Annual Report 2022

New South Wales Treasury Corporation

How to read this report

This annual report was prepared in accordance with the *NSW Treasury Annual Report Compliance Checklist*. The sections About TCorp, Corporate performance and Operations overview include letters from the Chair and Chief Executive, TCorp's aims and objectives, management structure, a summary review of operations, management and activities, and highlights for financial year 2022. This report is dated 30 September 2022.

The Governance section includes our governance framework, risk management and compliance framework, human resources overview, other required disclosures, financial statements and appendices.

All dollar amounts quoted are Australian, unless otherwise noted.

Electronic copies of current and previous reports are available at www.tcorp.nsw.gov.au.

To assist readers in navigating this report, an index is provided on page 132.

Feedback

We welcome your feedback on our report to help improve future editions – please contact the Head of Marketing on +61 2 9325 9325.

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Sydney Harbour, NSW
Photographer: Steve Christo

Letter of transmission to the NSW Treasurer

The Hon. Matt Kean MP
NSW Treasurer and Minister for Energy
GPO Box 5341
Sydney NSW 2001

27 October 2022

Dear Treasurer

We are pleased to submit the New South Wales Treasury Corporation (TCorp) Annual Report for financial year ended 30 June 2022, to be tabled in NSW Parliament.

The report has been prepared in accordance with the provisions of the *Annual Reports (Statutory Bodies) Act 1984* and outlines the operations and performance of TCorp, together with the financial statements for the period 1 July 2021 to 30 June 2022 (FY22).

Yours sincerely

Michael Dwyer AM
Chair

David Deverall
Chief Executive

Acknowledgement of Country

TCorp acknowledges Aboriginal and Torres Strait Islander peoples as the First Peoples and Traditional Custodians of Australia, and recognises their continued custodianship of Country – land, seas and skies.

We pay respect to Elders past, present and emerging.

Artwork: 'Regeneration' by Josie Rose 2020

Contents

Year in review

Providing a resilient foundation for the state with a focus on sustainability and the long term.

Cumulative investment returns generated for the state since 1 July 2015

$34.2bn

Delivering a return to NSW

Dividend

$95.0mn

Demonstrating solid performance

Profit before tax

$139.2mn

Supporting the state

Term funding (borrowing at fixed terms and interest rates)

$25.8bn

Helping sustainable outcomes

$2.0bn of sustainability and green bonds issued over the year, bringing total issuance to

$7.2bn

Helping local government

Council loans – $227.9mn approved, with total lending commitments now at

$1.1bn

Investing in infrastructure assets

Committed and/or deployed $2.9bn into unlisted infrastructure and property investments, taking total unlisted assets to

$18.0bn

Message from the Chair

On behalf of the Board, I am pleased to present the 2022 TCorp Annual Report.

From the outset of financial year 2022, TCorp again stood poised to assist the NSW Government. We provided financial management and funding to help foster the state's economic recovery from the global pandemic and drive a growth trajectory over the long term.

After successive years of focusing on COVID-related disruptions, the NSW Government has continued to emphasise the strategic imperative of driving sustainable growth. TCorp, having pioneered the NSW Sustainability Bond Programme in 2018—while simultaneously embarking on its journey of sustainable investment practices and active ownership—was ready to play its part.

That is not to say challenging conditions are behind us. Throughout the year in NSW, we still had to deal with COVID lockdowns and devastating floods in parts of the state. From a global perspective, the onset of geopolitical pressures such as the Ukraine crisis, as well as increased inflation and interest rate hikes, had a significant impact on local and global financial markets.

The NSW economy, however, has recovered well and TCorp's ongoing mission is to underpin that improvement.

Long-term investment focus

We remain committed to adding value to the state by delivering strong investment returns to our clients.

Since June 2015, when our funds management activities were amalgamated with NSW's insurance, compensation and superannuation schemes, TCorp has generated over $34bn in cumulative absolute investment returns. This strong result demonstrates the merits of the move to bring together the state's investment assets; we have achieved efficiency and scale. Funds under management have achieved solid absolute annualised returns since 2015.

Sustainable outcomes

Our Financial Markets team is responsible for delivering the funding programme for the state of NSW and does so through issuing bonds both locally and globally, providing loans to the NSW public sector, and managing risk on the balance sheet.

A key metric we have achieved is halving the state's average cost of debt over the past 5 years. This now sits at around 2.1% per annum and has been achieved by a systematic approach to take full advantage of ultra-low interest rates to finance state debt for the lowest cost and longest time frame.

Environmental, Social and Governance (ESG) considerations are at the heart of TCorp's work and FY22 saw considerable growth in this area, with $2.0bn issued under the NSW Sustainability Bond Programme, bringing the amount on issuance under the Programme to a total of $7.2bn.

The proceeds from our latest bond issuance will be earmarked to finance a combination of green and social assets that have been approved by the NSW Government. These include projects such as sustainable water and wastewater management and clean transportation.

Across the NSW public sector, stakeholders are increasingly recognising the importance of demonstrating their ESG credentials – participating in the NSW Sustainability Bond Programme is becoming a key way to do so.

TCorp is proud to support the many government policies and priorities that have a positive impact on the state's overall sustainability ratings. We continue to work closely with NSW Treasury and Office of Social Impact Investment on the NSW Sustainability Bond Programme.

Active ownership

All large asset owners and major institutional investors are coming under increased scrutiny on ESG. This has been highlighted by geopolitical tensions and the impacts on emerging markets, with the need to divest holdings.

In early March 2022, the NSW Treasurer issued TCorp with a direction to develop a strategy for the divestment of Russian financial assets held within its clients' investment portfolios. TCorp developed this strategy and as at 30 June 2022, we had divested all possible assets (given market constraints) and written down the remainder to zero.

At the same time, the NSW Treasurer announced an ESG review into the state's investment funds. TCorp welcomes this, as we believe it will help us build on our strong record in this area and allow us to become a leader in sustainable investment matters.

Community benefits

While TCorp's activities often support and/or fund large government projects throughout NSW, we also undertake a range of activities that result in immediate and valuable outcomes for regional and rural areas.

Our expertise makes real differences to communities through providing financial solutions that help procure critical items. These included for example, services that enabled the purchase of exhibit showcases for the Australian Museum to protect and preserve them for generations to come and working with the Department of Regional NSW to buy a plot harvester, crucial for modernising grains research and implementing optimal farming practices.

We also provided loans to local councils across the state, including in some very remote areas, helping them deliver much-needed facilities for their communities. Our local government funding remains predominantly regional with over 81% of loans to non-metropolitan councils. We have also supported metropolitan councils on larger projects, for example North Sydney Council with the redevelopment of its Olympic pool. This year we provided $227.9mn of funding to 21 councils, with total lending commitments reaching $1.1bn.

Acknowledgements

In FY22 we acknowledged a new Treasurer—the Hon Matt Kean, MP—and new leadership at NSW Treasury, with the appointment of Dr Paul Grimes as Secretary. Dr Grimes and Ms Joann Wilkie, a NSW Treasury Deputy Secretary, both joined the TCorp Board and I extend a warm welcome on the Board's behalf.

I also express my gratitude to former NSW Treasury Secretary Mike Pratt and Deputy Secretary Phil Gardner for their contributions to TCorp and wish them well in their future.

Due to the COVID pandemic, the TCorp team has worked hard to move seamlessly to a hybrid way of working and remains productive and effective. They continue to work in close collaboration with NSW Treasury and foster working relationships with a diverse number of investors, industry groups and thought leaders.

As we face the challenges a new financial year will undoubtedly bring, the commitment and focus shown by the Board, and the wider TCorp team will not waver – we will continue to strive to deliver the best possible outcomes to underpin NSW in its ongoing economic recovery and path to prosperity.

Michael Dwyer AM
Chair

Message from the Chief Executive

Market volatility tested TCorp's activities and our people over the last financial year, but we remained resilient, always focused on the long-term financial outcomes for our clients, the state and the people of NSW.

Financial markets were highly volatile in FY22. Local equity markets were strong for the first half, then declined by 10% by the end of the financial year. Bond markets were also extremely weak, with 3-year Australian Government bond yields rising by 2.71% and 10-year yields climbing 2.13%.

Inflation was another flashpoint in Australia, reaching its highest level in two decades, 6.1% as at 30 June 2022. At the same time, the Reserve Bank of Australia tightened monetary policy for the first time in 12 years, raising the cash rate twice in FY22 from 0.1% to 0.85%.

Globally, inflation accelerated in combination with expectations of rising interest rates and central banks responded by signalling an aggressive tightening of monetary policy. This was against a backdrop of COVID-related supply chain constraints, rebounding economic growth and the Russia-Ukraine situation.

Investment management resilience

With $100.7bn of funds under management, TCorp is a top 10 institutional investor in Australia – we maintain a clear perspective on investment markets and build resilience into our portfolios.

TCorp seeks to construct resilient, diversified investment portfolios designed to achieve our clients' long-term investment objectives within their risk appetites. We believe it best to prepare for many eventualities – not just one. In FY22, we continued to build our unlisted assets portfolio valued at $18.0bn and invested in international assets (mostly unhedged) and illiquid assets such as property and infrastructure to provide diversification benefits and stable cash flows over the medium to long term.

We now have $8.3bn in infrastructure, $9.1bn in property and $0.6bn of other assets in our unlisted assets portfolios. In FY22, we also committed $2.9bn to ventures including major logistics assets such as the Moorebank Logistics Park in Sydney, Australia's largest intermodal freight facility.

Although short-term returns were negatively impacted by market volatility and rising interest rates, long-term returns against the majority of clients' objectives remained sound. For example, since its inception in 2018, the NSW Generations (Debt Retirement) Fund has delivered $2.3bn.

Financial markets

Over FY22, TCorp issued $25.8bn in debt – $21.6bn related to the FY22 borrowing programme and $4.2bn of pre-funding towards the FY23 borrowing programme. This was a much lower figure than first anticipated. The debt issuance programme was reduced by almost $7.7bn over the year because of the NSW Government's decision to allocate the proceeds from the sale of its residual interest in WestConnex to reduce state debt. A further $3.3bn of these sale proceeds has been earmarked to reduce the FY23 borrowing programme.

Our bond issuances were all over-subscribed, reflecting their attractiveness among both domestic and international investors. We issued bonds across a range of different instruments, including floating rate notes, benchmark bonds and sustainability bonds.

TCorp locked in favourable rates on the long-term debt issued throughout the year, taking advantage of the historically low interest rate environment. Our average cost of debt as at 30 June 2022 was 2.1%.

A more sustainable future

Sustainability over the long term is an important consideration as both an investor of our clients' money and as a major issuer of debt.

We continued to diversify our bond investor base, leveraging the NSW Sustainability Bond Programme to meet global investor demand in this area – particularly among specialist ESG fund managers. It is an area that will continue to emerge and, I believe, greatly influence global finance.

Among our investment initiatives in FY22, we continued to benefit from moving the Developed Market Equities portfolio—the largest driver of risk and largest by funds under management (approximately $25bn as at June 2022)—to a low carbon benchmark to manage climate risks. We estimate carbon intensity and exposure to fossil fuel reserves have been reduced by 30-35% across the portfolio.

We also hold investments in assets with a strong sustainability lens including an 18.5% share in Australia Pacific Airports Corporation which owns a major Australian airport with a 2025 net zero target.

Our property portfolio has approximately 37% of domestic operating assets (excluding development) being classified as carbon neutral as at 30 June 2022. Globally, approximately 29% of TCorp's property investments are carbon neutral with the target to reach 75% by 2030 and the balance by 2050.

Generating value

TCorp's balance sheet grew to over $124.3bn; our strategy of maintaining a strong liquidity position helped NSW to retain its credit ratings of Aaa (Stable) by Moody's Investor Service, AAA (Stable) by Fitch Ratings and AA+ (Stable) by S&P.

We posted a pre-tax profit of $139.2mn in FY22. This result, and a focus throughout the year on cost control measures, allowed us to return a healthy dividend to NSW of $95.0mn.

A true partnership

As partners to the NSW public sector, we support clients by helping them stay the course. TCorp is a long-term investor; we are aware of the geopolitical forces at play and the escalating cost of living, but we are not distracted by the headlines.

In what has been a volatile few years in the financial markets, TCorp's cultural pillars of partnership, long term and impact have never been more important. This approach is resonating with our clients, investors and stakeholders and I thank them all for their support.

TCorp's most crucial and foundational relationship is with NSW Treasury. Our engagement and interaction with our Treasury colleagues are valued by everyone at TCorp and remained very strong throughout FY22.

Acknowledgements

TCorp has a highly experienced, professional team that has seen a lot of disruption in recent years. I truly appreciate the tireless efforts of staff over the past year and their ability to adapt, thrive and keep focused on delivering outcomes for the people of NSW through the COVID pandemic, lockdowns, and re-openings.

While it is highly likely that markets will remain uncertain in the year to come, TCorp is well prepared to weather the conditions with its resilient portfolios and strong capability in the financial markets to raise debt, and ensure NSW is well positioned to deal with the challenges that lie ahead.

David Deverall
Chief Executive

Section 1

A focus on sustainability

NSW Sustainability Bond Programme

Long-term growth fundamentals remain for ESG bond issuance.

TCorp plays a leading role in Australia's ESG bond market through the NSW Sustainability Bond Programme, the primary mechanism for investors to engage with the NSW Government's sustainability agenda.

Since the inaugural issuance in 2018, there have been 4 bonds issued to date totalling $7.2bn, financing a wide range of projects contributing to green, social, and sustainable outcomes for the state.

In October 2021, TCorp announced the addition of over $4.1bn of eligible projects into the programme's asset pool, which supported the issuance of the new November 2032 Sustainability Bond in February 2022.

The overall strategy of the programme is calibrated to ongoing identification of eligible assets that will support issuance in this format.

Delivering financial impact

TCorp secured a positive funding outcome through the issuance of its $1.5bn November 2032 Sustainability Bond, highlighting the depth of demand for green-certified and social-certified assets and the strong regard for our programme.

Investor appetite for this asset class continues to grow; this bond was 2 times oversubscribed at a yield of 2.565% – an excellent outcome against the backdrop of rising market volatility driven by elevated inflation.

The proceeds raised were earmarked to finance projects that included the Sydney Metro Northwest, Social Housing Maintenance Stimulus Program, Public School Infrastructure, Waterway Naturalisation and Stormwater Improvement and the CBD and South East Light Rail.

The bond attracted 55 investors of which 29% were from international markets. Details on investors, their geography and mandate type are shown in Charts 1 and 2.

The results of the issuance demonstrate investors' genuine interest in directing capital to high quality, sustainable investments for the long term. The commitment to long-term impact is underscored by how tightly these bonds are held in the secondary market.

Chart 1: Allocation by investor type

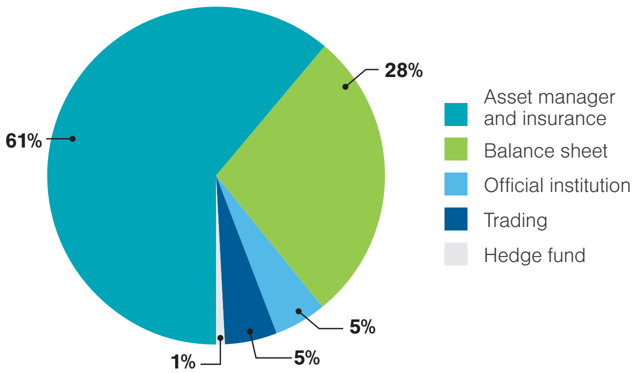
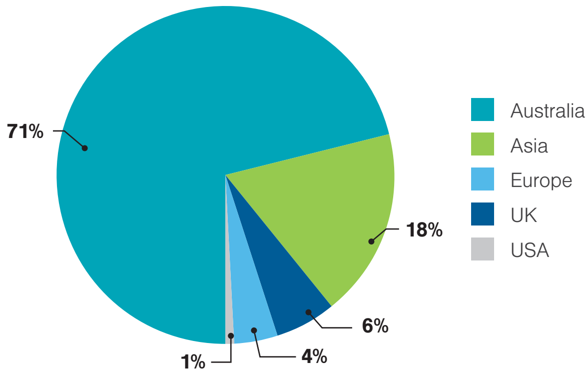


Chart 2: Allocation by investor region



Source: TCorp

Working collaboratively

TCorp acknowledges the November 2032 Sustainability Bond issuance was a whole-of-government transaction that would not have been possible without the support and collaboration across many areas of the NSW Government. We work very closely with NSW Treasury and NSW Department of Planning and Environment on an ongoing basis and, for the 2022 issuance, we also partnered with Sydney Metro, Transport for NSW, Sydney Water, National Parks and Wildlife Service, Land and Housing Corporation and the Department of Education.

The market context

Challenging market conditions locally and globally continue to impact bond markets, resulting in ESG bond issuance expectations for 2022 being tempered. Market participants see this as simply a pause in the growth of the asset class, rather than a structural change in dynamics that have so far underpinned its rapid expansion.

Moody's calculated that total global issuance has now surpassed \$3tn equivalent, with over \$2tn issued since the beginning of 2020. It has forecast a revised 2022 issuance of approximately \$1tn, down from its original \$1.35tn estimate.

A sustainability bond programme for NSW

Established in 2018, the NSW Sustainability Bond Programme is overseen by NSW Treasury's Sustainable Finance Steering Committee. The programme finances projects and assets that support a broad range of NSW Government environmental and social policies, strategies and goals and, in line with best practice, also adhere to global standards and principles.

The programme is underpinned by a strong governance framework with representatives from TCorp and NSW Treasury (Office of Social Impact Investments and the Office of Energy and Climate Change), forming the NSW Sustainability Bond Committee, Asset Identification Group and Reporting Group.

To date, TCorp has issued 4 bonds with the proceeds earmarked to a range of green, sustainable, and social initiatives, including transport, housing, and water treatment. TCorp reports annually on the sustainability outcomes of the projects included in the programme and has appointed an external verifier to ensure it maintains its high standing in the market both domestically and globally.

Case study

The value of sustainability


Christine Turner


George Boulous

While the projects and assets funded by the NSW Sustainability Bond Programme make an appreciable and positive difference to the everyday lives of the people of NSW, the programme's success also enhances the sustainability journey for participating organisations.

Sydney Water has had assets included in each issuance to date. Christine Turner, its Operating Licence Lead, Customer Delivery, said being included in the programme helps Australia's largest water utility demonstrate how it is championing sustainability and a circular economy mindset.

"My vision has always been to give nature and the environment a more prominent voice within Sydney Water," Ms Turner said. "At a conference several years ago, I learned about how green bonds can help in transitioning to a low carbon economy and improve environmental performance, so when I heard about the NSW Sustainability Bond Programme being launched, I thought it would be valuable to explore further.

"Beyond reconfiguring Sydney Water's debt, we wanted to unlock further value from the services we provide through new sustainable finance mechanisms. It was also a great opportunity for us to showcase our sustainability credentials to a broader audience, particularly in the financial sector, and demonstrate how a water utility is helping to address the UN Sustainable Development Goals (SDGs)."

Sydney Water's Manager of Corporate Finance, George Boulous said being part of the inaugural issuance showed "true foresight" in how the organisation was implementing and embedding sustainability practices. "We had already looked at environmental and social issues, but how these interact with financial sustainability was one we had yet to fully explore," he said.

"Sydney Water has taken its sustainability activities further by incorporating circular economy principles into everything we do. As a water utility, overseeing a resource vital for future generations, we have an important role to play in shaping a low carbon future by mitigating the impacts of climate change as well as protecting and enhancing the environment."

So far, Sydney Water has 9 assets earmarked against the 4 issuances to date – Lower South Creek Treatment Program, Green Square Trunk Stormwater Improvement and 7 stormwater naturalisation and improvement projects.

"We put forward 'green' projects that showcase our approach to renewable energy, energy efficiency, pollution prevention and control, sustainable stormwater management, climate change mitigation, and circular economy adapted production technologies that recover resources from waste streams," Ms Turner said.

"The approach to stormwater asset renewal is a great example. We reimagined this through a naturalisation lens, which gave Sydney Water and our stakeholders the opportunity to rethink water infrastructure by incorporating more natural and innovative design solutions. It's part of our desire to maximise the value of our natural capital and extent of our green assets that also increases the lifespan of our assets and improves resilience to climate change.

"Even further, these types of assets produce a variety of other benefits like water quality improvements, reduced carbon emissions, recreational opportunities and habitat protection."

How government entities can participate

Sydney Water described the process to get its assets considered for inclusion in the programme as "streamlined, well-structured and easy to implement" with a clear and robust framework and the valuable role played by the Asset Identification Group (AIG) work is instrumental in delivering new assets.

Ms Turner commented: "Ultimately, any successful process comes out of collaboration and, to that end, the Office of Energy and Climate Change's (OECC's) Environment and Heritage Group has been an enormous help; they've worked with me to ensure Sydney Water's documentation meets all asset eligibility criteria set by the Climate Bonds Standard are met and that we can provide the evidence to support the claim. We also deeply value the great support from TCorp and NSW Treasury.

"Sydney Water already has vigorous processes in place internally generating large amounts of verified information. Our aim is to keep things simple; our reporting team across Sydney Water really helps home in on the most relevant information that demonstrates the value of the assets and the outcomes being sought. This is an extraction exercise from our information database and repurposing this information to put forward to the programme reinforces our environmental performance and stewardship efforts and puts a spotlight on how that has improved over time."

Having taken over the leadership of the AIG in 2019, NSW Treasury's Office of Social Impact Investment (OSII) says there are several criteria that need to be satisfied for projects seeking inclusion into the programme.

Waterway Naturalisation and Stormwater Improvement, Cooks River.
Photo courtesy of Sydney Water.

Dr Aleksandra Simic

Nic Tan

Head of OSII, Dr Aleksandra Simic, says larger projects, with an estimated total cost of $25-50mn are given priority by AIG. “But, in addition to growing the programme, we are also looking to diversify the asset pool, so we can demonstrate how the government is aligning the state’s financial activities with more sustainable outcomes across a wide range of initiatives,” she said.

In engaging with NSW Government entities and organisations, AIG members (which also include TCorp and the OECC) identify eligible green and social assets and projects that meet several threshold criteria:

- Currently underway (or have been completed within the previous 2 years)
- Wholly or partially funded by state debt
- Address or mitigate a specific environmental/ social issue and/or seek to achieve positive environmental/social outcomes
- Have established (or have ability to establish) timely, robust and accurate data collection to enable annual impact reporting.

“To assess the eligibility of projects we are guided by the NSW Sustainability Bond Programme Framework, which sets out our core principles and the global standards we align to,” Dr Simic said.

“Regardless of the size of assets, we apply the same focus on transparency and disclosure. There is a clear signal that quality data on assets and projects is required to participate in the programme and a key part of that is encouraging participating entities to adopt more outcome-oriented measures.

“It’s important for us to stay abreast of global developments in impact reporting standards. We give consideration to how best to apply the standards within a local context and consider if there are alternatives better suited to Australia.”

The 2 components of identification and reporting have become more closely linked as the programme has evolved. “Through our work, we’ve found that NSW Government agencies are doing a lot of work in sustainability and we can support them to capture and present impact indicators in a way that meets investor expectations,” OSII Associate Director Nic Tan said. “Working with agencies we look to leverage the data they already collect or can collect to enable participation in the programme. As the programme matures we are looking for opportunities to embed our reporting requirements earlier in the process of design and delivery of assets/projects.”

The programme has diversified NSW’s investor base, while also contributing to the UN SDGs but OSII also has the aim of “raising the bar” across the NSW Government family in achieving transparent and verifiable outcome reporting. “By showcasing the sustainability work of participating asset owners, we can encourage and support other government asset owners to adopt robust reporting practices,” Dr Simic said.

Mr Tan added: “What we are looking to do here is give investors an opportunity to contribute to the actions government is taking towards a sustainable future. It’s about supporting sustainability practices and seeking alignment on priorities. Data is a very powerful form of evidence in support of this, so we are pleased to see a lot of agencies making the effort to tell their story in a way that investors understand.”

ESG integration and active stewardship: why it matters

Stewart Brentnall

Alexis Cheang

Stewart Brentnall, Chief Investment Officer and Alexis Cheang, Head of Investment Stewardship discuss why it is vital for all participants in the investment ecosystem to integrate a broad range of ESG factors into the decision-making process.

What has been the investment stewardship journey for TCorp?

Stewart: In 2016, during the formative stages of creating TCorp's risk-based investment model, also known as the Total Portfolio Approach, the concept of stewarding our clients' capital with the utmost care was already seen as a key enabler of delivering the best possible investment portfolios for our clients.

TCorp's management and Board worked together to create 6 foundational investment beliefs, covering a broad scope of investment process and governance matters. The sixth of these states that "consideration and management of ESG factors will create more sustainable portfolio outcomes".

What is ESG and why is it important in an investment context?

Alexis: ESG stands for environmental, social and governance. We integrate ESG factors like climate change, diversity and inclusion, and the strength of institutions into our investment model and portfolios, as they can have significant impacts on our investment returns.

At TCorp, we think deeply about climate change and what impact it will have not only on our investment risk and returns, but also the people of NSW – the recent flooding across the state is a clear example of the very real and immediate effects. Climate change presents both investment risk and opportunity as the global economy and energy system transition from fossil fuels to clean energy and a low carbon future.

In recent years, the relationship between business and the community has shifted away from the more traditional focus purely on profits to shareholders, to one that features stronger attention on broader stakeholder capital. Today, both investors and business see their role as generating genuine social value and are asking how they can create lasting value for customers, employees, the environment and communities as well as achieve profits.

Ultimately, our focus is on delivering long-term risk-adjusted returns for our clients.

What is TCorp's approach to ESG?

Alexis: We consider ourselves stewards of the assets entrusted to us by the NSW Government and this frames our ESG thinking. The money we invest is not ours; it has been entrusted to us to invest wisely and prudently in the expectation that it will generate a given return to meet the needs of the people of NSW.

TCorp believes understanding and managing ESG issues is critical to achieving sustainable investment outcomes, and we operate under a 5 pillar Stewardship Framework as detailed in Chart 3.

Chart 3: Stewardship framework

Step 1

Integrate ESG into our investment decision-making

- Identify the ESG factors likely to have the greatest impacts on our portfolios
- Consider these factors throughout the investment decision-making process

Steps 2 & 3

Active ownership

- Encourage companies and businesses we invest in to operate responsibly and sustainably through proxy management and engagement
- Help them think ahead on how significant sustainability trends are likely to impact their businesses

Step 4

Collaboration

- Partner with our clients, investment managers, advisors, government colleagues and peers
- Seek to strengthen the whole financial and economic system by embedding good governance and sustainability

Step 5

Disclosure and transparency

- Effectively communicate the positive impact of our stewardship activities to our clients and their members or stakeholders
- Present at industry forums, roundtables and client Board/Investment Committee meetings

What are the challenges facing ESG investing?

Alexis: The biggest challenge is a lack of data to generate analysis and drive decisions and, where it does exist, incomparable data. When you manage portfolios as diversified as ours, there is a real asymmetry of ESG data available.

The International Sustainability Standards Board has recently published some draft guidelines that would set de facto global standards for ESG disclosure. These will go some way to solving the challenge, but not completely as it wouldn't apply to governments or certain other assets we might invest in.

Understanding the impact of ESG integration and getting more confidence that the way we're evaluating sustainable investment opportunities is creating financial, environmental and social value is another challenge. It is however also an opportunity for investors to look beyond the investment returns and ask, "what other positive sustainability impacts are we generating from these investments?"

How has TCorp responded to the situation in the Ukraine?

Alexis: In late March, the NSW Treasurer issued TCorp with a direction to develop a strategy to divest all holdings in Russian assets. We divested all possible directly held assets (given market constraints) and wrote down the remainder to zero.

Like most major institutional investors, TCorp held a small percentage of Russian stocks and bonds as part of its emerging markets strategy. When the Ukraine invasion began and sanctions and capital controls were introduced, those assets couldn't be sold, nor the proceeds repatriated from Russia. This led us to question where else this could happen and what more we can do to protect our clients' investments from geopolitical and stranded asset risks.

In response, TCorp has started to develop a country ESG risk framework. This will allow us to assign a country ESG risk score to every nation where we might invest and then to set some minimum standards. We can then take a well-informed decision that a certain level of risk, in a given jurisdiction, would be beyond our tolerance levels and we wouldn't invest.

The country ESG risk framework will not only allow us to identify where we have exposure to the highest risk countries but monitor changes in this risk on a regular basis that will inform whether we might decrease or increase that investment or exit the country altogether. This work will position us to minimise future risk.

Where are the opportunities in ESG?

Alexis: All kinds of new business and investment models are emerging to solve some of the world's most intractable sustainability challenges. There are opportunities now and into the future for business and investment communities to become important players in a range of areas. These include vaccine development, sustainable infrastructure and property, and water management. And, as the world transitions to a low carbon future, this includes transport such as electric vehicles.

There is the potential to turn risk into opportunity. For example, one of the most quickly emerging risks is around biodiversity loss and natural capital (natural resources) – this is closely linked to climate change. Our economy requires natural capital to exist and to provide the goods and services that all Australians rely on, but if we don't protect biodiversity, we won't have that natural capital to deliver our basic needs. Building on the learnings and experience of identifying climate change as an investment risk and opportunity, there is now a group of investors that is exploring how we could do something similar with biodiversity risk and natural capital. We're watching this area closely and are involved in thought leadership/research with WTW's Thinking Ahead Institute.

Another risk that could be turned into an opportunity, which is not new but growing quickly, is that of diversity, equity and inclusion. Data on this risk has been somewhat lacking as well as producing unclear signals. We're now getting better data on why more diverse and inclusive businesses perform better from an investment perspective, and that allows us to integrate these factors more consistently in how we build sustainable portfolios. When we use our active ownership skills to encourage greater diversity among executive teams and boards, we do it with the expectation the companies will perform better in the long term.

How will we continue to help our clients?

Stewart: TCorp's ESG journey will continue for many years. We are working with NSW Treasury to further evolve our model, ensuring every part of our investment team integrates ESG into our processes and portfolios more seamlessly and effectively. While the investment stewardship team is only 4 people, our clients have the full Investment team building ESG-conscious portfolios. Management of ESG risks will continue to grow in importance, both to mitigate unwanted risks and to translate the desirable ones into opportunities for generating better investment returns for our clients.

Our economy requires natural capital to exist and to provide the goods and services that all Australians rely on, but if we don't protect biodiversity, we won't have that natural capital to deliver our basic needs.

Case study

Moving to low carbon benchmarks

TCorp's Investment team is committed to integrating climate change into how we build sustainable and resilient portfolios, delivering important ESG goals without sacrificing portfolio returns.

TCorp believes that ESG issues like climate change can have real impacts on investment risks and returns and are integral factors to be considered in our quest to build sustainable and resilient portfolios.

In line with the NSW Government's aspiration to transition to a low carbon, net zero future, TCorp has examined the carbon footprint of our portfolios. We have evaluated how well they could be expected to perform as the world moves away from carbon intensive fossil fuels, and towards a clean energy economy.

Approach

A reduction in exposure to companies with higher carbon emissions is a key component of TCorp's approach to managing climate risk in the Developed Market Equities part of our investment portfolios.

We have focused on reducing our investments in companies that demonstrate the highest levels of carbon emission, have the most carbon intensive business models, and the lowest potential to transition to a clean energy future. With a goal of reducing the portfolio's overall carbon footprint, we are also positioning it to deliver strong returns in the transition to a low carbon global energy system. To achieve this, we took a 3-step approach:

1. TCorp's Developed Market Equities portfolio represents our largest contributor of portfolio carbon emissions, total portfolio risk and largest single portfolio sleeve by capital (approximately $25bn as at 30 June 2022). We considered this was the most appropriate and impactful starting point for reducing the total portfolio's carbon footprint and climate transition risk.
2. After shortlisting 4 options for utilising different benchmarks, TCorp decided to use the MSCI World Low Carbon Leaders Index. In comparison with the broader MSCI World Index, this index aims to achieve at least a 50% reduction in carbon footprint, through the exclusion of, or reduction in, weightings of the most carbon emissions intensive companies, while still maintaining the broad market exposure and risk profile to all developed market countries and sectors.
3. After implementing this index as the performance benchmark for underlying managers, TCorp has been able to leverage these insights to identify where our investment manager partners continue to hold emissions intensive companies, and to engage with them to understand how they are using their influence to encourage those organisations to reduce emissions and transition to a low carbon future.

Outcomes

As a result of this work, we estimate TCorp's Developed Market Equities portfolio:

- Has reduced carbon intensity by 30-35%
- Has reduced exposure to fossil fuel reserves by 30-35%
- Is better positioned to deliver sustainable returns aligned with a low carbon energy transition. Over the course of the first year of implementation, the portfolio has delivered returns in line with the broader market, but with markedly lower carbon emissions and climate risk. We have been able to deliver some important ESG goals without sacrificing portfolio returns.

Alongside a reduction in our portfolio's carbon footprint, TCorp also integrates climate risks through a combination of other functions including active ownership (direct engagement with our investee companies), external manager due diligence, and climate change scenario testing.

Section 2

About TCorp

About TCorp

Our mission is to provide best-in-class financial management, solutions and advice to the NSW public sector.

TCorp is the financial services partner to the NSW public sector, providing best-in-class investment management, financial management solutions and advice. With $100.7bn of assets under management, TCorp is a top 10 Australian institutional investor and is the central borrowing authority of the state of NSW, with a balance sheet of $124.3bn.

Created by the *Treasury Corporation Act 1983*, TCorp is a wholly owned entity of the state of NSW and is part of the NSW Treasury cluster. We have the same legal capacity, powers and authorities as a company under the *Corporations Act 2001* (Cth), which allows us to raise and manage money to help the NSW Government and ultimately, the people of NSW.

TCorp is a public financial corporation (PFC) and not a budget dependent agency. PFCs provide financial services including insurance, lending and investment management, trade in financial assets and liabilities of the state and operate commercially in the financial markets.

Furthermore, TCorp is a net contributor to the state through the payment of tax equivalents and dividends and in FY22, we generated a dividend of $95.0mn. Our borrowing, investment and financial management activities are regulated by the *Government Sector Finance Act 2018*.

Partnership and collaboration

In providing solutions and advice for our clients across the NSW public sector, we build relationships with the private sector.

Our reputation and scale in financial markets allows us to partner with leading domestic and global institutions including fund managers, banks, technology and other service providers, to design and implement strategies delivering the most appropriate outcomes for our clients.

Our objectives

Financial management

Best-in-class for financial management, solutions and advice.

People and culture

Sought after for the capability and conduct of our people.

Whole-of-state outcomes

A sustainable and aligned organisation always focused on delivering for all of NSW.

For the benefit of NSW

TCorp has a unique remit, being the only public sector organisation that acts as both a fund manager and a government central borrowing authority. We combine both functions to our clients' advantage and provide long-term benefits to the people and communities of NSW. Our scale, market presence and strong credit rating provide access to a broader range of opportunities at lower costs, compared with the private sector.

TCorp provides 2 main service lines to clients:

Investment Management

Our activities include:

- Providing investment advice and portfolio management solutions tailored to clients' specific risk and return objectives
- Managing cash and fixed income portfolios, infrastructure and property assets.

Financial Markets

Our activities include:

- Raising funds in local and international debt markets
- Managing risk on the TCorp balance sheet
- Managing liquidity assets
- Providing lending and tailored financial risk management solutions to the NSW Government family.

Chart 4: TCorp – connecting the public and private sectors

Section 3

Corporate performance

5-year summary

	2022 $mn	2021 $mn	2020 $mn	2019 $mn	2018 $mn
Profitability					
Profit before income tax equivalent expense[1]	**139**	**117**	**75**	**124**	**89**
Balance sheet					
Loans to public sector	110,358	106,303	87,224	61,799	52,913
Other assets	14,188	10,928	12,492	12,723	12,909
Total assets	**124,546**	**117,231**	**99,716**	**74,522**	**65,822**
Benchmark bonds	74,126	77,816	64,435	52,672	45,459
Other borrowings and liabilities	50,190	39,187	30,041	21,587	20,070
Total liabilities	**124,316**	**117,003**	**99,476**	**74,259**	**65,529**
Difference represented by equity	**230**	**228**	**240**	**263**	**293**
Funds under management					
TCorpIM Investment funds	67,835	69,132	56,763	59,319	47,753
Specific fund mandates	32,834	41,402	46,200	47,528	46,128
Total	**100,669**	**110,534**	**102,963**	**106,847**	**93,881**

1. A significant portion of TCorp's revenues is generated through the management of financial risks inherent in its balance sheet. As a result, TCorp's profitability can fluctuate year on year as it is impacted by changes in interest rates and market conditions.

Sound financial performance

TCorp is proud of the work we do to achieve positive, long-term impacts for the state of NSW and its people.

Positive financial earnings

Our financial year 2022 pre-tax profit of $139.2mn was a solid performance given market volatility and resulted in a dividend to the state of $95.0mn.

Funds under management

Our funds under management totalled $100.7bn.

TCorp is a top 10 major institutional investor in Australia and this gives us access to unique investment opportunities, both locally and overseas.

Positive cumulative returns

Since funds amalgamation on 1 July 2015, to 30 June 2022, we have delivered cumulative absolute returns of $34.2bn.

Strong credit rating

Our strategy of maintaining a strong liquidity position contributed to TCorp retaining its credit ratings of Aaa (Stable) with Moody's Investor Service, a AAA (Stable) by Fitch Ratings and AA+ (Stable) with S&P.

Reducing financing risk

Taking advantage of the low interest rate environment, we reduced financing risk by managing the weighted average life of the portfolio to 6.2 years by 30 June 2022.

Diversifying our investor base

The NSW Sustainability Bond Programme continues to reach new parts of the market attracting strong interest from the global investor base.

Supporting NSW communities

We supported projects and communities across NSW by providing funding or financial risk management solutions.

TCorp funding has helped with major infrastructure projects including sustainable and social initiatives, local council projects, including capital works, essential equipment and new and affordable housing stock.

Prudent management of investment funds to support key policies and projects

TCorp manages the state's investment funds to generate returns that support the government's long-term policy aims and fiscal position.

Some of our key funds include:

- NSW Generations (Debt Retirement) Fund (NGF) – This is the state's sovereign wealth fund that invests asset recycling proceeds and other revenues to achieve a competitive return for taxpayers, while supporting a sustainable debt position over the medium term, and intergenerational equity. Since the fund's inception in 2018, it has achieved investment returns of $2.3bn, the equivalent of 5.8% per annum contributing to a reduction in the state's net debt. As at 30 June 2022, the NGF was valued at $14.7bn.
- Treasury Managed Fund (TMF) – This is the NSW Government's self-insurance fund that covers public sector workers compensation, general insurance and other liabilities. As at 30 June 2022, the TMF was valued at $11.8bn.
- NSW Infrastructure Future Fund (NIFF) – This is an investment vehicle that invests proceeds from the state's past asset recycling transactions, allowing the government to generate additional returns for taxpayers. It supports investment into key infrastructure projects under the Restart NSW/Rebuilding NSW programmes. Established in December 2016, the NIFF has since delivered $3.2bn in cumulative returns. As at 30 June 2022, it was valued at $8.9bn.
- Social and Affordable Housing Fund (SAHF) – Returns from this fund provide increased funding for new social and affordable housing stock to the community. We manage the SAHF to provide a stable income stream over a 25-year period. This facilitates the delivery and ongoing servicing of social and affordable homes from a mix of private and non-profit consortia. As at 30 June 2022, the fund had a balance of $1.5bn and had returned 5.7% per annum since inception.

Case study

Protecting for future generations – showcasing Australian Museum exhibits

Two permanent exhibitions at Sydney's Australian Museum, Wild Planet and Minerals, required special glass showcases to protect and preserve them for generations of visitors.

Given the nature of the new exhibits and the Sydney climate, the Museum needed showcases to control humidity. It contracted an Italian supplier and asked TCorp for advice in managing the foreign exchange risk for this procurement. After reviewing the contract, TCorp advised on the appropriate foreign exchange risk management strategy and recommended the Museum pay the supplier in euros.

Working with a tight timeline, TCorp executed the hedges to deliver budget certainty for the Australian Museum. The Museum will maintain an ongoing contract with this supplier for the next 5 years, subject to performance and funding approval.

Bespoke cases for one-of-a-kind exhibitions

Occupying an empty space in the Museum, the Wild Planet and Minerals exhibitions required a complete suite of fittings, including showcases. While some standard showcases were purchased, the Minerals exhibition in particular required bespoke showcases.

Museum staff designed the custom showcases and worked with the supplier to realise some specific engineering requirements.

Standards that the showcases needed to meet included:

- Security standards due to the value of the exhibits
- Conservation standards relating to temperature and humidity control and air exchange, allowing for the best possible display conditions, ensuring the objects do not fade or degrade, and protection from insect infestations.

The supplier also demonstrated several environmental and sustainability credentials, manufacturing showcases that are guaranteed to be free of certain substances (formaldehyde, organic acids, volatile sulfides) and with the lowest level of volatile organic compounds possible. The commitment to sustainable practices extends to all the components in the systems and apparatus inside the cases (electric wiring, pipes, gears, motors, etc.) to ensure extremely low emissions.

Wild Planet exhibition showcases.
Photographs courtesy of Australian Museum.

Case study

Helping modernise grains research

The Department of Regional NSW (DRNSW) decided to purchase a plot harvester from Germany to support the Grains Agronomy and Pathology Partnership (GAPP) programmes at Tamworth in north-eastern NSW.

The existing pulse pathology and agronomy plot harvester was approaching the end of its useful life and was not comparable to other modern machines now being used by other research providers.

DRNSW identified significant organisational risk for GAPP to continue long-term delivery of research outcomes to industry and initiated a replacement programme in a bid to future proof these deliverables.

Helping clients achieve budget certainty

With TCorp's guidance, DRNSW negotiated with the vendor to purchase the harvester for over €300,000 ($450,000). We extended the foreign exchange forward settlement date beyond the estimated delivery date to ensure flexibility should it be required. An example of this would be if delays were experienced in the manufacturing process or if faulty components were discovered and needed to be replaced prior to dispatch.

Ultimately, the delivery was on time, however it was important for DRNSW to have budget certainty on the total Australian dollar amount it would need to pay and TCorp was able to lock in an exchange rate. As a result, DRNSW was protected against the impact of adverse foreign currency movements for the period between the signing of the contract (March 2021) and the final payment date (November 2021).

Client feedback

"Access to foreign currency hedging is critical in ensuring government agencies receive value for money when purchasing high value goods from overseas suppliers. Previously supply contracts for plot harvesters were negotiated in Australian dollars meaning overseas manufacturers usually hedged foreign currency risk by inflating the total contract price."

Rod Jackson

Director, Australian Cotton Research Institute,
NSW Department of Primary Industries

The Grains Agronomy and Pathology Partnership is a joint venture between Grains Research Development Corporation and the NSW Department of Primary Industries, aiming to improve the yield potential of winter cereals, pulses and oilseeds, reduce the impact of plant diseases and help growers to improve their profitability.

Zürn Z150 plot harvester.
Photograph courtesy of Zürn Harvesting.

Case study

Refurbishment of aquatic centre.

Performing Arts Centre exterior.
Photograph courtesy of Goulburn Mulwaree Council.

New Performing Arts Centre and upgrade of Aquatic Centre Goulburn Mulwaree Council

Located in the Southern Tablelands region in NSW, around 200km south-west of Sydney, Goulburn Mulwaree Council has experienced recent strong population growth. Many of its facilities in Goulburn are ageing, and the Council needed to upgrade their Aquatic Centre, and build a Performing Arts Centre to cater for community needs.

Undertaking 2 large capital works projects meant funding the work was a challenge for Council.

Solution

TCorp provided funding of $14.9mn for the Goulburn Aquatic Centre and $2mn for the Goulburn Performing Arts Centre. Both projects were funded with blended financing from Council's own sourced funds, grant funding and TCorp loans.

The facilities will provide modern amenities for the use of locals and visitors alike, cater for future population growth and contribute to a lively and prosperous regional city.

Client feedback

"The Low Cost Loans Initiative combined with TCorp lending continues to be an invaluable tool for Council to fund infrastructure projects for our community. Once again, dealing with the staff at TCorp has made what could be a complicated application process, seamless and hassle free."

Brendan Hollands

Director of Corporate & Community Services
Goulburn Mulwaree Council

Case study

Lavington Sports Ground Precinct upgrade

AlburyCity Council

One of Australia's largest border towns, Albury Wodonga spans the states of NSW and Victoria and is a vibrant regional city located on the Murray River. It is administered by the AlburyCity Council, located on the NSW side of the border. With growing local population, Council needed to upgrade facilities, particularly the Lavington Sports Ground Precinct, with new multipurpose playing fields, carpark, amenities building and a grandstand extension.

Solution

TCorp has provided AlburyCity Council with access to over $50mn of funding for a range of infrastructure projects since 2016, including the upgrade of the Lavington Sports Ground Precinct.

Significant population growth in the Lavington and Hamilton Valley areas and a lift in participation across a number of sporting codes has led to high demand for additional outdoor playing fields and facilities for girls' and women's sport.

By updating the ageing infrastructure, the precinct has been transformed into a facility capable of hosting local, regional, state and national carnivals. It meets community sports needs and is able to attract and facilitate major events. The work also ensures the facilities have improved access, especially for people with a disability and are fully compliant with the Building Code of Australia and fire regulations.

Client feedback

"The service provided by TCorp was instrumental in our ability to deliver significant projects that support our community vision and contribute to our standing as a regional leader."

Justin Finlayson

Service Leader, Strategy & Performance
AlburyCity Council

Lavington Sports Ground Precinct. Photograph courtesy of AlburyCity Council.

Case study

TCorp's expertise helps protect Sydney Metro from interest rate rises

The Sydney Metro network provides a fast, safe and reliable train network, helping residents and visitors to reach their intended destination and meeting the demands of the growing Sydney population.

The network is continuing to expand through Sydney's central business district, the North West and the South West and will introduce a new generation of world-class, fast, safe and reliable trains. It is Australia's largest public transport project and offers greater amenity, liveability and sustainability for the city.

With a major focus on sustainable development, this project will deliver fully accessible stations including lifts, platforms level with train floors, platform screen doors for safety and minimal gaps between platforms and trains.

Sydney Metro Northwest.
Photograph courtesy of Sydney Metro.

Issue

Exposure to fluctuating interest rates and the need for budget certainty prompted Sydney Metro to consider an alternative strategy.

How TCorp helped

With interest rates at an all-time low at the inception of the project, TCorp worked in partnership with Sydney Metro to lock in, or hedge, interest rate exposure (replacing floating rate exposure). Sydney Metro accepted TCorp's recommendation to enter into several interest rate swaps with TCorp to 'fix' the exposure, providing Sydney Metro with the ability to manage cash flow requirements, and greater confidence and certainty.

Sydney Metro currently has 13 metro stations. By 2030, Sydney will have a network of 4 metro lines and 46 stations. The Sydney Metro network will have a target capacity of 40,000 customers per hour, a significant rise from 24,000 customers per hour on the suburban rail system.

The City & Southwest line will extend the existing Metro North West line to the CBD and on to Bankstown. Services between Chatswood and Sydenham commence in 2024. Construction is progressing on the Sydney Metro West and Western Sydney Airport lines, which will improve safety, reliability and accessibility for public transport customers around the city.

Case study

Blended funding to improve sewerage infrastructure in Barellan

Narrandera Shire Council

Barellan is a significant hub in the Narrandera Shire, surrounded by large wheat farms. Located around 500km west of Sydney, Barellan is part of the NSW Riverina region and at the intersection of several major highways.

The Barellan sewer project provides a modern reticulated sewerage system in Barellan for Narrandera Shire. It replaces the outdated onsite septic tank systems that are prone to failure due to hydraulic overloading, unsuitable lot sizes and poor ground conditions.

Solution

Approved funding for the project includes $4.9mn from the Safe and Secure Water Programme and $1.6mn from a TCorp-approved loan. This infrastructure will facilitate new housing and business in the drought-impacted Barellan region.

Client feedback

“TCorp assisted Narrandera Shire Council from the application process, right through to the loan drawdown. The team were efficient, knowledgeable, and supportive, making the loan process easy. Access to low-cost borrowing provided by TCorp supported Council to progress this important project.”

Rebecca Best

Finance Manager
Narrandera Shire Council

Section 4

Operations overview

The operating environment

Our business units

The operating environment

NSW's economic prospects will be supported by several initiatives including the long-term focus on developing a sustainable and liveable community. TCorp's Chief Economist Brian Redican reports on the local and global markets and the outlook.

In the face of a range of headwinds, economies have demonstrated their resilience in recent years, but the path ahead is likely to remain challenging.

Despite the risks posed by ongoing COVID-19 issues, the global economy grew strongly from mid-2021 to early 2022. This reflected the success of government policies to support businesses and households during lockdowns, the way in which people increased spending in areas like tourism as restrictions were eased and pent-up demand for spending following prolonged supply chain disruptions.

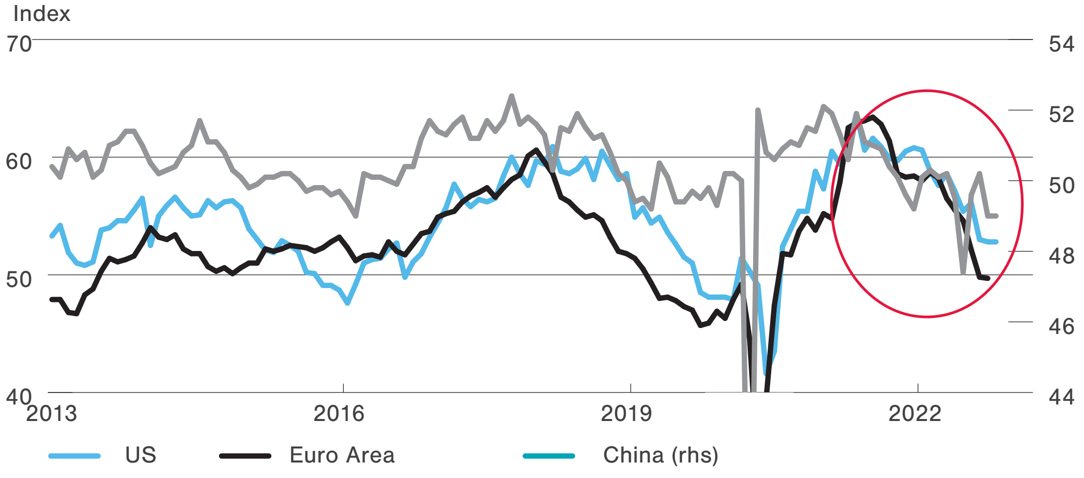
Going into 2022, with low unemployment rates and strong business confidence, the outlook appeared bright. Unfortunately, in February, conditions were upended by the Russian invasion of Ukraine, sending shockwaves through energy and food commodity markets and prompting fresh supply chain shocks. At the same time, China significantly tightened its COVID-zero approach. The result was a surge in price pressures around the world, with inflation jumping towards 10% by mid-2022 in many economies.

This put central banks on high alert. With labour markets already tight, and wage pressures accelerating—reflecting the hangover from the COVID pandemic—policymakers became worried about the risk of a wage-price spiral. Accordingly, central banks began raising interest rates aggressively and warning of their resolve to quell inflation at any cost. While unemployment remained low in the first half of 2022, the outlook is for weaker activity ahead.

Central banks are now walking a tightrope. They must calibrate policy so that inflation expectations remain anchored, without crushing growth too far and reverting to the pre-pandemic environment where inflation remained too low.

For financial markets, this is a time of heightened volatility. Rapid rises in interest rates have undermined investor confidence, and equity markets fell significantly in the first half of 2022. Rising interest rates will also weaken housing markets.

Chart 5: Global manufacturing purchasing managers' indexes, 2013-2022



Source: Bloomberg

While there are many risks in the short term, NSW has demonstrated resilience in recent years and its economic prospects will be supported by several initiatives. These include the long-term focus on developing a sustainable and liveable community, with ongoing major investments in renewable and less carbon-intensive energy projects, infrastructure and education. This will not only support ongoing resilience of the economy in the next couple of years but enhance the state's long-term growth prospects.

FY22 began with positive momentum

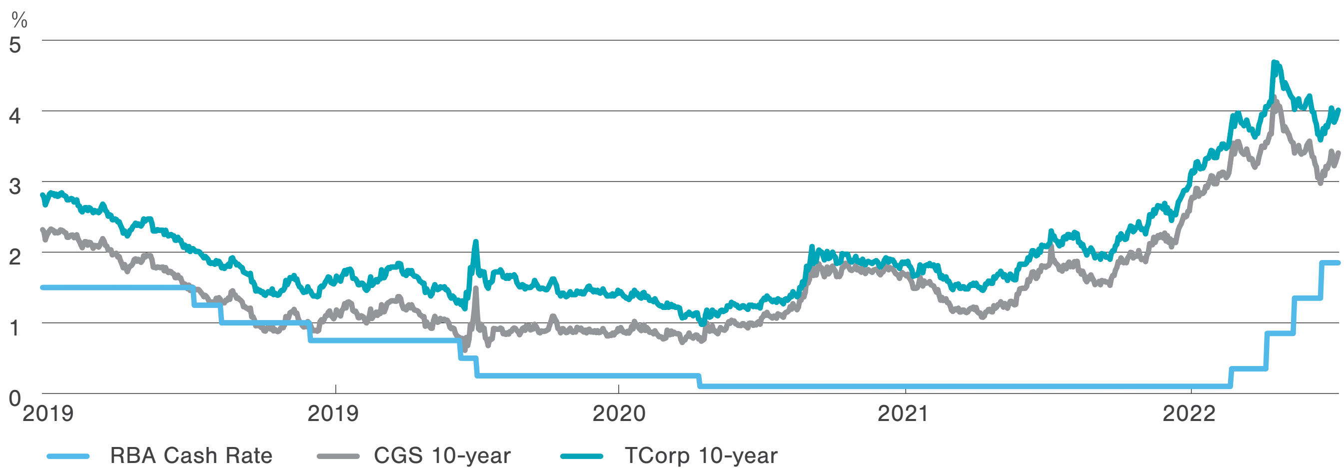
Overall, global economic activity had rebounded firmly from the COVID-induced decline by mid-2021. This positive momentum in spending, hiring and output persisted into early 2022. The healthy growth is highlighted in the chart of global manufacturing purchasing managers' indexes in Chart 5. As can be seen, activity in the US and Europe held in the range of 60-55 through Q2, noting that 50 on the index divides expansion from contraction. Similarly firm activity was seen in other key economies, including Australia. China was the one notable outlier, with activity tracking rapidly lower, on COVID-related lockdowns and a shaky property market.

The resilience of labour markets during this period was a key factor underpinning robust activity. Unemployment rates declined to very low levels in many key economies, including in Australia, where the jobless rate fell below 4.0% in Q2. Against these labour market settings, wage pressures accelerated in some economies including the US but remained relatively contained in Australia.

Russia's decision to invade Ukraine then delivered a very unwelcome shock to the global economy and financial markets. Surging geopolitical risks fed directly into higher energy and food prices, pushing up inflation and inflation expectations. While inflation had picked up in 2021 due to temporary supply chain problems, central banks quickly became concerned that higher rates would prove far more persistent and accordingly, the outlook for monetary policy changed sharply. In March 2022, the US Federal Reserve lifted its funds rate for the first time since 2018 and additional hikes followed, taking the funds rate from 0.0%-0.25%, to 1.5%-1.75%, by June. Central banks in Canada, UK, Sweden and Australia also began raising rates.

The tighter policy environment was reflected in surging bond yields for governments and corporates, from the start of Q2 and the market is expecting further aggressive tightening over the next year. Should inflation continue to run at its current hot pace, the upside risks to rates will be reinforced. At the same time, the path for policy could be altered by how growth responds to higher rates, including for interest rate sensitive sectors including homeowners. This could mean interest rates peak sooner, and at a lower level, than the market expects.

Chart 6: TCorp and government bond yields, 2019-2022



Source: Bloomberg

Downturn, or more, on the horizon

With central banks focused on fighting inflation, it seems very likely that growth will weaken in the year ahead. Higher interest rates reduce the spending power of households with mortgages and companies with loans. At the same time, geopolitical risks, such as the Russian invasion, and the ongoing implications for global energy markets, are important. It seems clear that growth will slow, but what remains uncertain is the extent of that decline.

And with central banks raising interest rates with such alacrity, the risk of a policy mistake—where policy is tightened too far and the economy enters recession—is uncomfortably high at present, particularly in regions such as Europe and the US.

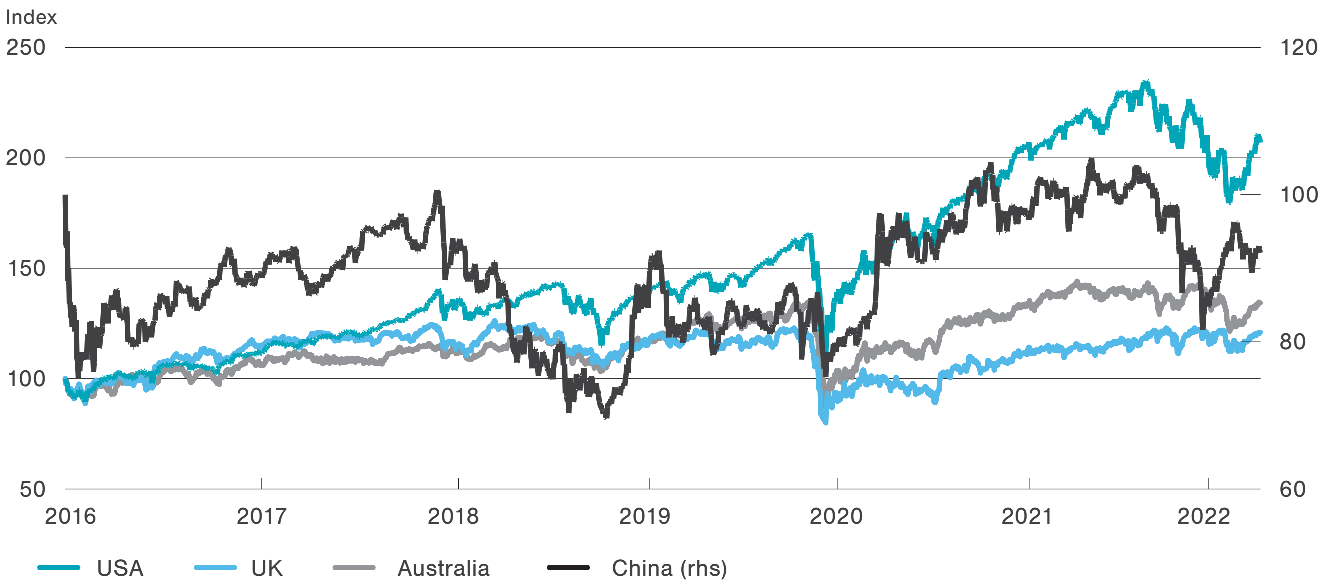
One key buffer is the strong labour market, high savings and relatively firm wages growth in recent quarters. If households use their savings to fund spending while employment remains firm, a 'soft landing' for the economy remains plausible. Of course, if consumers are worried about the outlook, which is what surveys of consumer confidence suggest, they may increase precautionary savings and spend less. If that occurs, growth could slump quickly.

Preparing for a volatile year ahead

As bond yields rose rapidly in the first half of 2022, equity markets began to fall. The decline in stock markets reflected lower valuations – investors were not willing to pay as much for a stream of earnings in a more uncertain environment and a higher cost of capital. Company earnings actually remained resilient in the first half of 2022, consistent with the positive economic momentum developed during 2021.

If global economies do succumb to recessionary forces over the next year, however, company profits will fall and this is the main risk to equity markets in the year ahead. That said, if inflation abates and central banks back away from their threats to raise interest rates much further, then investors are likely to look beyond a temporary drop in profits and consider equities to be an attractive asset class again. In other words, there are risks in both directions in the year ahead and as investors swing between optimism and pessimism, or hope and fear, markets are likely to remain volatile.

Chart 7: Australia, China, US and UK equity indices, 2016-2022



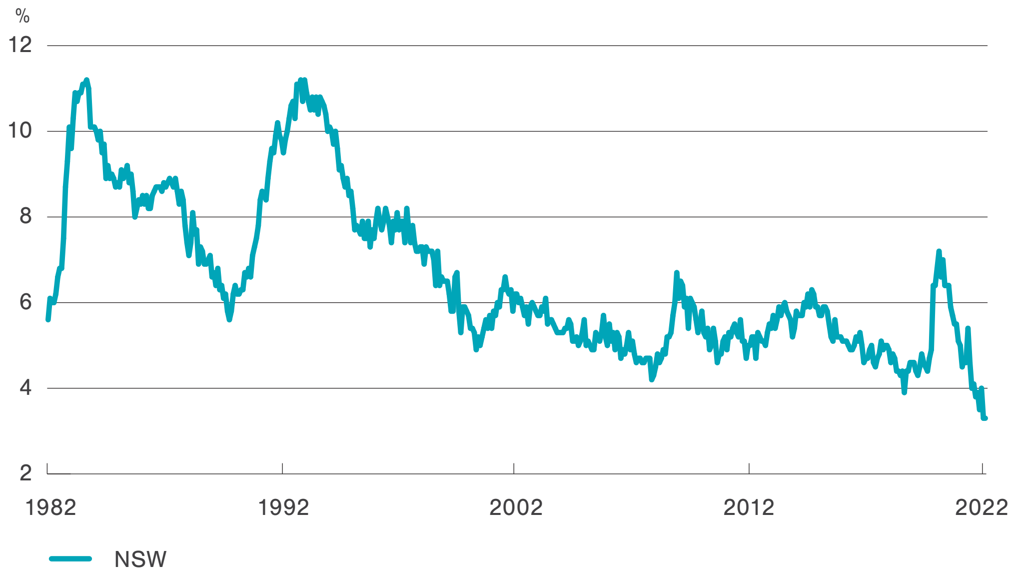
Source: Bloomberg

NSW has been battered by a succession of negative economic shocks in recent years, including bushfires, floods and the ongoing impact of the pandemic. Large jumps in the cost of living and higher mortgage rates are also affecting households. Having said that, the economy has been able to bounce back, reflecting its robust foundations and the benefits derived from well-targeted government support.

For example, spending in NSW fell by 6.4% in the September quarter of 2021 as COVID restrictions curbed activity, but rebounded by 7% in the December quarter as those restrictions were eased, and rose by a further 1.2% in the March quarter of 2022. Other major economic indicators include the NSW unemployment rate, which fell to 3.3% in June 2022, and the NAB survey measure of business confidence. This survey, released in June 2022, showed that NSW firms were the most optimistic in Australia with a rating of +6 (where zero is neutral).

The impressive resilience of the NSW and Australian economies in recent years provides some reason to believe that the economy will successfully navigate the tricky waters ahead, even as households and businesses deal with rising costs and higher interest rates. Still, this will come with its challenges, and it will be important not to neglect those longer-term reforms that ultimately create the economic resilience that has been so crucial during the COVID pandemic. Policies to promote housing affordability, to address energy market failings and pursue infrastructure investment that maximises productivity, would all promote sustainable, long-term economic performance.

Chart 8: NSW unemployment rate, 1982-2022



Source: Bloomberg

Investment Management

TCorp is a leading global asset owner as highlighted in the *Asset Owner 100 study*, released in November 2021, by WTW's Thinking Ahead Institute. As at 30 June 2022, TCorp had $100.7bn of client assets under management and is a top 10 institutional investor in Australia.

We work with clients to help them meet their financial and business needs and objectives through tailored investment strategies.

Key highlights

Over the course of FY22, global financial markets were marked by increasingly difficult conditions, in particular rising inflation and interest rates, combined with declining asset prices and market liquidity. TCorp's role in providing the NSW public sector and eligible public bodies with a range of investment advice and management solutions was again crucial.

Short-term negative returns, strong long-term performance

Given the market conditions, TCorp, like most major institutional investors in Australia, experienced negative performance across all diversified portfolios in the range of -1.1% to -7.9%. This accords with the returns for the growth options of Australia's major superannuation funds, which ranged between -8% and +0.5% (SuperRatings, June 2022). Like superannuation funds and other institutional investors, TCorp focuses on the long term, and fund return time horizons are set at between 5 and 20 years.

Since 2015 when we merged our investment management function with SAS Trustee Corporation (State Super) and Insurance and Care NSW (icare), we have delivered strong cumulative returns of $34.2bn.

In addition, we have delivered an average return of 9% for higher growth assets, 5.75% for medium growth and 2% for single sector assets over the past 10 years, as illustrated in Chart 9.

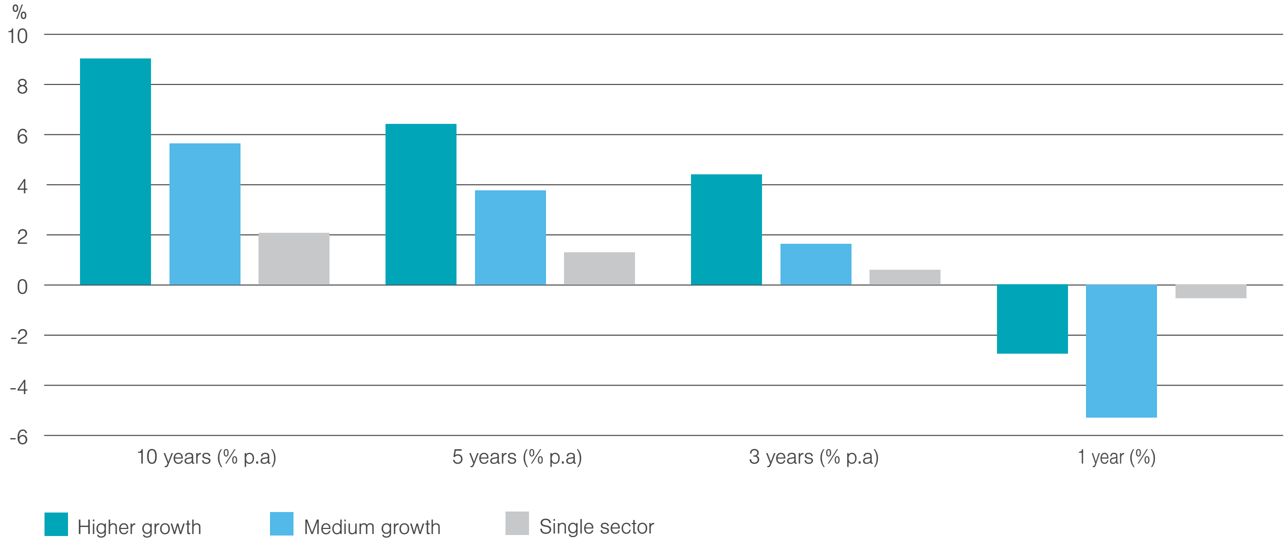
A focus on resilience and diversification

With the turbulent market environment in FY22, we focused on resilience: being prepared for many possible different outcomes as opposed to trying to predict just one, and operating under a Total Portfolio Approach (TPA) – a global best practice, risk-based investment model that leading major institutional investors in Australia and overseas have adopted.

Diversification was another key focus. We continued to invest in international assets including unlisted assets such as property and infrastructure which should provide stable, long-term returns. In FY22, we committed and/or deployed $2.9bn to unlisted assets.

We continued to invest in international assets including unlisted assets such as property and infrastructure which should provide stable, long-term returns.

Chart 9: Average client fund returns weighted by assets, 30 June 2022



Source: TCorp

Divestment of Russian holdings

In early March 2022, the NSW Treasurer issued TCorp with a direction to develop a strategy for the divestment of Russian financial assets held within its clients' investment portfolios. TCorp developed and implemented this strategy.

We have sold all directly held bond holdings, and most equity holdings. The remaining share holdings were written down to nil in March 2022 and will be sold when the Russian central bank lifts the capital controls imposed on foreign investors. Our experience is in line with that of other major global institutional investors, including sovereign wealth funds and superannuation funds.

ESG review underway

We also started to work with the NSW Treasurer and NSW Treasury on a review of TCorp's ESG framework to ensure we are managing our portfolios in line with leading practice. Alongside this review, TCorp continues to deliver investment outcomes from its evolving ESG framework. This includes supporting State Super in its goal to achieve a net zero carbon emissions portfolio by 2050 via our management of its Trustee Selection (defined benefit) portfolio.

Fund performance

Market outcomes in FY22 were divided into 2 very different halves. Strong equity markets in the first half of the year were followed by material declines in performance across many asset sectors during the 6 months to 30 June 2022, with several equity markets and government bond indices declining by 10% or more.

Inflation accelerated and reached its highest levels in 2 decades on the back of COVID supply chain constraints, rebounding economic growth and the Ukraine situation's impact on energy costs. This also led to interest rate rise expectations around the world. Central banks responded with an aggressive tightening of monetary policy and, at the same time, asset prices declined.

In such an environment, achieving inflation-relative return objectives was challenging. Annualised inflation in Australia reached 6.1% in the June 2022 quarter which, while relatively high, was lower than inflation rates of 9.1% in the US and 12.4% in the UK. In response, the Reserve Bank of Australia (RBA) lifted interest rates for the first time since 2010 at the fastest pace since the 1970s. Two increases totalling 0.75% were announced in the June quarter.

Longer-term returns for our client portfolios remain solid in absolute terms, despite recent market volatility. Client portfolios were within their agreed risk appetite parameters over the financial year and continued to meet liquidity needs. The portfolios' strategic risk mitigants such as diversification across asset sectors, investment in unlisted infrastructure and property, as well as exposure to diversifying foreign currencies, have enabled portfolios to be resilient.

Compared to client objectives, the asset-weighted average of fund returns over a 10-year horizon as at 30 June 2022 showed:

- Outperformance of 2.4% p.a. for higher growth funds (with growth allocations higher than 70%)
- Outperformance of 1.4% p.a. for medium growth funds (with growth allocations between 50% to 70%)
- Outperformance of 0.3% for the cash and high-grade credit single sector funds.

Unusually, the medium growth-oriented portfolios declined by more than higher growth portfolios over the financial year due to the unexpectedly strong decline in government bond prices, as well as lower exposure to unhedged foreign currency.

Directly owned unlisted assets performed well, with infrastructure and property rising strongly over the year, as their revenues recovered from COVID-19 periods of lower business activity. Diversifying into alternative assets also fared better than equity markets, underpinning the portfolios.

Table 1: TCorp funds' performance as at 30 June 2022

Client Fund (Investment objective as at 30 June 2022)	Inception date	Since inception return (% p.a)*	5 year return (% p.a)*	1 year return (%)	Fund size ($mn)	5 year dollar value add to client portfolio ($)
State Super Trustee Selection Portfolio (CPI + 4.5% p.a. over 10 years)	30-Apr-88	7.4	6.4	-1.1	30,271	11.4bn
Workers Compensation Insurance Fund (AWE + 1.5% p.a. over 20 years)^	30-Nov-05	5.8	4.3	-5.1	16,200	3.6bn
NSW Generations (Debt Retirement) Fund (CPI + 4.5% p.a. over 10 years)	15-Nov-18	5.8	n/a	-3.1	14,732	n/a
Treasury Managed Fund (CPI + 3.5% p.a. over 10 years)	31-Mar-99	6.6	6.7	-4.2	11,752	3.0bn
NSW Infrastructure Future Fund (CPI + 2.0% p.a. over 10 years)	07-Dec-16	3.6	3.2	-5.0	8,854	3.0bn
Lifetime Care and Support Authority Fund^ (AWE + 2.0% p.a. over 20 years)	30-Jun-07	7.0	5.5	-4.4	7,934	1.7bn
Long Service Corporation Investment Fund (AWOTE + 1.0% p.a. over 10 years)	25-Nov-13	6.2	5.0	-6.8	2,043	0.4bn
TCorpIM Long Term Growth Fund (CPI + 3.5% p.a. over 10 years)	01-Jul-89	7.6	5.4	-7.9	2,675	0.3bn
Social and Affordable Housing Fund (CPI + 4.0% p.a. over 10 years)	16-Aug-17	5.7	n/a	-5.5	1,516	0.3bn
TCorpIM Medium Term Growth Fund (CPI + 2.0% p.a. over 7 years)	01-Dec-90	6.9	2.7	-6.4	1,538	0bn
Dust Diseases Authority Fund^ (4.5% p.a. over 5 years)	30-Jun-07	5.3	5.2	-3.8	1,052	0.3bn
Parliamentary Contributory Superannuation Fund (Sydney CPI + 3.5% p.a. over 10 years)	01-Jan-99	7.2	6.8	-4.6	325	0.1bn
Insurers' Guarantee Fund (AWE + 2.0% p.a. over 20 years)	01-Jul-11	5.9	4.1	-7.9	197	0bn

All returns are net of fees unless otherwise stated.

* Performance shown includes time periods prior to the date TCorp assumed management of the funds.

^ Returns shown are gross of fees.

CPI – Consumer Price Index, AWE – Average Weekly Earnings, AWOTE – Average Weekly Ordinary Time Earnings.

Source: TCorp

Investment advice and portfolio management

TCorp provides bespoke investment advice and portfolio management solutions for 16 client portfolios (14 diversified and 2 single sector funds) with assets totalling $100.7bn as at 30 June 2022.

In FY22, we completed the transition of client diversified portfolios to our investment management model, known as the Total Portfolio Approach. As part of this change, we worked with clients on an updated format for investment governance and reporting to ensure these are aligned to the model.

Refinements to our portfolio management approach and investment processes continued throughout the year. We completed the restructure of our equity portfolios, with the aim of strengthening the strategy and improving net-of-fee investment outcomes for our clients. We also completed the centralised measurement and management of client foreign exchange exposures and hedging, delivering ongoing annual savings to client portfolios.

In-house asset management

Cash and fixed income

TCorp's cash and fixed income team is responsible for managing $12.1bn of domestic cash and fixed income mandates. These mandates have different maturity and credit risk profiles which are part of our clients' overall portfolios. We focus on investing in predominantly Australian-issued investment-grade debt securities through discrete strategies designed to meet specific client requirements. The investment process seeks to add modest outperformance above relevant benchmarks over time.

In FY22, the TCorpIM Cash Fund delivered a flat return, driven by the very low cash rate during the year and the RBA's change in monetary policy stance in May which saw markets price in further increases in the cash rate.

The TCorpIM Short Term Income Fund delivered -0.68% in FY22. While this fund has the same drivers of return as the Cash Fund, it has a higher return objective and therefore is exposed to more duration and credit risk.

Table 2: Australian cash and fixed income performance as at 30 June 2022

TCorpIM Fund	5 year return (% pa)	Relative to benchmark (% pa)	3 year return (% pa)	Relative to benchmark (% pa)	1 year return (%)	Relative to benchmark (%)	Market value ($bn)
Cash	1.15	0.20	0.47	0.14	-0.03	-0.12	0.3
Short Term Income	1.36	0.46	0.63	0.37	-0.68	-0.55	2.2

Notes:

Benchmark for the Cash Fund: Bloomberg AusBond Bank Bill Index.

Benchmark for the Short Term Income Fund: 50% Bloomberg AusBond Bank Bill Index, 50% Bloomberg Ausbond Credit Floating Rate Note Index from 1 February 2022. Benchmark was 100% Bloomberg AusBond Bank Bill Index prior to this time.

Source: TCorp

Unlisted assets

TCorp's unlisted assets typically comprise infrastructure and property investments which seek to provide robust returns, incorporating access to long-term stable cash flows and diversification benefits from listed equities.

These types of assets generally offer inflation hedging characteristics that enhance the total portfolio outcomes for our clients.

Our focus is owning assets directly, rather than through funds. This strategy provides greater governance input to influence management decision making, as well as liquidity benefits when compared to fund-based investments in these assets.

Infrastructure and property both performed well, generating returns of 16.0% and 13.3% respectively for the year as illustrated in Table 3. Over the past 5 years, TCorpIM Funds for infrastructure and property delivered returns of 7.9% and 7.7% per annum respectively.

We continue to acquire and hold investments in assets that have a strong sustainability lens, closely aligned to TCorp's ESG principles. In particular, we are focusing on the transition away from heavy consumption of fossil fuels. Examples of infrastructure investments with sustainability initiatives include an investment in Australia Pacific Airports Corporation, which holds a major Australian airport that has a 2025 net zero target, and an investment in Northern Gas Networks, a UK gas network which is undergoing green hydrogen energy trials.

TCorp's property portfolio demonstrates our commitment to sustainable investment with approximately 37% of domestic operating assets (excluding development) being carbon neutral as at 30 June 2022. Globally, approximately 29% of TCorp's property investments are carbon neutral with the target to reach 75% by 2030 and the balance by 2050.

During the 12 months to 30 June 2022, we committed and/or deployed a total of $2.9bn into unlisted infrastructure and property investments. Key highlights for the financial year were:

- Acquiring an interest in Moorebank Logistics Park, a high-tech intermodal precinct of NSW and of national significance
- Investing in the owner and operator of an independent wholesale fibre to the home network in Italy
- Acquiring a 100% interest in a high-quality UK logistics asset, providing long term secure income for TCorp's clients
- Investing in an owner and operator of energy from waste facilities in the UK
- Committing to a build-to-core US logistics strategy as one of 4 cornerstone investors.

Table 3: Unlisted assets performance as at 30 June 2022

TCorpIM Fund	5 year return (% pa)	Relative to benchmark (% pa)	3 year return (% pa)	Relative to benchmark (% pa)	1 year return (%)	Relative to benchmark (%)	Market value ($bn)
Infrastructure	7.9	1.3	5.7	0.5	16.0	15.8	8.3
Property	7.7	0.7	6.2	-0.1	13.3	-1.0	9.1

Notes:

Infrastructure benchmark is 100% "EDHECinfra Broad Market Value Weighted Index (Levered, Net of Fees and Hedged to AUD)" which became effective during FY22. Prior to that date, the benchmark was the Australian Consumer Price Index plus 7% per annum.

Property benchmark is the weighted average of "MSCI/Mercer Australia Monthly Property Fund Index Post fees" and "MSCI Global Property Index, excluding Australia Levered, Post Fees (Hedged to AUD)".

Source: TCorp

Investment stewardship

TCorp's approach to investment stewardship reflects our belief that understanding and managing ESG issues is critical to achieving sustainable investment outcomes.

Investment stewardship is embedded in all stages of our investment model and the client investment journey from portfolio design, to implementation, monitoring and reporting.

We assess and manage ESG risks through our 5-pillar stewardship framework: ESG integration into our investment process, active ownership (voting at shareholder meetings and corporate engagement), collaboration and disclosure and transparency to clients on our activities.

TCorp is working in close partnership with NSW Treasury on the NSW Treasurer's review of our ESG approach to ensure we are managing our portfolios in a manner consistent with leading global practices in sustainable investing.

Environmental

TCorp has identified climate change as a systemic risk with financial impacts for portfolios and recognises climate related risk in its Investment Management Board Policy. We recognise the importance of sound governance, corporate strategy, risk management and corporate disclosure in addressing climate related risk, consistent with the recommendations of the Taskforce on Climate Related Financial Disclosure.

Key actions taken to manage climate risk across TCorp portfolios include introduction of a low carbon benchmark for developed market equities (as detailed in the case study page 19), partnering with State Super on its goal of achieving portfolio net zero emissions by 2050, integration of climate risk management in our unlisted assets (unlisted property and infrastructure as detailed on page 44), climate scenario stress testing and expanding the active ownership of investee companies through climate focused engagement and voting at all shareholder meetings.

During the year, TCorp further developed its approach to the assessment and management of climate related risk through corporate engagement and voting. We closely evaluated and voted on a number of "Say On Climate" proposals from Australian companies during the year. These votes provide shareholders with the opportunity to offer feedback on climate risk management disclosure as companies prepare for the transition to a low carbon future.

We recognise the importance of sound governance, corporate strategy, risk management and corporate disclosure in addressing climate related risk.

An emerging focus for TCorp is the design of a country ESG risk framework.

Social

As part of our approach to understanding and managing ESG issues, we believe managing modern slavery risk is also critical to achieving sustainable investment outcomes. To this end, TCorp engaged its investment managers to assess progress in addressing modern slavery across operations, investment portfolios and supply chains, seeking to better understand manager processes and share best practice.

Influencing and changing behaviours that are responsible for the occurrence of modern slavery across the supply chain is critical to ending exploitation. TCorp will continue to improve our processes to address modern slavery risks.

Through our active ownership programme, including proxy voting and direct engagement with companies, we also sought improved management of diversity, equity, and inclusion risks by resources companies to address harmful workforce behaviours, including sexual harassment and racism.

Governance

TCorp continues to be an active owner of its investments to protect and enhance long-term value. This includes voting at all shareholder meetings of investee companies in Australia and overseas, to promote improved corporate governance of our investments. Within our unlisted asset investments, we often have an opportunity to appoint a board member, thereby ensuring that commitments to good governance, climate risk management, and sustainable operating practices remain front of mind given the long-term illiquid nature of these investments.

To complement the impact of voting, TCorp engages with companies where we have relatively large holdings to support and encourage stronger governance and risk management.

An emerging focus for TCorp is the design of a country ESG risk framework to assist in the measurement and management of investment risks that arise through different country level risk exposures (such as through Russia's invasion of Ukraine). This may result in the exclusion or underweighting of certain countries from our investment universe.

Financial Markets

A trusted partner to the NSW public sector, our financial advice and execution has made a lasting positive impact in FY22 towards the long-term needs of the people of the state.

Financial Markets raises debt for the state of NSW by issuing bonds both locally and globally, providing loans to the NSW Government family, and managing risk on the balance sheet. We also provide financial risk management solutions, such as foreign exchange hedging.

Key highlights

Supported the state under demanding market conditions

The state's funding requirement remained elevated in a historical context as we continued to raise debt to support the state through the COVID pandemic. In FY22, we raised $25.8bn of debt, including pre-funding $4.2bn for FY23. We were able to deliver this financing while efficiently managing the state's balance sheet against an extremely challenging backdrop, as markets navigated several issues including:

- A surge in COVID cases and the reintroduction of restrictions to reduce its spread
- Elimination of the Reserve Bank of Australia's (RBA) Yield Target for the 3-year Australian Government bond
- The end of the RBA bond buying programme known as quantitative easing
- The emergence of inflation
- Geopolitical issues, in particular the Ukraine situation
- The beginning of an interest rate tightening cycle.

We raised debt, taking advantage of historically low interest rates over the year. Interest rates increased in the second half, however a weighting of borrowing toward the first half helped contain costs and, as at 30 June 2022, our average cost of debt was 2.1%. The portfolio ended the year at a weighted average life of 6.2 years, positioning it extremely well into a rising rate environment.

We issued $4.0bn of floating rate notes (FRNs) in the first half of the year when demand for this format improved with the announcement from the Australian Prudential Regulation Authority of its intention to eliminate the committed liquidity facility. This drove demand from authorised deposit taking institutions for high quality liquid assets in order to meet their liquidity obligations. This environment continued so we issued another $4.0bn (pre-funding for FY23) of FRNs at the end of June, including the longest-dated syndication from a semi-government issuer.

In October 2021, the Treasurer directed that the net proceeds of the WestConnex sale (valued at $11.0bn) be transferred from the NSW Generations Fund (NGF) to retire state debt. Shorter-term maturities of $7.7bn were retired, resulting in a significant reduction to the refinancing requirement over the forward estimates. The remaining $3.3bn of these sale proceeds is earmarked to reduce the FY23 refinancing requirement.

Oversubscribed issuances and increased investor diversity

All TCorp bond issuances were over-subscribed, reflecting their attractiveness among domestic and international investors. We issued bonds across a range of different instruments, including floating rate notes, benchmark bonds and sustainability bonds.

Under the NSW Sustainability Bond Programme, $4.1bn of assets were added to the pool:

- We expanded our offshore investor base through the syndication of a new $1.5bn November 2032 Sustainability bond with 29% of the bonds allocated to foreign investors
- We increased the existing November 2030 Green Bond with $7.2bn of ESG bonds now on issue.

Provided financial capacity, economic stability and resilience

We managed the state's balance sheet, which is over $124.3bn.

TCorp continued to maintain a strong liquidity position and deep market access for the state and helped NSW to retain its strong credit rating. We are the most highly rated semi-government borrowing authority in Australia: we are rated Aaa (Stable) by Moody's Investor Service, AAA (Stable) by Fitch Ratings and AA+ (Stable) by S&P.

Expanded lending solutions to support our clients with their business objectives

We provided strategic advice and execution to state owned corporations (the largest being Sydney Water, Hunter Water, and Essential Energy) to manage their debt portfolios against regulatory rate-sets.

We also issued sustainable, long dated infrastructure funding to 21 councils (including 6 new ones) with total lending commitments reaching $1.1bn and worked closely with the Department of Planning and Environment and the Office of Local Government to successfully fund councils in an environment impacted by flooding and the COVID-19 pandemic.

Creating budget certainty

We gave financial risk management advice to identify and hedge nearly $2.1bn of notional exposures including several innovative transactions which had a significant positive impact for our clients including reducing risk and improving budget certainty. You can read case studies on this work on pages 27-28 and 31.

KANGANEWS AWARDS 2021 Australian Government-Sector Issuer of the Year

TCorp was awarded Australian Government Sector issuer of the year.

The awards recognise excellence in the Australasian debt markets and are based purely on the votes of market participants. KangaNews conducts thorough and intensive polling of participants in the Australian and New Zealand debt markets.

Raising funds in the debt markets

Our primary activity is to raise funds, manage risk, and extend loans on behalf of clients. As at 30 June 2022, we managed a balance sheet of over $124.3bn. Most of the funding raised in the market is sourced through issuance into our Benchmark Bond Programme as illustrated in Chart 10.

FY22 borrowing programme

Following the 2021-22 NSW Budget announced in June 2021, we had a forecast funding programme of $35.5bn. This figure was subsequently revised down to $27.4bn at the December half yearly update. TCorp ultimately funded over $25.8n which included $4.2bn of pre-funding for the FY23 financial year.

We remain the only semi-government borrowing authority to carry two triple-A ratings from Moody's Investor Service Aaa (stable) and Fitch Ratings AAA (Stable). These ratings reflect the high regard in which the NSW Government is held and TCorp's deep market access.

Global investors

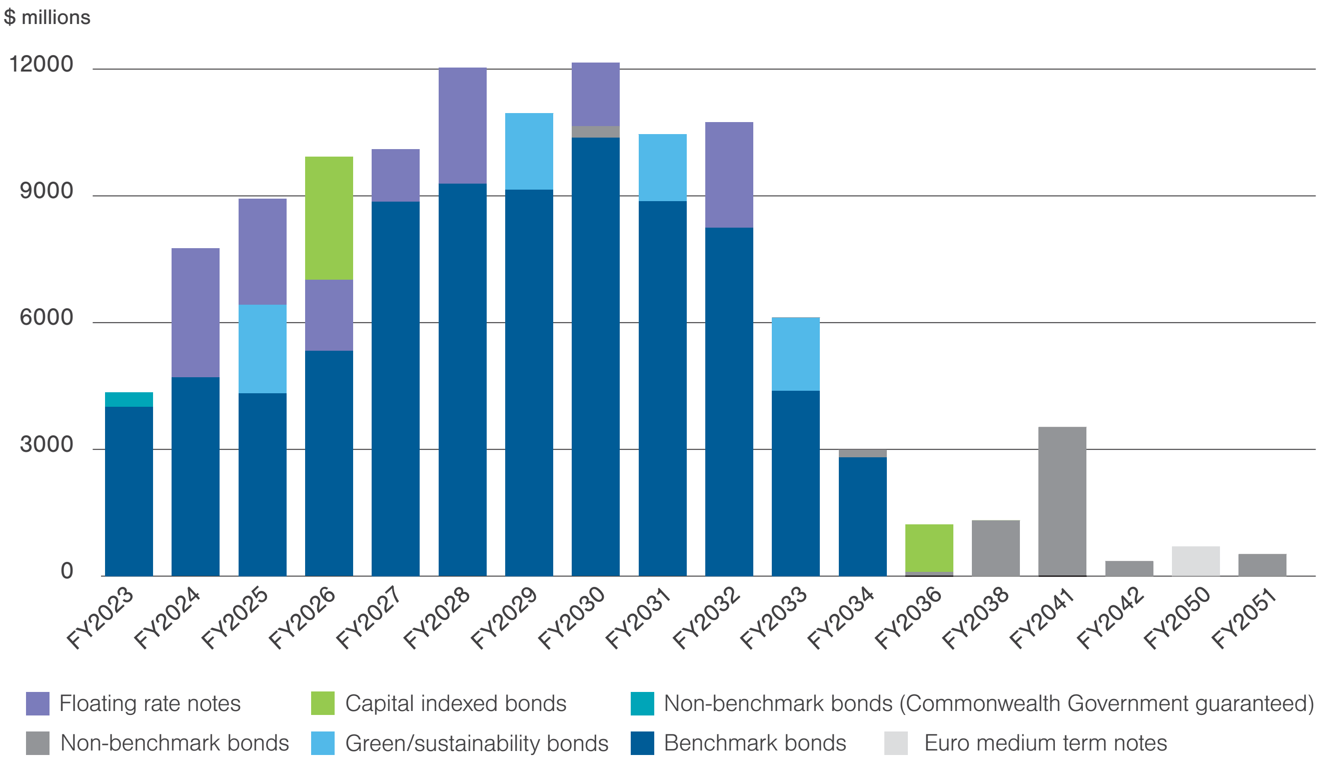
Despite ongoing travel restrictions and lockdowns inhibiting our ability to engage with our global investor base in person, the relationships we have built over time underpinned strong support for TCorp's FY22 borrowing programme. As an example, we were able to place over 39% of our new March 2034 benchmark bond into offshore investors.

During the financial year there was a shift in the composition of our global investor base. Japanese demand for ultra-long dated Australian dollar lines decreased and UK and European demand emerged, focused in the 10-12 year sector. This shift reflected the composition of demand for global fixed income more broadly.

Local investors

We saw increased participation in TCorp's issuance of Floating Rate Notes (FRNs) from Authorised Deposit taking Institutions (ADIs). We syndicated a dual tranche May 2026 and May 2028 FRN transaction for an aggregate $4bn in September 2021, which coincided with elevated market volatility. FRNs are favoured by the majority of ADIs and required by many of the smaller banks for regulatory purposes.

Chart 10: TCorp bonds on issue as at 30 June 2022



Source: TCorp

Sustainability investors

The NSW Sustainability Bond Programme remains the key mechanism for TCorp to showcase the ESG credentials of the state and for investors to engage with us. In February 2022, we continued to build out TCorp's ESG curve through the introduction of a fourth line with the issuance of the November 2032 Sustainability Bond (along with increasing the current bonds outstanding in this line) and the November 2030 Green bond during FY22. As at 30 June 2022, TCorp had $7.2bn of ESG bonds on issue.

We published our third annual report under the NSW Sustainability Bond Programme, providing an overview of the programme, our governance and certification/assurance. The report also identifies where the funds raised were earmarked to, including dollar amounts and details of each project.

Providing lending solutions to clients

General government

FY22 was a significant year for TCorp client debt requirements. General government debt increased by $19.0bn during the year, with new fixed rate debt issued at a weighted average yield of 2.27% and a weighted average life of just under 10 years.

The general government debt portfolio ended the year at a weighted average life of approximately 7.6 years, positioning it extremely well into a rising rate environment.

Our regulated utility clients benchmark-manage their debt portfolios to the methodology set by their respective regulators (Australian Energy Regulator and Independent Pricing and Regulatory Tribunal) to calculate the compensation for their cost of debt. As part of this methodology, the regulators observe market interest rate data during sampling periods each year. Recent sampling periods across our regulated utility clients have been at times of extreme volatility and illiquidity in interest rate markets, resulting in challenging market conditions to issue and match the benchmark.

TCorp was able to execute and outperform respective annual benchmarks for all regulated utility clients. Additionally, these clients ended the year positioned long of these benchmarks, reducing the proportion of debt versus benchmark to be issued in coming years, into a rising rate environment.

Local government

This year TCorp provided $227.9mn of funding to 21 councils (including 6 new ones), with total lending commitments reaching $1.1bn. This was a significant achievement in a year impacted by flooding and the COVID-19 pandemic.

Our focus has remained on delivering sustainable, long-dated infrastructure funding across NSW to address local government infrastructure backlogs and stimulating economies in local government areas. While our funding remains predominantly regional with over 81% of loans to non-metropolitan councils, TCorp continues to support metropolitan councils on larger, more complex projects as opportunities arise.

Our local government funding programme for FY22 included:

- Armidale Regional Council – Dumaresq Dam Wall and Puddledock Dam Raw Water Main
- Goulburn Mulwaree Council – Goulburn Performing Arts Centre and Towrang Bridge replacement
- Ku-ring-gai Council – St Ives Indoor Sports Complex
- Narrandera Shire Council – Construction of a modern reticulated sewerage system at Barellan
- North Sydney Council – North Sydney Olympic Pool redevelopment
- Queanbeyan-Palerang Regional Council – Queanbeyan Civic and Cultural Centre project
- Randwick City Council – Multiple infrastructure projects (buildings, roads, recreational facilities), including Heffron Centre redevelopment.

Case studies showcasing our work with local government can be found on pages 29-30 and 32.

Providing financial risk management solutions

TCorp partners with the NSW Government family creating solutions to reduce financial market risk, save costs and promote budget certainty. We leverage the broad experience and deep knowledge of our team to find simple, efficient and innovative means to mitigate the state's financial risks.

Hedging and NSW Treasury's new policy

Treasury's new Financial Risk Management Policy (TPP21-14, effective from January 2022) has expanded the government's risk focus to include interest rates, commodities and debt as well as the previously emphasised foreign exchange risk.

TCorp worked in partnership with our clients to identify and hedge approximately $2.1bn of notional exposures. These activities included changing the approach to funding for some projects, managing traditionally unhedged exposures (both in interest rates and foreign exchange) and assisting our clients to navigate their exposure to volatile commodity prices such as fuel oil.

We also continued to target the digital space and conducted the first foreign exchange hedge related to the state's Digital Restart Fund, the first hedge of Amazon Web Services provided under NSW's new whole of state contract (which now allows for currency hedging) and several separate cyber security contracts.

In addition, TCorp worked with our clients to manage risks associated with some of the state's larger Public Private Partnerships – taking advantage of the relatively low interest rate environment to reduce risk and help NSW manage future costs.

Section 5

Governance

Board of Directors

The Directors as at the date of this report are set out below, together with details of their qualifications, experience and special responsibilities.

Director	Qualifications and experience
Michael Dwyer AM 	**AdvDip (FinSvcs), Dip (SuperMgt), Dip Tech, FASFA, FAICD** Director from June 2019. Chairperson from 1 September 2020. Member of Board Investment, Audit and Risk and People and Remuneration Committees. Michael is Chair of Australia for the United Nations High Commissioner for Refugees (UNHCR), the private sector partner of the UN Refugee Agency, Chair of Bennelong Funds Management, Director of Iress Limited, the Sydney Financial Forum, Hope Housing Advisory Board and a member of the ASIC Consultative Panel (ACP). Michael has more than 30 years' experience in the superannuation and investment sectors. He was CEO of First State Super (now Aware Super, one of Australia's largest super funds) for 14 years and was also General Manager of NSW industry super fund ASSET Super for 10 years. He is a former Director of the Association of Super Funds of Australia (ASFA) and a founding Director of Fund Executive Association (FEAL).
Paul Grimes PSM *Ex officio* 	**PhD (ANU), MEc (ANU), BEc (Hons) (Flinders)** Director from January 2022. Deputy Chairperson from July 2022. Paul was appointed Secretary of the NSW Treasury in January 2022. He previously served as Coordinator General, Environment, Energy and Science within the NSW Department of Planning, Industry and Environment from April 2020. Paul has held a number of senior roles at the federal, state and territory levels, including Secretary of the Commonwealth Department of Agriculture; Secretary of the Department of Sustainability, Environment, Water, Population and Communities; and Victorian Public Service Commissioner. Before being appointed as a Secretary in the Australian Government, Paul was Associate Secretary (Domestic Policy) in the Department of the Prime Minister and Cabinet, and Deputy Secretary in the Commonwealth Department of Finance. He also served as Chief Executive of the ACT Department of Treasury and as Deputy Secretary in the South Australian Department of Treasury and Finance. In 2010, he was awarded the Public Service Medal for his role in the development of the Australian Government's response to the global financial crisis.
David Deverall *Ex officio* 	**BE (Hons), MBA** David joined TCorp as Chief Executive in February 2016. David was previously the CEO and Managing Director of Perpetual Limited, Chair of the Financial Services Council and Group Head of Funds Management at Macquarie Group Limited. He was also a Director of Charter Hall Group.

Director	Qualifications and experience
Joann Wilkie *Ex officio* 	**BEc (Hons), MPubPol** Director from May 2022. Member of the People and Remuneration Committee. Joann is the Deputy Secretary for the Economic Strategy & Productivity Group at NSW Treasury. Prior to joining NSW Treasury in 2019, Joann's career spanned over 20 years' experience in the Australian Public Service within several departments including taxation, economic, agricultural, energy, gender and regulatory policy.
Jenny Boddington 	**MA (Hons, Oxon), FAICD** Director from August 2017. Chair of the People and Remuneration Committee. Jenny is Chairman of Latitude Insurance and ANZ Lenders Mortgage Insurance and a Director of Munich Re Australasia. Jenny was the Global Head of Bancassurance for QBE Group. Prior to that Jenny was CEO of QBE Lenders' Mortgage Insurance and Executive General Manager of Financial Institutions, QBE Australia. Jenny was also a Director of DB Capital Partners and Deutsche Bank Australia. Jenny was a Director of Indigenous Business Australia and a Member of the NSW Growth Centres Commission.
Anne Brennan 	**BCom (Hons), FCA, FAICD** Director from September 2018. Chair of Audit and Risk Committee. Anne is a Director of Argo Investments Limited, Endeavour Group Limited, GPT Group, Rabobank New Zealand Limited and The Lottery Corporation Limited. Anne is a former Executive Director, Finance of Coates Group; Chief Financial Officer of CSR Limited and Partner at KPMG, Arthur Andersen and Ernst & Young.
Greg Cooper 	**BEc, FIAA, FIA** Director from December 2018. Chair of Board Investment Committee. Greg is the Chairman of Avanteos Investments Limited (Colonial First State), Director of Perpetual Limited, Australian Payments Plus Ltd (and its subsidiaries/related entities), Catholic Church Insurance Limited, Tracks Media Pty Ltd and Ed Start Pty Ltd. He is also a Director of Australian Indigenous Education Foundation and OpenInvest Holdings Limited, and a Member of the St Ignatius' College Investment Committee. Greg has more than 26 years' global investment industry experience. He was CEO of Schroder Investment Management Australia from 2006 to 2018. Prior to joining Schroders in 2000 Greg was Head of Actuarial Consulting for Towers Perrin in Asia.

Director	Qualifications and experience
Ian Saines 	**BCom (Hons), FAICD** Director from August 2020. Member of Board Investment and Audit and Risk Committees. Ian is a Director of Air Lease Corporation and Macquarie Bank Limited, Deputy Chairman of both the American Australian Association Limited and the United States Study Centre, and a member of the Catholic Schools Broken Bay Advisory Committee. Ian has 40 years' experience in investment and commercial banking and asset management. He was most recently Chief Executive of the Funds Management business at Challenger Limited. Ian was the former Group Executive of Institutional Banking and Markets division at Commonwealth Bank of Australia, in addition to previous roles at Zurich Capital Markets Asia, Bankers Trust Australia Limited and the Reserve Bank of Australia.
Glenn Stevens AC 	**BEc (Hons), MA (Econ), Hon LLD, Hon DSc, Hon D.Litt** Director from October 2020. Member of Board Investment and Audit and Risk Committees. Glenn is the Chair of Macquarie Group Limited and Macquarie Bank Limited, Deputy Chair of the Temora Aviation Museum, Director of O'Connell Street Associates and the Anika Foundation. He is also a Board Member of the Lowy Institute for International Policy, Advisory Board Member for Global Foundation and Member of the NWQ Capital Management Investment Committee. Glenn is an Adviser for the Central Banking Program, Asia School of Business (Malaysia) and Hong Kong Academy of Finance. Glenn is the former Governor of the Reserve Bank of Australia (RBA) spanning a 36-year career with the RBA.
Anne Templeman-Jones 	**BComm, EMBA (AGSM), MRM, CA, FAICD** Director from October 2020. Member of People and Remuneration and Board Investment Committees. Anne is the Chair of Blackmores Limited and a Director of Commonwealth Bank of Australia, Trifork Holding AG, Worley Limited and Cyber Security Cooperative Research Centre Limited. Anne's executive career spans over 30 years in senior executive roles within the finance, corporate and private banking sectors including Westpac Banking Corporation, ANZ Banking Group, Bank of Singapore (OCBC Bank) and PricewaterhouseCoopers (Switzerland and Australia).

The following were Directors during the reporting period and retired either during the reporting period or prior to the date of this report.

Michael Pratt AM
Ex officio

Retired 28 January 2022

SF Fin, GradDip (Org Beh), FAICD, FAIM, FAHRI, AMP (Harvard), Hon DLitt (WSU)

Director and Deputy Chairperson from August 2017.

Phil Gardner
Ex officio

Retired 13 May 2022

BEc/LLB

Director from September 2017.

Member of the People and Remuneration Committee.

Governance

TCorp is committed to maintaining the highest standards of business integrity, ethics and professionalism in everything we do.

We have a robust governance framework incorporating sound ethical, financial, compliance and risk management practices that form the basis of our operations and support our people in delivering our strategy.

TCorp believes that by acting in the best interests of our government sector clients and in accordance with recognised good governance practices we will continue to deliver best-in-class performance and services over the long term.

Our cultural pillars are Partnership, Impact and Long-term. These outline what we stand for and set the expectations for how we operate. We also uphold the 4 NSW Government sector values of integrity, trust, service and accountability. Our Code of Conduct and Ethics sets out the expectations for employee behaviour at TCorp to promote and sustain a culture of responsibility and accountability that supports ethical and responsible decision-making.

Board of Directors

TCorp's Board is constituted in accordance with the *Treasury Corporation Act 1983* and comprises the following:

- The Secretary of New South Wales Treasury
- A senior officer of New South Wales Treasury appointed by the Secretary of the Treasury
- TCorp's Chief Executive
- No fewer than 3 and no more than 7 persons appointed by the Treasurer who have expertise in the functions carried out by TCorp.

Directors are appointed by the Treasurer for a term of up to 5 years and may be reappointed. The Secretary of New South Wales Treasury, with consultation from the Treasurer, appoints the Chairperson of the Board.

Board role and responsibilities

The principal functions and objectives of the Board are set out in our governing legislation. The Board is accountable to the Treasurer of New South Wales and has responsibilities to a range of key stakeholders including the NSW Government, clients, investors, counterparties, employees and the general community. The Board oversees management in achieving TCorp's strategy and mission, which are set out in TCorp's Statement of Business Intent submitted to the Treasurer annually.

The Board is responsible for:

- Promoting and overseeing TCorp's culture
- Providing strategic direction and approving TCorp's strategic plan
- Determining TCorp's policies
- Reviewing the effectiveness of the risk management framework and internal control systems in relation to material business risks and regulatory compliance
- Regularly measuring performance against TCorp's Corporate Report Card
- Monitoring the conduct and performance of TCorp and its senior management
- Overseeing succession plans for the Board and senior management.

Role of management

The Chief Executive is responsible for the overall management and performance of TCorp, in accordance with the strategy and policies approved by, and the directions of the Board. The Board has established a formal set of delegated authorities, which clearly defines the respective responsibilities of management and those that are retained by the Board.

Conduct of Board business

Our governing legislation and the Board Charter define the responsibilities of the Board, individual Directors and the Chief Executive.

Director independence is assessed in accordance with the *NSW Government Guidelines for Governing Boards of Government Businesses*. The Board has adopted governance practices by reference to the NSW Department of Premier and Cabinet's NSW Government Boards and Committees Guidelines and other processes that align with corporate governance best practice.

The Board meets regularly throughout the year and whenever necessary outside of those designated meetings to discharge its responsibilities.

Conflicts of interest

All Directors are subject to duties and prohibitions in relation to conflicts of interest under our governing legislation and NSW Government guidelines.

Directors must disclose any direct or indirect interest in a matter and may not vote on or participate in discussion about it. Any declared interests are maintained in a register that is available for inspection by any person.

The Board Code of Conduct sets out in detail the framework for identifying and managing conflicts of interest.

Board Committees

To support its effectiveness in providing guidance, direction and oversight of management, the Board has established the following 3 committees:

Audit and Risk Committee

This Committee provides support to the Board in relation to oversight, monitoring and reporting on TCorp's:

- Governance, risk and control frameworks (including internal and external audit functions) and its external accountability requirements
- Annual financial statements for the Corporation and in its capacity as Trustee for the TCorpIM Trust's responsibilities.

The Committee meets a minimum of 4 times a year. TCorp's internal and external auditors attend all meetings.

Board Investment Committee

This Committee supports 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.

All investment activities undertaken by TCorp in its capacity as trustee, investment manager, administrator, advisor and/or agent on behalf of another government entity are subject to oversight by the Committee.

The Committee meets a minimum of 4 times a year.

People and Remuneration Committee

This Committee provides advice to the Board on matters relating to TCorp's human resources. The Committee is responsible for ensuring that effective plans are in place to promote continuous improvement in the return on TCorp's investment in people.

The Committee meets at least twice a year.

Each Committee acts in accordance with a relevant charter determined by the Board which sets out Committee composition, responsibilities, powers and reporting obligations.

Attendance at Board and Board Committee meetings

The table below sets out the number of meetings of the Board and Committees of the Board and the individual attendance by Directors at the meetings they were eligible to attend during the period to 30 June 2022.

	Board	Audit and Risk Committee	People and Remuneration Committee	Board Investment Committee
Total no. of meetings				
Michael Dwyer	5/5	5/5	4/4	4/4
Paul Grimes[1]	2/2	–	–	–
Jenny Boddington	5/5	–	4/4	–
Anne Brennan	4/5	5/5	–	–
Greg Cooper	5/5	–	–	4/4
David Deverall[2]	5[3]/5	–	–	–
Joann Wilkie[4]	1/1	–	–	1/1
Ian Saines	5/5	5/5	–	4/4
Glenn Stevens	5/5	5/5	–	4/4
Anne Templeman-Jones	5/5	–	3/4	2/3
Michael Pratt[5]	2/3	–	–	–
Philip Gardner[6]	4/4	–	3/3	–

1 Appointed as a Director effective 29 January 2022 and Deputy Chair effective 1 July 2022.

2 David Deverall attends all Audit and Risk, People and Remuneration and Board Investment Committee meetings in his capacity as Chief Executive.

3 In the absence of the Chief Executive, Paul Smith attended the 27 May 2022 Board meeting in his capacity as the Acting Chief Executive.

4 Appointed as Director effective 16 May 2022.

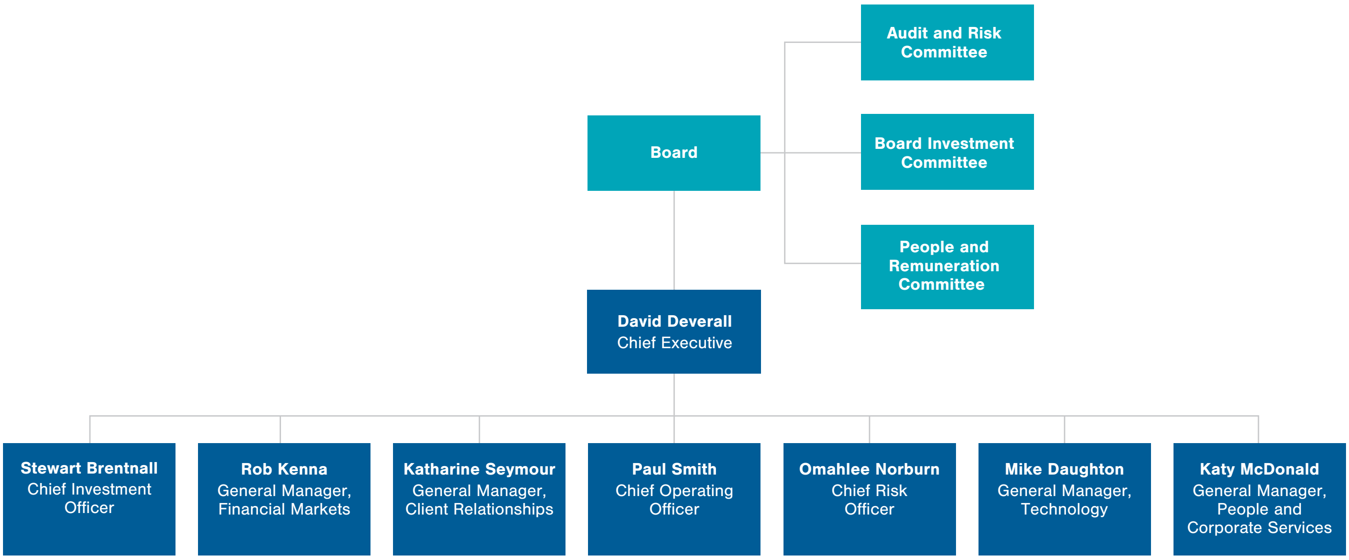
5 Retired as a Director and Deputy Chair effective 28 January 2022.

6 Retired as a Director effective 13 May 2022.

Organisation structure

David Deverall leads a team of 7 general managers who form the executive committee, as detailed in Chart 11.

Chart 11: TCorp organisation chart



Senior executives

David Deverall
Chief Executive
BE (Hons), MBA

Rob Kenna
General Manager,
Financial Markets
BBus, CFA

Paul Smith
Chief Operating Officer
B. Com, CA, F.Fin

Mike Daughton
General Manager,
Technology
BA (Hons), MSc

Stewart Brentnall
Chief Investment Officer
BSc Ec, Dip.App.Fin. & Inv.,
CA, GAICD

Katharine Seymour
General Manager,
Client Relationships
BSc (Hons), MBA, GAICD

Omahlee Norburn
Chief Risk Officer
BFinAdmin, Dip Appl Fin
& Inv, CA

Katy McDonald
General Manager,
People and Corporate Services
BA, LLB, MSc

Risk management and compliance

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

Risk Management Framework

The Chief Risk Officer is responsible for the design and maintenance of the TCorp Risk Management Framework and supporting materials.

The Framework is approved by the Board and articulates the Board's expectations for the identification and management of financial and non-financial risks arising from TCorp's day-to-day operations.

The Framework incorporates:

- The Risk Management Strategy which sets out these risks and TCorp's approach for managing them
- The Risk Appetite Statement which articulates the Board's tolerance for such risks
- Guidance for employees for managing the risks arising from their daily activities and promoting good practice in support of TCorp's risk culture
- Board and Management Policies supporting the identification, assessment, mitigation and monitoring of risks
- Action plans for dealing with specific risk areas such as conflicts of interest, privacy, financial crime, anti-money laundering and counter-terrorism financing
- Mandatory risk and compliance training to all TCorp employees.

3 Lines of Accountability

TCorp utilises a 3 Lines of Accountability model to ensure an organisation-wide approach to risk management. The model fosters a culture of risk awareness, with all levels of the business contributing to the Risk Management Framework and the detailed systems and processes that identify, assess, mitigate, monitor and report on our risks.

Line 1 consists of each TCorp business and support function who are responsible for the identification and management of the risks associated with their area.

Line 2 consists of the Risk Management Team who provide independent challenge and oversight of Line 1 to ensure the ongoing evolution of risk maturity.

Line 3 relates to independent assurance provided by internal and external audit functions.

Risk Management Team

This Team is responsible for the maintenance and effective implementation of the Risk Management Framework.

The Risk Management Team:

- Supports the Framework by providing employees with guidance, training and independent "challenge" to the approach they take, to foster risk awareness and enhance risk management practices
- Works with each business area and support function to assess the design, documentation and operating effectiveness of the controls developed to manage the identified risks to acceptable levels, as defined within the Risk Appetite Statement
- Is led by the Chief Risk Officer who reports to the Chief Executive with a functional reporting line to the Audit and Risk Committee.

The Chief Risk Officer also oversees the outsourced internal audit function which is conducted by a suitably qualified professional accounting firm whose engagement partner retains direct reporting responsibility to the Board to ensure independence.

The TCorp Investments function is also subjected to an annual internal controls audit by the NSW Audit Office which is performed in accordance with Assurance Standard ASAE3402.

Audit and Risk Committee

This Committee provides oversight and reports to the Board on the appropriateness of the risk management process and effectiveness of the risk management framework. To assist with this process, the Committee receives regular reports from internal audit, external audit and TCorp management.

Management Risk Committee

This Committee was established by the Chief Executive and is responsible for embedding the Risk Management Framework in TCorp's business, practices, management risk policies and decision-making processes. The Management Risk Committee has also established a Cyber Security Committee which meets monthly to assess and respond to current and emerging cyber security threats.

Use of capital

TCorp does not hold subscribed share capital, but retains sufficient capital to support the market, credit and operational risks relevant to our business.

This retained capital is determined with reference to the Australian Prudential Regulation Authority's (APRA's) standardised approach and in consultation with the NSW Government who provides a guarantee to TCorp bond holders.

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

Insurance

During FY22, insurance for TCorp was maintained with the NSW Government self-insurance scheme, the Treasury Managed Fund (TMF), which covers the NSW Government's insurable risks.

TMF provides cover for the following classes of risk:

- Workers' compensation
- Property (full replacement, new for old, including consequential loss)
- Liability (including, but not limited to cyber, professional indemnity and directors' and officers' liability)
- Miscellaneous (e.g. personal accident).

Legal and regulatory compliance

TCorp is ultimately accountable to the NSW Parliament, through the NSW Treasurer and regulated by several pieces of NSW legislation, including the following:

- *Treasury Corporation Act 1983*
- *Public Finance and Audit Act 1983*
- *Annual Reports (Statutory Bodies) Act 1984*
- *Government Sector Finance Act 2018.*

Although TCorp is not directly regulated as a licensee by either APRA or the Australian Securities and Investments Commission (ASIC), we use their prudential standards and guidance notes as the basis for our Board and Management risk management policies.

TCorp monitors changes in the regulatory environment to determine if any changes to business practices are required.

Our activities are subject to review and monitoring by several external parties:

- The NSW Treasurer, 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
- 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 *Government Sector Finance Act 2018*.

Auditor independence

TCorp is audited annually by the Audit Office of NSW. The NSW Parliament promotes independence of the Audit Office by ensuring that only Parliament, not the executive government, can remove the Auditor-General, and by precluding the provision of non-audit and assurance services to all public sector agencies.

Our outsourced internal audit programme is currently provided by PricewaterhouseCoopers, reporting directly to the Audit and Risk Committee.

Annual internal audit plans are approved by the Audit and Risk Committee to which all internal audit review reports are provided in full.

Code of Conduct and Ethics

Our Code of Conduct and Ethics (Code) articulates our expectations of our people in their business affairs and in dealings with clients and other parties. The Code demands high standards of personal integrity and honesty in all dealings and respect for the privacy of clients and others.

All employees sign the Code upon commencement to acknowledge they have understood it and agree to act in accordance with its requirements. Employees subsequently confirm this acknowledgement annually.

Internal audit and risk management attestation for the 2021–2022 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 seven (7) core requirements set out in Internal Audit and Risk Management Policy for the NSW Public Sector, specifically:

Board		Compliance
Risk Management Framework		
1.1	The Accountable Authority shall accept ultimate responsibility and accountability for risk management in the agency.	Compliant
1.2	The Accountable Authority shall establish and maintain a risk management framework that is appropriate for the agency. The Accountable Authority shall ensure the framework is consistent with AS ISO 31000:2018.	Compliant
Internal audit function		
2.1	The Accountable Authority shall establish and maintain an internal audit function that is appropriate for the agency and fit for purpose.	Compliant
2.2	The Accountable Authority shall ensure the internal audit function operates consistent with the International Standards for Professional Practice for Internal Auditing.	Compliant
2.3	The Accountable Authority shall ensure the agency has an Internal Audit Charter that is consistent with the content of the 'model charter'.	Compliant
Internal audit function		
3.1	The Accountable Authority shall establish and maintain efficient and effective arrangements for independent Audit and Risk Committee oversight to provide advice and guidance to the Accountable Authority on the agency's governance processes, risk management and control frameworks, and its external accountability obligation.	Compliant
3.2	The Accountable Authority shall ensure the Audit and Risk Committee has a Charter that is consistent with the content of the 'model charter'.	Compliant

Membership

The Chair and members of the Audit and Risk Committee during the reporting period were:

Member	Status	Appointed	Retired
Anne Brennan	Independent member Independent Chair	January 2019 July 2020	
Michael Dwyer	Independent member	January 2020	
Ian Saines	Independent member	October 2020	
Glenn Stevens	Independent member	January 2021	

in accordance with a resolution of the Directors of the New South Wales Treasury Corporation.

David Deverall
Director

Human resources

During FY22, we remained focused on embedding our cultural pillars and behaviours and providing a supportive and sustainable workplace environment to protect the wellbeing and productivity of our people during the challenges of the evolving COVID-19 situation, and beyond.

At TCorp, we strive to create and maintain a workplace environment and culture that enables our people to manage their professional and personal commitments so that they can thrive in all aspects of their life.

Stay-at-home orders were in place in NSW at the beginning of FY22. We prioritised the wellbeing of our people, through supportive leadership and ensuring everyone had the essential networks, tools, resources, and skills in place to manage their personal and work commitments, support their resilience and wellbeing, and maintain productivity. Although it was a challenging period for everyone in NSW, our people continued to operate effectively and efficiently in delivering on their commitments and maintained relationships and partnerships with our stakeholders and each other.

Our people remained engaged throughout the year as demonstrated by the encouraging People Matter Survey results. From a 98% participation rate, we achieved an employee engagement score of 74%, up 2% on the previous year. Our employee engagement was 7% higher than the NSW public sector average.

Key HR priorities in FY22

Supporting the delivery of our best-in-class strategy remained our key strategic priority for FY22. To achieve this, we:

- Continued embedding our cultural pillars and behaviours through our agreed programme of activities, including ongoing monitoring and measurement of progress
- Used the Thriving Remotely Programme as an anchor to foster our cultural intent and behaviours while working remotely, and the Thrive Programme when we moved to hybrid working to support resilience, sustain performance, and help employees flourish in all aspects of their life
- Focused our Leadership Development Programme (LEAD) on the critical role leaders play in embedding and maintaining culture
- Continued our outcomes-focused approach to managing performance, using our performance framework to promote regular performance conversations about what has been achieved and how we are achieving our goals
- Refreshed our Employee Value Proposition to emphasise our sense of purpose, and our commitment to sustainability and sustainable practices, including our remuneration model and flexibility
- Refreshed our Diversity and Inclusion Plan and commenced implementation of our associated programme of work
- Continued to develop our learning plan to support all aspects of capability development, increase understanding around psychological safety and increase awareness of inclusion
- Focused on developing and evolving our talent programme
- Acquired the right talent to support delivery of our best-in-class strategy and whole-of-state solutions
- Made improvements to our workplace to better support hybrid working and promote efficiency
- Launched a new intranet so that employees have access to systems and resources across devices and working locations.

Culture

We maintained a focus on embedding our cultural pillars of Partnership, Impact and Long-Term and associated behaviours throughout FY22. We continued to reinforce our cultural expectations through regular communications, monthly performance conversations, people programmes and activities. We focused on an agreed programme of activities and monitored progress through regular Culture Pulse Surveys.

The results of the FY22 client survey demonstrate that our cultural behaviours and language are embedded in our partnership approach to engaging with clients.

As part of the LEAD programme, we focused on the role that all leaders play in embedding our culture: being a role model and promoting inclusive leadership, having courageous conversations, improving psychological safety, and valuing the diversity of our people and their ideas.

Diversity and Inclusion

Diversity and Inclusion are at the core of TCorp's cultural intent. We have a cultural commitment to increasing psychological safety across the organisation.

In FY22, we refreshed and implemented our Diversity and Inclusion plan which has 3 goals:

1. Build an inclusive, psychologically safe culture that values the diversity of our people and their ideas
2. Improve the diversity of our senior leadership group by the end of FY26 by increasing the number of women in senior leadership roles
3. Support and participate in other government sector/ NSW Treasury cluster diversity initiatives that are relevant to TCorp.

Talent and development

In FY22, we continued to focus on the priorities identified in our people strategy and to implement activities from our learning and development plan that focused on:

- Leadership capability and development
- People capability and mandatory learning assignments
- Embedding our culture and delivering our Diversity and Inclusion plan
- Health and wellbeing.

During the year we delivered a blended learning approach (face-to-face and online), reinforced through practical, on-the-job practices and learning opportunities including:

- Programmes on managing remote working, leading remotely, time management, productivity, building resilience, and health and wellbeing
- Clarity College training to help employees think and write logically
- The Lunch n' Learn programme
- Mandatory learning programme with a focus on risk management, compliance, IT, cyber security, Work Health and Safety, workplace behaviours, and the Code of Conduct.

Number and gender of executive officers

	FY22	FY21
Number of executive officers	8	8
Number of female executive officers	3	3

Bands and gender of executive officers

Band	FY22		FY21	
	Female	Male	Female	Male
Band 3 & 4	3	5	3	5
Band 2	0	0	0	0
Band 1	0	0	0	0

Executive remuneration

TCorp manages $100.7bn of investments and $124.3bn of debt on behalf of the people of NSW. Last year alone we issued $25.8bn of bonds. To do this, TCorp needs to be able to attract and retain highly skilled professionals.

Our remuneration structure, combining fixed and variable pay, is an important component in attracting and retaining people with the skills we need.

TCorp follows the NSW Public Service Commission and state government reporting requirements. In line with these guidelines, TCorp reports on the number of executive officers, the number of executives and average remuneration in Bands 1 to 4.

The TCorp Board considered remuneration having regard to TCorp's performance against the FY22 corporate report card and strategic plan, and the current economic environment and NSW Public Sector Wages Policy.

The Board determined that TCorp's performance was good considering the challenging and complex environment and continuing difficult financial markets. A fixed remuneration review was undertaken for eligible employees within the parameters of the NSW Public sector Wages Policy and within our approved remuneration framework. A variable reward component for senior executives and eligible employees was also awarded.

Remuneration of executive officers

Band	Range $	Average remuneration[2]	Average remuneration[2]
		FY22	FY21
Band 3 & 4[1]	$354,201 to $499,251+	$623,213[3]	$658,463
Band 2	$281,551 to $354,200	N/A	N/A
Band 1	$197,400 to $281,550	N/A	N/A

1 Bands 3 and 4 have been consolidated for disclosure purposes as individual confidential salary arrangements would be identifiable.

2 Average remuneration includes a variable component.

3 The variable component for the Chief Executive has not been approved as at the date of this submission and is not reflected in the FY22 figure.

- 11.1% of TCorp's employee-related expenditure in 2021/22 was related to senior executives, who represented 3.9% of full-time equivalent employees as at 30 June 2022.
- 11.3% of TCorp's employee-related expenditure in 2020/21 was related to senior executives, who represented 4.4% of full-time equivalent employees as at 30 June 2021.

Number of employees*

	FY22	FY21	FY20	FY19
Chief executive	1	1	1	1
General managers	7	7	7	7
Professional employees	163	142	144	136
Support employees	33	30	32	31
Total	**204**	**180**	**184**	**175**

* Headcount represents permanent employees at 30 June and excludes directors, contractors, and maximum term employees.

Exceptional movements in salaries

There were 11 exceptional salary increases of greater than 10% in FY22 which were the result of internal promotions. The increases were required so that the relevant salaries complied with TCorp's remuneration policy and practice.

Industrial relations policies

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

Code of conduct

TCorp's Code of Conduct and Ethics (Code) represents the standards required by our people in carrying out their duties. It is a mandatory requirement of employment that all staff formally acknowledge that they have read and understood the Code as an annual attestation.

Work Health and Safety (WHS)

Our Work Health and Safety Procedures and Return to Work Policy were reviewed in FY22. They were updated to specifically include psychosocial risks. Reviews are conducted on at least a 2-year cycle to ensure our WHS and Return to Work systems, policies, and procedures support a safe and healthy work environment for all workers, contractors and visitors, and meet legislative obligations.

TCorp continued to plan, review and consult with our people during the evolving COVID situation to support them and our business. This included supporting safety and flexible working arrangements through timely communications, consultation, resources, policy, planning, risk assessments and controls. We have aligned our plans, policies and procedures with NSW Government and legislative requirements, and health advice in relation to vaccination requirements. As the COVID environment changes, we will continue to assess and change our policies and procedures as needed to support our people and business.

In line with our WHS Procedures, we engaged an independent workplace safety consultant to complete our premises hazard inspection in April 2022. Overall, the observations were positive, particularly in relation to our COVID-safe planning, risk management and consultation.

There were no workers' compensation injury claims in FY22.

All people working at TCorp complete workplace behaviour training annually as part of our mandatory compliance learning programme. All new employees completed an online learning assignment on appropriate workplace behaviour as part of their onboarding programme.

The Board induction includes WHS, and in October 2021, the Board received its biennial report on WHS developments. In alternate years, the Board receives a face-to-face legal update on developments in WHS. Board members are regularly updated on WHS matters through the People and Remuneration Committee.

Preventative health and wellbeing continue to be an important area of focus and is a key aspect of our employee value proposition. During the year, we delivered activities and learning opportunities through our Thrive and Thriving Remotely Programmes focused on multiple dimensions of wellbeing including psychosocial wellbeing and building resilience. We also offered flu vaccinations, an annual health check programme and a confidential counselling service as part of our Employee Assistance Programme. In FY22, we developed a partnership with CancerAid, a digital health company offering coaching support programmes for people living with cancer or caring for someone with cancer.

Disability inclusion plans

We have a Disability Inclusion Action Plan. Due to the nature of our operations, the focus of disability inclusion planning is directed internally rather than to accessibility by the wider public. We ensure compliance with the relevant legislation (disability and anti-discrimination) as it relates to all policies, procedures, and practices, including in areas of recruitment and selection, internal promotions and transfers, training, and development.

Our premises comply with Australian Building Codes and Standards. On commencement of employment, new employees are asked to notify us of any requirements so that relevant modifications or adjustments can be made. If people require assistance in evacuating the premises, we work with them to develop and implement a Personal Emergency Evacuation Plan. We do not currently have any people working at TCorp with a declared disability.

Multicultural policies and service programme

As we do not provide services to the public, our multicultural policies and activities are focused internally.

We encourage and celebrate diversity in our workforce and in the workplace. This ongoing commitment is demonstrated through our policies, culture, behaviours and through initiatives that promote inclusion and diversity in the workplace. Our Diversity and Inclusion Plan approved in November 2021, continues to be implemented in line with the associated programme of work.

Workforce diversity

Table 4: Trends in the representation of diversity groups[1]

% of total employees[2]

	Benchmark or target (%)	FY20	FY21	FY22
Women	50	41.0	39.3	41.4
Aboriginal people and Torres Strait Islanders	3.3[3]	0.0	0.5	0.5
People whose first language was not English	23.2	29.5	28.4	29.5
People with a disability	5.6[4]	0.0	0.0	0.0
People with a disability requiring work-related adjustment	N/A	0.0	0.0	0.0

1 Employee numbers are as at 30 June.

2 Excludes casual employees.

3 The NSW Public Sector Aboriginal Employment Strategy 2014–17 introduced an aspirational target of 1.8% by 2021 for each of the sector's salary bands. If the aspirational target of 1.8% is achieved in salary bands not currently at or above 1.8%, the cumulative representation of Aboriginal employees in the sector is expected to reach 3.3%.

4 In December 2017 the NSW Government announced the target of doubling the representation of people with disability in the NSW public sector from an estimated 2.7% to 5.6% by 2027.

Table 5: Trends in the distribution of diversity groups

	Benchmark or target (%)	Distribution index[1] FY20	FY21	FY22
Women	100	93	92	91
Aboriginal people and Torres Strait Islanders	100	N/A	N/A	N/A
People whose first language was not English	100	99	97	97
People with a disability	100	N/A	N/A	N/A
People with a disability requiring work-related adjustment	100	N/A	N/A	N/A

1 A Distribution index score of 100 indicates that the distribution of members of the Workforce Diversity group across salary bands is equivalent to that of the rest of the workforce. A score less than 100 means that members of the Workforce Diversity group tend to be more concentrated at lower salary bands than is the case for other employees. The more pronounced this tendency is, the lower the score will be. In some cases, the index may be more than 100, indicating that members of the Workforce Diversity group tend to be more concentrated at higher salary bands than is the case for other employees.

Stakeholder engagement

Independent client survey results

Every year, we undertake independent market research to obtain client feedback on their perceptions of TCorp and their engagement with us. For the last 5 years, this has been conducted by Peter Lee and Associates, providing a consistent approach that allows us to measure progress over time.

Key findings

Feedback from this year's survey indicated that we have strong, sustainable partnerships with our clients, continue to be thought of as a trusted, professional organisation and are recognised for adding value with our financial markets expertise.

Clients were very positive about TCorp's following attributes:

- Team capability
- Government linkages and knowledge
- Ability to understand requirements and offer relevant solutions
- Delivery of whole-of-state outcomes
- Our interests being closely aligned with those of the state
- The delivery of best-in-class financial solutions.

Our ongoing mission

TCorp's strong alignment with our clients and deep understanding of the financial outcomes they are seeking to achieve, drives the trust that allows us to create solutions that have a positive, lasting impact. We achieve this through a combination of:

- Building close relationships with the NSW public sector, allowing us to navigate, coordinate and facilitate information across government, enabling responses and decision making
- Market knowledge and long-standing private sector relationships with our partners, local and global banks, and fund managers, enabling us to provide an informed, holistic financial picture, advising our clients and stakeholders accordingly
- Our demonstrated expertise in financial and investment management and advice.

Section 6

Financial statements

Statement of comprehensive income

	Note	2022 $'000	2021 $'000
Net gains on financial instruments at fair value through profit and loss	3	163,315	136,852
Fee income	4	92,814	87,681
Total net income		**256,129**	**224,533**
Operating costs	5	(94,049)	(89,386)
Transaction costs	5	(22,846)	(18,211)
Total operating and transaction costs		**(116,895)**	**(107,597)**
Profit before income tax equivalent expense		**139,234**	**116,936**
Income tax equivalent expense	1(c)	(41,770)	(35,081)
Profit for the year		**97,464**	**81,855**
Other comprehensive income/(loss)		-	-
Total comprehensive income for the year		**97,464**	**81,855**

The accompanying notes form part of these financial statements.

Balance sheet

	Note	2022 $'000	2021 $'000
Assets			
Cash and liquid assets	6	3,069,476	1,596,400
Outstanding settlements receivable	1(d)	1,587	971
Due from financial institutions	7	175,616	1,986,359
Securities held	8	10,292,632	6,597,170
Derivatives receivable	13	593,895	684,022
Loans to government clients	9	110,357,649	106,303,322
Other assets	21	38,536	43,461
Right-of-use asset	22	13,929	15,726
Plant and equipment	22	2,668	3,460
Total assets		**124,545,988**	**117,230,891**
Liabilities			
Due to financial institutions	10	12,242,677	7,766,120
Outstanding settlements payable	1(d)	3,124	1,053,384
Due to government clients	11	2,152,335	769,951
Borrowings	12	108,995,273	106,423,792
Derivatives payable	13	757,943	827,493
Income tax equivalent payable		9,592	8,127
Lease Liability	23	19,220	21,345
Other liabilities and provisions	23	135,910	133,229
Total liabilities		**124,316,074**	**117,003,441**
Net assets		**229,914**	**227,450**
Represented by:			
Equity			
Retained earnings	17	229,914	227,450
Total equity		**229,914**	**227,450**

The accompanying notes form part of these financial statements.

Statement of changes in equity

	Note	Retained earnings $'000	Total equity $'000
Total equity at 30 June 2020	17	**239,595**	**239,595**
Profit for the year		81,855	81,855
Other comprehensive income/(loss)		-	-
Total comprehensive income for the year		**81,855**	**81,855**
Transactions with owners in their capacity as owners:			
Dividend payable	23	(94,000)	(94,000)
Total equity at 30 June 2021	17	**227,450**	**227,450**
Profit for the year		97,464	97,464
Other comprehensive income/(loss)		-	-
Total comprehensive income for the year		97,464	97,464
Transactions with owners in their capacity as owners:			
Dividend payable	23	(95,000)	(95,000)
Total equity at 30 June 2022	17	**229,914**	**229,914**

The accompanying notes form part of these financial statements.

Statement of cash flows

	Note	2022 $'000	2021 $'000
Cash inflows/(outflows) from operating activities			
Interest and other costs of finance received		2,474,862	2,240,950
Interest and other costs of finance paid		(2,336,114)	(2,015,046)
Fee income received		97,327	96,531
Payments of tax equivalents		(40,307)	(38,626)
Payments of Goods and Services Tax		(5,764)	(4,919)
Payments of operating and transaction costs		(110,901)	(100,953)
Loans to government clients made		(28,274,834)	(26,215,963)
Loans to government clients repaid		8,556,813	6,299,163
Net cash inflows from other financial instruments		(84,178)	121,021
Net cash used in operating activities	29	**(19,723,096)**	**(19,617,842)**
Cash inflows/(outflows) from investing activities			
Purchases of plant and equipment and intangible assets		(616)	(1,662)
Net cash received/(paid to) from market securities held		(2,239,312)	1,472,081
Net cash provided by/(used in) investing activities		**(2,239,928)**	**1,470,419**
Cash inflows/(outflows) from financing activities			
Proceeds from issuance of borrowings and short term securities		75,552,957	81,663,860
Repayment of borrowings and short term securities		(52,054,052)	(62,399,733)
Dividends paid		(94,000)	(75,500)
Net cash provided by financing activities		**23,404,905**	**19,188,627**
Net increase/(decrease) in cash held		**1,441,881**	**1,041,204**
Cash and cash equivalents at the beginning of the year		1,382,300	341,096
Cash and cash equivalents at the end of the year	28	**2,824,181**	**1,382,300**

The accompanying notes form part of these financial statements.

1. Basis of preparation and accounting developments

New South Wales Treasury Corporation ('the Corporation') provides financial services for the New South Wales Government, public authorities and other public bodies of New South Wales.

Significant accounting policies adopted in the preparation of these financial statements are reported in this and subsequent notes to the financial statements. Accounting policies are consistent with the previous year.

These financial statements were authorised for issue in accordance with a resolution of the directors of New South Wales Treasury Corporation on 26 August 2022.

a. Basis of preparation

The financial statements of New South Wales Treasury Corporation are general purpose financial statements and have been prepared in accordance with the provisions of the *Government Sector Finance Act 2018* 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. The financial statements which include the accompanying notes comply with IFRS.

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 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. 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.

b. Foreign currency

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 statement of comprehensive income.

c. Income tax

The *Income Tax Assessment Act 1936* and the *Income Tax Assessment Act 1997* exempt the Corporation 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 2022 (2021: 30%).

d. Outstanding receivables and payables

Outstanding settlements receivable comprise the amounts due to the Corporation for trade transactions that have been recognised, but not yet settled at balance date. Outstanding settlements payable comprise amounts payable by the Corporation for trade transactions that have been recognised, but not yet settled at balance date. Outstanding amounts are usually settled within 14 days from balance date.

1. Basis of preparation and accounting developments (continued)

e. 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 operating costs. 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 statement of cash flows 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 is classified as operating cash flows.

f. Standards and interpretations adopted during the year

The Corporation has not adopted any new standards and interpretations for the annual reporting period commencing 1 July 2021.

g. Relevant standards and interpretations issued but not yet effective

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

Standard/Amendment		Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2021-2	*Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates*	1 January 2023	30 June 2024

The Corporation has not early adopted any new accounting standards, amendments, and interpretations in compliance with NSW Treasury Policy and Guidelines 22-07 “Mandates of options and major policy decisions under Australian Accounting Standards”. The above standards and amendments issued but not yet effective will have no impact to the Corporation’s financial reporting requirements.

h. Critical accounting estimates and significant judgements

The preparation of the financial statements requires management to exercise a higher degree of judgement and estimation when determining the fair value of financial assets and liabilities as discussed in Note 15. Estimates and judgements are regularly evaluated and are based on historical experience and expectations of future events. The Corporation believes the estimates used in preparing the financial statements are reasonable.

2. Segment information

The Corporation has the following business segments:

1. **Financial Markets**

   This function is responsible for lending to government clients and the associated funding through debt issuance. This function is also responsible for the Corporation's balance sheet risk management activities and also provides debt management, currency management and advisory services.

   Revenues from Financial Markets comprise in its entirety the net gains and losses from financial assets and liabilities as disclosed in Note 3 and relevant fee income as disclosed in Note 4.

2. **Investment Management**

   This function provides funds management activities including direct management of cash & fixed income, property and infrastructure portfolios, 'Manager-of-managers' services through the TCorpIM Funds and other tailored investment management services.

   The Investment Management function deposits short-term funds with TCorp's Financial Markets function at overnight market rates. Typically, these deposits are in relation to the TCorpIM Funds (Note 11).

   Revenues from Investment Management are in the form of fee income as disclosed in Note 4.

The majority of the Corporation's revenues are derived from the New South Wales Government and its agencies, which are considered to be under common control.

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

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

Accounting policy

Net gain/(loss) on financial instruments at fair value through profit and loss relates to revenue from lending and associated funding activities and the management of associated risks. Revenue is primarily generated from the differential between the fair value movements of financial assets and financial liabilities, inclusive of interest earned on assets or paid on liabilities.

The Corporation is required to measure financial assets and financial liabilities at fair value through profit or loss. The classification requirements under AASB 9 *Financial Instruments*, considers an entity's business model for managing its financial assets and financial liabilities. The Corporation manages its balance sheet on a fair value basis. This is demonstrated through the measurement and reporting of risks, limits, valuations and performance, consistent with risk management policies approved by the Board. Therefore, all financial assets and financial liabilities 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.

Interest expense on the lease liability (Note 23) is recognised within interest expense – government clients below.

Financial assets designated at fair value through profit and loss	**2022 $'000**	**2021 $'000**
Interest income – government clients	2,629,831	2,226,353
Interest income – financial institutions	49,566	49,755
Increase/(decrease) in fair value of financial assets	(14,982,444)	(2,060,531)
	(12,303,047)	**215,577**
Financial liabilities designated at fair value through profit and loss		
Interest expense – government clients	(2,019)	(1,586)
Interest expense – financial institutions	(2,516,772)	(2,178,419)
(Increase)/decrease in fair value of financial liabilities	15,032,766	2,141,118
	12,513,975	**(38,887)**
Net (losses)/gains on foreign exchange	(496)	(767)
Net losses on derivatives	(47,117)	(39,071)
Net Gains on Financial Instruments at Fair Value Through Profit and Loss	**163,315**	**136,852**

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.

The majority of the Corporation's Borrowings (Note 12) and associated Loans to Government Clients (Note 9) are at fixed interest rates. The large increase in interest rates during the year (refer Note 18) resulted in a large corresponding decrease in the fair value of TCorp's financial assets and financial liabilities.

4. Fee income

Accounting policy

Fee income is mainly earned from investment management activities through the management of client asset portfolios and as trustee and/or manager of the TCorpIM Funds.

Fee income for services provided is recognised in the period in which the service is provided..

	2022 $'000	2021 $'000
Investment Management Fees		
Asset client mandate fees[1]	52,051	52,331
TCorpIM Funds management fees[1]	37,004	32,681
Other fees from NSW Government entities[1]	-	245
Other fees from financial institutions	64	290
	89,119	**85,547**
Financial Markets		
Fees from NSW Government entities	3,686	2,124
Other fees from financial institutions	9	10
	3,695	**2,134**
	92,814	**87,681**

1 Relates to fees earned on funds under management as disclosed in Note 25.

5. Operating costs and transaction costs

Accounting policy

Operating and transaction costs are recognised in the period in which the relevant service has been rendered or when the liability has been incurred.

Depreciation and amortisation is calculated using the straight line method over the asset's estimated useful life (Note 22).

The Corporation has undertaken an impairment assessment for its right-of-use asset and noted that there were no material impairment indicators. Therefore, no impairment loss was recognised during the 2022 financial year (2021: Nil).

Software as a service (SaaS) arrangements are service contracts providing the Corporation with the right to access the cloud providers' application software over the contract period. Costs incurred to configure or customise the software are generally recognised as operating expenses when the relevant services are received.

Operating costs

	2022 $'000	2021 $'000
Salaries and other direct employee expenses[1]	57,748	55,676
Information technology	11,256	10,503
Market information services	8,572	7,844
Depreciation and amortisation	7,022	7,037
Other operating costs	9,451	8,326
	94,049	**89,386**

1 Includes employee and directors remuneration, related taxes and superannuation for permanent, contractors and maximum term employees.

5. Operating costs and transaction costs (continued)

The operating costs above include the following specific items:

	2022 $'000	2021 $'000
Auditor's remuneration to the Audit Office of NSW		
For audit of the financial report of the Corporation	359	340
Other audit and related services	118	111
	477	**451**

Transaction costs

	2022 $'000	2021 $'000
Bond issuance fees	10,000	5,620
Other transaction costs	12,846	12,591
	22,846	**18,211**

Other transaction costs include costs associated with managing client investment portfolios and other financial market related costs including futures brokerage and clearing fees.

Financial instruments

Accounting policy

a. Financial Instruments Overview

Financial instruments of the Corporation comprise cash and liquid assets, money market securities, loans, borrowings and derivatives as disclosed in Notes 6 to 13.

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

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

Securities sold under agreements to repurchase are retained in the financial statements within Securities Held (Note 8) where substantially all the risks and rewards of ownership remain with the Corporation. A liability for the agreed repurchase amount from the counterparty is recognised within Due to Financial Institutions (Note 10) as an obligation exists to buy back the securities, usually for terms ranging up to 90 days.

b. Fair Value Measurement

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 government clients are derived from yields for similar debt securities issued by the Corporation which are detailed in Note 18.

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.

6. Cash and liquid assets

	2022 $'000	2021 $'000
Cash and cash equivalents	3,069,476	1,596,400
	3,069,476	**1,596,400**

Cash and cash equivalents include deposits with financial institutions with original maturities of three months or less that are readily convertible to known amounts of cash.

7. Due from financial institutions

	Note	2022 $'000	2021 $'000
Short term bank deposits		-	1,600,509
Cash collateral	19	175,616	385,850
		175,616	**1,986,359**

Cash collateral is provided by the Corporation to support amounts payable to financial institutions in respect of certain derivative transactions of $168.8 million (2021: $385.9 million) and securities sold under repurchase agreements of $6.8 million (2021: Nil). Refer Note 19.

8. Securities held

	2022 $'000	2021 $'000
Floating rate notes[1]	1,975,390	1,705,490
Certificates of deposit	7,712,247	4,083,338
Commonwealth Government bonds	14,390	59,347
Semi-government bonds[2]	505,537	506,191
Supranational bonds	62,066	111,106
Bank issued bonds	-	38,852
Other Commonwealth and NSW Government related securities	23,002	92,846
	10,292,632	**6,597,170**

1 Includes securities sold under agreements to repurchase of $447.0 million (2021:Nil).

2 Includes securities sold under agreements to repurchase of $167.2 million (2021:Nil).

Securities held are used mainly to cover liquidity requirements. Of the above amounts, $2,198.2 million (2021: $1,903.8 million) is scheduled to mature more than twelve months from the balance date.

9. Loans to government clients

	2022 $'000	2021 $'000
New South Wales public sector clients:		
- The Crown in right of the State of New South Wales	83,956,504	78,077,998
- Water sector	14,790,115	15,175,694
- Electricity sector	5,814,246	6,505,023
- Transport sector	2,322,502	2,627,668
- Other sectors	2,496,582	2,974,829
- Local Councils	977,700	942,110
	110,357,649	**106,303,322**

Loans to government clients comprise financial accommodation on simple interest, fixed interest, floating rate or inflation indexed bases.

Capital indexed loans, coupons and face value are indexed quarterly in line with changes in inflation. The fair value of these loans at balance date totalled $6,361.0 million (2021: $6,831.5 million).

Floating rate loans comprise of variable quarterly coupons with the face value repayable on maturity. The fair value of these loans at balance date totalled $12,388.4 million (2021: $4,321.7 million).

Year-on-year indexed loans comprise a constant face value and a variable coupon that includes the fixed real rate and latest adjusted Consumer Price Index. The fair value of these loans at balance date totalled $1,409.6 million (2021: $1,805.1 million).

Loans to New South Wales public sector clients are guaranteed by the New South Wales Government. Of the above amounts, $102,396.8 million (2021: $100,479.5 million) is scheduled to mature more than twelve months from the balance date.

During the year the NSW government finalised the sale of its remaining 49% stake in WestConnex, resulting in $7,661 million of loans of the Crown in right of the State of New South Wales being repaid.

10. Due to financial institutions

	Note	2022 Face Value $'000	2022 Fair Value $'000	2021 Face Value $'000	2021 Fair Value $'000
Promissory notes		11,241,569	11,174,280	7,468,000	7,467,780
Cash collateral	19	210,970	210,965	84,240	84,240
Short term borrowings		245,300	245,295	214,100	214,100
Securities sold under agreements to repurchase		611,825	612,137	-	-
		12,309,664	**12,242,677**	**7,766,340**	**7,766,120**

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

Cash collateral may be obtained by the Corporation to support amounts receivable from financial institutions in respect of certain derivative transactions (Note 19).

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.

Securities sold under agreements to repurchase are secured by cash collateral (Note 19). The Corporation has an obligation to buy back the securities on the dates agreed, usually for terms ranging up to 180 days.

11. Due to government clients

	2022 Face Value $'000	2022 Fair Value $'000	2021 Face Value $'000	2021 Fair Value $'000
Deposits				
- The Crown in right of the State of New South Wales	1,500,485	1,500,405	8,278	8,278
- TCorpIM Funds	360,000	359,992	536,000	536,000
- Other Government Clients	291,960	291,938	225,675	225,673
	2,152,445	**2,152,335**	**769,953**	**769,951**

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

12. Borrowings

	2022 Face Value $'000	2022 Fair Value $'000	2021 Face Value $'000	2021 Fair Value $'000
Benchmark bonds	80,119,877	74,125,893	71,409,842	77,816,461
Euro Medium Term Notes	1,158,058	1,018,929	1,208,117	1,378,661
Sustainability Bonds	7,225,000	6,445,435	5,200,000	5,407,200
Capital indexed bonds	5,597,013	6,164,912	5,420,312	6,648,369
Floating rate notes	15,242,000	15,377,908	7,410,000	7,495,507
Other borrowings	7,266,440	5,862,196	7,348,352	7,677,594
	116,608,388	**108,995,273**	**97,996,623**	**106,423,792**

Benchmark bonds pay semi-annual coupons with the face value repayable on maturity.

Euro Medium Term Notes 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, $949.9 million (2021: $1,378.7 million) Euro Medium Term Notes are scheduled to mature more than twelve months from the balance date.

Sustainability bonds are issued as part of the NSW Sustainability Bond Programme. They are repayable at maturity with coupons payable semi-annually. In fair value terms, $6,445.4 million (2021: $5,407.2 million) of sustainability bonds are 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. In fair value terms, $6,164.9 million (2021: $6,648.4 million) 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, $15,377.9 million (2021: $7,495.5 million, fair value) floating rate notes are scheduled to mature more than twelve months from the balance date.

Other borrowings include Waratah bonds, bonds issued that are Commonwealth Government guaranteed (Note 14) and other non-benchmark domestic bonds. The fair value of Waratah bonds and Commonwealth guaranteed bonds totalled $605.5 million (2021: $476.2 million) and $350.5 million (2021: $572.5 million) respectively. In fair value terms, $5,409.4 million (2021: $7,588.5 million) of other borrowings are 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 14). The Corporation does not provide any further security in the form of asset and other pledges in relation to its borrowings.

12. Borrowings (continued)

The benchmark bonds on issue, by maturity were:

Maturity	Coupon % p.a.	2022 Face Value $'000	2022 Fair Value $'000	2021 Face Value $'000	2021 Fair Value $'000
1 March 2022	6.00	-	-	4,399,749	4,664,641
20 April 2023	4.00	4,010,673	4,092,309	4,823,039	5,201,201
8 February 2024	1.00	4,692,150	4,563,574	6,702,050	6,850,735
20 August 2024	5.00	4,323,510	4,554,199	4,440,460	5,148,083
20 May 2026	4.00	5,323,298	5,405,225	5,323,298	6,121,754
20 May 2027	3.00	8,861,380	8,586,983	8,291,380	9,191,369
20 March 2028	3.00	9,282,520	8,950,137	8,266,820	9,239,442
20 April 2029	3.00	9,153,100	8,668,413	8,444,100	9,436,620
20 February 2030	3.00	10,366,196	9,756,232	9,240,196	10,380,530
20 March 2031	2.00	8,861,750	7,509,767	6,028,750	6,185,671
20 February 2032	1.50	8,046,000	6,348,546	2,515,000	2,431,978
8 March 2033	2.00	4,391,500	3,545,401	2,935,000	2,964,437
20 March 2034	1.75	2,807,800	2,145,106	-	-
		80,119,877	**74,125,892**	**71,409,842**	**77,816,461**

13. Derivatives

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 and forward foreign exchange contracts. 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 19).

Net Exposure

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

	2022 $'000	2021 $'000
Derivatives receivable		
Cross currency swaps	61,829	62,792
Interest rate swaps	472,308	585,481
Forward foreign exchange contracts	51,367	32,019
Exchange traded futures	630	384
Commodity swaps	7,761	3,346
	593,895	**684,022**
Derivatives payable		
Cross currency swaps	(157,880)	(94,552)
Interest rate swaps	(543,811)	(697,576)
Forward foreign exchange contracts	(48,491)	(32,019)
Commodity swaps	(7,761)	(3,346)
	(757,943)	**(827,493)**
Net amount (payable) under derivatives	**(164,048)**	**(143,471)**

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.

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

14. Other disclosures concerning financial liabilities

Guarantee of the State

All financial liabilities of the Corporation are guaranteed by the New South Wales Government under Division 6.5, sections 6.26 and 6.27 of the *Government Sector Finance Act* 2018.

Guarantee of the Commonwealth

Certain bonds issued by the Corporation, identified in Borrowings (Note 12) 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 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 both domestic and offshore capital markets to ensure an adequate funding base. The credit rating of the Corporation is derived from the guarantee provided by the New South Wales Government.

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

	2022 $bn	**2021 $bn**
Global exchangeable bonds	AUD 18	AUD 18
Multi-currency Euro medium term note	USD 10	USD 10
Multi-currency Euro commercial paper	USD 10	USD 10
	2022 ¥bn	**2021 ¥bn**
Japanese shelf registration[1]	-	JPY 300

1 Japanese shelf registration was not renewed in 2022.

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

15. Fair value measurement

Financial assets and financial liabilities are recorded 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 12). 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).

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

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.

2022	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Outstanding settlements receivable	-	1,587	-	1,587
Due from financial institutions	175,616	-	-	175,616
Securities held	2,557,384	7,735,248	-	10,292,632
Derivatives receivable	630	593,265	-	593,895
Loans to government clients	5,821	109,813,225	538,603	110,357,649
Futures margins deposits	2,214	-	-	2,214
Financial assets	**2,741,665**	**118,143,325**	**538,603**	**121,423,593**
Financial liabilities				
Due to financial institutions	(456,260)	(11,786,417)	-	(12,242,677)
Outstanding settlements payable	-	(3,124)	-	(3,124)
Due to government clients	(531,948)	(1,620,387)	-	(2,152,335)
Borrowings	(100,372,157)	(7,673,196)	(949,920)	(108,995,273)
Derivatives payable	-	(757,943)	-	(757,943)
Financial liabilities	**(101,360,365)**	**(21,841,067)**	**(949,920)**	**(124,151,352)**

15. Fair value measurement (continued)

2021	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Outstanding settlements receivable	-	971	-	971
Due from financial institutions	385,850	1,600,509	-	1,986,359
Securities held	2,486,443	4,110,727	-	6,597,170
Derivatives receivable	384	683,638	-	684,022
Loans to government clients	12,428	105,630,109	660,785	106,303,322
Futures margins deposits	5,610	-	-	5,610
Financial assets	**2,890,715**	**112,025,954**	**660,785**	**115,577,454**
Financial liabilities				
Due to financial institutions	(298,340)	(7,467,780)	-	(7,766,120)
Outstanding settlements payable	-	(1,053,384)	-	(1,053,384)
Due to government clients	(619,431)	(150,520)	-	(769,951)
Borrowings	(98,697,729)	(6,426,125)	(1,299,938)	(106,423,792)
Derivatives payable	-	(827,493)	-	(827,493)
Financial liabilities	**(99,615,500)**	**(15,925,302)**	**(1,299,938)**	**(116,840,740)**

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

The Level 3 Euro Medium Term Notes are foreign currency denominated fixed interest securities (borrowings) issued by the Corporation. The fair value of the Level 3 Euro Medium Term notes at balance date totalled $949.9 million (2021: $1,299.9 million). 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.

The Level 3 Loans to government clients are loans with fair value based on the valuation associated with specific Level 3 Euro Medium Term Notes. The fair value of the Level 3 Loans to government clients at balance date totalled $538.6 million (2021: $660.8 million).

15. Fair value measurement (continued)

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.

	Financial assets $'000	Financial liabilities $'000
Total as at 30 June 2020	**409,280**	**(1,133,818)**
Additions	309,814	(300,633)
Unrealised gains and (losses)[1,2]	(43,275)	117,120
(Interest received)/Coupons paid[1]	(15,034)	17,393
Total as at 30 June 2021	**660,785**	**(1,299,938)**
Additions	-	-
Unrealised gains and (losses)[1,2]	(105,395)	333,257
(Interest received)/Coupons paid[1]	(16,787)	16,761
Total as at 30 June 2022	**538,603**	**(949,920)**

1 Included in Net gain/(loss) on financial instruments at fair value through profit or loss in the statement of comprehensive income.

2 Gains and losses are largely offset by the gains and losses on the associated cross currency swaps, which are categorised as level 2 under the fair value hierarchy.

Level 3 Financial Instruments – Unobservable Inputs

Description	Fair Value at 30 June 2022 $'000	Unobservable Inputs	Range of Inputs
Loans to government clients	538,603	Yield	65 bps - 289 bps
Euro Medium Term Notes (Borrowings)	(949,920)	Yield	

Description	Fair Value at 30 June 2021 $'000	Unobservable Inputs	Range of Inputs
Loans to government clients	660,785	Yield	4 bps - 137 bps
Euro Medium Term Notes (Borrowings)	(1,299,938)	Yield	

As at balance date, a 0.01% change in the yield used to value the Level 3 Euro Medium Term Note liabilities and Level 3 Loans to government clients would impact the fair value by approximately +/- $1.7 million (2021: +/- $2.6 million) and +/-$1.0 million respectively (2021: +/-$1.3 million). This sensitivity analysis should be considered in context of the Corporation's management of market risk as detailed in Note 18.

16. Offsetting financial assets and financial liabilities

The following table identifies financial assets and liabilities which have been offset in the balance sheet and those which have not been offset in the balance sheet but are subject to enforceable master netting agreements with our counterparties.

		Effects of offsetting on the Balance sheet			Related amounts not offset		
2022	**Note**	**Gross amounts $'000**	**Gross amounts offset in the Balance sheet $'000**	**Net amounts presented in the Balance sheet $'000**	**Amounts subject to master netting arrangements $'000**	**Financial instrument collateral and margins (received) /paid $'000**	**Net amount $'000**
Financial assets							
Derivatives receivable (excluding futures)		641,928	(48,663)	593,265	(371,648)	(196,013)	25,604
Derivatives receivable - futures		3,951	(3,321)	630	-	-	630
Total derivatives receivable	13	**645,879**	**(51,984)**	**593,895**	**(371,648)**	**(196,013)**	**26,234**
Futures margins deposits	21	2,214	-	2,214	-	-	2,214
Financial assets		**648,093**	**(51,984)**	**596,109**	**(371,648)**	**(196,013)**	**28,448**
Financial liabilities							
Derivatives payable (excluding futures)		(806,606)	48,663	(757,943)	371,648	157,339	(228,956)
Derivatives payable - futures		(3,321)	3,321	-	-	-	-
Total derivatives payable	13	**(809,927)**	**51,984**	**(757,943)**	**371,648**	**157,339**	**(228,956)**
Futures margins payable[1]		(253)	-	(253)	-	-	(253)
Securities sold under agreements to repurchase	10	(612,137)	-	(612,137)	-	612,137	-
Financial liabilities		**(1,422,317)**	**51,984**	**(1,370,333)**	**371,648**	**769,476**	**(229,209)**

1 Included in Note 23 Other Liabilities, Provisions and Lease Liabilities.

16. Offsetting financial assets and financial liabilities (continued)

		Effects of offsetting on the Balance sheet			Related amounts not offset		
2021	**Note**	**Gross amounts $'000**	**Gross amounts offset in the Balance sheet $'000**	**Net amounts presented in the Balance sheet $'000**	**Amounts subject to master netting arrangements $'000**	**Financial instrument collateral and margins (received) /paid $'000**	**Net amount $'000**
Financial assets							
Derivatives receivable (excluding futures)		723,926	(40,288)	683,638	(387,825)	(78,492)	217,321
Derivatives receivable - futures		861	(477)	384	-	-	384
Total derivatives receivable	13	**724,787**	**(40,765)**	**684,022**	**(387,825)**	**(78,492)**	**217,705**
Futures margins deposits	21	5,610	-	5,610	-	-	5,610
Financial assets		**730,397**	**(40,765)**	**689,632**	**(387,825)**	**(78,492)**	**223,315**
Financial liabilities							
Derivatives payable (excluding futures)		(867,781)	40,288	(827,493)	387,825	377,192	(62,476)
Derivatives payable - futures		(477)	477	-	-	-	-
Total derivatives payable	13	**(868,258)**	**40,765**	**(827,493)**	**387,825**	**377,192**	**(62,476)**
Futures margins payable[1]		(206)	-	(206)	-	-	(206)
Financial liabilities		**(868,464)**	**40,765**	**(827,699)**	**387,825**	**377,192**	**(62,682)**

1 *Included in Note 23 Other Liabilities, Provisions and Lease 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 offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. In line with general market practice, the Corporation has entered into arrangements that do not 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 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.

16. Offsetting financial assets and financial liabilities (continued)

Related amounts not offset on the Balance sheet

Derivative assets and liabilities

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 counterparty credit default, all outstanding transactions under the ISDA agreement may be terminated by the Corporation, the termination value is determined and only a single net amount is payable to/receivable from a counterparty in settlement of all transactions. Financial collateral refers to cash obtained to cover the net exposure between counterparties by enabling the collateral to be realised in an event of default.

Repurchase agreements

Repurchase agreements (securities sold under agreements to repurchase) are separately subject to offset under netting agreements, such as global master repurchase agreements. Under these netting agreements, all outstanding transactions with the same counterparty can be offset and close-out netting applied in an event of default. These arrangements are supported by financial collateral in the event of counterparty default.

17. Financial risk

Objectives and policies

The Corporation manages and monitors a variety of financial risks across its balance sheet including market risk (interest rate risk and foreign exchange risk), credit risk and liquidity risk (refer Notes 18, 19 and 20 respectively).

The boundaries within which these risks are undertaken and managed are established under Board policies, management guidelines and agreements with clients. The Corporation monitors compliance with Board policies and management and client constraints. This monitoring is appropriately segregated from the operating divisions. Information is summarised, monitored and reviewed daily and reported regularly to the Board.

All aspects of the Corporation's Financial Market function 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 lending and associated funding activities 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 sheet.

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 Division 6.5, sections 6.26 and 6.27 of the *Government Sector Finance Act* 2018.

18. 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	Market Rates (Yield to Maturity) at 30 June 2022 % pa	Market Rates (Yield to Maturity) at 30 June 2021 % pa
Nominal			
Overnight	-	0.810	0.030
90 days	-	1.813	0.030
180 days	-	2.582	0.065
1 March 2022	6.000	-	(0.004)
20 April 2023	4.000	2.420	0.090
1 May 2023[1]	6.000	2.546	0.009
8 February 2024	1.000	3.015	0.299
20 August 2024	5.000	3.279	0.466
20 May 2026	4.000	3.696	0.948
20 May 2027	3.000	3.775	1.148
20 March 2028	3.000	3.867	1.297
20 April 2029	3.000	3.995	1.480
20 February 2030	3.000	4.069	1.600
20 March 2031	2.000	4.182	1.770
20 February 2032	1.500	4.260	1.901
8 March 2033	2.000	4.346	1.964
20 March 2034	1.750	4.402	2.042
20 November 2037	3.500	4.491	2.234
20 November 2040	2.250	4.455	2.463
7 May 2041	2.250	4.444	2.435
20 May 2042	2.250	4.434	2.509
24 August 2050	2.450	4.417	2.602
Capital Indexed			
20 November 2025	2.750	(0.171)	(1.128)
20 November 2035	2.500	1.945	0.148

1 Securities covered by Commonwealth guarantee – refer Note 14.

18. 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. 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 2022, the maximum potential loss expected over a 10-day period is $2.9 million (2021: $6.0 million), with a 1% probability that this maximum may be exceeded. The average VaR over the year ended 30 June 2022 was $5.7 million (2021: $10.3 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 10) or Euro Medium Term Notes (Note 12), to fund Australian dollar assets is covered by entering into Australian dollar cross currency swaps and forward foreign exchange contracts.

Where the Corporation has entered into forward foreign exchange contracts with clients, these are covered by corresponding forward foreign exchange contracts with market counterparties. Foreign exchange risks within Investment Funds, where the Corporation acts as Trustee or manager, are borne by the investors in these Funds.

19. 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.

Derivative financial instruments include swaps, forward dated loans, forward foreign exchange contracts and futures. The Corporation enters into derivative contracts for the purposes of hedging market risks arising from the Corporation's activities and when acting as an intermediary between government clients and market counterparties under back-to-back arrangements. In respect of derivative trades executed on behalf of government clients, TCorp is indemnified by the clients in the event of counterparty default which substantially eliminates the credit risk of these derivative transactions.

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.

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 $211.0 million of collateral received under these arrangements at balance date (2021: $84.2 million). Refer below for the net impact of collateral received on credit risk.

	2022 $'000	2021 $'000
Derivative financial instruments	206,638	81,996
Carrying amount of collateral received	(196,013)	(78,502)
Net credit risk	**10,625**	**3,494**

The Corporation had paid $175.6 million of collateral under these arrangements at balance date (Amount paid in 2021: $385.9 million). Refer Note 7.

19. Credit risk (continued)

Repurchase Agreements (securities sold under agreements to repurchase)

At year end, the Corporation had $614.2 million in securities sold under agreements to repurchase (2021: Nil) (refer Note 8). Securities sold under agreements to repurchase are secured by cash collateral. In the event of default, the Corporation is immediately entitled to offset the cash collateral against the amounts owed by the defaulting counterparty. The terms and conditions of the repurchase agreements are governed by standard industry agreements, reflecting current Australian market practice. The effect of these offsetting arrangements is disclosed in Note 16.

Due to retention of substantially all the risks and rewards of these securities, the Corporation continues to recognise these securities on the balance sheet and the collateral received as liabilities. The counterparties have an obligation to return the securities to the Corporation and the Corporation has an obligation to buy back the securities on the dates agreed, usually for terms ranging up to 90 days.

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

	Note	2022 $'000	2021 $'000
Securities sold under agreements to repurchase	8	614,202	-
Cash collateral paid	7	6,800	-
Carrying amount of collateral received	10	(612,137)	-
Net credit risk		**8,865**	-

19. Credit risk (continued)

Concentration of Credit Risk

By credit rating – 2022[1]

	AAA $'000	AA+ $'000	AA $'000	AA- $'000	A+ $'000	A $'000	Other[2] Ratings $'000	Total $'000
Cash and liquid assets	-	-	-	2,919,515	157	149,804	-	3,069,476
Due from financial institutions	-	-	-	67,209	108,407	-	-	175,616
Securities held[6]	177,397	1,163,361	745,118	4,960,486	1,792,459	1,096,501	357,310	10,292,632
Derivative financial instruments	-	-	-	342,744	160,454	75,088	15,609	593,895
Futures margins deposits	-	-	-	-	-	-	2,214	2,214
	177,397	**1,163,361**	**745,118**	**8,289,954**	**2,061,477**	**1,321,393**	**375,133**	**14,133,833**
Additional potential exposure to derivatives	-	-	-	87,107	104,603	24,157	46,903	262,770
Additional potential exposure to financial instruments	3,786	48,829	15,158	37,772	5,543	3,695	2,689	117,472
	181,183	**1,212,190**	**760,276**	**8,414,833**	**2,171,623**	**1,349,245**	**424,725**	**14,514,075**

By credit rating – 2021[1]

	AAA $'000	AA+ $'000	AA $'000	AA- $'000	A+ $'000	A $'000	Other[2] Ratings $'000	Total $'000
Cash and liquid assets	-	-	-	1,596,245	155	-	-	1,596,400
Due from financial institutions	-	-	-	781,154	148,460	1,056,745	-	1,986,359
Securities held[6]	360,950	1,095,013	593,350	2,486,589	1,426,687	299,873	334,708	6,597,170
Derivative financial instruments	-	-	-	285,160	180,643	2,237	215,982	684,022
Futures margins deposits	-	-	-	-	-	-	5,610	5,610
	360,950	**1,095,013**	**593,350**	**5,149,148**	**1,755,945**	**1,358,855**	**556,300**	**10,869,561**
Additional potential exposure to derivatives	-	-	-	98,432	172,254	6,774	33,573	311,033
Additional potential exposure to financial instruments	7,582	1,790	-	551	702	127	291	11,043
	368,532	**1,096,803**	**593,350**	**5,248,131**	**1,928,901**	**1,365,756**	**590,164**	**11,191,637**

19. Credit risk (continued)

Concentration of credit risk

By classification of counterparty – 2022[1]

	Governments[3] $'000	Banks[4] $'000	Other[5] $'000	Total $'000
Cash and liquid assets	-	3,069,476	-	3,069,476
Due from financial institutions	-	175,616	-	175,616
Securities held[6]	2,023,810	8,183,754	85,068	10,292,632
Derivative financial instruments	14,979	578,286	630	593,895
Futures margins deposits	-	-	2,214	2,214
	2,038,789	**12,007,132**	**87,912**	**14,133,833**
Additional potential exposure to derivatives	46,902	215,868	-	262,770
Additional potential exposure to financial instruments	66,247	49,699	1,526	117,472
	2,151,938	**12,272,699**	**89,438**	**14,514,075**

By classification of counterparty – 2021[1]

	Governments[3] $'000	Banks[4] $'000	Other[5] $'000	Total $'000
Cash and liquid assets	-	1,596,400	-	1,596,400
Due from financial institutions	-	1,986,359	-	1,986,359
Securities held[6]	1,938,208	4,520,468	138,494	6,597,170
Derivative financial instruments	213,826	469,812	384	684,022
Futures margins deposits	-	-	5,610	5,610
	2,152,034	**8,573,039**	**144,488**	**10,869,561**
Additional potential exposure to derivatives	33,573	277,460	-	311,033
Additional potential exposure to financial instruments	7,567	1,672	1,804	11,043
	2,193,174	**8,852,171**	**146,292**	**11,191,637**

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 $14.4 million (2021: $124.8 million).

20. 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 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.

2022	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
Financial assets							
Cash and liquid assets	3,019,730	50,000	-	-	-	-	3,069,730
Outstanding settlements receivable	1,587	-	-	-	-	-	1,587
Due from financial institutions	175,620	-	-	-	-	-	175,620
Securities held	502,140	3,786,218	3,876,438	542,542	1,190,669	620,456	10,518,463
Loans to government clients	691,758	1,848,417	8,153,719	9,274,170	36,346,241	82,096,978	138,411,283
Other assets	21,222	327	1,538	1,986	2,605	77	27,755
Future margins deposits	2,214	-	-	-	-	-	2,214
Financial assets	**4,414,271**	**5,684,962**	**12,031,695**	**9,818,698**	**37,539,515**	**82,717,511**	**152,206,652**
Financial liabilities							
Due to financial institutions	(2,040,990)	(3,685,000)	(6,584,000)	-	-	-	(12,309,990)
Outstanding settlements payable	(3,124)	-	-	-	-	-	(3,124)
Due to government clients	(532,446)	(120,336)	(1,507,562)	-	-	-	(2,160,344)
Borrowings	(17,458)	(794,390)	(6,452,789)	(10,369,331)	(37,594,442)	(81,448,451)	(136,676,861)
Lease Liability	(230)	(460)	(2,070)	(2,884)	(2,785)	-	(8,429)
Creditors, expense accruals and other provisions	(12,047)	(10,214)	-	-	-	-	(22,261)
Financial liabilities	**(2,606,295)**	**(4,610,400)**	**(14,546,421)**	**(10,372,215)**	**(37,597,227)**	**(81,448,451)**	**(151,181,009)**
Net financial assets/ (liabilities)	**1,807,976**	**1,074,562**	**(2,514,726)**	**(553,517)**	**(57,712)**	**1,269,060**	**1,025,643**
Derivatives							
Derivatives receivable	16,522	35,317	143,373	164,031	220,778	366,631	946,652
Derivatives payable	(11,311)	(46,777)	(161,682)	(173,063)	(327,385)	(926,265)	(1,646,483)
Net derivatives	**5,211**	**(11,460)**	**(18,309)**	**(9,032)**	**(106,607)**	**(559,634)**	**(699,831)**
Net	**1,813,187**	**1,063,102**	**(2,533,035)**	**(562,549)**	**(164,319)**	**709,426**	**325,812**
Cumulative	**1,813,187**	**2,876,289**	**343,254**	**(219,295)**	**(383,614)**	**325,812**	**-**

20. Liquidity risk (continued)

2021	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
Financial assets							
Cash and liquid assets	1,596,400	-	-	-	-	-	1,596,400
Outstanding settlements receivable	971	-	-	-	-	-	971
Due from financial institutions	1,586,318	400,334	-	-	-	-	1,986,652
Securities held	356,641	1,404,273	2,953,231	434,095	1,322,175	186,055	6,656,470
Loans to government clients	972,694	1,148,658	6,188,463	8,450,479	32,805,837	67,688,922	117,255,053
Other assets	16,516	306	1,450	1,881	3,730	579	24,462
Futures margins deposits	5,610	-	-	-	-	-	5,610
Financial assets	**4,535,150**	**2,953,571**	**9,143,144**	**8,886,455**	**34,131,742**	**67,875,556**	**127,525,618**
Financial liabilities							
Due to financial institutions	(2,181,340)	(1,770,000)	(3,815,000)	-	-	-	(7,766,340)
Outstanding settlements payable	(1,053,384)	-	-	-	-	-	(1,053,384)
Due to government clients	(619,953)	(150,004)	-	-	-	-	(769,957)
Borrowings	(10,678)	(734,723)	(6,423,454)	(7,930,176)	(35,308,462)	(66,638,834)	(117,046,327)
Lease Liability	(220)	(440)	(1,981)	(2,760)	(8,234)	-	(13,635)
Creditors, expense accruals and other provisions	(20,815)	-	-	-	-	-	(20,815)
Financial liabilities	**(3,886,390)**	**(2,655,167)**	**(10,240,435)**	**(7,932,936)**	**(35,316,696)**	**(66,638,834)**	**(126,670,458)**
Net financial assets/ (liabilities)	**648,760**	**298,404**	**(1,097,291)**	**953,519**	**(1,184,954)**	**1,236,722**	**855,160**
Derivatives							
Derivatives receivable	12,919	56,372	159,237	189,596	280,308	436,363	1,134,795
Derivatives payable	(12,898)	(44,109)	(207,027)	(182,085)	(347,651)	(960,251)	(1,754,021)
Net derivatives	**21**	**12,263**	**(47,790)**	**7,511**	**(67,343)**	**(523,888)**	**(619,226)**
Net	**648,781**	**310,667**	**(1,145,081)**	**961,030**	**(1,252,297)**	**712,834**	**235,934**
Cumulative	**648,781**	**959,448**	**(185,633)**	**775,397**	**(476,900)**	**235,934**	**-**

1 *A large proportion of Loans to government clients have a loan to maturity profile which is greater than five years. As a result, the Corporations liability maturity profile may be shorter than the asset maturity profile. This may require the Corporation to undertake periodic refinancing to meet any funding requirement shortfalls.*

Contractual commitments are disclosed in Note 24. Undertakings on behalf of certain New South Wales public sector clients and undrawn loan commitments are disclosed in Note 26.

21. Other assets

Accounting policy

Other assets, including receivables, intangible assets, prepayments and deposits are reported based on their recoverable amount.

Receivables and Intangible assets are assessed on a regular basis 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.

Computer software that are capitalised in accordance with AASB 138 *Intangible Assets* is 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 on a regular basis and adjusted if appropriate. 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 Corporation's intangible assets, the assets are carried at cost less any accumulated amortisation and impairment. Systems projects that are capitalised and implemented in stages do not commence amortising until they are commissioned.

Lease receivables comprise of amounts due from the lessee over the lease term under finance lease arrangements.

	2022 $'000	**2021 $'000**
Fee income accruals and receivables	19,514	15,747
Interest receivable from cash and liquid assets	1,591	646
Intangible assets	4,284	8,266
Futures margins deposits	2,214	5,610
Lease receivables	6,251	7,933
Other prepayments	4,682	5,259
	38,536	**43,461**

Reconciliation of Intangible assets		
Opening carrying value	8,266	10,809
Additions	379	1,276
Amortisation	(4,361)	(3,819)
Carrying value at year end	**4,284**	**8,266**

22. Plant and equipment and right-of-use asset

Accounting policy

Plant and equipment comprising leasehold improvements, office furniture and equipment and computer hardware 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.

The Right-of-use asset represents the Corporation's right to use the current office premises for the lease term and is stated at cost less accumulated depreciation and impairment which approximates fair value.

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 contractual term of the lease, up to 31 May 2025.
- Right-of-use asset over the term of the lease (inclusive of lease option), up to 31 May 2030.
- Furniture and Equipment
  - Computer hardware - three years
  - Office furniture and equipment - over the contractual term of the lease, which expires on 31 May 2025.

The assets' residual values, useful lives and depreciation method are reviewed on a regular basis with the effects of any changes recognised on a prospective basis. Due to the nature and materiality of the assets an independent valuation is not required. Where indicators of impairment are present, the carrying amount will be written down to the recoverable amount of the asset if necessary.

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.

22. Plant and equipment and right-of-use asset (continued)

	Leasehold Improvements		**Furniture and Equipment**		**Total Plant and Equipment**		**Right-of-use Asset**	
	2022 $'000	**2021 $'000**	**2022 $'000**	**2021 $'000**	**2022 $'000**	**2021 $'000**	**2022 $'000**	**2021 $'000**
Opening fair value	4,927	4,927	1,118	2,432	6,045	7,359	19,622	19,622
Opening accumulated depreciation	(2,170)	(1,467)	(415)	(1,101)	(2,585)	(2,568)	(3,896)	(2,100)
Opening carrying amount	**2,757**	**3,460**	**703**	**1,331**	**3,460**	**4,791**	**15,726**	**17,522**
Changes during the year:								
Additions at fair value	-	-	204	369	204	369	-	-
Net disposals and write-offs	-	-	-	(279)	-	(279)	-	-
Depreciation expense	(704)	(703)	(292)	(718)	(996)	(1,421)	(1,797)	(1,796)
Closing carrying amount	**2,053**	**2,757**	**615**	**703**	**2,668**	**3,460**	**13,929**	**15,726**
Closing fair value	4,927	4,927	1,234	1,118	6,161	6,045	19,622	19,622
Closing accumulated depreciation	(2,874)	(2,170)	(619)	(415)	(3,493)	(2,585)	(5,693)	(3,896)
Carrying amount at year end	**2,053**	**2,757**	**615**	**703**	**2,668**	**3,460**	**13,929**	**15,726**

23. Other liabilities, provisions and lease liabilities

Accounting policy

Other liabilities and provisions are reported based on their actual or expected settlement amount.

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.

Provision for employee benefits include provisions for annual leave, long service leave and other employee entitlements. These 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).

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.

Dividends payable by the Corporation are determined by the New South Wales Treasurer in accordance with the *Government Sector Finance Act* 1983. Additionally, the basis for determination of the year's dividend is recorded in a Board resolution prior to the end of the financial year.

A lease liability representing the present value of future lease payments has been recognised in accordance with AASB 16 *Leases*.

	2022 $'000	**2021 $'000**
Other liabilities and provisions	135,910	133,229
Lease liability	19,220	21,345
	155,130	**154,574**

Other liabilities and provisions are comprised of:

	2022 $'000	**2021 $'000**
Provisions for employee benefits	16,786	16,818
Creditors, expense accruals and other provisions	12,047	9,805
Revenue earned in advance	12,077	12,606
Dividend payable	95,000	94,000
	135,910	**133,229**

23. Other liabilities, provisions and lease liabilities (continued)

Lease liability movement schedule

The Balance Sheet shows the following amounts relating to leases:

	2022 $'000	2021 $'000
Opening carrying value	21,345	23,308
Additions	-	-
Interest expense[1]	516	564
Rental Payments	(2,641)	(2,527)
Carrying value at year end	**19,220**	**21,345**

1 Interest expense on the lease liability is recognised within Interest expense – government clients (Note 3).

24. Contractual commitments

	2022 $'000	2021 $'000
Contracted expenditure commitments		
Not later than one year	2,923	2,691
Later than one year but not later than five years	6,145	8,321
Total	**9,068**	**11,012**

Contracted expenditure commitments primarily include foreign denominated licence costs on significant Information Technology related contracts.

25. Fiduciary activities and funds under management

The Corporation acts both as Trustee and as manager of funds for the TCorpIM Funds and manages asset and debt portfolios on behalf of clients. The associated assets and liabilities are not recognised in the balance sheet of the Corporation unless otherwise stated (Note 11). Fees earned by the Corporation in carrying out these activities are included in the statement of comprehensive income on an accruals basis.

	2022 $'000	2021 $'000
Funds under management[1]	**100,668,699**	**110,534,156**
These funds were managed by:		
- External fund managers	88,542,035	92,833,602
- The Corporation	12,126,664	17,700,554
Total funds under management	**100,668,699**	**110,534,156**
Debt portfolios under management	**93,547,391**	**88,752,456**

1 Funds within the TCorpIM Funds were $67,834.8 million (2021: $69,131.9 million).

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 $4,173.0 million (2021: $4,018.0 million) and undrawn commitments were $4,021.3 million (2021: $3,912.9 million). Drawn commitments are recognised as loans to government clients (Note 9) on the balance sheet.

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 $53.9 million (2021: $54.8 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.

27. Related parties

Key management personnel

Key management personnel include the directors and executives with the authority and responsibility for managing the Corporation. Compensation for key management personnel is disclosed below.

Compensation of directors and executives for the year

	2022 $'000	2021 $'000
Short-term employee benefits	5,245	5,289
Post-employment benefits	276	246
Other long-term employee benefits	413	438
	5,934	**5,973**

The total compensation above is paid by the Corporation and includes $742,000 (2021: $662,000) for non-executive directors.

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

Cabinet Ministers

Cabinet Ministers of the New South Wales Government, which includes the Corporation's portfolio minister (the New South Wales Treasurer), are considered to be related parties of the Corporation and each State-controlled entity.

The New South Wales Treasurer, in his capacity as portfolio minister is responsible for authorising certain transactions undertaken by the Corporation, including the investment of public sector funds with the Corporation and lending activities to government clients.

27. Related parties (continued)

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 7, Deutsche Bank Place, 126 Phillip Street, Sydney, NSW 2000.

Dividends payable by the Corporation are determined by the New South Wales Treasurer in accordance with the *Government Sector Finance Act* 2018. The financial results of the Corporation are consolidated annually in the *New South Wales Report on State Finances*.

The *Government Sector Finance Act* 2018 requires New South Wales Government authorities to borrow only from the Corporation unless a specific exemption is granted by the New South Wales Treasurer.

Other 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 other public bodies. The Corporation transacts with its clients under the Corporation's normal terms and conditions.

28. Statement of cash flows – reconciliation of cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents includes the following:

	Note	2022 $'000	2021 $'000
Cash and liquid assets	6	3,069,476	1,596,400
Short term borrowings	10	(245,295)	(214,100)
Cash and cash equivalents		**2,824,181**	**1,382,300**

29. Reconciliation of cash flow from operating activities to profit for the year

	2022 $'000	2021 $'000
Net cash used in operating activities	(19,723,096)	(19,617,842)
Add/(less) adjustments arising from:		
- net loans to clients	19,718,021	19,916,800
- net change in coupons accrued at each year end on financial assets and liabilities	(58,778)	(34,733)
- net change in other financial instruments	84,176	(121,021)
- net change in other assets	(635)	3,032
- reduction/(addition) to lease liability	2,641	2,527
- net change in other liabilities and provisions, excluding dividend	(3,144)	(9,472)
	19,185	**139,291**
Add/(less) amounts contributing to net profit but not generating operating cash flows:		
- interest expense on lease liability	(516)	(564)
- (gains)/losses on disposal of plant and equipment and intangible assets	(134)	(193)
- gains/(losses) on sale of financial instruments	208,880	37,669
- unrealised fair value (loss)/gain on financial instruments	(122,929)	(87,311)
- depreciation and amortisation	(7,022)	(7,037)
Profit for the year	**97,464**	**81,855**

30. Reconciliation of liabilities arising from financing activities

	2022 $'000	2021 $'000
Opening Balance	114,959,863	97,996,949
Cash flows:		
Proceeds from issue of borrowings and short term securites	75,552,957	81,663,860
Repayment of borrowing and short term securities	(52,054,052)	(62,399,733)
Non-cash changes	(15,068,483)	(2,301,213)
Closing Balance	**123,390,285**	**114,959,863**

Financing activities include financial instruments held within Due to financial institutions, Due to government clients and Borrowings on the balance sheet.

31. Subsequent events

There have been no events subsequent to balance date which would have a material effect on the financial statements as at 30 June 2022.

END OF AUDITED FINANCIAL STATEMENTS

Statement by the Board of Directors

Certificate under Division 7.6 of the G*overnment Sector Finance Act 2018*.

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

a. the financial statements have been prepared in accordance with the provisions of the Government Sector Finance Act 2018 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. The financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1(a).

b. the financial statements for the year ended 30 June 2022 present fairly New South Wales Treasury Corporation's financial position, financial performance and cash flows; 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 misleading or inaccurate.

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

M J Dwyer
Director

D M Deverall
Director

Sydney, 26 August 2022

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 (the Corporation), which comprise the Statement of Comprehensive Income for the year ended 30 June 2022, the Balance Sheet as at 30 June 2022, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, notes comprising the Basis of Preparation and Accounting Developments and other explanatory information, and the Statement by the Board of Directors.

In my opinion, the financial statements:

- have been prepared in accordance with Australian Accounting Standards and the applicable financial reporting requirements of the *Government Sector Finance Act 2018* (GSF Act), the Government Sector Finance Regulation 2018 (GSF Regulation) and the Treasurer's Directions
- presents fairly the Corporation's financial position, financial performance and cash flows.

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 the standards are described in the 'Auditor's Responsibilities for the Audit of the Financial Statements' section of my report.

I am independent of the Corporation in accordance with the requirements of the:

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

I have fulfilled my other ethical responsibilities in accordance with APES 110.

Parliament 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
- precluding the Auditor-General from providing non-audit services.

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

Level 19, Darling Park Tower 2, 201 Sussex Street, Sydney NSW 2000
GPO Box 12, Sydney NSW 2001 | **t** 02 9275 7101 | mail@audit.nsw.gov.au | audit.nsw.gov.au

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements for the year ended 30 June 2022. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, I do not provide a separate opinion on these matters.

<table>
<tr><th>Key Audit Matter</th><th>How my audit addressed the matter</th></tr>
<tr><td colspan="2">Valuation of Financial Instruments</td></tr>
<tr><td>At 30 June 2022, the Corporation held $121 billion in financial assets and $124 billion in financial liabilities (as disclosed in Note 15), measured at fair value.
I consider the valuation of the Corporation’s financial instruments a key audit matter because:
• financial assets and financial liabilities measured at fair value are significant to the Balance Sheet
• small changes to valuation inputs and assumptions can significantly impact the fair value of these financial assets and financial liabilities
• management applies significant judgement in the selection of assumptions used to value offshore borrowings issued in foreign currencies for which there is limited trading activity ($950 million in Note 15), and client loans directly funded by these borrowings ($539 million in Note 15). These are classified as ‘level 3’ according to the fair value hierarchy under Australian Accounting Standards (i.e., where significant unobservable inputs are used in the valuation).</td><td>Key audit procedures included the following:
• obtained an understanding of, and assessed the valuation models applied to each category of financial instrument
• assessed the design and tested the operating effectiveness of the key operational and information technology controls supporting the valuation of financial instruments
• tested the inputs to the valuation system by comparing them to independent market observable data
• compared the calculations of fair value to independent recalculations across a sample of financial instruments
• reviewed the key valuation inputs and significant assumptions used by management to value ‘level 3’ financial instruments for reasonableness, and where data was available, agreed these inputs to market observable data
• confirmed the existence and completeness of balances at 30 June 2022 with external counterparties
• assessed the adequacy of financial statement disclosures against the requirements of applicable Australian Accounting Standards.</td></tr>
</table>

The Board's Responsibilities for the Financial Statements

The members of the Board are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards, the GSF Act, GSF Regulations and Treasurer's Directions. The Board's responsibility also includes such internal control as the Board determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the members of the Board are responsible for assessing the Corporation’s ability to continue as a going concern, disclosing as applicable matters related to going concern, and using the going concern basis of accounting.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to:

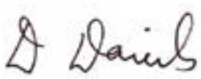
- obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error
- issue an Independent Auditor's Report including my opinion.

Reasonable assurance is a 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 description of my responsibilities for the audit of the financial statements is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar6.pdf . The description forms part of my auditor's report.

The scope of my audit does not include, nor provide assurance:

- that the Corporation 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
- about any other information which may have been hyperlinked to/from the financial statements.



David Daniels
Director, Financial Audit

Delegate of the Auditor-General for New South Wales

31 August 2022
SYDNEY

Section 7

Appendices

Government Information (Public Access) Act 2009 (NSW)
Annual Report for Agency New South Wales Treasury Corporation

Clause 8A: Details of the review carried out by the agency under section 7(3) of the Act during the reporting year and the details of any information made publicly available by the agency as a result of the review.

Reviews carried out by the agency	Information made publicly available by the agency
Yes	No

Clause 8B: The total number of access applications received by the agency during the reporting year (including withdrawn applications but not including invalid applications).

Total number of applications received
0

Clause 8C: The total number of access applications received by the agency during the reporting year that the agency refused either wholly or partly, because the application was for the disclosure of information referred to in Schedule 1 to the Act (information for which there is conclusive presumption of overriding public interest against disclosure).

Number of Applications Refused	Wholly	Partly	Total
0	0	0	0
% of Total	0	0	0

Schedule 2 Statistical information about access applications to be included in annual report

Table A: 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	Total	% of Total
Media	0	0	0	0	0	0	0	0	0	0
Members of Parliament	0	0	0	0	0	0	0	0	0	0
Private sector business	0	0	0	0	0	0	0	0	0	0
Not for profit organisations or community groups	0	0	0	0	0	0	0	0	0	0
Members of the public (by legal representative)	0	0	0	0	0	0	0	0	0	0
Members of the public (other)	0	0	0	0	0	0	0	0	0	0
Total	0	0	0	0	0	0	0	0	0	0
% of Total	0	0	0	0	0	0	0	0	0	0

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

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

	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	Total	% of Total
Personal information applications*	0	0	0	0	0	0	0	0	0	0
Access applications (other than personal information applications)	0	0	0	0	0	0	0	0	0	0
Access applications that are partly personal information applications and partly other	0	0	0	0	0	0	0	0	0	0
Total	0	0	0	0	0	0	0	0	0	0
% of Total	0	0	0	0	0	0	0	0	0	0

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

Table C: Invalid applications

Reason for invalidity	No of applications	% of Total
Application does not comply with formal requirements (section 41 of the Act)	0	0
Application is for excluded information of the agency (section 43 of the Act)	0	0
Application contravenes restraint order (section 110 of the Act)	0	0
Total number of invalid applications received	0	0
Invalid applications that subsequently became valid applications	0	0

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

	Number of times consideration used*	% of Total
Overriding secrecy laws	0	0
Cabinet information	0	0
Executive Council information	0	0
Contempt	0	0
Legal professional privilege	0	0
Excluded information	0	0
Documents affecting law enforcement and public safety	0	0
Transport safety	0	0
Adoption	0	0
Care and protection of children	0	0
Ministerial code of conduct	0	0
Aboriginal and environmental heritage	0	0
Total	0	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 Act

	Number of times consideration used*	% of Total
Responsible and effective government	0	0
Law enforcement and security	0	0
Individual rights, judicial processes and natural justice	0	0
Business interests of agencies and other persons	0	0
Environment, culture, economy and general matters	0	0
Secrecy provisions	0	0
Exempt documents under interstate Freedom of Information legislation	0	0
Total	0	0

Table F: Timeliness

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

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

Number of Applications Refused	Decision varied	Decision upheld	Total	% of Total
Internal review	0	0	0	0
Review by Information Commissioner*	0	0	0	0
Internal review following recommendation under section 93 of Act	0	0	0	0
Review by NCAT	0	0	0	0
Total	0	0	0	0
% of Total	0	0	0	0

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

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

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

Table I: Applications transferred to other agencies

	Number of applications transferred	% of Total
Agency – Initiated Transfers	0	0
Applicant – Initiated Transfers	0	0
Total	0	0

Other required disclosures

Exemptions from the reporting provisions

We have been granted exemptions from clauses 10 and 11 of the *Annual Reports (Statutory Bodies) Regulation 2015 (the Regulation)*, relating to reporting on the performance of our liability portfolio, benchmark portfolio and investments.

One of our core activities is the raising of debt in the private sector capital markets and on-lending to the NSW Government sector. The profile of borrowings from the private sector is substantially determined by the amounts and maturities required by the government and public authorities. Therefore, unlike other authorities that fall under the Regulation, we are not in a position to actively manage our liability portfolio in a manner that is readily comparable with a benchmark portfolio as contemplated by the Regulation. Any savings we make in connection with our debt are, however, reflected in the financial statements for the year.

In conducting this core business activity, we maintain, for appropriate prudential reasons, a pool of financial assets that provide a necessary liquidity buffer. Unlike other authorities that fall under the Regulation, with minor and immaterial exceptions, all of our assets, as well as our liabilities, are financial. The assets are not considered surplus funds in terms of the Regulation and can be considered as directly related to our core business, rather than an ancillary activity of an authority.

Production of the annual report

Most of the production of this report was undertaken internally and less than $10,000 in costs were incurred.

Consumer response

TCorp takes a proactive approach to working with its clients and seeks feedback regarding the quality of their perceptions and relationships with us on a range of quantitative metrics and qualitative factors. Our independent annual client survey was conducted in April 2022 and involved contacting 44 individuals across 28 client entities. The results of the survey revealed that:

- TCorp is recognised for its team's capability, its linkages and knowledge within government and its client knowledge and service
- No thematic weaknesses were identified.

TCorp has more than 180 clients from the NSW Government sector and takes feedback seriously, whether positive or constructive. TCorp has a process for dealing with complaints (defined as an 'expression' of dissatisfaction with the service or products provided by TCorp) promptly and fairly and in a manner which safeguards TCorp's reputation.

Given that each client has a dedicated client relationship manager, any expression of dissatisfaction is typically dealt with as soon as practicable by that person in consultation with other TCorp colleagues and the relevant client. This means it is rare for a client to progress a complaint formally. There was one formal client complaint during the year related to the timeliness of sharing information. A formal incident report was sent to the client who was satisfied with TCorp's response and no further actions were required other than to ensure that information is shared in a timely manner going forward.

Public Interest Disclosures Act 1994[1]

The *Public Interest Disclosures Act 1994* (PID Act) provides a framework for NSW public sector employees to report serious wrongdoing in the workplace and protect persons from reprisals that may result from disclosure. The PID Act supports the principle that it is in the public interest for disclosures of this type to be made and acted upon.

TCorp's Whistleblower policy sets out our policy and procedures on handling PIDs, as required by the PID Act. The policy includes the processes to report corrupt conduct, maladministration, or serious and substantial waste of public money by staff, and government information contravention.

The policy also outlines the protections from detrimental action that apply to staff who make such disclosures.

All new staff are advised during induction, and existing staff are regularly reminded of their obligations and rights under the PID Act and our policy.

Privacy management

In accordance with the *Privacy and Personal Information Protection Act 1998* (PPIP Act), we have a Privacy Management Plan and 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.

1 Legislated changes to the Public Interest Disclosures Act were enacted during 2022 are subject to a eighteen (18) month deferral and come into effect in October 2023.

Legal change

Parts of the *Government Sector Finance Act 2018* (GSFA) commenced on 1 December 2018 which together with the Government Sector Finance Legislation (Repeal and Amendment) Act 2018 (Cognate Act) replaced elements of the previous financial arrangements and annual reporting regimes affecting certain areas of TCorp's business.

The GSFA is being implemented in stages, with certain parts of the GSFA having taken effect from 1 July 2019 and new reporting arrangements commencing progressively to 2023, to replace the *Annual Reports (Statutory Bodies) Act 1984* and Regulations. The annual reporting requirements of the GSFA are scheduled to take effect on 1 July 2023, which means from the 2022-2023 reporting period, annual reports will be prepared under the GSFA.

Modern Slavery Act 2018

The *Modern Slavery Act 2018* (MS Act) commenced on 1 January 2022 and provides for the mandatory reporting of risks of modern slavery occurring within supply chains of NSW government agencies.

In our investment portfolio, we believe understanding and managing ESG issues, including modern slavery risk, is critical to achieving sustainable investment outcomes and we will continue to improve our processes to address modern slavery risks.

TCorp also implemented changes to its procurement policy and processes in November 2021 to comply with its obligations under the MS Act. This includes the completion of an assessment of modern slavery risk within vendor supply chains for all new procurements and renewals which exceed $150,000 in value over a 3 year period.

TCorp has not been the subject of any action by the Anti-Slavery Commissioner during the financial year.

NSW Cyber Security Policy Attestation

The Management of TCorp is of the opinion that NSW Treasury Corporation has complied with its obligations under the NSW Cyber Security Policy (Policy) during the 2021-2022 Financial Year, specifically:

Core Requirements	Compliance
1 Assessment of cyber security risks	TCorp undertakes regular reviews of TCorp's Cyber Risk environment and potential impact upon its operations.
2 Discussion of cyber security matters at governance forums	Cyber security risks are managed by reference to TCorp's Risk Management Framework, with regular reporting and discussion of cyber security matters at management and Board forums.
3 Cyber Incident Response Plan	TCorp maintains an Incident Response Plan which is integrated with the security components of its business resilience arrangements. The latest iteration of the plan was successfully tested during FY22.
4 Maintenance of information security management systems and cyber security frameworks	TCorp has implemented and maintains systems and processes as required by NSW Cyber Security Policy requirements.
5 Activities undertaken to continuously improve the management and governance of cyber security risks	TCorp undertakes regular internal and external reviews of its cyber security arrangements against market best practice with opportunities for improvement incorporated within its Cyber Security Roadmap. Progress against the roadmap is overseen by the Board Audit & Risk Committee.

David Deverall
Chief Executive

24 August 2022

Payment performance indicators

Aged analysis at the end of each quarter

Quarter	Current (within due date) $'000	Less than 30 days overdue $'000	Between 30 and 60 days overdue $'000	Between 30 and 60 days overdue $'000	More than 90 days overdue $'000
All suppliers					
September	337	-	-	-	-
December	1,154	1	-	-	-
March	1,978	25	-	-	-
June	1,277	-	-	-	-

Accounts due or paid within each quarter

Measure	Sep 2021	Dec 2021	Mar 2022	Jun 2022
All suppliers				
Number of accounts due for payment	561	599	624	680
Number of accounts paid on time	548	596	603	678
Actual % of accounts paid on time (based on number of accounts)	97.7%	99.5%	96.6%	99.7%
Dollar amount of accounts due for payment ($)	17,826,120	11,005,452	12,734,539	15,825,855
Actual percentage of accounts paid on time (based on $)	93.6%	99.9%	98.3%	99.4%
Number of payments for interest on overdue accounts	0	0	0	0
Interest paid on overdue accounts ($)	-	-	-	-

Late payment interest

No late payment interest was incurred or paid in the year ended 30 June 2022.

Budgets

Measure	2022 budget $'000	2022 actual $'000	2023 budget $'000
Investment Management revenue	80,713	80,069	79,240
Financial Markets revenue	160,438	153,589	172,207
Total income	**241,151**	**233,658**	**251,447**
Transaction costs	3,974	3,796	1,964
Operating costs			
Staff costs	62,624	61,283	67,052
Finance services costs	5,291	5,151	6,551
Travel and corporate promotion	701	644	1,157
Technology costs	14,565	15,662	14,365
Premises and other operating costs	6,795	6,787	7,086
Subtotal – operating expenses	89,976	89,527	96,211
Project costs	1,450	1,034	1,250
Total expenses	**95,400**	**94,357**	**99,425**
Operating profit before tax equivalent expense	**145,751**	**139,301**	**152,022**

Note: The format presented in the table differs to TCorp's financial statements.

International visits

In FY22, there were no international trips.

Consultant costs

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.

Consultants	Nature of consultancy	2022 $ cost (inclusive of GST)
Peakstone Global	Board effectiveness review	64,240
Cutter Associates	Data Strategy health check	54,238
Deloitte Finance	Assistance with Treasury Management Platform Project	130,990
EY	Corporate Report Card review	144,911
Consultancies equal to or more than $50,000		**394,289**
Consultancies less than $50,000 (2 engagements)		**25,740**

Investment partners

TCorp manages $100.7bn of assets. We partner with fund managers who manage the assets on our behalf and implement our requirements for the targeted asset exposures. This approach is similar to that of other major institutional investors and asset owners such as superannuation funds and sovereign wealth funds.

The list of fund managers we partner with is detailed in Table J.

Table J: External fund managers as at 30 June 2022

Equities	Fixed Income	Real assets
Alphinity Investment Management	AllianceBernstein	AMP Capital
Ardevora Asset Management	Ardea Investment Management	Arrow Property Management
Artisan Partners	BlueCove	Blackstone
Ausbil Investment Management	Brigade Capital	Brookfield Asset Management
BlackRock Investment Management	ICG	Dexus
Harris Associates	KKR	EG
Macquarie Group	Lazard Asset Management	Equitix
MFS Investment Management	Morgan Stanley Investment Management	Franklin Templeton Investments
Ninety One Asset Management	Ninety One Asset Management	GPT Group
Northcape Capital	Pendal Group	Hermes Infrastructure
Northern Trust	PineBridge Investments	IFM Investors
Pendal Group	State Street Global Advisors	LendLease
Platypus Asset Management	**Alternatives**	Lincoln Property Company
Robeco Asset Management	Fulcrum Asset Management	Logistics Property Company
Schroders Investment Management	GMO Asset Management	Logos Global Management
	K2 Advisors	Macquarie Group
	Man Group	Morgan Stanley
	PIMCO Investment Management	Morrison & Co
		PATRIZIA SE
		Siguler Guff
		StepStone Group
		Westbourne

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Annual Report Compliance Requirements

Key to legislative reference codes	
ARSBA	Annual Reports (Statutory Bodies) Act 1984
ARSBR	Annual Reports (Statutory Bodies) Regulation 2015
CSP	NSW Cyber Security Policy
DIA	*Disability Inclusion Act 2014*
GIPA	*Government Information (Public Access) Act 2009*
GIPAR	*Government Information (Public Access) Regulations 2018*
IPARTA	*Independent Pricing and Regulatory Tribunal Act 1992*
PIDA	*Public Interest Disclosures Act 1994*
PIDR	*Public Interest Disclosures Regulation 2011*
PC	Premier’s Circular
PM	Premier’s Memorandum
PSC	Public Service Commission
MSA	*Modern Slavery Act 2018*
TC	Treasury Circular
TD	Treasury Direction
TPP	Treasury Policy Paper

Case studies

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Charts

Glossary

ADI	Authorised Deposit-Taking Institution
AIG	Asset Identification Group
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
Board	The Board of New South Wales Treasury Corporation
Chair or Chairperson	The Chairperson of New South Wales Treasury Corporation
DRNSW	Department of Regional NSW
ESG	Environmental, social and governance
FRN	Floating Rate Note
GAPP	Grains Agronomy and Pathology Partnership
GSFA	Government Sector Finance Act 2018
MS Act	Modern Slavery Act 2018
NGF	NSW Generations (Debt Retirement) Fund
NIFF	NSW Infrastructure Future Fund
OECC	Office of Energy and Climate Change
OSII	NSW Office of Social Impact Investing
PFC	Public Financial Corporation
PID Act	Public Interest Disclosures Act 1994
PPIP Act	Privacy and Personal Information Act 1998
RBA	Reserve Bank of Australia
TCorp	New South Wales Treasury Corporation
TCorpIM	TCorp Investment Management
SAHF	Social and Affordable Housing Fund
TMF	Treasury Managed Fund
WHS	Work health and safety
WTW	Willis Towers Watson

Note: all references to legislation and/or statutory instruments are references to NSW legislation and statutory instruments, unless otherwise indicated.

History

Mid 1980s

TCorp develops different types of bonds to attract offshore investors to NSW.

1983

Treasury Corporation Act 1983 establishes TCorp as a central borrowing authority for the state to issue its own bonds and attract investors to NSW.

1988

TCorp launches TCorpIM Funds, facilitating investment on behalf of NSW entities and departments.

1996

Debt management and advisory activities grow significantly in response to the NSW Government's establishment of state-owned corporations in the utilities sector.

2009

TCorp's prudent approach to risk management navigates the global financial crisis without credit losses. It generates a record dividend for NSW and significant interest savings for clients.

2015

Funds amalgamation results in funds under management growing to $72bn, with the SAS Trustee Corporation (State Super) and Insurance and Care NSW (icare) investment management activities combining with TCorp's.

2016–17

TCorp retires a significant amount of state debt resulting from the NSW Government's electricity asset transactions.

2018

TCorp launches the inaugural green bond under the NSW Sustainability Bond Programme raising $1.8bn, at the time the largest of its type ever issued in Australia.

Funds management volumes increase to over $100bn, placing TCorp in the top 100 asset managers globally.

2019–20

TCorp raises record $25.8bn funds in debt markets to support the state through bushfires and the COVID-19 pandemic.

Issues largest sustainability bond to date in Australia, raising $1.8bn.

2020–21

Exceptionally strong markets help TCorp increase the value of the investment portfolios it manages by over $12.8bn.

Corporate directory

TCorp (New South Wales Treasury Corporation)

Principal office	Level 7 Deutsche Bank Place 126 Phillip Street Sydney NSW 2000
Business hours	Monday to Friday 8:00am to 5:00pm
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Website	www.tcorp.nsw.gov.au

TCorp dealing desk

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Money Market	+61 2 9325 9280
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Borrowings	+61 2 9325 9284

Settlements

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