed for the various requirements and horizons of individual public sector investors. A register is kept of any significant complaints made regarding the TCorp Investment Funds.

No complaints were recorded during the year.

## **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 and government information contravention. It also takes steps to protect staff that make such disclosures from any detrimental action.

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 Policy Annual Attestation Statement for the 2015-2016 Financial Year for New South Wales Treasury Corporation**

I, David Deverall, Chief Executive of New South Wales Treasury Corporation, am of the opinion that New South Wales Treasury Corporation had an Information Security Management System in place during the 2015-2016 financial year that is consistent with the Core Requirements set out in the NSW Government Digital Information Security Policy.

The controls in place to mitigate identified risks to the digital information and digital information systems of New South Wales Treasury Corporation are adequate.

There is no agency under the control of New South Wales Treasury Corporation which is required to develop an independent ISMS in accordance with the NSW Government Digital Information Security Policy.

A handwritten signature in grey ink, appearing to read 'David Deverall', written over a light grey circular watermark.

D M Deverall  
Chief Executive



## 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	38	0	0	0	0
December	93	0	0	0	0
March	314	0	0	0	0
June	267	0	0	0	0
<b>Small business suppliers</b>					
September	29	0	0	0	0
December	10	0	0	0	0
March	7	0	0	0	0
June	0	0	0	0	0

### Accounts Due or Paid Within Each Quarter

Measure	Sep 2015	Dec 2015	Mar 2016	Jun 2016
<b>All suppliers</b>				
Number of accounts due for payment	664	550	614	756
Number of accounts paid on time	660	547	611	747
Actual percentage of accounts paid on time (based on number of accounts)	99.4%	99.5%	99.5%	98.8%
Dollar amount of accounts due for payment (\$)	7,022,914	5,043,535	5,446,206	10,646,845
Dollar amount of accounts paid on time (\$)	6,987,042	5,040,222	5,417,263	10,579,452
Actual percentage of accounts paid on time (based on \$)	99.5%	99.9%	99.5%	99.4%
Number of payments for interest on overdue accounts	1	0	0	0
Interest paid on overdue accounts (\$)	61	0	0	0

Measure	Sep 2015	Dec 2015	Mar 2016	Jun 2016
<b>Small Business Suppliers</b>				
Number of accounts due for payment to small businesses	70	57	44	51
Number of accounts due to small business paid on time	69	57	44	51
Actual percentage of small business accounts paid on time (based on number of accounts)	98.6%	100%	100%	100%
Dollar amount of accounts due for payment to small business (\$)	237,747	260,271	98,890	288,907
Dollar amount of accounts due to small business paid on time (\$)	219,555	260,271	98,890	288,907
Actual percentage of small business accounts paid on time (based on \$)	92.3%	100%	100%	100%
Number of payments to small business for interest on overdue accounts	1	0	0	0
Interest paid to small business on overdue accounts (\$)	61	0	0	0

### Late Payment Interest

Late payment interest of \$61 was incurred and paid in the year ended 30 June 2016 (2015: nil).



## Budgets for the Years Ended 30 June 2016 and 30 June 2017

	2016 Budget \$'000	2016 Actual \$'000	2017 Proforma Budget \$'000
Management of balance sheet/capital markets activity	100,539	130,428	100,290
Management of client liabilities	6,108	5,982	1,638
Management of client assets	27,609	29,336	49,510
Other fees	750	617	865
<b>Total income</b>	<b>135,006</b>	<b>166,363</b>	<b>152,303</b>
Transaction costs	1,975	2,103	3,168
<b>Administration expenses</b>			
Staff costs	37,546	36,430	43,180
Finance services costs	3,825	3,680	4,838
Promotion costs	1,074	740	1,203
Computer costs	12,808	12,839	11,041
Premises and administration costs	6,147	6,928	8,848
<b>Total transaction and administration costs</b>	<b>63,375</b>	<b>62,720</b>	<b>72,278</b>
<b>Operating profit before tax equivalent expense</b>	<b>71,631</b>	<b>103,643</b>	<b>80,025</b>



## Legal Change

The *Treasury Corporation Act* 1983 (NSW) was amended on 5 November 2015. The amendments were targeted at enhancing the governance arrangements of TCorp.

The key amendments to the legislation were as follows:

- a) to enable the Treasurer (instead of the Governor acting on the advice of the Treasurer) to appoint persons as directors of the Board and as the Chief Executive of TCorp'
- b) to enable up to two additional persons to be appointed as directors;
- c) to enable a person other than the Secretary of the Treasury to be appointed as Chairperson of the Board;
- d) to enable the Board to delegate to committees (which may include persons other than directors of the Board) functions of the Board;
- e) to require TCorp to comply with any prudential standards or reporting or auditing requirements that the Minister declares to be applicable to TCorp by order published in the Gazette; and
- f) to make consequential provisions and preserve existing appointments of persons as directors and the Chief Executive.

## Controlled Entities

During the year ended 30 June 2016 TCorp controlled its wholly owned subsidiary, TCorp Nominees Pty Limited.

TCorp Nominees Pty Limited was voluntarily deregistered in the year ended 30 June 2017.

## 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 2016 and 30 June 2015 raised no significant issues.

The Auditor-General's 2015 Report to NSW Parliament tabled in November 2015 included a report on TCorp which raised no significant audit issues.

The Auditor-General's 2016 Report to NSW Parliament concerning the year ended 30 June 2016 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 2016 commences on the next page and finishes on page 102.

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

The audited financial statements for TCorp Nominees Pty Ltd for the year ended 30 June 2016 commences on page 106 and finishes on page 113.

All financial information quoted before this section and after page 113 is unaudited.



**New South Wales Treasury Corporation**  
**Statement of Comprehensive Income**  
**For the year ended 30 June 2016**

**Statement of Comprehensive Income**

	Note	2016 \$'000	2015 \$'000
Income from changes in fair value	2	4,651,356	4,660,325
Less: Expenses from changes in fair value	3	(4,519,428)	(4,485,039)
<b>Net income from changes in fair value</b>		<b>131,928</b>	<b>175,286</b>
Fees and commissions	4	35,936	24,321
<b>Total net revenue</b>		<b>167,864</b>	<b>199,607</b>
<i>Less: Administrative expenses</i>			
Staff costs		(36,317)	(26,895)
Financial services costs		(3,680)	(1,793)
Information technology costs		(12,839)	(8,347)
Premises and administration costs		(7,669)	(7,503)
<b>Total administrative expenses</b>		<b>(60,505)</b>	<b>(44,538)</b>
Transaction issuance fees		(1,500)	(1,940)
Other transaction costs		(2,103)	(2,136)
<b>Total transaction costs</b>		<b>(3,603)</b>	<b>(4,076)</b>
<b>Total administrative and transaction costs</b>	4	<b>(64,108)</b>	<b>(48,614)</b>
<b>Profit before income tax equivalent expense</b>		<b>103,756</b>	<b>150,993</b>
Income tax equivalent expense	1(d)	(31,093)	(45,281)
<b>Profit for the year</b>		<b>72,663</b>	<b>105,712</b>
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified to profit or loss:</i>			
Actuarial loss on defined benefit plans	4	(113)	(55)
<b>Total comprehensive income for the year</b>		<b>72,550</b>	<b>105,657</b>

The accompanying notes form part of these financial statements.



**New South Wales Treasury Corporation**  
**Balance Sheet**  
**As at 30 June 2016**

## Balance Sheet

	Note	2016 \$'000	2015 \$'000
<b>Assets</b>			
Cash and liquid assets	5	2,268,782	794,984
Outstanding settlements receivable	1(f)	111,695	82,858
Due from financial institutions	6	5,350,463	4,705,654
Securities held	7	5,463,990	5,701,402
Derivative financial instruments receivable	14	851,999	643,284
Loans to government clients	8	66,238,007	66,090,612
Other assets	9	30,193	16,053
Plant and equipment	10	2,389	3,397
<b>Total assets</b>		<b>80,317,518</b>	<b>78,038,244</b>
<b>Liabilities</b>			
Due to financial institutions	11	8,011,832	5,875,488
Outstanding settlements payable	1(f)	3,757	67,213
Due to government clients	12	4,938,924	306,896
Borrowings	13	66,253,848	70,921,209
Derivative financial instruments payable	14	835,118	598,769
Income tax equivalent payable		14,447	6,438
Other liabilities and provisions	15	41,085	95,274
<b>Total liabilities</b>		<b>80,099,011</b>	<b>77,871,287</b>
<b>Net assets</b>		<b>218,507</b>	<b>166,957</b>
<i>Represented by:</i>			
<b>Equity</b>			
Retained earnings	19	218,507	166,957
<b>Total equity</b>		<b>218,507</b>	<b>166,957</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 2016

**Statement of Changes in Equity**

	Note	Retained earnings \$'000	Total equity \$'000
<b>Total equity at 30 June 2014</b>		<b>141,300</b>	<b>141,300</b>
Profit for the year		105,712	105,712
Other comprehensive income	4	(55)	(55)
<b>Total comprehensive income for the year</b>		<b>105,657</b>	<b>105,657</b>
<i>Transactions with owners in their capacity as owners:</i>			
Dividend payable	15	(80,000)	(80,000)
<b>Total equity at 30 June 2015</b>	<b>19</b>	<b>166,957</b>	<b>166,957</b>
Profit for the year		72,663	72,663
Other comprehensive income	4	(113)	(113)
<b>Total comprehensive income for the year</b>		<b>72,550</b>	<b>72,550</b>
<i>Transactions with owners in their capacity as owners:</i>			
Dividend payable	15	(21,000)	(21,000)
<b>Total equity at 30 June 2016</b>	<b>19</b>	<b>218,507</b>	<b>218,507</b>

The accompanying notes form part of these financial statements.



**New South Wales Treasury Corporation**  
**Cash Flow Statement**  
**For the year ended 30 June 2016**

## Cash Flow Statement

	Note	2016 \$'000	2015 \$'000
<b>Cash (outflows)/inflows from operating activities</b>			
Interest and other costs of finance received		3,246,403	3,194,702
Interest and other costs of finance paid		(2,778,439)	(3,083,278)
Fees and commissions received		39,837	26,087
Payments of tax equivalents		(23,084)	(44,312)
Payments of Goods and Services Tax		(1,933)	(1,036)
Payments of administrative expenses and transaction costs		(59,554)	(42,921)
Loans to government clients made		(8,131,087)	(6,548,099)
Loans to government clients repaid		9,216,589	6,270,316
<b>Net cash provided by/(used in) operating activities</b>	30	<b>1,508,732</b>	<b>(228,541)</b>
<b>Cash (outflows)/inflows from investing activities</b>			
Purchases of plant and equipment and intangible assets		(2,002)	(2,068)
Net cash (to)/ from market securities held		(288,630)	944,439
<b>Net cash (used in)/provided by investing activities</b>		<b>(290,632)</b>	<b>942,371</b>
<b>Cash inflows/(outflows) from financing activities</b>			
Proceeds from issuance of borrowings and short term securities		56,748,477	48,775,211
Repayment of borrowings and short term securities		(56,923,363)	(49,997,418)
Net cash inflows/(outflows) from the purchase and repayment of other financial instruments		136,659	(135,530)
Dividends paid		(80,000)	(58,000)
<b>Net cash used in financing activities</b>		<b>(118,227)</b>	<b>(1,415,737)</b>
<b>Net increase/(decrease) in cash held</b>		<b>1,099,873</b>	<b>(701,907)</b>
Cash and cash equivalents at the beginning of the year		794,854	1,496,891
<b>Cash and cash equivalents at the end of the year</b>	29	<b>1,894,857</b>	<b>794,984</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*, the *Public Finance and Audit Regulation 2015* 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) and Australian Accounting Interpretations. This financial report, comprising the financial statements and accompanying notes complies with IFRS.

### Standards and Interpretations issued but not yet effective

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

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 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), AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014).	1 January 2018	30 June 2019
AASB 16 Leases	1 January 2019	30 June 2020
AASB 15 Revenue from Contracts with Customers, AASB 2014-5 Amendments to Australian Accounting Standards arising from AASB 15, AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15.	1 January 2018	30 June 2019
AASB 2015-8 Amendments to Australian Accounting Standards – Effective Date of AASB 15.	1 January 2017	30 June 2018
AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation.	1 January 2016	30 June 2017
AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 [AASB 7, AASB 101, AASB 134 & AASB 1049].	1 January 2016	30 June 2017
AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	1 January 2017	30 June 2018
AASB 1057 Application of Australian Accounting Standards and AASB 2015-9 Amendments to Australian Accounting Standards – Scope and Application Paragraphs.	1 January 2016	30 June 2017





**New South Wales Treasury Corporation  
Notes to the Financial Statements  
For the year ended 30 June 2016**

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

### **(a) Basis of Preparation (continued)**

The Corporation has not early adopted any new accounting standards, amendments and interpretations in compliance with NSW Treasury mandates per Treasury Circular 16/02.

#### AASB 9 *Financial Instruments* (and applicable amendments), (effective from 1 January 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.

#### AASB 15 *Revenue from Contracts with Customers*, (effective from 1 January 2018)

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The Corporation's main source of income are interest and from movements in the fair value of financial instruments which are outside the scope of the new revenue standard. Further, the adoption of the new recognition rules are not expected to have a significant impact on the amounts recognised in the financial statements in relation to the Corporation's fees and commissions revenue.

The financial statements are prepared on the basis of a 'for-profit' entity.

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(j). 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 sheet 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 and its wholly-owned subsidiary, TCorp Nominees Pty Limited. TCorp Nominees Pty Limited is expected to be voluntarily deregistered in the year ending 30 June 2017. Treasury Corporation Division of the Government Service ('TCorp Division'), a special purpose service entity, ceased to exist on 1 August 2014. The results of TCorp Division are included within the consolidated entity up until this date and is reflected in the comparative financial year information.



**New South Wales Treasury Corporation  
Notes to the Financial Statements  
For the year ended 30 June 2016**

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

### **(b) Principles of consolidation (continued)**

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 TCorp Division to the Corporation and TCorp Division ceased to be a controlled entity of the Corporation. This arrangement has no impact on the financial performance or position of the consolidated Corporation.

The effect of all transactions and balances between entities in the consolidated entity are eliminated in full. Information provided in the financial statements and accompanying notes refers to the consolidated entity as there is no material difference between the results or financial position of the consolidated entity and the Corporation.

### **(c) Critical accounting estimates and significant judgements**

The preparation of the financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The fair value of financial assets and liabilities (refer note 17) is an area in the financial statements involving a higher degree of judgement or complexity, or where assumptions are significant to the consolidated entity and its financial statements.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations and future events.

Management believes the estimates used in preparing the financial statements are reasonable.

### **(d) Tax Equivalents**

The *Income Tax Assessment Act 1936* and the *Income Tax Assessment Act 1997* exempt the Corporation and its controlled entity 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 2016 (2015: 30%).

### **(e) Financial Assets and Financial Liabilities**

The Corporation 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 is 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.



**New South Wales Treasury Corporation  
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## **1 Summary of Significant Accounting Policies (continued)**

### **e. Financial assets and financial liabilities (continued)**

The Corporation measures 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 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.

When entered into, 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).

### **(f) Outstanding Settlements**

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

## 1 Summary of Significant Accounting Policies (continued)

### (g) 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. Intangible assets are measured initially at cost. Intangible assets are subsequently measured at fair value only if there is an active market. As there is no active market for the entity's intangible assets, the assets are carried at cost less any accumulated amortisation and impairment losses. 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.

### (h) 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
  - Office furniture and equipment – ranging from over the term of the lease (which expires on 19 May 2018) up to eight years.

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 statement 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.

## 1 Summary of Significant Accounting Policies (continued)

### (i) 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.

### (j) 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.

Provisions are recognised when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that the Corporation 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).

### (k) 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.

### (l) 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 statement, cash and cash equivalents includes cash and liquid assets net of outstanding short-term borrowings.

### (m) Leased Assets

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

### (n) Fiduciary Activities

The Corporation acts as agent and manager for various client asset and debt portfolios, as trustee and manager of the TCorp Investment Funds and provides administration services to Insurance and Care NSW (icare) and State Insurance Regulatory Authority (SIRA) (both previously forming Safety, Return to Work and Support) and SAS Trustee Corporation (STC) (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 statement of comprehensive income on an accruals basis.

## 1 Summary of Significant Accounting Policies (continued)

### (o) 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.

### (p) 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.
- Performance fees received in advance are carried as unearned revenue within other liabilities and provisions (note 15). Income is subsequently recognised when it is probable that certain performance conditions will be met.

### (q) 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. Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

### (r) 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.



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## 2 Income from Changes in Fair Value

	2016 \$'000	2015 \$'000
<i>Income from changes in fair value is comprised of:</i>		
Interest income received or receivable – government clients	2,821,453	2,967,162
Interest income received or receivable – financial institutions	349,313	403,223
Gains on derivative financial instruments	128,813	60,003
Increase/(decrease) in fair value of financial assets/(liabilities)	1,351,777	1,229,937
	<b>4,651,356</b>	<b>4,660,325</b>

## 3 Expenses from Changes in Fair Value

	2016 \$'000	2015 \$'000
<i>Expenses from changes in fair value is comprised of:</i>		
Interest expense paid or payable – government clients	78,050	807
Interest expense paid or payable – financial institutions	2,706,331	3,044,207
Losses on derivative financial instruments	107,859	210,461
Net foreign exchange loss	484	34
Decrease/(increase) in fair value of financial assets/(liabilities)	1,626,704	1,229,530
	<b>4,519,428</b>	<b>4,485,039</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.



**New South Wales Treasury Corporation**  
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## **4 Total Comprehensive Income for the Year**

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
(a) The profit for the year includes the following specific items:		
<b>Fees and commissions</b>	<b>35,936</b>	<b>24,321</b>
<i>Comprising:</i>		
<b>Specific client mandates</b>	<b>22,899</b>	<b>13,418</b>
- asset portfolios	16,917	7,257
- debt portfolios	5,982	6,161
TCorp Investment Funds	11,479	9,491
Other fees and commissions from New South Wales Government entities	617	785
Other fees and commissions from financial institutions	940	627
<b>Total administrative and transaction costs</b>	<b>64,108</b>	<b>48,614</b>
<i>Includes:</i>		
<b>Auditors remuneration to the Audit Office of NSW</b>	<b>377</b>	<b>329</b>
- for audit of the financial report	309	301
- other services	68	28
Consultants' fees	460	213
Depreciation and amortisation	3,929	3,419
<b>Key management personnel compensation<sup>1</sup></b>	<b>5,479</b>	<b>4,704</b>
- Short-term employee benefits	5,202	4,422
- Post-employment benefits	223	226
- Other long-term employee benefits	54	56
Rental on operating leases	1,903	1,810
<b>Superannuation expense</b>	<b>2,036</b>	<b>1,521</b>
- Defined contribution plans	1,992	1,488
- Defined benefit plans	44	33
(b) Other comprehensive (income):		
Actuarial loss on defined benefit plans	113	55

<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 2016 was \$453,000 (2015: \$384,000).





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## **5 Cash and Liquid Assets**

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash on hand and at bank	891	7,027
Overnight and short term placements (unsecured)	2,267,891	787,957
	<b>2,268,782</b>	<b>794,984</b>

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

## **6 Due from Financial Institutions**

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Short-term bank deposits	5,281,756	4,628,742
Cash collateral	68,707	76,912
	<b>5,350,463</b>	<b>4,705,654</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>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Floating rate notes	1,004,654	1,489,350
Certificates of deposit	1,900,684	2,095,625
Semi-government bonds	515,883	842,687
Supranational bonds	1,473,722	1,177,855
Bank issued bonds	472,570	-
Other Commonwealth and NSW Government related securities	96,477	95,885
	<b>5,463,990</b>	<b>5,701,402</b>

Securities held are used mainly to cover liquidity requirements. Of the above amounts, \$2,086.1 million (2015: \$2,116.4 million) is scheduled to mature more than twelve months from the balance date.



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## 8 Loans to Government Clients

	2016 \$'000	2015 \$'000
New South Wales public sector clients:		
Crown Entity	31,703,488	30,732,404
Electricity sector	20,716,027	23,172,175
Transport sector	3,122,010	2,173,641
Water sector	9,460,663	8,770,371
Other sectors	1,136,120	1,199,454
Local Government	58,789	-
Universities	40,910	42,566
	<b>66,238,007</b>	<b>66,090,612</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 totaled \$8,525.2 million (2015: \$8,316.3 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 \$2,792.2 million (2015: \$3,293.2 million).

Loans to New South Wales public sector clients are guaranteed by the New South Wales Government. Of the above amounts, \$57,041.6 million (2015: \$60,507.0 million) is scheduled to mature more than twelve months from the balance date.

## 9 Other Assets

	Note	2016 \$'000	2015 \$'000
Debtors and fee accruals		12,391	10,751
Intangible assets		1,206	2,136
Security deposits		14,639	1,207
Prepaid superannuation	23	62	175
Other prepayments		1,895	1,784
		<b>30,193</b>	<b>16,053</b>

### *Reconciliation of Intangible assets*

Opening carrying value	2,136	2,361
Additions	1,479	1,522
Amortisation	(2,393)	(1,559)
Write-offs	(16)	(188)
<b>Carrying value at year end</b>	<b>1,206</b>	<b>2,136</b>



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## 10 Plant and Equipment

	Leasehold Improvements		Equipment & Vehicles		Total	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Opening fair value	4,601	4,493	2,199	3,461	6,800	7,954
Opening accumulated depreciation	(2,371)	(1,592)	(1,032)	(1,579)	(3,403)	(3,171)
<b>Opening carrying amount</b>	<b>2,230</b>	<b>2,901</b>	<b>1,167</b>	<b>1,882</b>	<b>3,397</b>	<b>4,783</b>
<i>Changes during the year:</i>						
Additions at fair value	-	108	635	501	635	609
Net disposals and write-offs	-	-	(107)	(135)	(107)	(135)
Depreciation expense	(910)	(779)	(626)	(1,081)	(1,536)	(1,860)
<b>Closing carrying amount</b>	<b>1,320</b>	<b>2,230</b>	<b>1,069</b>	<b>1,167</b>	<b>2,389</b>	<b>3,397</b>
Closing fair value	4,123	4,601	2,373	2,199	6,496	6,800
Closing accumulated depreciation	(2,803)	(2,371)	(1,304)	(1,032)	(4,107)	(3,403)
<b>Carrying amount at year end</b>	<b>1,320</b>	<b>2,230</b>	<b>1,069</b>	<b>1,167</b>	<b>2,389</b>	<b>3,397</b>

## 11 Due to Financial Institutions

	Note	2016 Face Value \$'000	2016 Fair Value \$'000	2015 Face Value \$'000	2015 Fair Value \$'000
Promissory notes		7,499,480	7,485,061	5,680,500	5,665,810
Cash collateral	21	152,870	152,863	209,690	209,678
Short term borrowings		373,925	373,908	-	-
		<b>8,026,275</b>	<b>8,011,832</b>	<b>5,890,190</b>	<b>5,875,488</b>

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

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



**New South Wales Treasury Corporation**  
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## 12 Due to Government Clients

	2016 Face Value \$'000	2016 Fair Value \$'000	2015 Face Value \$'000	2015 Fair Value \$'000
Client deposits				
- Crown entity	4,438,483	4,474,393	3,771	3,771
- Other	464,539	464,531	303,141	303,125
	<b>4,903,022</b>	<b>4,938,924</b>	<b>306,912</b>	<b>306,896</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 six monthly or at maturity.

## 13 Borrowings

	2016 Face Value \$'000	2016 Fair Value \$'000	2015 Face Value \$'000	2015 Fair Value \$'000
Benchmark bonds				
- domestic	45,043,401	51,671,391	49,383,375	55,202,990
- global exchangeable	456,835	482,957	534,953	580,611
<b>Total benchmark bonds</b>	<b>45,500,236</b>	<b>52,154,348</b>	<b>49,918,328</b>	<b>55,783,601</b>
Euro Medium Term Notes	851,739	1,106,383	1,252,223	1,329,610
Capital indexed bonds	7,067,278	8,409,053	6,956,324	8,195,081
Floating rate notes	3,559,000	3,576,053	4,720,000	4,750,037
Other borrowings	1,021,999	1,008,011	838,590	862,880
	<b>58,000,252</b>	<b>66,253,848</b>	<b>63,685,465</b>	<b>70,921,209</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, \$1,106.4 million (2015: \$1,119.7 million) is scheduled to mature more than twelve months from the balance date.

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

Floating rate notes pay variable quarterly coupons with the face value repayable on maturity. In fair value terms, \$3,576.1 million (2015: \$3,893.8 million) of floating rate notes are scheduled to mature more than twelve months from the balance date.



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### 13 Borrowings (continued)

Other borrowings include Waratah bonds, retail bonds and non-benchmark domestic bonds. The fair value of Waratah bonds at the balance date totalled \$908.1 million (2015: \$793.8 million).

In fair value terms, \$967.7 million (2015: \$830.6 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.	2016	2016	2015	2015
		Face Value \$'000	Fair Value \$'000	Face Value \$'000	Fair Value \$'000
1 April 2016	6.00	-	-	4,010,594	4,189,382
20 February 2017	4.00	3,630,558	3,736,962	4,051,046	4,235,237
1 March 2017 <sup>1</sup>	5.50	1,080,550	1,129,390	1,358,745	1,463,412
1 February 2018	6.00	4,670,454	5,102,704	5,711,554	6,396,503
20 March 2019	3.50	4,607,167	4,871,116	4,715,708	4,949,109
1 April 2019 <sup>1</sup>	6.00	602,701	682,770	1,088,285	1,249,273
1 May 2020	6.00	6,208,819	7,247,621	6,142,669	7,159,856
1 June 2020 <sup>1</sup>	6.00	101,264	118,668	134,814	157,913
8 April 2021	4.00	3,456,800	3,832,657	2,972,400	3,199,024
1 March 2022	6.00	5,804,450	7,199,951	6,088,950	7,354,225
20 April 2023	4.00	4,251,025	4,822,064	4,412,418	4,727,474
1 May 2023 <sup>1</sup>	6.00	1,015,967	1,293,404	1,326,854	1,622,174
20 August 2024	5.00	6,323,240	7,806,075	6,392,840	7,404,950
20 May 2026	4.00	1,841,900	2,141,844	1,162,000	1,228,849
20 March 2028	3.00	1,544,750	1,655,508	-	-
1 May 2030	6.00	360,591	513,614	349,451	446,220
		<b>45,500,236</b>	<b>52,154,348</b>	<b>49,918,328</b>	<b>55,783,601</b>

<sup>1</sup> Commonwealth Government guaranteed borrowings at 30 June 2016 total \$3,224.2 million, fair value (2015: \$4,492.8 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:

	2016 \$'000	2015 \$'000
<i>Derivative financial instruments receivable</i>		
Cross currency swaps	90,179	126,390
Interest rate swaps	733,174	512,439
Forward foreign exchange contracts	4,870	90
Exchange traded futures	-	626
Forward dated loans	21,442	-
Interest rate options	2,334	3,739
	<b>851,999</b>	<b>643,284</b>
<i>Derivative financial instruments payable</i>		
Cross currency swaps	(10,941)	(66,441)
Interest rate swaps	(770,849)	(528,499)
Forward foreign exchange contracts	(47,815)	(90)
Exchange traded futures	(3,179)	-
Interest rate options	(2,334)	(3,739)
	<b>(835,118)</b>	<b>(598,769)</b>
<b>Net amount receivable under derivative financial instruments</b>	<b>16,881</b>	<b>44,515</b>

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.



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## **15 Other Liabilities and Provisions**

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Provisions for employee benefits	9,260	7,564
Creditors, expense accruals and other provisions	7,228	6,491
Lease incentive	797	1,219
Unearned revenue	2,800	-
Dividend payable	21,000	80,000
	<b>41,085</b>	<b>95,274</b>

Unearned revenue relates to prepayments of performance fees received from clients which will be earned on achieving certain investment portfolio performance targets. If the Corporation does not meet the requirements to earn the performance fees, the full amounts will be returned.

## **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.



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## **16 Other Disclosures Concerning Financial Liabilities (continued)**

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

	<b>2016</b>	<b>2015</b>
	<b>\$bn</b>	<b>\$bn</b>
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 10
Multi-currency US medium term note	-	USD 10

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

## **17 Fair Value Measurement**

Financial assets and financial 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).

TCorp's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.





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## 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.

2016	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets</b>				
Outstanding settlements receivable	111,695	-	-	111,695
Due from financial institutions	68,707	5,281,756	-	5,350,463
Securities held	2,532,163	2,931,827	-	5,463,990
Derivative financial instruments receivable	-	851,999	-	851,999
Loans to government clients	-	66,238,007	-	66,238,007
Security deposits	14,639	-	-	14,639
<b>Financial assets</b>	<b>2,727,204</b>	<b>75,303,589</b>	<b>-</b>	<b>78,030,793</b>
<b>Financial liabilities</b>				
Due to financial institutions	(502,846)	(7,485,061)	-	(7,987,907)
Outstanding settlements payable	(3,757)	-	-	(3,757)
Due to government clients	(469,495)	(4,469,429)	-	(4,938,924)
Borrowings	(63,656,497)	(1,865,006)	(732,345)	(66,253,848)
Derivative financial instruments payable	(3,179)	(831,939)	-	(835,118)
<b>Financial liabilities</b>	<b>(64,635,774)</b>	<b>(14,651,435)</b>	<b>(732,345)</b>	<b>(80,019,554)</b>



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## 17 Fair Value Measurement (continued)

2015	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets</b>				
Outstanding settlements receivable	82,858	-	-	82,858
Due from financial institutions	76,911	4,628,743	-	4,705,654
Securities held	3,579,222	2,122,180	-	5,701,402
Derivative financial instruments receivable	626	642,658	-	643,284
Loans to government clients	-	66,090,612	-	66,090,612
Security deposits	1,207	-	-	1,207
<b>Financial assets</b>	<b>3,740,824</b>	<b>73,484,193</b>	<b>-</b>	<b>77,225,017</b>
<b>Financial liabilities</b>				
Due to financial institutions	(209,678)	(5,665,810)	-	(5,875,488)
Outstanding settlements payable	(67,213)	-	-	(67,213)
Due to government clients	-	(306,896)	-	(306,896)
Borrowings	(68,148,108)	(1,966,751)	(806,350)	(70,921,209)
Derivative financial instruments payable	-	(598,769)	-	(598,769)
<b>Financial liabilities</b>	<b>(68,424,999)</b>	<b>(8,538,226)</b>	<b>(806,350)</b>	<b>(77,769,575)</b>

### Transfers to Level 3

In 2015, the Corporation reviewed its valuation technique for certain non-Australian dollar denominated bonds issued under its Euro Medium Term Note programme in response to transactions in the market over the year. As part of this review, and in recognition of the limited trading in these particular securities, the Corporation determined that these bonds should be transferred into Level 3 under the fair value hierarchy.

## 17 Fair Value Measurement (continued)

Level 3 Financial Instruments – fair value determined from valuation techniques utilising significant unobservable inputs

The table below summarises Level 3 financial instruments.

	Note	2016 \$'000	2015 \$'000
Level 3 Financial Instruments:			
Euro Medium Term Notes	13	(732,345)	(806,350)
<b>Closing balance</b>		<b>(732,345)</b>	<b>(806,350)</b>

The Level 3 Euro Medium Term Notes are foreign currency denominated fixed interest securities (borrowings). The valuation of these securities is derived from quoted market prices of the underlying securities, and other observable inputs. The Corporation has applied a further risk adjustment to the quoted market prices in recognition of limited trading activity of the securities. The Corporation uses cross currency swaps to fully hedge the currency exposure associated with the cash flows on these securities, and these associated cross currency swaps are categorised as Level 2 under the fair value hierarchy.

There were no significant inter-relationships between unobservable inputs that materially affect fair value.

### Reconciliation of level 3 fair value movements

The table below summarises the reconciliation of change in exposure in the Balance Sheet to financial instruments categorised as Level 3 as at 30 June 2016.

### **Reconciliation of Level 3 Fair Value Movements**

	2016 \$'000	2015 \$'000
Opening balance	(806,350)	(31,151)
Total gains and (losses) – realised <sup>1,2</sup>	(29,865)	(16)
Total gains and (losses) – unrealised <sup>1,2</sup>	(127,410)	-
Settlements	231,280	31,167
Transfers into level 3	-	(806,350)
<b>Closing balance</b>	<b>(732,345)</b>	<b>(806,350)</b>

<sup>1</sup> Included in net income from changes in fair value in the Statement of Comprehensive Income.

<sup>2</sup> These gain and losses are largely offset by the gain and losses on the associated cross currency swaps, which are categorised as level 2 under the fair value hierarchy.

Amounts settled in the prior year represent Power Reverse Dual Currency Bonds (PRDCs) and their associated cross currency swaps which were classified at level 3 in the hierarchy. The Corporation no longer holds PRDCs and their associated cross currency swaps.

### Level 3 financial instruments – sensitivity analysis

As at balance date, a 0.01% change in the market prices (interest rates) used to value the Level 3 Euro Medium Term Note securities would impact the fair value by approximately +/- \$1.3 million (2015: +/- \$1.1 million). This sensitivity analysis should be considered in context of the Corporation's management of market risk as detailed in note 20.



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## **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.



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

2016	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)		851,999	-	851,999	(686,236)	(138,197)	27,566
<b>Total derivative financial instruments receivable</b>	14	<b>851,999</b>	<b>-</b>	<b>851,999</b>	<b>(686,236)</b>	<b>(138,197)</b>	<b>27,566</b>
Security deposits	9	14,639	-	14,639	-	(4,036)	10,603
<b>Financial assets</b>		<b>866,638</b>	<b>-</b>	<b>866,638</b>	<b>(686,236)</b>	<b>(142,233)</b>	<b>38,169</b>
<b>Financial liabilities</b>							
Derivative financial instruments (excluding futures)		(831,939)	-	(831,939)	686,236	67,994	(77,709)
Derivative financial instruments - futures		(3,179)	-	(3,179)	-	3,179	-
<b>Total derivative financial instruments payable</b>	14	<b>(835,118)</b>	<b>-</b>	<b>(835,118)</b>	<b>686,236</b>	<b>71,173</b>	<b>(77,709)</b>
Futures margins <sup>1</sup>		(857)	-	(857)	-	857	-
<b>Financial liabilities</b>		<b>(835,975)</b>	<b>-</b>	<b>(835,975)</b>	<b>686,236</b>	<b>72,030</b>	<b>(77,709)</b>

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



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

2015	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
Financial assets							
Derivative financial instruments (excluding futures)		642,658	-	642,658	(460,307)	(177,407)	4,944
Derivative financial instruments - futures		626	-	626	-	-	626
Total derivative financial instruments receivable	14	643,284	-	643,284	(460,307)	(177,407)	5,570
Security deposits	9	1,207	-	1,207	-	-	1,207
Futures margins <sup>1</sup>		1,963	-	1,963	-	-	1,963
Financial assets		646,454	-	646,454	(460,307)	(177,407)	8,740
Financial liabilities							
Derivative financial instruments - futures		(598,769)	-	(598,769)	460,307	76,912	(61,550)
Total derivative financial instruments payable	14	(598,769)	-	(598,769)	460,307	76,912	(61,550)
Financial liabilities		(598,769)	-	(598,769)	460,307	76,912	(61,550)

<sup>1</sup> Included in note 9 debtors and fee accruals.



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## **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.

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. Further, 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.



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## 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-16 % pa	Quoted Market Rates at 30-Jun-15 % pa
<b>Nominal</b>			
Overnight	-	1.750	2.000
90 days	-	1.830	2.060
180 days	-	1.910	2.130
1 April 2016	6.000	-	2.028
20 February 2017	4.000	1.719	2.076
1 March 2017 <sup>1</sup>	5.500	1.657	1.992
1 February 2018	6.000	1.679	2.202
20 March 2019	3.500	1.713	2.380
1 April 2019 <sup>1</sup>	6.000	1.640	2.298
1 May 2020	6.000	1.745	2.558
1 June 2020 <sup>1</sup>	6.000	1.662	2.448
8 April 2021	4.000	1.814	2.736
1 March 2022	6.000	1.884	2.883
20 April 2023	4.000	2.004	3.078
1 May 2023 <sup>1</sup>	6.000	1.883	2.944
20 August 2024	5.000	2.096	3.217
20 May 2026	4.000	2.210	3.413
20 March 2028	3.000	2.378	-
1 May 2030	6.000	2.451	3.653
20 December 2032	4.250	2.692	3.866
20 November 2040	5.000	2.870	3.977
26 April 2041	6.000	2.870	3.947
<b>Capital Indexed</b>			
20 November 2020	3.750	0.632	0.424
20 November 2025	2.750	0.624	0.956
20 August 2030	3.500	0.899	1.423
20 November 2035	2.500	1.089	1.593

<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(e). 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:

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

Given the Corporation's balance sheet positions at 30 June 2016, the maximum potential loss expected over a 10-day period is \$14.6 million (2015: \$11.3 million), with a 1% probability that this maximum may be exceeded. The average VaR over the year ended 30 June 2016 was \$11.6 million (2015: \$9.6 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 (note 11) or Euro Medium Term Notes (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. Foreign exchange risks within Investment Funds, where the Corporation acts as Trustee or manager, are borne by the investors in these Funds.



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## **20 Market Risk (continued)**

### **Other Price Risk**

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

## **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 \$152.9 million of collateral received under these arrangements at balance date (2015: \$209.7 million). Refer below for the net impact of collateral received on credit risk.



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## 21 Credit Risk (continued)

	Note	2016 \$'000	2015 \$'000
Derivative financial instruments		141,908	178,612
Carrying amount of collateral received	11	(152,863)	(209,678)
<b>Net credit risk</b>		<b>Nil</b>	<b>Nil</b>

The Corporation had paid \$68.7 million of collateral under these arrangements at balance date (Amount paid in 2015: \$76.9 million). Refer note 6.

### Concentration of Credit Risk

By Credit Rating – 2016 <sup>1</sup>									
	AAA \$'000	AA+ \$'000	AA \$'000	AA- \$'000	A+ \$'000	A \$'000	A- \$'000	Other <sup>2</sup> Ratings \$'000	Total \$'000
Cash and liquid assets	13	-	-	2,268,505	-	264	-	-	2,268,782
Due from financial institutions	-	-	-	5,341,353	8,110	-	-	1,000	5,350,463
Securities held <sup>6</sup>	1,543,710	515,883	-	2,069,931	742,522	-	491,971	99,973	5,463,990
Derivative financial instruments	23,776	-	-	536,867	217,709	28,644	13,415	31,588	851,999
Security deposits	-	-	-	-	-	-	-	14,639	14,639
	<b>1,567,499</b>	<b>515,883</b>	<b>-</b>	<b>10,216,656</b>	<b>968,341</b>	<b>28,908</b>	<b>505,386</b>	<b>147,200</b>	<b>13,949,873</b>
Additional potential exposure to derivatives	-	-	-	162,454	31,148	38,837	10,866	6,700	250,005
Additional potential exposure to financial instruments	-	-	-	7,292	3,967	-	3,029	28	14,316
	<b>1,567,499</b>	<b>515,883</b>	<b>-</b>	<b>10,386,402</b>	<b>1,003,456</b>	<b>67,745</b>	<b>519,281</b>	<b>153,928</b>	<b>14,214,194</b>



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## 21 Credit Risk (continued)

<b>By Credit Rating – 2015<sup>1</sup></b>									
	<b>AAA</b>	<b>AA+</b>	<b>AA</b>	<b>AA-</b>	<b>A+</b>	<b>A</b>	<b>A-</b>	<b>Other<sup>2</sup></b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>Ratings</b>	<b>\$'000</b>
								<b>\$'000</b>	<b>\$'000</b>
Cash and liquid assets	16	-	-	694,772	99,995	201	-	-	794,984
Due from financial institutions	-	-	-	4,653,930	-	43,524	-	8,200	4,705,654
Securities held <sup>6</sup>	1,247,185	384,883	457,804	1,988,679	434,327	497,298	491,654	199,572	5,701,402
Derivative financial instruments	3,829	-	-	380,608	117,513	105,901	8,476	26,957	643,284
Security deposits	-	-	-	-	-	-	-	1,207	1,207
	<b>1,251,030</b>	<b>384,883</b>	<b>457,804</b>	<b>7,717,989</b>	<b>651,835</b>	<b>646,924</b>	<b>500,130</b>	<b>235,936</b>	<b>11,846,531</b>
Additional potential exposure to derivatives	10	-	-	130,621	32,759	45,454	1,250	8,859	218,953
Additional potential exposure to financial instruments	-	-	-	671	2,228	2,702	3,346	428	9,375
	<b>1,251,040</b>	<b>384,883</b>	<b>457,804</b>	<b>7,849,281</b>	<b>686,822</b>	<b>695,080</b>	<b>504,726</b>	<b>245,223</b>	<b>12,074,859</b>

<b>By Classification of Counterparty – 2016</b>				
	<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	2,268,769	-	2,268,782
Due from financial institutions	-	5,350,463	-	5,350,463
Securities held <sup>6</sup>	585,871	3,377,908	1,500,211	5,463,990
Derivative financial instruments	23,854	828,145	-	851,999
Security deposits	-	-	14,639	14,639
	<b>609,738</b>	<b>11,825,285</b>	<b>1,514,850</b>	<b>13,949,873</b>
Additional potential exposure to derivatives	24	249,981	-	250,005
Additional potential exposure to financial instruments	-	14,316	-	14,316
	<b>609,762</b>	<b>12,089,582</b>	<b>1,514,850</b>	<b>14,214,194</b>

## 21 Credit Risk (continued)

<b>By Classification of Counterparty – 2015</b>	<b>Governments<sup>3</sup> \$'000</b>	<b>Banks<sup>4</sup> \$'000</b>	<b>Other<sup>5</sup> \$'000</b>	<b>Total \$'000</b>
Cash and liquid assets	16	794,968	-	794,984
Due from financial institutions	-	4,705,654	-	4,705,654
Securities held <sup>6</sup>	912,017	3,584,975	1,204,410	5,701,402
Derivative financial instruments	3,829	639,455	-	643,284
Security deposits	-	-	1,207	1,207
	<b>915,862</b>	<b>9,725,052</b>	<b>1,205,617</b>	<b>11,846,531</b>
Additional potential exposure to derivatives	10	218,943	-	218,953
Additional potential exposure to financial instruments	-	9,375	-	9,375
	<b>915,872</b>	<b>9,953,370</b>	<b>1,205,617</b>	<b>12,074,859</b>

1 Credit rating as per Standard & Poor's or equivalent. In accordance with the Corporation's counterparty risk policy, counterparties on "credit watch with negative implications" are reduced by one class.

2 Other Ratings includes long-term ratings of BBB+, 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 \$70.0 million (2015: \$69.3 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.

In 2016, the NSW Government began to partially lease the State-owned electricity network. Further leasing of the electricity network may result in further repayments of a significant portion of "Loans to government clients" and amounts "Due to government clients" in advance of the scheduled contractual maturity profile set out below.



**New South Wales Treasury Corporation**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2016**

## 22 Liquidity Risk (continued)

2016	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	2,268,891	-	-	-	-	-	2,268,891
Outstanding settlements receivable	111,702	-	-	-	-	-	111,702
Due from financial institutions	1,279,291	1,616,237	2,490,843	-	-	-	5,386,371
Securities held	1,146,367	770,914	1,566,922	246,103	1,435,841	638,407	5,804,554
Loans to government clients	6,030,848	696,261	3,669,224	6,581,012	22,886,622	33,703,898	73,567,865
Debtors and fee accruals	12,391	-	-	-	-	-	12,391
Security deposits	14,639	-	-	-	-	-	14,639
<b>Financial assets</b>	<b>10,864,129</b>	<b>3,083,412</b>	<b>7,726,989</b>	<b>6,827,115</b>	<b>24,322,463</b>	<b>34,342,305</b>	<b>87,166,413</b>
<b>Financial liabilities</b>							
Due to financial institutions	(3,498,579)	(3,900,696)	(627,000)	-	-	-	(8,026,275)
Outstanding settlements payable	(3,758)	-	-	-	-	-	(3,758)
Due to government clients	(474,348)	-	-	(4,480,013)	-	-	(4,954,361)
Borrowings	(13,271)	(767,432)	(6,479,755)	(7,286,054)	(25,966,863)	(32,797,981)	(73,311,356)
Creditors, expense accruals and other provisions	(7,230)	-	-	-	-	-	(7,230)
<b>Financial liabilities</b>	<b>(3,997,186)</b>	<b>(4,668,128)</b>	<b>(7,106,755)</b>	<b>(11,766,067)</b>	<b>(25,966,863)</b>	<b>(32,797,981)</b>	<b>(86,302,980)</b>
<b>Net financial assets/(liabilities)</b>	<b>6,866,943</b>	<b>(1,584,716)</b>	<b>620,234</b>	<b>(4,938,952)</b>	<b>(1,644,400)</b>	<b>1,544,324</b>	<b>863,433</b>
<b>Derivatives</b>							
Derivatives receivable	28,520	91,960	298,515	373,871	841,905	770,644	2,405,415
Derivatives payable	(54,241)	(120,187)	(273,355)	(330,970)	(691,447)	(974,309)	(2,444,509)
<b>Net derivatives</b>	<b>(25,721)</b>	<b>(28,227)</b>	<b>25,160</b>	<b>42,901</b>	<b>150,458</b>	<b>(203,665)</b>	<b>(39,094)</b>
<b>Net</b>	<b>6,841,222</b>	<b>(1,612,943)</b>	<b>645,394</b>	<b>(4,896,051)</b>	<b>(1,493,942)</b>	<b>1,340,659</b>	<b>824,339</b>
<b>Cumulative</b>	<b>6,841,222</b>	<b>5,228,279</b>	<b>5,873,673</b>	<b>977,622</b>	<b>(516,320)</b>	<b>824,339</b>	<b>-</b>



**New South Wales Treasury Corporation**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2016**

## 22 Liquidity Risk (continued)

2015	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	795,027	-	-	-	-	-	795,027
Outstanding settlements receivable	82,864	-	-	-	-	-	82,864
Due from financial institutions	2,804,994	503,277	1,417,615	-	-	-	4,725,886
Securities held	370,983	716,948	2,600,023	93,073	1,489,552	738,349	6,008,928
Loans to government clients	1,415,051	954,497	5,826,530	7,445,131	22,988,998	38,760,012	77,390,219
Debtors and fee accruals	10,751	-	-	-	-	-	10,751
Security deposits	1,207	-	-	-	-	-	1,207
<b>Financial assets</b>	<b>5,480,877</b>	<b>2,174,722</b>	<b>9,844,168</b>	<b>7,538,204</b>	<b>24,478,550</b>	<b>39,498,361</b>	<b>89,014,882</b>
<b>Financial liabilities</b>							
Due to financial institutions	(1,780,690)	(3,559,500)	(550,000)	-	-	-	(5,890,190)
Outstanding settlements payable	(67,217)	-	-	-	-	-	(67,217)
Due to government clients	(305,023)	(1,900)	-	-	-	-	(306,923)
Borrowings	(18,433)	(1,052,302)	(6,868,238)	(8,019,725)	(26,072,180)	(40,416,706)	(82,447,584)
Creditors, expense accruals and other provisions	(6,491)	-	-	-	-	-	(6,491)
<b>Financial liabilities</b>	<b>(2,177,854)</b>	<b>(4,613,702)</b>	<b>(7,418,238)</b>	<b>(8,019,725)</b>	<b>(26,072,180)</b>	<b>(40,416,706)</b>	<b>(88,718,405)</b>
<b>Net financial assets/(liabilities)</b>	<b>3,303,023</b>	<b>(2,438,980)</b>	<b>2,425,930</b>	<b>(481,521)</b>	<b>(1,593,630)</b>	<b>(918,345)</b>	<b>296,477</b>
<b>Derivatives</b>							
Derivatives receivable	28,994	76,659	368,608	417,052	850,993	810,385	2,552,691
Derivatives payable	(30,636)	(97,612)	(245,699)	(331,421)	(595,178)	(914,955)	(2,215,501)
<b>Net derivatives</b>	<b>(1,642)</b>	<b>(20,953)</b>	<b>122,909</b>	<b>85,631</b>	<b>255,815</b>	<b>(104,570)</b>	<b>337,190</b>
<b>Net</b>	<b>3,301,381</b>	<b>(2,459,933)</b>	<b>2,548,839</b>	<b>(395,890)</b>	<b>(1,337,815)</b>	<b>(1,022,915)</b>	<b>633,667</b>
<b>Cumulative</b>	<b>3,301,381</b>	<b>841,448</b>	<b>3,390,287</b>	<b>2,994,397</b>	<b>1,656,582</b>	<b>633,667</b>	<b>-</b>

Contractual commitments are disclosed in note 24 and undrawn loan commitments are disclosed in note 26.



**New South Wales Treasury Corporation  
Notes to the Financial Statements  
For the year ended 30 June 2016**

## 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<sup>1</sup>. Payments may be made to Pillar Administration to reduce the superannuation liability. These payments are held in investment reserve accounts by Pillar Administration. The weighted average duration of the defined benefit obligation is 11.3 years (2015: 10.7 years).

The 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.

	2016	2015
	% pa	% pa
Discount rate at 30th June <sup>2</sup>	2.0	3.0
Expected return on assets backing current pension liabilities	7.8	8.3
Expected salary increases - 2015 / 2016	-	2.5
- 2016 / 2017 to 2018 / 2019	2.5	2.5
- 2019 / 2020 to 2020 / 2021	3.5	3.5
- 2021 / 2022 to 2024 / 2025	3.0	3.0
- 2025 / 2026	3.0	-
- thereafter	3.5	3.5
Expected rate of CPI Increase - 2015 / 2016	1.5	2.5
- 2016 / 2017	1.8	2.8
- 2017 / 2018	2.3	2.8
- thereafter	2.5	2.5

<sup>1</sup> The Corporation provides certain administrative services to SAS Trustee Corporation, the Trustee of the schemes. Fees earned by the Corporation in carrying out these activities are included in the statement of comprehensive income.

<sup>2</sup> This rate reflects market yields of Commonwealth Government bonds at balance date.





**New South Wales Treasury Corporation  
Notes to the Financial Statements  
For the year ended 30 June 2016**

## 23 Superannuation (continued)

### Reconciliation of the movement in (net) (Prepaid Contribution)

	<b>SASS</b>	<b>SANCS</b>	<b>SSS</b>	<b>2016</b>	<b>Totals</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>2015</b>
					<b>\$'000</b>
Net (asset)/liability at start of year	(242)	10	57	(175)	(202)
Net expense/(credit) recognised in the Statement of comprehensive income	(56)	14	155	113	27
<b>Net (asset)/liability at end of year</b>	<b>(298)</b>	<b>24</b>	<b>212</b>	<b>(62)</b>	<b>(175)</b>

## 24 Contractual Commitments

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Capital commitments</b>		
Not later than one year	-	470
<b>Total (including GST)<sup>1</sup></b>	<b>-</b>	<b>470</b>
<b>Operating lease commitments</b>		
Not later than one year	3,227	3,306
Later than one year but not later than five years	3,071	6,323
<b>Total (including GST)<sup>1</sup></b>	<b>6,298</b>	<b>9,629</b>
<b>Other expenditure commitments</b>		
Not later than one year	310	271
Later than one year but not later than five years	-	167
<b>Total (including GST)<sup>1</sup></b>	<b>310</b>	<b>438</b>

<sup>1</sup> Total commitments above include Goods and Services Tax of \$0.6 million (2015: \$1.0 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; and
- The Corporation must pay GPNSW a management fee of 2.1% (excluding GST) of gross rent, charges and expenses on the leased premises.



**New South Wales Treasury Corporation**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2016**

## **24 Contractual Commitments (continued)**

There are no capital commitments for 2016. 2015 Capital commitments relate to obligations associated with the Corporation's business premises.

2016 Other expenditure commitments include licence costs on significant Information Technology related contracts (2015: research and licence costs on significant Information Technology contracts).

## **25 Fiduciary Activities**

The Corporation acts both as Trustee and as manager of funds for the TCorp Investment Funds and manages asset and debt portfolios on behalf of clients.

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Funds under management:		
- TCorp Investment Funds	14,825,619	13,811,094
- Specific client mandates	9,660,393	13,191,091
	<b>24,486,012</b>	<b>27,002,185</b>
These funds were managed by:		
- External fund managers	12,152,653	11,049,119
- The Corporation	12,333,359	15,953,066
	<b>24,486,012</b>	<b>27,002,185</b>
Funds under administration	41,482,966	43,769,184
<b>Total funds under management and administration</b>	<b>65,968,978</b>	<b>70,771,369</b>
<b>Debt portfolios under management</b>	<b>33,716,337</b>	<b>32,969,797</b>

Funds under administration represents funds administration, operations support, performance monitoring and reporting, operational due diligence, and certain management functions.

## 26 Contingent Liabilities and Commitments

- a) During the year, the Corporation provided short term liquidity facilities to approved client authorities. These facilities are offered on a revolving basis. At the year end, the total facilities were \$5,419.0 million (2015: \$5,769.0 million) and undrawn commitments were \$5,386.6 million (2015: \$5,394.3 million). Drawn commitments are recognised as loans to government clients (note 8) 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:

	2016	2015
	\$'000	\$'000
<b>Market participants</b>		
National Electricity Market (NEM)	30	30
	<b>30</b>	<b>30</b>

The Corporation has also issued undertakings on behalf of other New South Wales public sector clients in respect of those clients' performance under contracts with third parties. At balance date, the amounts of these undertakings totalled \$142.2 million (2015: \$146.4 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 \$650.0 million (2015: \$650.0 million) to provide motor vehicle finance to the New South Wales Government. As at year end, the undrawn commitments under these commitments were \$120.6 million (2015: \$107.1 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 arms length basis, under the Corporation's normal commercial terms and conditions.



**New South Wales Treasury Corporation**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2016**

## **27 Related Parties (continued)**

### **Consolidated Group**

The consolidated group consists of the Corporation and its wholly-owned subsidiary, TCorp Nominees Pty Limited.

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:

	2016 & 2015
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.

TCorp Nominees Pty Limited is no longer acting as security trustee and is expected to be voluntarily deregistered in the year ending 30 June 2017.

### **Other Statutory Relationships**

The Corporation is a statutory authority established under the *Treasury Corporation Act* 1983 of the New South Wales Parliament. It is domiciled in Australia and its principal office is at Level 22, Governor Phillip Tower, 1 Farrer Place, Sydney, NSW 2000.

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

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



**New South Wales Treasury Corporation**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2016**

## **27 Related Parties (continued)**

### **Other New South Wales Government Entities**

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

- The provision of finance.
- The management, administration 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 or public authorities. 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. The principal objective of the Corporation is to provide financial services for the New South Wales Government, public authorities and other public bodies of New South Wales.

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.

	Note	2016 \$'000	2015 \$'000
Cash and liquid assets	5	2,268,782	794,984
Short term borrowings	11	(373,925)	-
<b>Cash and cash equivalents</b>		<b>1,894,857</b>	<b>794,984</b>



**New South Wales Treasury Corporation**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2016**

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

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Net cash used in operating activities	1,508,732	(228,541)
Add/(less) adjustments arising from:		
- net loans to clients	(1,085,502)	277,783
- net change in coupons accrued at each year end on financial assets and liabilities	(61,377)	174,325
- net change in other assets	15,045	(7,268)
- net change in other liabilities and provisions, excluding dividends	(12,820)	(3,407)
	<b>364,078</b>	<b>212,892</b>
Add/(less) amounts contributing to net profit but not generating operating cash flows:		
- actuarial loss on defined benefit plans	113	55
- gain/(loss) on disposal of plant and equipment and intangible assets	14	(229)
- gain/(loss) on sale of financial instruments	273,804	(221,987)
- unrealised fair value (loss)/gain on financial instruments	(561,417)	118,400
- depreciation and amortisation	(3,929)	(3,419)
<b>Profit for the year</b>	<b>72,663</b>	<b>105,712</b>

### **31 Subsequent Events**

There have been no events subsequent to balance date which would have a material effect on the consolidated entity's financial statements as at 30 June 2016.

### **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 26 August 2016.

**END OF AUDITED FINANCIAL REPORT**



**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 2015*.**

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 2015* 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 2016 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 blue ink signature, appearing to read 'P W Chronican', written in a cursive style.

P W Chronican  
Director

A blue ink signature, appearing to read 'D M Deverall', written in a cursive style.

D M Deverall  
Director

Sydney, 26 August 2016



## **INDEPENDENT AUDITOR'S REPORT**

### **New South Wales Treasury Corporation**

To Members of the New South Wales Parliament

#### **Opinion**

I have audited the accompanying financial statements of New South Wales Treasury Corporation (TCorp), which comprise the balance sheet as at 30 June 2016, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information of TCorp and the consolidated entity. The consolidated entity comprises TCorp and the entity it controlled at the year's end or from time to time during the financial year.

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 2016, 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 2015*
- comply with International Financial Reporting Standards as disclosed in Note 1a.

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

#### **Basis for Opinion**

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report.

I am independent of TCorp and the consolidated entity in accordance with the auditor independence requirements of:

- Australian Auditing Standards
- ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (the Code).

I have also fulfilled my other ethical responsibilities in accordance with the Code.

The PF&A Act further promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles 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.



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

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

The members of the Board are responsible for preparing 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 financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

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

In preparing the financial statements, the members of the Board must assess the ability of TCorp and the consolidated entity to continue as a going concern unless operations will be dissolved by an Act of Parliament or otherwise cease. The assessment must include, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

### **Auditor's Responsibility for the Audit of the Financial Statements**

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A further description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: <http://www.auasb.gov.au/Home.aspx>. The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that TCorp or the consolidated entity carried out their activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented.



A T Whitfield PSM  
Acting Auditor-General

29 August 2016  
SYDNEY



**TCorp Nominees Pty Limited**  
**Statement of Comprehensive Income**  
**For the year ended 30 June 2016**

	Note	2016 \$	2015 \$
Income		-	-
Income tax equivalent expense	1(c)	-	-
<b>Profit for the year</b>		-	-
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 2016

	Note	2016 \$	2015 \$
Cash	1(d)	2	2
<b>Total assets</b>		<b>2</b>	<b>2</b>
<b>Total liabilities</b>		<b>-</b>	<b>-</b>
<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 2016**

	Retained earnings \$	Total equity \$
<b>Total equity at 30 June 2014</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 2015</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 2016</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 2016**

	2016 \$	2015 \$
<b>Cash flows from operating activities</b>		
Net cash flows from operating activities	-	-
<b>Net increase in cash held</b>	-	-
Cash at the beginning of the year	2	2
<b>Cash at the end of the year</b>	<b>2</b>	<b>2</b>

The accompanying notes form part of these financial statements.



**TCorp Nominees Pty Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2016**

## **1 Summary of Significant Accounting Policies**

### **(a) Basis of Preparation**

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

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

The financial statements also have regard to the requirements of the *Public Finance and Audit Act* 1983, the *Public Finance and Audit Regulation* 2015 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 2015-2 <i>Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 [AASB7, AASB 101, AASB 134 &amp; AASB 1049]</i>	1 January 2016	30 June 2017
AASB 1057 <i>Application of Australian Accounting Standards</i> and AASB 2015-9 <i>Amendments to Australian Accounting Standards – Scope and Application Paragraphs</i> .	1 January 2016	30 June 2017
AASB 2015-6 <i>Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities</i>	1 July 2016	30 June 2017

The Corporation has not early adopted any new accounting standards, amendments and interpretations in compliance with NSW Treasury mandates per Treasury Circular 16/02.

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

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

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



**TCorp Nominees Pty Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2016**

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

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

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

Level 22  
Governor Phillip Tower  
1 Farrer Place  
SYDNEY NSW 2000

TCorp Nominees Pty Limited is expected to be voluntarily deregistered in the year ending 30 June 2017.

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, New South Wales Treasury Corporation.

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 held rights under a number of mortgages and charges on trust for the parent entity. During the year, the advanced funds of \$2.6 million (2015: \$2.7 million) were repaid and as a result all rights under the mortgages and charges held by the security trustee against the security provider were fully discharged.

### **(c) Income Tax**

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

### **(d) Cash**

Cash comprises cash on hand.

### **(e) Presentation**

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

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



**TCorp Nominees Pty Limited**  
**Notes to the Financial Statements**  
**For the year ended 30 June 2016**

## **2 Contributed Equity**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
2 Ordinary shares issued and fully paid	2	2

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

## **3 Dividends**

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

## **4 Remuneration of Auditors**

Fees for services rendered to the company by the auditors are borne by the parent entity (note 6). The audit fee applicable to this company amounted to \$3,000 (2015: \$3,000).

## **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 (retired 30 October 2015)
- Paul Anthony Smith
- Clare Sylvia Mifsud

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

## **6 Related Parties**

### **Parent Entity**

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





**TCorp Nominees Pty Limited  
Notes to the Financial Statements  
For the year ended 30 June 2016**

## **7 Subsequent Events**

Other than as disclosed in Note 1(b), no matter or circumstance has arisen since 30 June 2016 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 17<sup>th</sup> August 2016.

**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 2015*.**

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 2015* 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 2016 exhibit a true and fair view of the financial position and transactions of TCorp Nominees Pty Limited; and
- c. The Directors are not aware, as at the date of this Certificate, of any circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.

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

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

C S Mifsud  
Director

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

P A Smith  
Director

17 August 2016  
Sydney



## INDEPENDENT AUDITOR'S REPORT

### TCorp Nominees Pty Limited

To Members of the New South Wales Parliament

#### Opinion

I have audited the accompanying financial statements of TCorp Nominees Pty Limited, which comprise the balance sheet as at 30 June 2016, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of TCorp Nominees as at 30 June 2016, and of its 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 2015*
- comply with International Financial Reporting Standards as disclosed in Note 1a.

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

#### Basis for Opinion

I conducted my audit in accordance with Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report.

I am independent of TCorp Nominees Pty Limited in accordance with the auditor independence requirements of:

- Australian Auditing Standards
- ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 'Code of Ethics for Professional Accountants' (the Code).

I have also fulfilled my other ethical responsibilities in accordance with the Code.

The PF&A Act further promotes independence by ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their roles 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.

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

## **The Director's Responsibility for the Financial Statements**

The Directors are responsible for preparing 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 Directors determine is necessary to enable the preparation of financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

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

In preparing the financial statements, the Directors must assess the ability of TCorp Nominees Pty Limited to continue as a going concern unless operations will be dissolved by an Act of Parliament or otherwise cease. The assessment must include, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

## **Auditor's Responsibility for the Audit of the Financial Statements**

My objectives are to:

- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is high level of assurance, but does not guarantee an audit conducted in accordance with Australian Auditing Standards will always detect material misstatements. Misstatements can arise from fraud or error. Misstatements are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions users take based on the financial statements.

A further description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: <http://www.auasb.gov.au/Home.aspx>. The description forms part of my auditor's report.

My opinion does *not* provide assurance:

- that TCorp Nominees Pty Limited carried out its activities effectively, efficiently and economically
- about the security and controls over the electronic publication of the audited financial statements on any website where they may be presented.



A Oyetunji  
Director, Financial Audit Services

26 August 2016  
SYDNEY

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

### **Review of Proactive Release Program - Clause 7(a) Government Information (Public Access) Regulation 2009 (GIPAR)**

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 make government information available 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) GIPAR**

During the reporting period, TCorp received one (1) formal access applications.

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

During the reporting period, TCorp refused one (1) formal access application.

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

**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	1	0	0	1	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 Applicant 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	1	0	0	1	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**

Invalid Applications - Reasons for invalidity	Number of Applications
Application does not comply with formal requirements (section 41 of the Act)	0
Application is for excluded information of the agency (section 43 of the Act)	1
Application contravenes restraint order (section 110 of the Act)	0
Total number of invalid applications received	0
Invalid applications that subsequently became valid applications	0

**Table D: Conclusive Presumption of Overriding Public Interest Against Disclosure: Matters Listed in Schedule 1 of the Act**

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

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

**Table E: Other Public Interest Considerations Against Disclosure: Matters Listed in Table to Section 14 of the Act**

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

**Table F: Timeliness**

Timeliness	Number of applications
Decided within the statutory timeframe (20 days plus any extensions)	1
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)**

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

**Table I: Applications Transferred to Other Agencies Under Division 2 of Part 4 of the Act  
(by type of transfer)**

Applications transferred to other agencies under Division 2 of Part 4 of the Act (by type of transfer)	Number of applications transferred
Agency-initiated transfers	0
Applicant-initiated transfers	0

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### **\* Key to Legislative Reference Codes**

ARSBA	<i>Annual Reports (Statutory Bodies) Act 1984 (NSW)</i>
ARSBR	<i>Annual Reports (Statutory Bodies) Regulation 2015 (NSW)</i>
DIA	<i>Disability Inclusion Act 2014 (NSW)</i>
DISP 2.0	NSW Government Digital Information Security Policy Version 2.0 - April 2015
GIPAA	<i>Government Information (Public Access) Act 2009 (NSW)</i>
GIPAR	<i>Government Information (Public Access) Regulation 2009 (NSW)</i>
IPARTA	<i>Independent Pricing and Regulatory Tribunal Act 1992 (NSW)</i>
PIDA	<i>Public Interest Disclosures Act 1994 (NSW)</i>
PIDR	<i>Public Interest Disclosures Regulation 2011 (NSW)</i>
PC	Premier's Circular
PM	Premier's Memorandum
PSC	Public Service Commission
TC	Treasury Circular
TD	Treasurer's Direction



**TCorp inscribed stock registries are operated by:**

**Registry offices**

**Link Market Services Limited**

Level 12, 680 George Street  
SYDNEY NSW 2000

Telephone 61 2 8280 7915  
Email [tcorp@linkmarketservices.com.au](mailto:tcorp@linkmarketservices.com.au)

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Level 22, Governor Phillip Tower, 1 Farrer Place  
SYDNEY NSW 2000, AUSTRALIA

**T:** +61 2 9325 9325 **F:** +61 2 9325 9333

**W:** [tcorp.nsw.gov.au](http://tcorp.nsw.gov.au) **ABN:** 99 095 235 825

