NSW GOVERNMENT | tcorp

Creating a stronger NSW

New South Wales Treasury Corporation
Annual Report 2019

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, Operations overview include letters from the Chair and Chief Executive, TCorp aims and objectives, management structure, summary review of operations, management and activities and achievements.

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

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

This report includes an index to help readers navigate it.

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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Contents

History

1983

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

Mid 1980s

TCorp develops debt products to attract offshore 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 government establishing state-owned corporations in the utilities sector.

2009

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

2015

Funds amalgamation sees funds under management grow to $72bn with the State Super Defined Benefit and Insurance and Care NSW (icare) investments combining with TCorp.

2016-17

TCorp successfully manages the retirement of significant amount of state debt as a result of the NSW Government's electricity asset transactions.

2018

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

TCorp launches NSW Generations Fund with an initial $10bn - the world's first dual purpose sovereign wealth fund that supports intergenerational equity.

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

2019 year in review

Delivered substantial benefits for the NSW public sector

$8.5bn
Absolute investment returns

$3.7bn
Investment returns over clients' objectives

$903mn
Year-to-date added value for the NSW Generations Fund

$260mn
Local government loans approved to fund projects

While building a stronger TCorp

$107bn
Assets managed on behalf of NSW public sector

$75bn
TCorp's balance sheet

$8.9bn
Longer-dated bonds issued to a diversified investor base

$1.8bn
Largest green bond ever issued in Australia

$124mn
Profit generated

$117.5mn
Dividend returned to the state

Generating positive cumulative returns for NSW since funds amalgamation, 1 July 2015

$23.4bn
Cumulative absolute investment returns

$7.9bn
Cumulative investment returns over clients' objectives

>$50mn
Savings on manager fees and other investment management costs

Message from our Chair

On behalf of the board, I am pleased to present the 2018-19 TCorp Annual Report.

The year was one of continual progress and consolidated growth as TCorp built on several years of transformational change, begun in 2015.

We have continued our best-in-class journey with our funds under management growing to $107bn, making us one of Australia's largest asset managers; we issued Australia's largest green bond; and we delivered significant value to NSW through our work on initiatives like the NSW Generations Fund. We've continued to evolve our organisation with a review of our culture, and the development of our team and capabilities to support our growing business.

Historically, TCorp has been a more inwardly-focused service provider to the NSW Government, responding to clients when needed. Over the past four years, we have turned that around and are now in a position of partnering with government, NSW Treasury and all parts of the public sector, as well as the external financial markets, to provide strategic financial advice and solutions.

This multi-faceted partnership concept has built TCorp into an integrated investment management and financial markets business that delivers high-performing financial outcomes to the government agencies that are our clients.

Strategic focus

The transformational change that started several years ago has delivered substantial savings and more efficiencies than we had initially targeted.

We took advantage of a very successful year in terms of overall funds management, outperforming various client benchmarks for all our funds, with absolute returns of $8.5bn. These investment returns are now available to support operations of our public sector clients and assist in delivering the government's key priorities and projects for the benefit of the people of NSW.

It is important to note that this transformational change was not at the expense of our day-to-day performance. We achieved robust risk management and strong investor performance with no slippage in business-as-usual activities. We recognise that while ambitious change is exciting, it is critically important to achieve such change without taking unnecessary risk or negatively affecting the bottom line for us and our clients.

Over the past financial year, we met and exceeded targets and also reached a number of strategic milestones. This reflects the fact that TCorp is an agile organisation which is well progressed on its path of transformational change.

This growth and development all contribute to building our capacity to service the citizens of NSW and to provide better and more efficient financial outcomes for the state of NSW.

We are well on our way to becoming a large, globally-respected institutional investment management and financial markets business.

Driving cultural change

Like most financial institutions in Australia, TCorp has taken heed of the findings of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

While not directly implicated, TCorp is supportive of the commission's findings with regards to the importance of culture and conduct. We have used the opportunity to review our corporate culture and to better articulate the kind of people and workplace needed to execute our long-term strategy and deliver on promises to our partners and stakeholders.

Over the past financial year, we met and exceeded targets and also reached a number of strategic milestones. This reflects the fact that TCorp is an agile organisation which is well progressed on its path of transformational change.

This was a very detailed process undertaken with the support of the board, senior management and all staff.

Our review concentrated on transparency, governance, respect for clients and each other, reliability and working collaboratively. We looked at how we can better deliver on our promises, with a strategic, high value-add, client-centric focus.

We recognise that a strong corporate culture is necessary to deliver on strategic objectives.

Not only has this cultural shift put TCorp in the best position to deliver on our commitments, it has also ensured we can provide an interesting, satisfying workplace for our people. Our success depends on attracting and retaining high-performing staff and giving them an environment in which they can all realise their potential.

Outlook for 2019-2020

With the state election in March 2019, the new government has announced an exciting and ambitious policy agenda. This will involve a significant increase in the state's borrowing programme—up to $13.3bn in 2019-2020—to fund a whole range of projects in the coming years.

We look forward to helping the government and its agencies implement this programme.

This coming year, we will continue our investment management transformation process with the introduction of our new state-of-the-art information technology system.

We also expect to continue providing sound financial advice and risk management services to government departments and agencies.

Board changes

During the past financial year, Dr Kerry Schott AO retired from the board after serving for seven years. Ms Susan Doyle also retired after serving for two years on the board following three years as an independent member of the Board Investment Committee.

The board thanks Dr Schott and Ms Doyle for their dedicated service and the important and valuable contributions they made and wishes them well for the future.

This financial year, we welcomed three new board members: Anne Brennan, Gregory Cooper and Michael Dwyer AM.

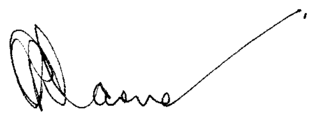
During the year, current board Chair Phil Chronican, took a leave of absence due to an unexpected significant increase in other work commitments. Mr Chronican recently advised that he will step down from the board later this year.

Following Mr Chronican taking his leave of absence in March, I was appointed as the Chair. I appreciate being entrusted with this important position.

Our thanks

On behalf of the board, I would like to thank the whole TCorp team for their hard work this year. David Deverall, Chief Executive, senior management and all the staff have done an outstanding job. The state government, our clients and our partners have all been happy with our advice and investment returns.

Finally, thank you to our clients and the government for the trust and support they have placed in TCorp and our people. We look forward to continuing to work with them in providing the best financial services for the benefit of the state of NSW.



Peter Warne
Chair

Message from our Chief Executive

Four years of transitional change culminated in a watershed year for TCorp, as we met or exceeded all targets across our business, while focusing on a major cultural review to support our strategic objectives.

By all measures, the year was a successful one that saw us deliver a profit of $123.9mn and return a healthy dividend of $117.5mn to the NSW Government to help them deliver on their policy agenda for the ultimate benefit of the people of NSW.

We are proud to be one of the biggest asset managers in Australia, with $107bn of funds under management.

Our cultural intent

With major changes to our business over the past four years, as well as the recommendations of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, the time had come for self-reflection and to evolve our culture.

All levels of the organisation were engaged and consulted, and we went through several iterations before landing on our cultural intent and three principles that will guide the way we will work together: partnership, impact and long term.

We are very proud that our new culture belongs to our entire organisation. Our new cultural intent and ways of working are supported by everyone from the Chair and me through to our newest recruits.

The task this coming financial year is to embed our culture by ensuring we weave our new ways of working through everything we do, including our reward and recognition framework.

This cultural intent will support our strategic objective to be best-in-class and a globally-respected institutional investor and financial markets business.

Our financial achievements

Both the Investment Management and Financial Markets parts of our business enjoyed a successful year that will help us on our strategic journey of being best-in-class in what we do, while building financial capacity to help the government deliver on their agenda for the people of NSW.

Our Investment Management business generated absolute returns across all client portfolios of $8.5bn and exceeded client objectives by $3.7bn. But what is even more pleasing is that over the past four years since funds management amalgamation, we have seen absolute returns of $23.4bn, and exceeded our clients' objectives by $7.9bn. This has a significant long-term financial impact on the health of NSW and supports the government's investment in things like infrastructure.

Our Financial Markets business, which is critically important for helping the government maintain its AAA credit rating, had an extremely active year. Not only did we manage a balance sheet of $75bn, we did it in an innovative and market-leading way, backed by a strategy of maintaining a strong liquidity position.

With $1.8bn in bonds, our Sustainability Bond Programme, launched in November 2018, was the largest green bond issued in the Australian marketplace, attracting numerous industry awards.

Meanwhile, we partner with our government clients to effectively manage their exposure to the financial markets through hedging strategies, including $2.5bn of foreign exchange, commodity and interest rate risk transactions.

We also approved loan applications of $260mn to 19 councils, many rural and regional. These funds were specifically earmarked for productive infrastructure, like roads, in those council areas.

All levels of the organisation were engaged and consulted, and we went through several iterations before landing on our cultural intent and three principles that will guide the way we will work together: partnership, impact and long term.

Our people

During the year, we provided opportunities for our people to seek secondment or join cross-government working groups. This gives them, and in turn the entire TCorp organisation, exposure to the activities of the general government, helping us better understand our clients and the very complex public policy problems they face. Once we have this nuanced understanding, we can help solve our clients' problems in a more considered way. These partnerships have gone both ways, with four of our people taking advantage of secondments and we welcomed two colleagues from NSW Treasury.

Our thanks

TCorp would not be the success it is today without the enormous team effort of our employees, partners and the NSW Government family.

On behalf of the executive, I extend my gratitude to the hardworking TCorp team, who I know take great pride in the work we do for the NSW Government family. I also thank my senior leadership team for their support, and the board for their trust and guidance.

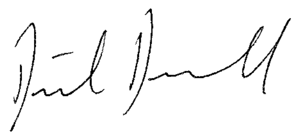
Particular thanks to board Chair Phil Chronican, who will be stepping down later this year after nearly 10 years of service on the board, and to Chair, Peter Warne, who has steered the TCorp ship over the past few months.

And of course, thank you to the NSW Government family for their ongoing support and partnership.

Our year ahead

At TCorp we bathe in the inherently volatile financial markets daily. With investment returns expected to be lower in the future, we are well-positioned to ride out that volatility through diversification and considered advice.

We will manage our clients' portfolios and risks as well as the implementation of our significant debt funding programme for financial year 2020, with full knowledge of the expected lower returns and will continue to partner with the NSW Government family to create a stronger NSW.



David Deverall
Chief Executive

01

SECTION 1

About TCorp

About TCorp

We work in partnership within TCorp and across the NSW Government family to achieve significant financial impact over the long term to create a stronger NSW.

TCorp provides best-in-class investment management, financial management, solutions and advice to the NSW public sector. With $107bn of funds under management, TCorp is a top five Australian asset manager and is the central borrowing authority of the state of NSW, with a balance sheet of $75bn.

Our purpose

Created by the *Treasury Corporation Act 1983* (NSW) (the Act), we are the financial services provider for the New South Wales public sector. Our remit under the Act is "to provide financial services for the benefit of the Government, public authorities and other public bodies".

We have a long and proud history of partnering with our clients to assist them in meeting their objectives through:

- providing finance for the government and NSW public authorities
- managing or advising on management of government and public authority assets and liabilities
- accepting funds for investment from the government and public authorities
- investing funds
- managing our own assets and liabilities.

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. Our powers to borrow, invest and undertake financial management transactions are regulated under the *Government Sector Finance Act 2018* (NSW).

Our mission

To provide best-in-class financial management, solutions and advice to the NSW Government family.

Corporate objectives for the financial year 2019

Our objectives for the financial year were:

- to be regarded as best-in-class for financial management, solutions and advice
- to be sought after by our clients for the capability and conduct of our people
- to be a sustainable and aligned organisation always delivering whole-of-state outcomes.

TCorp: the conduit between the public and private sectors

We work across the NSW public sector providing solutions and advice for our clients, while working with the private sector to help our clients to achieve their business objectives.

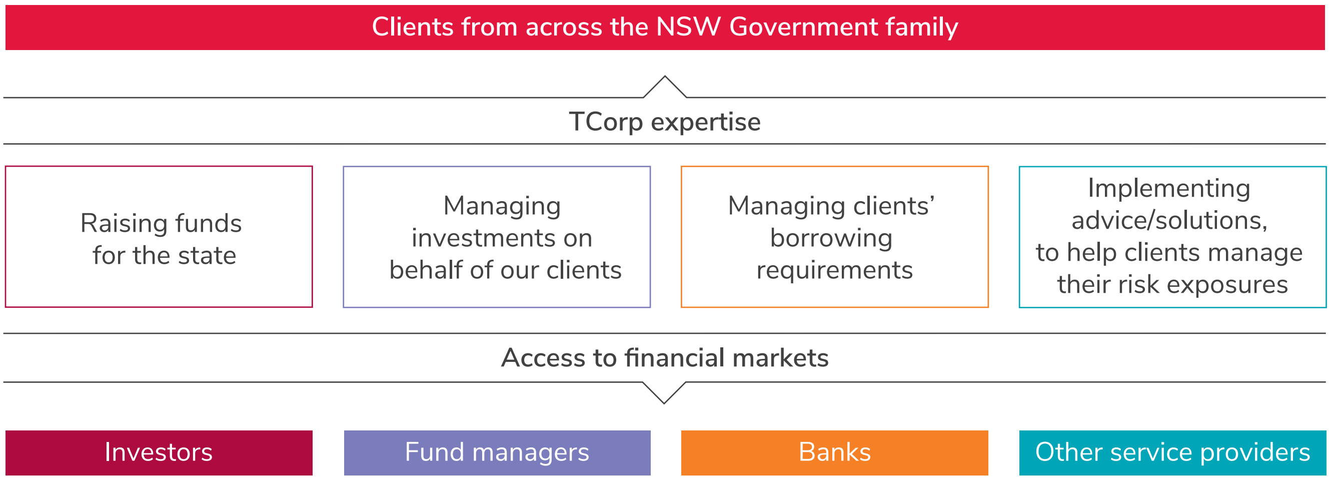
Given our reputation and scale in financial markets, we can partner with fund managers, fixed income dealer groups, banks, technology and other service providers. This allows us to design and implement the most appropriate financial outcomes for each client.

"We are committed to sharing our knowledge and expertise to build the financial skills of the NSW public sector..."

Client focus

Client-centricity is at the heart of everything we do. We are committed to sharing our knowledge and expertise to build the financial skills of the NSW public sector. We listen to our clients so we can deliver holistic, relevant solutions and advice, delivering a service model that is suited to their needs.

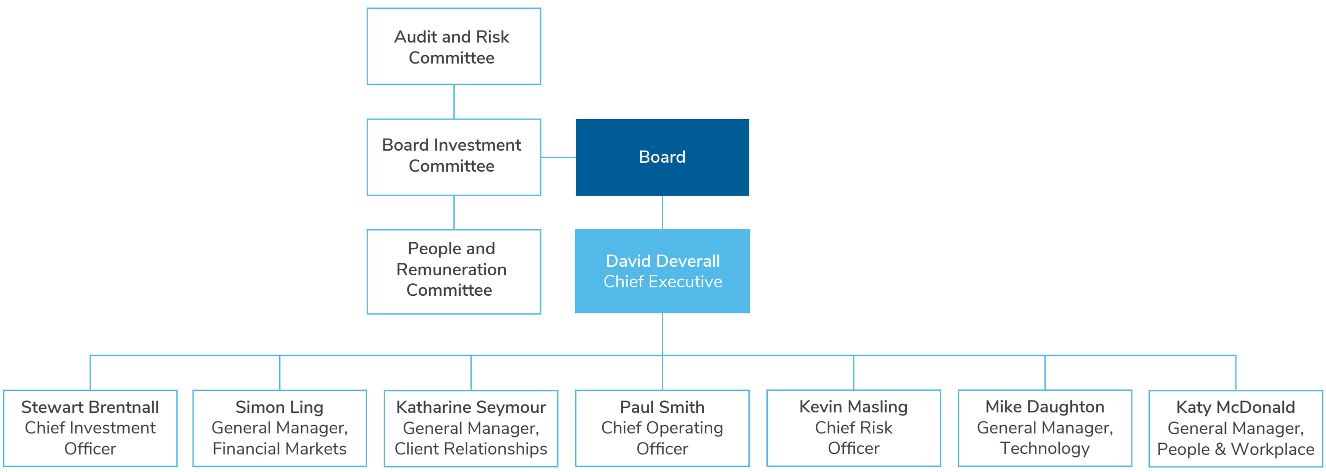
Chart 1: TCorp – connecting the public and private sectors



Management structure

David Deverall, Chief Executive leads a team of seven general managers who form the executive committee.

Chart 2: TCorp organisation chart



Our people

The service we deliver for NSW translates into pride in everything we do. We are committed to hiring top talent and we know our successes are due to the skills and professionalism of our team and the depth and breadth of expertise and experiences.

Our collaborative culture drives us to learn from and support each other to achieve common goals. Together we strive to have a long-term impact on the health of the state.

We encourage diversity and recognise that each person in our team is unique. This diversity—and the variety of perspectives it brings—is a core strength.

We aim to create a workplace where our people strive, learn, achieve and build sustainable careers. We place great value on education and professional development and expose our team to a wide variety of experiences so they can flourish and grow.

Our offering

We offer a wide range of solutions and advice to our clients, who benefit from economies of scale and lower fees than those offered by private sector organisations.

We have a proven and lengthy track record in meeting client expectations.

Solutions and advice

We advise clients on investments, risk management and execution.

Our solutions, delivered through our two businesses – Investment Management and Financial Markets, include:

- Investment advice
- Treasury management
- Risk management
- Policy and governance
- Trade execution.

Investment Management

We provide the NSW Government family with advisory and portfolio management solutions to deliver their target investment returns within their risk tolerances.

- Customised portfolios: tailored investment solutions to meet specific risk and return objectives.
- TCorpIM Funds: a range of multi-manager funds ranging from cash through to higher growth-oriented options.

We also manage assets in-house.

- Cash and fixed income: income generating portfolios.
- Real assets: infrastructure and property portfolios which form part of broader diversified portfolios.

Financial Markets

We manage the state's annual funding programme and lend to NSW public authorities and businesses. Strong investor demand for NSW AAA rated securities, combined with our economies of scale, means we provide a lower cost of borrowing to our clients.

We offer a range of solutions including:

- Debt portfolio management
- Tailored deposits – on TCorp's AAA-rated balance sheet offering flexible terms
- Short-term cash management facilities
- Financial risk management, for example interest rate, foreign exchange and commodities hedging.

We offer a wide range of solutions and advice to our clients who can benefit from economies of scale and lower fees than those offered by private sector organisations.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SECTION 2

Corporate performance

Performance indicators: five-year summary

	2019 $mn	2018 $mn	2017 $mn	2016 $mn	2015 $mn
Profitability					
Profit before income tax equivalent expense[1]	124	89	132	104	151
Balance sheet					
Loans to public sector	61,799	52,913	50,902	66,238	66,091
Other assets	12,723	12,909	14,196	14,080	11,947
Total assets	**74,522**	**65,822**	**65,098**	**80,318**	**78,038**
Domestic Benchmark bonds	54,670	45,392	45,408	51,671	55,203
Global Exchangeable bonds	-	67	70	483	581
Due to government clients	860	2,696	452	4,939	307
Other borrowings and liabilities	18,728	17,374	18,937	23,006	21,780
Total liabilities	**74,258**	**65,529**	**64,867**	**80,099**	**77,871**
Difference represented by equity	**264**	**293**	**231**	**219**	**167**
Funds under management for state authorities					
Investment funds	59,319	47,753	35,907	14,826	13,811
Specific fund mandates	47,528	46,128	48,548	9,660	13,191
Funds under administration[2]	-	-	-	41,483	43,769
Total	**106,847**	**93,881**	**84,455**	**65,969**	**70,771**

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.

2 Funds under administration represented the amalgamation of the investment management activities of Insurance and Care NSW (icare) and SAS Trustee Corporation (STC). During 2017, TCorp commenced formal investment management services over these assets and therefore these are included under "Funds under management" from 2017 onwards.

Achievements

Strong financial performance

We are proud of the work we do to positively affect the state of NSW and its people.

Positive financial earnings

Our financial year 2019 pre-tax profit of $123.9mn was significantly above budget. This result, along with prior year earnings, returned a healthy dividend to the state of $117.5mn. This can be used to build infrastructure and fund other areas of priority for the government.

All client portfolios posted returns above their investment objectives. We generated $8.5bn in absolute investment returns and $3.7bn in returns relative to client objectives.

Strong growth in funds under management

Our funds under management increased by $13bn to $107bn as a result of strong investment returns and net cash inflows from clients. We are now a top five asset manager in Australia. This gives us access to unique investment opportunities, both locally and overseas.

Positive cumulative returns and savings

Since funds amalgamation on 1 July 2015 to 30 June 2019, we delivered:

- cumulative absolute returns of $23.4bn
- cumulative relative returns of $7.9bn
- savings of over $50mn from manager fees and investment costs.

A strong balance sheet

Our Financial Markets business continued to hold a strong balance sheet with total assets of $75bn as at 30 June 2019.

AAA credit rating

Our strategy of maintaining a strong liquidity position contributed to the state's AAA credit rating, reaffirmed by all rating agencies after the March 2019 election.

Reducing financing risk

We took advantage of the low interest rate environment to reduce financing risk by continuing our strategy of buying back short-term bonds and issuing longer-dated bonds.

Diversifying our investor base

We established the NSW Sustainability Bond Programme (pages 20–21) which helped us reach new parts of the market and diversify our investor base.

Contributing to NSW communities

We delivered strong financial outcomes to support projects and communities across NSW.

This included:

- Major infrastructure projects
- Local community projects
- New and affordable housing stock
- Local council projects, including capital works.

We also managed three large funds to help the NSW Government deliver on its promises.

(i) The NSW Infrastructure Future Fund

Established in December 2016 as a vehicle to invest the net proceeds from the state's successful asset recycling programme, the NSW Infrastructure Future Fund (NIFF) generated a 5.9 per cent return of $1.1bn in financial year 2019 and had a balance of approximately $18.3bn as at 30 June 2019.

Investments within NIFF helped Restart NSW deliver the Rebuilding NSW plan. This 10 year plan to invest in new infrastructure has been funded by the electricity network transactions, Commonwealth Government Asset Recycling Initiative payments and investment earnings from NIFF. In financial year 2019, NIFF provided $2.3bn to fund Restart NSW projects.

(ii) The NSW Generations Fund

Established in late 2018 as a $10.0bn world-first dual-purpose sovereign wealth fund, the NSW Generations Fund (NGF) creates intergenerational equity by helping to maintain debt at sustainable levels while supporting communities through the My Community Project. By 30 June 2019, the NGF grew to $10.9bn funds under management and generated $903mn in returns during financial year 2019, performing well above expectations.

Part of the benefit of the NGF returns is shared with the people of NSW through community projects via the My Community Project initiative. The Department of Premier and Cabinet via Service NSW manages this initiative, where the people of NSW can nominate projects that will improve the wellbeing of their communities.

The NGF also provides benefits to communities throughout NSW.

- Gives citizens a stake in their public assets
- Improves trust in government through co-design
- Fosters better connected, quality local communities through beneficial local projects
- Promotes real place-based, local level decision-making.

(iii) The Social and Affordable Housing Fund

This is a key initiative under the Future Directions for Social Housing in NSW strategy. It not only provides access to homes to those in need, it also gives residents tools to improve their lives.

In August 2017, $1.1bn in asset recycling proceeds provided seed funding for the Social and Affordable Housing Fund (SAHF). As at 30 June 2019, the fund had a balance of $1.2bn and had returned 9.7 per cent per annum since inception, with a 9.1 per cent return or $100mn in financial year 2019. These returns provided increased funding for new and affordable housing stock. 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.

Loans to councils to fund capital works projects

In financial year 2019, we approved loans totalling $260mn to 19 councils to help them fund local projects. As at 30 June 2019, the total loans outstanding to 43 councils amounted to $604.8mn. See case studies on pages 30 and 31.

We worked closely with the Department of Planning, Industry and Environment to approve round one of its Low-Cost Loans Initiative, which helped enable 25,657 new dwellings across 12 projects for 10 councils.

To finalise round two, we expect to provide $128.4mn for seven projects (out of a total funding requirement of $133.4mn across nine projects) to enable 24,990 new dwellings in six local government areas.

TCorp in the community

Our community programmes continue to be popular with employees, enjoying high participation across the organisation.

For the 2018-2020 cycle of the Helping Hands Program, staff chose to support the Australian Cancer Research Foundation and the Children's Cancer Institute. The programme raises funds for our chosen charities, while educating staff through a series of engaging events and communications.

We also continued our popular Giving Tree programme in December 2018 with staff once again donating practical gifts to those seeking shelter at the Elsie Women's Refuge in Glebe, as well as those that are supported through the Elsie outreach programme.

CASE STUDY

Largest green bond issued in Australia

"The rail projects are part of the modal shift—people moving from cars to electrified rail as their form of transport—and the water project is about water quality, capacity and reliability as well as energy efficiency for the people of the region."

Katherine Palmer, Senior Manager, Funding & Balance Sheet

Situation

The NSW Government is delivering the biggest infrastructure programme in Australian history, spending around $90bn on infrastructure, including rail transport and water, over the next four years. In financial year 2018-2019, it needed to fund $6.6bn for sustainable transport and infrastructure for the people of its state.

Rouse Hill Station, photograph courtesy of Sydney Metro.

Solution

TCorp was keen to diversify its investor base to ensure that the state's needs are met well into the future.

Fiona Trigona, Head of Funding & Balance Sheet said: "We needed to embark on a new way of reaching out to a broader range of investors." At the same time, investors were looking for TCorp to issue a green bond.

The size of the government's infrastructure programme and its well-defined links with sustainable outcomes, meant TCorp could identify several large-scale assets that met the criteria for a green bond and therefore supported the government's infrastructure programme while meeting investor demand.

TCorp earmarked three assets to be funded by the green bond: the Sydney Metro Northwest; the Newcastle Light Rail; and the Lower South Creek Treatment Programme.

Katherine Palmer, Senior Manager, Funding & Balance Sheet, said: "The rail projects are part of the modal shift—people moving from cars to electrified rail as their form of transport—and the water project is about water quality, capacity and reliability as well as energy efficiency for the people of the region."

Partnerships with key stakeholders

Through our partnerships and close coordination with NSW Treasury, the NSW Office of Social Impact Investment and the NSW Department of Planning, Industry and Environment, robust governance structures have been established to support this programme.

Other key participating agencies included Transport for NSW and Sydney Water.

Key results

In November 2018, TCorp issued its inaugural 10-year, $1.8bn Green Bond, and demand was more than $2.5bn.

This transaction was the first under the NSW sustainability bond programme in Australia and remains the largest single green bond issue to date in the Australian market. The bond was issued under the NSW Sustainability Bond Framework and is certified as compliant with the Climate Bonds Standard. The scale of this bond, combined with its clear link with environmental outcomes, has significantly moved the dial in Australia's green bond market.

The 2018 green bond attracted 57 investors, compared with about 35 for a standard bond raising, of which 15 were new to TCorp, improving the diversification of the investor base and helping to mitigate future funding risk.

Value to the state

The net proceeds raised through the issuance of the bond were earmarked to refinance low carbon transport and water projects. Proceeds funded three projects:

> The A$7.3bn Sydney Metro Northwest is the first stage of Sydney Metro – the largest urban rail infrastructure investment in Australian history. Stretching from the suburbs Rouse Hill to Chatswood, it is the first fully-automated metro rail system in Australia, delivering 36 kilometres of new metro rail, eight new railway stations, five upgraded stations, 4,000 commuter car spaces, and a reliable public transport service to a region with the highest car ownership levels per household in Australia. Passenger services commenced on 26 May 2019.

> The Newcastle Light Rail is a key part of the A$650mn programme to revitalise Newcastle's city centre and comprises a 2.7 kilometre system running from Newcastle Interchange through the central business district to Newcastle Beach. Passenger services commenced on 17 February 2019, providing a frequent and reliable travel option throughout the city centre, connecting key activity precincts, reinvigorating Hunter and Scott Streets, and opening up great urban renewal opportunities.

> The A$354mn Quakers Hill and St Marys water recycling plants process and reliability renewal project will service, treat, and discharge effluent within the South Creek catchment area of Western Sydney. This project forms part of the Lower South Creek Treatment Programme, providing new and upgraded wastewater infrastructure that will cater for growth in the area. It also incorporates new and innovative technology to improve wastewater treatment processes.

Effective stakeholder engagement

We partner with our stakeholders, including clients, NSW Treasury—the cluster in which we sit—and the broader NSW Government family.

Each of our clients has a dedicated relationship manager responsible for being the "voice" of that client within TCorp. This ensures we understand individual clients' business needs and can help with their financial challenges.

Results of independent client survey

On an annual basis, we undertake independent market research to get client feedback on their perceptions of TCorp and their interactions with us.

This year, we engaged Peter Lee Associates to deliver the survey, which returned positive and encouraging results. Overall, clients viewed us as professional, capable and client-focused. The feedback was an improvement on financial year 2018.

TCorp is seen as an effective partner by 70 per cent of clients surveyed.

The key findings include:

- TCorp cited as a trusted advisor across all clients surveyed – 68 per cent compared with 53 per cent in 2018.
- TCorp seen as an effective partner by 70 per cent of clients surveyed.
- Measurable gains in the Net Promoter Score (how likely a client would be to recommend TCorp), increasing four points over the past year to 32 in 2019.
- Clients provided very positive feedback on our:
  - professionalism
  - engagement
  - client servicing.
- There is high regard for our team, our technical skills and financial management expertise.
- Clients have greater awareness of our broader capabilities and how we can help them than in the previous survey.

CASE STUDY

NSW Rural Fire Service

The NSW Rural Fire Service (NSW RFS) is the world's largest volunteer fire service. Its members provide fire and emergency services to approximately 95 per cent of NSW. Its vision is to provide a world standard of excellence in the provision of a community-based fire and emergency service.

Situation

The NSW Government approved NSW RFS buying a large air tanker, which is used to combat significant bush fires in NSW and further abroad, and two smaller lead planes.

This purchase will ensure aircraft availability over the entire NSW fire season.

As the aviation industry trades aircraft of this type in US dollars, and the tender process was going to take approximately six months, there was an element of exchange rate risk.

NSW RFS wanted to lock in the US dollar rate but required flexibility until contracts were signed and the payment profile finalised. The Service needed the ability to make adjustments to the payment dates post executing the hedge. In addition, NSW RFS did not hold a foreign exchange account to settle foreign purchases, as most NSW Government clients are not permitted to have them.

Solution

TCorp worked with NSW RFS to understand its needs, quantify the risks and determine an appropriate, cost-effective solution to hedge its foreign exchange risks.

We entered into a long-dated foreign exchange transaction with NSW RFS with a view to splitting the currency hedges into various instalment payments and to facilitate the purchases. TCorp also paid the offshore vendor directly in US dollars at a more attractive rate which was not available directly to NSW RFS.

(L to R) Yvonne Blunt, Client Services Manager, TCorp; Myles Foley, Director, Finance and Program Management, NSW Rural Fire Service; Ramin Rouzabadi, Senior Quantitative Analyst, TCorp.

Value to the state

- NSW RFS was able to access full service advisory, execution and risk management services without being charged additional fees. TCorp provides access to such services for all NSW government entities.
- NSW RFS was able to lock in the US dollar foreign exchange rate at the point of project approval despite not having finalised the procurement process and signing purchase contracts, which minimised the impact of foreign currency movements on the final cost.
- NSW RFS was able to reduce its transaction costs to best-in-market levels through utilising TCorp's AAA credit rating and market expertise.
- Because TCorp transacted with the market counterparties, NSW RFS was able to remain anonymous, which can be critical during the tender/ procurement process.
- TCorp worked with NSW RFS to settle the hedges on each milestone payment date, enabling smooth and efficient financial transactions and purchase of equipment.
- TCorp made the US dollar foreign payment directly to the supplier, thus managing the issue around the absence of a foreign exchange account.
- NSW RFS hedged the foreign exchange risk inherent in its offshore purchases and complied with the NSW Government's Foreign Exchange Risk Policy TPP 18-03.

The Marie Bashir large air tanker, photograph courtesy of NSW Rural Fire Service.

Cultural review

Our response to the Royal Commission

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry ended in February 2019. Much of the focus of the commission centred on case studies relating to poor practices in retail and small-to-medium enterprise banking, superannuation and insurance. We do not operate in these areas.

While not directly affected, we support the commission's findings with regard to culture and conduct. We reflected on the findings and used them as an opportunity to review our corporate culture and better articulate the kind of people and workplace we need to execute our long-term strategy and deliver on our promises.

While not directly affected, TCorp supports the commission's findings with regards to culture and conduct.

Our culture is anchored in three pillars:

Partnership.
We are stronger together.

Impact.
We make a difference to the financial health of NSW.

Long-term.
We stay the course.

In implementing these pillars during the first half of the 2019-20 financial year, we will focus on aligning employees and leaders around a common cultural vision. We will prioritise behavioural and operating model shifts required to deliver our cultural intent.

RiskPlus

In addition to our cultural review, and due to growing business and community expectations, we began a strategic initiative to strengthen our risk management framework and practices.

Our current focus is on rolling out three lines of accountability across our organisation. These lines provide clear ownership of risk management activities and ensure our practices remain contemporary and relevant to the wider financial services industry.

Building our people and organisation

Career opportunities

We are committed to giving our staff secondment opportunities that increase their exposure to, and experience in, government. This in turn helps us better understand our clients and their complex policy issues so we can better help solve problems.

Last year, four staff members undertook secondments of between three and 12 months in the NSW public sector. As part of a reciprocal secondment agreement, we welcomed staff members from NSW Treasury, one for three months and another for 12.

We will continue to offer opportunities to staff and external secondees alike over the course of the next financial year.

We also look for opportunities to develop and promote staff across the organisation. As such, 18 people took advantage of internal career opportunities over the past financial year – either through lateral moves, acting in a more senior role or career advancements.

Training and development

In financial year 2019, we focused on the priorities identified in our People and Workplace strategy. During the year, we delivered a blended learning approach, face-to-face and online, reinforced through practical, on-the-job practices and learning opportunities.

In supporting current and future leaders, we continued to roll out the LEAD program (Leadership Excellence and Development) to 45 people leaders. We are developing our top talent through bespoke development opportunities, such as psychometric assessments and executive or career coaching.

During the year, we set up a Lunch 'n Learn programme, delivered by internal subject matter experts, and presented four learning sessions on a range of business-related topics. We focused on building resilience and managing wellbeing through our Thrive wellness programme.

We give staff access to a range of online learning courses to support them in their roles and careers through a platform accessed via the Learning Management System. To educate our people on key risks, for example, all staff completed online compliance and cybersecurity training.

Harnessing technology

BOND-i

In August 2018, in a world first, the World Bank used blockchain technology to raise $110mn of capital from investors with its two-year Kangaroo bond called BOND-i (Blockchain Offered New Bond Instrument).

As one of six institutions who took part in this deal, we were quick to mobilise and collaborate across the organisation. Participating in the first ever trade has given us the opportunity to get involved in the development of the platform and influence the process going forward in a technology area that is likely to become more prominent over time.

Moving to the cloud

Our Data Centre Migration programme aims to provide our organisation with a modern, adaptable and scalable platform. The first phase of this programme was to vacate the physical tenancy at Global Switch. We successfully completed this in December 2018, with core systems migrated to cloud-based services.

The move to cloud-based resources gives us the opportunity to improve resiliency, reduce operational risk and allow for scalable resource management. The internal team has learned new skills and practices to position us to capitalise on new cloud-based services as they emerge.

The remaining two phases of this programme will be completed over the next 12 to 18 months.

CASE STUDY

(L to R) Michael Pratt AM, Secretary, NSW Treasury; Tim Reardon, Secretary, Department of Premier and Cabinet; Lisa McIntyre, Director, Advisory Board, NSW Generations Fund; The Hon. Dominic Perrottet MP, NSW Treasurer; Nicholas Johnson, Director, Advisory Board, NSW Generations Fund; Glenn Stevens, Chair, Advisory Board, NSW Generations Fund; David Deverall Chief Executive, TCorp; Angela Cummine Board Secretary, NSW Generations Fund. Photograph courtesy of NSW Generations Fund.

NSW Generations Fund

Situation

The NSW Government decided to establish a world-first dual purpose sovereign wealth fund to support:

- **Debt retirement:** By helping the government maintain sustainable debt levels consistent with a AAA credit rating and lower the financial burden for future generations.
- **Community-led investment:** Helping keep the state's debt at a sustainable level, while sharing the benefit of its returns with the people of NSW through funding community projects. The My Community Project will fund projects in each NSW electorate, helping improve the wellbeing of the people and communities that live there. These community projects are identified and voted on by people in each state electorate.

"The NSW Generations Fund is a world-first dual purpose fund with its assets solely dedicated to debt retirement while sharing the benefit of its returns with the people of NSW by funding community projects. Since the fund launched late last year it has generated over $900mn of investment returns, which has a significant positive impact on intergenerational equity."

Glenn Stevens, Chair, Advisory Board
NSW Generations Fund

Solution

In early 2018 we started working with NSW Treasury and the Department of Premier and Cabinet to establish the NSW Generations Fund (NGF).

We played a key role in the cross-government project to take the initial concept and bring the idea to life. We worked closely with NSW Treasury and the NGF Advisory Board to determine the fund's risk and return objectives including analysis of the impact on the state's balance sheet. Partnering with our government colleagues, we established an investment strategy that is specifically aligned to the NGF's long-term investment horizon and the government's policy aim of achieving intergenerational equity.

The NGF Advisory Board was established to oversee the fund and had its inaugural meeting in August 2018. The board has a combination of independent directors and senior government representation. It is chaired by Glenn Stevens AC, with other members including Lisa McIntyre, Nicholas Johnson, Michael Pratt AM, Secretary, NSW Treasury and Tim Reardon, Secretary, Department of Premier and Cabinet.

The NGF is well placed to deliver higher returns within a considered level of risk. Reflecting this, the investment strategy encompasses a diversified range of assets including domestic and international shares, fixed interest securities, property and infrastructure.

The Treasurer announced the NGF in the 2018-19 NSW Budget, then seeded it with an initial investment of $10bn in late 2018. Over the next decade, the NGF is projected to grow to more than $28bn. We are responsible for the ongoing investment management of the NGF.

"TCorp worked in partnership with the NSW Government on the creation, implementation and ongoing investment management of the NSW Generations Fund. TCorp successfully partners with agencies across government to solve complex problems, drive innovation and deliver under tight timeframes."

Michael Pratt, AM
Secretary, NSW Treasury

Value to the state

The NGF is helping the government maintain sustainable debt levels consistent with a AAA credit rating, helping support current and future generations.

Since inception, the NGF's investment performance has been strong, returning more than 9.5 per cent in the seven months to June 2019. The NGF's value as at 30 June 2019 was $10.9bn, which equates to an investment gain of just over $900mn since it was established.

In the NSW Budget 2019-20, the NGF was identified as playing a key role in supporting the government's 'Four Pillar' strategy to improve the lives of citizens – now and into the future. The second pillar focuses on managing a balance sheet that lowers the financial burden for future generations. The NGF was highlighted as a key tool to achieve that objective, by helping the government maintain sustainable debt levels consistent with the AAA credit rating.

Awards

Public acknowledgement for our work

During the financial year, we won three industry awards in financial markets innovation and expertise for our inaugural A$1.8bn 3% November 2018 green bond issuance. Fiona Trigona and Katherine Palmer from the Funding and Balance Sheet team led the deal.

We won three industry awards for our November 2018 green bond issuance

FinanceAsia Achievement Award 2018

We were awarded the Best Sustainable Finance Deal due to three key factors:

- The large deal size and long duration, which added depth and breadth to the green bond market
- Our strong brand meant the bond was oversubscribed and closed with more than A$2.5bn in demand
- The proceeds of the transaction were allocated to low-carbon transport and water infrastructure projects.

KangaNews Awards 2018

We received two Australian market deal awards:

Australian Sustainability Deal of the Year
Australian Dollar Rates Bond Deal of the Year

These awards 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 and believes the results of its awards are a true reflection of excellence in the Australasian debt markets.

KangaNews Market People of the Year award

In March 2019, Katherine Palmer, Senior Manager, Funding & Balance Sheet, won a *KangaNews Market People of the Year* award. This award recognises industry professionals who have contributed to the development of the market above and beyond the parameters of their roles.

With the successful issuance of our first green bond under the NSW Sustainability Bond Programme, Katherine was recognised by market participants not only for her work behind the scenes in the market itself, but also as a driving force in bringing together disparate elements of government, the wider public sector and the bond market.

Fiona Trigona, Head of Finding & Balance Sheet, Katherine Palmer, Senior Manager, Funding & Balance Sheet.

NSW Treasury awards

In August 2018, the NGF project team won the NSW Treasury Beyond Award for the second quarter of financial year 2019.

Each quarter, NSW Treasury gives Beyond Awards to individuals and teams that "go above and beyond" on projects or bespoke pieces of work.

The NGF project team was tasked with taking an innovative concept and bringing it to life. The team comprised representatives from NSW Treasury, Department of Premier and Cabinet and TCorp. The NGF setup work showed how we can partner across agencies to solve complex problems, drive innovation and deliver under tight timeframes.

The NSW Treasury Beyond Award was awarded to the following TCorp staff members:

- Nickie De Silva, Business Manager, Office of Chief Executive
- Christine Evers, Senior Client Relationship Manager
- James Thorne, Senior Analyst, Attribution, Data and Reporting

We are proud of our achievements and look forward to further industry collaboration in the year ahead.

CASE STUDY – HELPING LOCAL COUNCILS IN NSW FUND INFRASTRUCTURE

Ellerton Drive Extension, Queanbeyan-Palerang Regional Council

Situation

Queanbeyan infrastructure was expected to fail under pressure from population growth.

Solution

TCorp contributed $36mn towards the $86mn Capital Works Project for a 4.6km alternative route around the central business district connecting east and west Queanbeyan to new southern population growth areas.

Client feedback

"TCorp were critical partners in developing the funding program for the Ellerton Drive Extension. They worked closely with us to ensure we had the capital we needed to proceed with the project. Without TCorp's involvement, there is a good chance the process wouldn't have been so smooth."

Lucas Scarpin, Acting CFO
Queanbeyan-Palerang Regional Council

Photograph courtesy of Queanbeyan–Palerang Regional Council.

Photograph courtesy of Parkes Shire Council.

Water and sewer infrastructure, Parkes Shire Council

Situation

The Parkes water treatment plant built in 1936 was not sustainable for future generations.

Solution

TCorp funded $12.5mn towards new water infrastructure.

The treatment plant provides a reduction of odours, improvements to effluent quality and increased operational efficiency. This project supports future population growth, using solar panels and the latest technologies for water production and quality monitoring.

Client feedback

"Parkes Shire Council has developed a positive relationship with NSW Treasury. Through utilising the low-cost borrowings offered by TCorp, council has been able to deliver essential capital projects which will not only support the current generation but provide significant benefits to future generations of our shire."

Luke Nash, Management Accountant
Parkes Shire Council

03

SECTION 3

Operations overview

Our business units

Investment Management

We have delivered strong investment outcomes for our clients while building on our capabilities as we progress our investment management transformation.

Our funds under management have grown to $107bn, placing us in the top five asset managers in Australia and within the top 100 in the world. All client portfolios have performed strongly in both absolute and relative terms. These performances, coupled with solid gains in enhancing our overall investment management capabilities and approach, move us closer to our goal of best-in-class financial solutions and advice for our clients.

Performance

We saw another year of strong returns with the absolute value added to client portfolio of $8.5bn over the past 12 months and $23.4bn since funds management amalgamation.

Our clients have return targets for their funds to enable them to meet future obligations and are normally expressed relative to a variant of inflation 'plus' measure. Over the past 12 months, we have added $3.7bn above these clients' funds targets, and $7.9bn since 2015. These dollars make a real impact to the state by enabling it to meet future commitments.

Table 1 shows our client portfolios, their investment objectives, inception dates, percentage growth and the value added in dollar terms over different time frames. These have all exceeded their long-term investment objectives over all time frames.

Other highlights include:

- We achieved more than $50mn of savings related to fund manager fees and other investment costs over the past four years.
- Our cash and fixed income asset management team has continued to deliver superior performance for our clients with all strategies outperforming their respective benchmarks over the long term.
- Our real assets management team has also continued to deliver strong performance for clients' portfolios and pursued investment opportunities, building up our property portfolio and culminating in the part ownership in a major renewable electricity business, which will be funded later this year.
- We continued to strengthen our investment capabilities for the future with the reorganisation of our leadership team, enhancements to our processes such as the implementation of our new active ownership strategy, and the strengthening of our operating infrastructure.

Table 1: TCorp funds performance as at 30 June 2019

Client/Investment objective	Inception date	Since inception return (%p.a.)	5 year return (%p.a.)	1 year return (%)	Fund size ($mn)	5 year dollar value add	1 year dollar value add
STC Defined Benefit Fund CPI + 5.0%	30-Apr-88	7.61	8.49	9.18	35,252	15.4bn	3.0bn
NSW Infrastructure Future Fund CPI + 2.0% p.a.	07-Dec-16	6.29	n/a	5.90	18,276	n/a	1.1bn
Workers Compensation Insurance Fund Wage Price Index NSW + 2% p.a.	30-Nov-05	6.63	6.64	10.13	17,648	5.3bn	1.7bn
NSW Generations Fund CPI + 4.5% p.a.*	5-Nov-18	9.56	n/a	n/a	10,884	n/a	903mn
Treasury Managed Fund CPI + 3.5% p.a.	31-Mar-99	6.90	9.34	8.95	8,393	3.4bn	705mn
Lifetime Care and Support Authority Fund Average Weekly Earnings + 2.0% p.a.	30-Jun-07	8.01	8.41	9.37	6,596	2.0bn	559mn
Long Service Corporation AWOTE^ + 3.0% p.a.	25-Nov-13	8.66	n/a	9.45	1,513	n/a	133mn
Long Term Growth Fund CPI + 3.5% p.a.	01-Jul-89	8.10	8.94	8.94	1,454	491mn	117mn
Dust Diseases Authority Fund 4.5% p.a.	30-Jun-07	5.90	8.25	9.20	1,254	436mn	105mn
Social and Affordable Housing Fund CPI + 2.75% p.a.	16-Aug-17	9.69	n/a	9.10	1,217	n/a	100mn
Medium Term Growth Fund CPI + 2.0% p.a.	01-Dec-90	7.55	5.36	6.38	706	73mn	38mn
Parliamentary Contributory Superannuation Fund CPI + 4.0% p.a.	31-Aug-16	10.91	n/a	9.41	332	n/a	29mn
Insurer's Guarantee Fund Average Weekly Earnings + 2.0% p.a.	01-Jul-11	7.68	6.96	9.66	207	62.3mn	18mn

*The NSW Generations Fund numbers are since inception.

Advisory and portfolio management solutions

All clients benefited from the combination of strong market returns and our ability to add value relative to their objectives. See *The economic environment* by Brian Redican, Chief Economist (page 42) for an overview of the factors which have driven markets and our views on the outlook.

Throughout the year we worked with clients on their investment strategy reviews, reconfirming or assisting them in articulating their risk tolerances in order to ensure we construct portfolios that have the best possible chance of meeting their real objectives.

During the year, the government entrusted us with new funds and total funds under management grew to $107bn. We managed the withdrawal of $2.3bn from the NIFF to fund infrastructure projects and worked closely with the State Super Defined Benefit Scheme to withdraw $2.3bn to fund pension payments to former state employees.

The funds that we advise and manage on behalf of the government for the purposes of meeting future commitments are illustrated in *Contributing to communities in NSW* in the Achievements section of this report (page 18).

We also manage assets on behalf of icare, which has responsibility for managing and administering the various state insurance arrangements.

In-house asset management

Cash and fixed income

Our cash and fixed income team is responsible for managing domestic cash and fixed income mandates. With more than $27bn in funds under management, we manage one of Australia's largest pools of assets in this sector. We focus on investing in Australian-issued investment-grade debt securities through discrete strategies designed to meet specific client requirements. The TCorpIM Cash and TCorpIM Short-Term Income Funds are designed for clients with short-term investment horizons who need investment solutions that generate stable levels of income with low levels of capital volatility. These funds had another successful year and continue to consistently add value over their Bank Bill Index benchmark.

The one year performance of the Australian bond funds was a standout, delivering on average 12.8 per cent as market yields declined sharply in the latter half of the year, while inflation-linked funds generated returns of 9.6 per cent over the same period. The one-year returns are remarkable outcomes for conservatively managed fixed income strategies. The returns are highlighted in Table 2.

Table 2: Australian cash and fixed income performance as at 30 June 2019

	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)
Highly liquid funds	2.41	0.26	2.19	0.30	2.28	0.31	3.1
Floating rate funds	2.98	0.81	2.90	1.01	2.82	0.84	12.2
Bond funds	6.45	0.12	4.94	0.15	12.80	0.05	6.6
Inflation linked funds	5.38	0.07	4.68	0.08	9.61	(0.20)	2.9

Benchmarks:

- *Highly liquid funds* — *Bloomberg AusBond Bank Bill Index*
- *Floating rate funds* — *Bloomberg AusBond Bank Bill Index*
- *Bond Funds* — *Composite of Bloomberg AusBond Treasury, AusBond Composite ex-credit and AusBond Govt Indices*
- *Inflation linked funds* — *Composite of the Bloomberg AusBond Inflation Government Indices*

Real assets

Our infrastructure assets have performed strongly, returning 14.1 per cent over one year, while unlisted property returned 8.4 per cent over the same period.

Our scale and carefully developed global network of aligned sovereign peers also provides the real assets team with a unique pipeline of access to domestic and international opportunities. Bristol and Birmingham airports (UK), for example, were one of our clients' strongest performing infrastructure assets over the past 12 months.

During the year we had the opportunity to conduct due diligence on a transaction which culminated in our commitment to buy 49 per cent of a major renewable electricity generation business from one of our international peers.

Our team has also been active in sourcing diversifying opportunities in the domestic and global property markets.

In Australia, we partnered with LOGOS, a market-leading integrated logistics specialist, to focus on the growing demand for large logistics projects that satisfy the demand driven by trade flows and increase in online retailing. Globally, we are partnering with Brookfield, one of the world's largest investors in real estate to broaden the diversification of our clients' real estate portfolios through exposure to office, industrial and multi-family properties in the United States.

We continue to focus on investment opportunities that provide our clients with access to opportunities to enhance the returns generated within an appropriate risk tolerance. Table 3 shows how these strategies have performed over time.

Table 3: Real assets performance as at 30 June 2019

	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	13.76	5.29	12.38	3.78	14.08	5.83	5.6
Property	11.80	2.71	10.86	2.54	8.35	1.48	5.5

Benchmarks:

- *Infrastructure: a combination of client-specific benchmarks.*
- *Property: From 1 July 2017 - MSCI/Mercer Australian Core Wholesale Property Fund Index (Customised), prior to 1 July 2017 33% CPI + 8.5%, 45% AMP Capital Property Index (pre-tax) and 22% FTSE EPRA/NAREIT Developed rental.*

Building for the future

The investment management transformation is a multi-year project that helps us reach our goal of providing best-in-class funds management and advice for our clients. We have achieved several important milestones, covering our people, processes and operating infrastructure.

People

We undertook a reorganisation of our investments structure and reinforced our leadership team. This was finalised in late 2018, with the key hires of Heads of Portfolio Construction and Partner Selection. These teams are responsible for building the portfolios which meet our clients' risk and return requirements and the end-to-end selection and management of partners to whom we award investment mandates, such as Australian and international equities, respectively. These appointments are another step in our journey to build a deeply experienced and highly skilled team to take our investments business forward.

As part of leveraging the partnerships we have with local and global asset owners and sovereign wealth funds, and to support a learning environment, we have continued our peer engagement programme. Over the course of financial year 2019, five external speakers presented to our board and staff to share best-in-class case studies and document insights and learnings from our peers.

Embedding investment beliefs

We refreshed and continued to embed the beliefs that underpin the investment decisions we make on behalf of our clients. This provides us with consistency and a shared framework for managing client portfolios.

Stewardship

During financial year 2019, we made significant progress on investment stewardship. This is detailed in *Sustainability: TCorp's progress on investment stewardship* on page 46.

Operating infrastructure

Since the consolidation of our funds' management activities with custodian JP Morgan in late 2017, we have established a single consistent operating model for managing client portfolios. A key part of this has been signing an agreement with Blackrock in April 2019 to implement the Aladdin investment management operating system. This system is a world-leading managed service that will give us an end-to-end integrated solution platform to support portfolio management, risk analytics trading and operational workflows and processes. This is a major step forward in strengthening our operating environment and will be implemented over the course of the next financial year.

We have also completed the first phase of our data management strategy, which ensures that the data utilised across our platform is consistent and high quality. Both these initiatives will support better decision-making and ultimately drive improved outcomes for our clients through enabling our investment professionals to more deeply understand our portfolios' risk and return drivers. They will also simplify and improve our processes and reduce operational risk.

Investment beliefs

Portfolio construction we are flexible and long-term in our approach to portfolio construction, developing a deep understanding of each client's investment goal and risk appetite, then ensuring tailored asset allocation, efficient implementation and quality client engagement.

Risk we take appropriate, evaluated and communicated risk to deliver on our mission to help clients achieve their investment objectives.

Stewardship we believe that embedding stewardship principles in our investment decision-making will result in better risk-adjusted financial outcomes for our clients.

Comparative advantage with government backing and scale, a true long-term investment horizon, and a tailored approach to constructing and managing portfolios, we have a robust framework to achieve our clients' goals.

Governance our governance model has clear accountability, clear process and consequences, and drives excellence across the organisation, to enable near real-time decisions for the benefit of our clients.

Financial Markets

Over the past 12 months, we delivered another year of strong performance. Highlights include:

- As a member of the State's Asset and Liability Committee (ALCO), which seeks to optimise the State's assets and liabilities, we partnered with Treasury on initiatives to benefit the state.
- We worked to endorse and implement a strategy to lengthen the debt portfolio of NSW enabling the state to capitalise on historically low long-term interest rates.
- We delivered value to our regulated utility clients by helping them to model their debt portfolios to meet the relatively complex requirements of the Independent Pricing and Regularity Tribunal and the Australian Energy Regulator.
- We refreshed our approach on how we partner with the local government sector and now focus on funding key infrastructure projects for eligible NSW councils in the most cost-effective way. As a result, our local government loan book has grown by 64.3 per cent year-on-year and we foresee further growth in this area.
- We worked with various NSW Government entities to fund critical infrastructure projects such as replacement or renewal of bridges and causeways, and upgrades of water and stormwater assets.

Funding and Balance Sheet

As the central borrowing authority for the NSW public sector, we manage debt of more than $61.7bn on behalf of our clients.

We achieved our strong financial position by:

- working with local and international investors who buy the state's bonds
- support from our dealer group
- prudently managing the risk on our balance sheet
- dynamically managing liquidity assets.

Our annual borrowing programme is driven by the current and future funding needs of NSW public sector clients. We seek to meet these needs by providing funding at the lowest possible cost through efficient issuance, while maximising value from the state's AAA credit rating.

We started the financial year 2019 with a borrowing task of $6.6bn, comprising of new client requirements of $2.4bn and maturities of $4.2bn. During the year we successfully extended our maturity profile, adding $12bn in new bonds to the longer end of the nominal bond curve (2028 and 2034) and buying back shorter-dated bonds of $3bn excluding maturities. We achieved this through a range of activities to meet market conditions and investor demands, including:

- tenders via electronic auction totalling $1.35bn and reverse enquiry totalling $7bn
- issuance facilitated by banks totalling $3.9bn, including a $1.8bn green bond syndication, a $2bn tap of the 2029 bond and a $120mn new issue of a 2034 bond.

All major ratings agencies reaffirmed the AAA credit rating for NSW following the release of the NSW budget. Our strategy of maintaining a strong liquidity position contributed positively to this assessment.

During the year we made inroads into the borrowing task for financial year 2020. In general, the Benchmark Bond Programme will continue to be the cornerstone of our funding strategy. The programme provides price transparency and liquidity to public sector borrowers and institutional investors in our bonds.

Financial Risk Solutions

We strive to be sought after as the centre of financial markets expertise for the state. This involves partnering with NSW Government entities to identify and quantify their exposures as well as determining acceptable strategies for risk management and cost reduction. We aim to develop a deep understanding of our clients and to then use the broad experience and knowledge of the team to provide solutions and efficiencies.

Through close engagement with our clients we have successfully delivered a number of key projects:

- $38mn in savings through improving the efficiency and timing of foreign exchange and interest rate transactions. This has included working with clients to agree on effective implementation strategies.
- Promoted, and helped clients implement, the foreign exchange policy announced by Treasury. This resulted in $1.8bn of foreign exchange exposure being hedged across a variety of state agencies, helping them manage risk and deliver budget certainty.
- The Social and Affordable Housing Fund, outlined on page 19, is an innovative approach to how the state is delivering social and affordable housing. The team developed and delivered a financial hedging solution that has played a critical role in the running of the fund.
- With the introduction of a new accounting standard for leases (AASB16) the options for the way the state funds assets have changed. We have executed a pilot leasing project for a client and the team is working with NSW Treasury to explore ways to decrease asset funding costs across the state.

Working with both our colleagues and across the various clusters and departments, we see significant scope to broaden our reach and continue to help the state create financial efficiencies.

Local Government Services

We continued to partner with our key stakeholders in the NSW Government family to drive financial efficiencies for eligible state councils. Through the provision of loans totalling $260mn we enabled the funding of a range of critical infrastructure projects, including road extensions and renewals, the replacement or upgrading of bridges and causeways, sewer treatment and waste management works, as well as the upgrading of water and stormwater assets.

We have continued to strengthen key relationships with the Office of Local Government, NSW Treasury and the Department of Planning, Industry and Environment which will enable us to continue to support local councils with their regional infrastructure projects.

Debt Management

We successfully executed a strategy to lengthen the debt portfolio of the state to capitalise on the historically low long-term interest rates well ahead of the expected timeframe and within budget.

In order to optimise the low-rate environment and to manage the forecast increase in new funding requirements over the forward estimates, ALCO endorsed our recommendation to pre-fund a total of $3bn of expected requirements. This reduced the funding requirement in financial year 2020 by the same amount, so the Crown debt portfolio is well positioned for the forecast increased funding requirements across the forward estimates.

We have decreased risk to the borrowing programme for the general government sector and the state-owned corporations. We did this by increasing the level of control and coordination of client borrowings through additional outsourced management arrangements, and greater discretion on the timing of the execution of client borrowings. Three borrowing clients—Transport for NSW, Port Authority of NSW and Place Management NSW—asked us to manage their debt portfolios during financial year 2019 while the boards of Essential Energy and Water NSW endorsed our recommended debt limits.

Our borrowing programme achieved increased flexibility with refinancing of shorter-dated loans, $4bn refinanced into loans ranging from nine to 19 years, and maintenance of the weighted average life of client debt portfolios to 6.62 years.

Nominal weighted average yields across all debt clients reduced from 3.92 per cent to 3.68 per cent as at 30 June 2019, reflecting the work completed to benefit from the lower interest rate environment on behalf of our clients.

Thought leadership

The economic environment

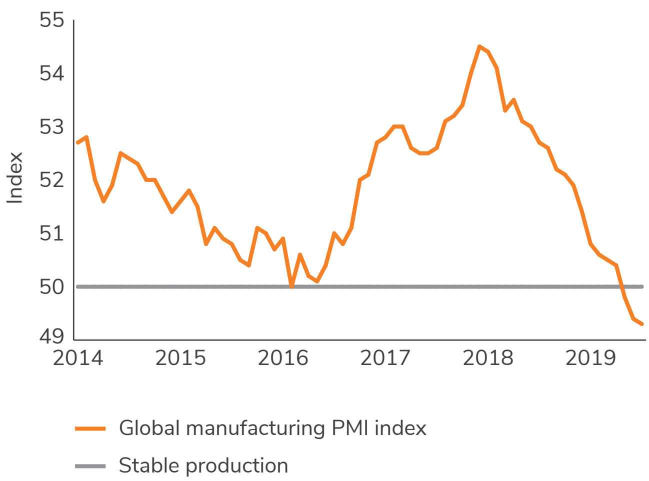
TCorp's Chief Economist, Brian Redican, considers global and local markets and how things may play out in the year ahead.

The year that was

Global context

Global economic growth slowed in 2018-19, as the trade dispute between China and the US disrupted manufacturing supply chains and weighed on business investment. Slower growth was particularly evident in trade-exposed economies in Asia and Europe. In the United States, after a couple of strong years, economic growth also moderated due to the downturn in global manufacturing activity and Chart 3 illustrates the dampening impact of the trade dispute.

Chart 3: Global manufacturing activity 2013 – 2019



Source: Bloomberg

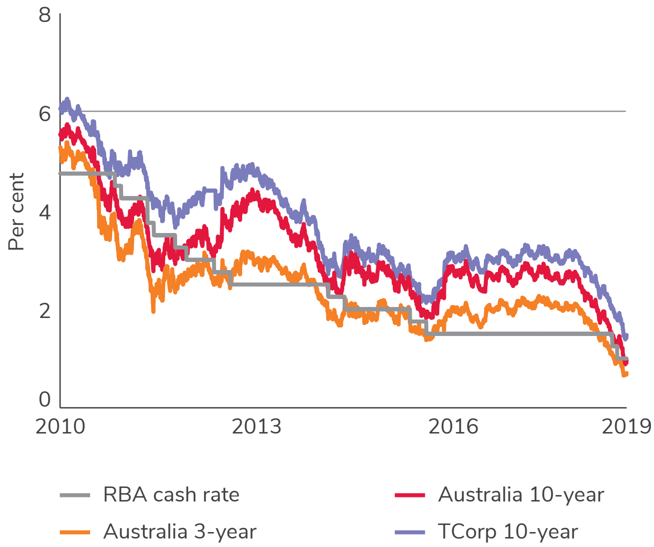
In response to the slowing economic momentum, global central banks also shifted gears. The US central bank abandoned its plan to push rates higher over 2019 and indicated that it was willing to cut interest rates in the second half of 2019. Other major central banks also said they were prepared to ease policy to counter the risks from the trade war fallout. The shift in monetary policy direction resulted in government bond yields dropping to fresh lows in many markets and supported equity markets, with the US equity market reaching new record highs in the middle of 2019.

The Australian economy

Australian economic growth was disappointingly soft over 2018-19, as weak housing demand resulted in falling house prices, softer consumer spending and less housing construction. Higher commodity prices, strong public spending and solid population growth supported spending, however, and ensured that the economy continued to expand.

Australia's unemployment rate remained close to 5 per cent over 2018-19 but wages growth only picked up moderately during this period. Even in NSW—which enjoyed a much lower unemployment rate of around 4.5 per cent—wages growth has remained moderate. This suggests there is more spare capacity in the labour market than policymakers previously thought. Underlying inflation also fell further below the Reserve Bank of Australia (RBA) 2 to 3 per cent inflation target band. Together, these two factors prompted the RBA to embark on a new easing cycle, cutting official interest rates to an all-time low.

Chart 4: Australian bond yields and interest rates 2010 – 2019



Source: Bloomberg

New South Wales

The housing slowdown was most apparent in NSW, where dwelling approvals dropped to around 60,000 per year from its peak of over 76,000 approvals in 2016. Strong public investment, led by the state government's record $93bn infrastructure programme, is providing a key offset to the housing construction weakness. The NSW labour market continued to perform strongly in 2018/19, with employment growing by more than 3 per cent. This ensured that the unemployment rate remained low even though the workforce participation rate climbed to a record high.

While investors will inevitably hope for a speedy resolution to the tariff dispute, we suspect that firms in the private sector will continue to be cautious about undertaking significant new investments or expanding capacity in the current environment.

The year ahead

Global trade

Trade policy uncertainty will continue to be the dominating factor in risk markets globally and tension is likely to persist throughout the next financial year. Financial markets have mainly focused on US President Trump's decision to impose tariffs on a range of Chinese exports, as well as his threat to extend this policy by imposing tariffs on all Chinese exports, and at a higher rate. We believe, however, that the dispute is far broader than just about tariffs, and that restrictions on investment and the sale of certain products will persist even if a so-called 'deal' is achieved on the tariff issue.

Thus, while investors will inevitably hope for a speedy resolution to the tariff dispute, we suspect that firms in the private sector will continue to be cautious about undertaking significant new investments or expanding capacity in the current environment. And given that so many investment goods are traded internationally, this is likely to result in another year of weak export activity.

Unlike the dispute between the US and China which has global implications, we think the ramifications of a 'no-deal Brexit' will largely be confined to the UK and EU.

The UK, Brexit and Europe

The other key geo-political issue dominating markets is the United Kingdom's desire to leave the European Union and whether an acceptable deal can be achieved. Unlike the dispute between the US and China which has global implications, we think the ramifications of a "no-deal Brexit' will largely be confined to the UK and EU. The key risk emanating from a no-deal Brexit, in our view, concerns the problems it would cause UK firms in obtaining the necessary licenses and regulatory approval from each EU nation to continue their current trading. That said, there would also be some repercussions for the EU, as German car manufacturers, for example, might experience weaker demand from the UK.

Global key economic indicators

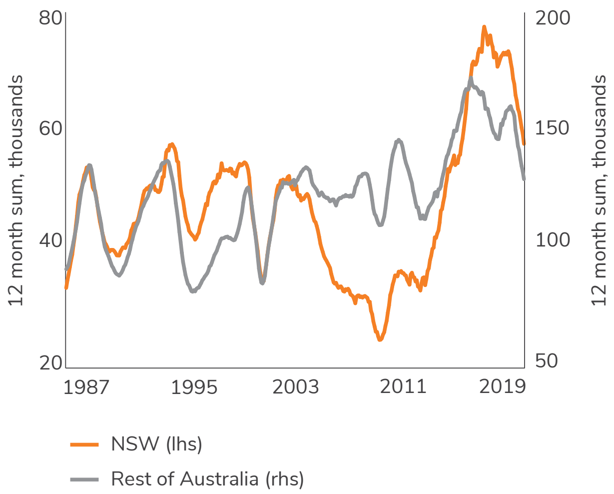
Providing a key offset to trade policy uncertainty and a "no-deal Brexit", however, is a healthy household sector. Unemployment rates remain relatively low globally and wages growth is improving, albeit slowly. Moreover, the recent policy stimulus provided by central banks (and prospective stimulus to come) should continue to underpin reasonable global growth in the year ahead.

In this context, it's also worth noting that although policymakers have been frustrated by how slowly wage growth and inflation have responded to stronger labour markets, this has obviated the need for central banks to tighten policy aggressively, which reduces the risk of a policy mistake. This, in turn, implies that there is less risk of economies falling into recession than in the past. Thus, while we would characterise recent economic growth rates as 'grinding' rather than 'buoyant', economic cycles also tend to be longer in the current environment.

The outlook for Australia

For Australia, conditions in the housing market—and its effect on construction activity and building approvals as highlighted in Chart 5 and household consumption—remain the key uncertainty. On this score, there were some positive policy developments affecting housing in the first half of 2019. The RBA's decision to cut interest rates, combined with the Australian Prudential Regulatory Authority's decision to remove some constraints on bank lending boosted home buyer confidence, which was reflected in higher home auction clearance rates and a stabilisation of house prices.

Chart 5: Building approvals NSW vs Australia 1987 – 2019



Source: Bloomberg

It remains the case, however, that Australian households are caught between very high household debt levels and only moderate wages growth. In our view, this remains the key impediment to stronger consumer spending. In this environment, lower interest rates may enable those households with a mortgage to pay down debt more quickly, but they are unlikely to trigger a resurgence of consumer spending.

We would characterise recent economic growth rates as 'grinding' rather than 'buoyant', economic cycles also tend to be longer in the current environment.

Against this backdrop, we believe the Australian economy will continue to display patchy growth and modest inflation in the year ahead. As a result, the RBA may need to provide further policy stimulus. But with the level of interest rates already at very low levels, there may be more pressure on the RBA to contemplate some of the 'unconventional' monetary policy measures, such as quantitative easing, that other central banks have been forced to pursue. While there continues to be a vigorous debate about the effectiveness of such policies, if they resulted in a significantly weaker Australian dollar, then it would boost corporate profits, facilitate stronger wages growth, and lead to stronger Australian economic growth and higher inflation. And that would be a most welcome outcome.

We believe the Australian economy will continue to display patchy growth and modest inflation in the year ahead.

Spotlight

Sustainability: TCorp's progress on investment stewardship

Lucy Thomas, TCorp's Head of Investment Stewardship, explains the organisation's commitment to sustainability.

Investment stewardship

The importance of being effective stewards of the capital entrusted to us is paramount for TCorp. We believe that embedding stewardship principles in investment decision-making will result in better risk-adjusted financial outcomes for clients.

Over the year, we have made significant progress across all five of our stewardship pillars including the following:

1. As part of our commitment to best practice, we revised our Investment Stewardship Policy. The board and investment team developed our investment stewardship beliefs that form the foundations of the policy.

Chart 6: TCorp stewardship model

2. In January 2019, we began our Australian active ownership strategy, which includes in-house proxy voting and direct engagement with Australian corporates. In exercising these voting rights, we apply carefully considered and best-practice corporate governance principles to support long-term value creation. We have focused on the following themes:
   - executive pay
   - board composition
   - individual director accountability
   - corporate culture.

   Our external investment managers advise us when exercising our voting rights across international equity portfolios. The managers are best placed to assess the appropriate corporate governance need for individual international companies to support robust investment outcomes. Our manager assessment due diligence allows us to evaluate the quality of our external managers' capabilities in exercising these ownership rights on our behalf. We retain the right, however, to override our managers' recommendations when required.

3. We have contributed to relevant industry groups that support a sustainable financial system including:
   - The NSW Treasury Sustainable Finance Working Group
   - The Australian Sustainable Finance Initiative Technical Working Group: Sustainable financial system
   - The Investor Group on Climate Change Physical Risk & Resilience Working Group and Transparency & Thought Leadership Working Group.

4. We have embedded good stewardship principles in our decision-making, both at an individual investment and portfolio level. This includes the selection and monitoring of investment managers and enhancing what we include in investment management agreements. For example, requirements around ethical behaviour and environmental, social and governance reporting.

In line with NSW Government policy, we exclude tobacco investments across all portfolios and asset classes, and we require that our investment managers comply with this policy on our behalf.

TCorp may from time to time implement the exclusion of other activities or exposures from some or all of its investments based on direction provided by the NSW Government.

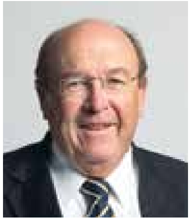
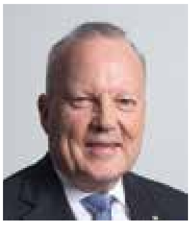
04

SECTION 4

Governance

Board of directors

As at 30 June 2019

Director	Qualifications and Experience
 **Peter Warne**	BA, FAICD Chair from 1 March 2019. Chairman of Macquarie Group Limited and Macquarie Bank Limited; Director of ASX Limited and related entities, Securities Exchanges Guarantee Corporation Ltd and Allens; Member of the Macquarie University Faculty of Business and Economics Industry Advisory Board; Panel Member of ASIC's Director Advisory Panel and Chairman of St. Andrew's Cathedral School Foundation. Former head of Bankers Trust Australia Limited Financial Markets Group for 11 years.
 **Philip Chronican**	SF Fin, BCom (Hons), MBA (Dist), GAICD Chair until 28 February 2019. Ceased as a Director 30 September 2019. Banking and finance industry for over 30 years. Chair of the Westmead Institute of Medical Research and non-executive director of National Australia Bank (NAB). Former Director of Bank of New Zealand and Juvenile Diabetes Research Foundation (JDRF). Former Chief Executive Officer Australia, Australia and New Zealand Banking Group Ltd, Group Executive Westpac Institutional Bank, and Chief Financial Officer, Westpac Banking Corporation.
 **Michael Pratt AM** *Ex officio*	SF Fin, GradDip (Org Beh), FAICD, FAIM, FAHRI, AMP (Harvard), Hon DLitt (WSU) Deputy Chairperson, Board of Directors. Secretary NSW Treasury, responsible for strategic management of the entirety of the State's finances, budget, assets, liabilities and financial risk management framework and transformation. The Treasury Cluster incorporates Treasury, Treasury Corporation, NSW Industrial Relations, icare (Insurance & Care NSW) and SAS Trustee Corporation. Former NSW Customer Service Commissioner; CEO Standard Chartered Bank, North East Asia; Group Executive of Westpac Business & Consumer Banking; CEO of National Australia Bank in Australia; CEO of Bank of New Zealand; and CEO of Bank of Melbourne. He is a former President of the Australian Institute of Banking & Finance and was the inaugural Joint President of Finsia.
 **Philip Gardner** *Ex officio*	BEc/LLB Deputy Secretary, Commercial, Commissioning & Procurement at NSW Treasury. Chair of NSW Asset & Liability Committee. Phil spent 27 years in capital markets, funds management and superannuation. He worked for Macquarie bank for eight years, followed by 17 years with Goldman Sachs Asset Management in London, Singapore and Sydney in senior portfolio management and regional management roles. Prior to joining NSW Treasury, Phil was an independent member of the Sunsuper Investment Committee.

Director	Qualifications and Experience
 **Robert Whitfield**	BCom, GradDip (Banking), GradDip (Fin), AMP (Harvard), FAICD Director of Commonwealth Bank of Australia. Former Secretary, Treasury and Chief Executive Officer of Long Service Corporation. Former Board Member, Infrastructure NSW, Public Service Commission and the Greater Sydney Commission. Former Chief Executive Officer of Westpac's Institutional Bank and Chairman of Westpac's Asia Advisory Board, in addition to other key Westpac roles over the course of a 30 year career in risk management, treasury, transactional banking, structured finance and business development.
 **David Deverall** *Ex officio*	BEHons, MBA David joined TCorp as Chief Executive in February 2016. Former CEO of Perpetual Limited. Former Chair of The Financial Services Council. Former Group Head of Funds Management and Head of Strategy at Macquarie Group. Former non-executive director of Charter Hall Group.
 **Jenny Boddington**	MA (Hons, Oxon) FAICD Chairman of Latitude Insurance. Director of Supply Nation, ANZ Lenders Mortgage Insurance and Chief Executive Women. Former Global Head of Bancassurance at QBE; CEO of QBE Lenders' Mortgage Insurance and Executive General Manager of Financial Institutions, QBE Australia; Director of DB Capital Partners; Director of Deutsche Bank Australia. Jenny has also been a Director of Indigenous Business Australia and the NSW Growth Centres Commission.
 **Anne Brennan**	BCom (Hons), FCA, FAICD Non-Executive Director of Argo Investments Limited, Charter Hall Group Limited, Metcash Limited, Nufarm Limited, Rabobank Australia Limited, Rabobank New Zealand Limited and Rabo Australia Limited. Former Non-Executive Director roles with Myer Holdings Limited, Star Entertainment Group and Cuscal Limited. Former Executive Director Finance of Coates Group; Chief Financial Officer of CSR Limited and Partner at KPMG, Arthur Andersen and Ernst & Young.

Director	Qualifications and Experience
 Gregory Cooper	**BEc, FIAA, FIA** Investment industry experience covering 26 years. Recently retired Chief Executive Officer and Director for Schroder Investment Management Australia including previous roles as Head of Distribution for South Asia and Head of Product Strategy for Asia Pacific spanning 18 years. Former Head of Actuarial Consulting for Towers Perrin in Asia, based in Hong Kong. Director of Australian Indigenous Education Foundation, Kincoppal Rose Bay School of the Sacred Heart and OpenInvest Holdings Limited. Member of St Ignatius College Investment Committee. Former Deputy Chairman and Director of the Financial Services Council for 10 years.
 Michael Dwyer, AM	**AdvDip (FinSvcs), Dip (SuperMgt), Dip Tech, FASFA, MAICD** Superannuation and Investment experience over more than 30 years. Recently retired Chief Executive Officer of First State Super after 14 years. Former General Manager of NSW industry super fund ASSET Super for 10 years. Former Director of Association of Super Funds of Australia (ASFA) for over 15 years and founding Director of Fund Executive Association (FEAL). Chair of Australia for United Nations High Commissioner for Refugees (UNHCR) and Director of Sydney Financial Forum.

Corporate governance framework

This section reports on our governance framework.

Role of the board

Our governing legislation defines the board's role as directing management to achieve our mission and fulfil our annual agreement between the board and the NSW Treasurer. This is set out in our Statement of Business Intent.

The board is responsible for:

- promoting and overseeing TCorp's culture
- providing strategic direction and approving the strategic plan
- determining the policies of TCorp
- 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 the board-approved balanced scorecard
- monitoring the conduct and the performance of TCorp and its senior management
- overseeing succession plans for the board and senior management.

Role of management

The board operates through delegation to the chief executive and other executives who are charged with the day-to-day leadership and management of TCorp. The board maintains a formal set of delegated authorities, which clearly define the responsibilities that are delegated to management and those that are retained by the board.

Board composition and appointments

Board members are selected for their experience, training and expertise in the management of financial investments, as well as their collective mix of complementary skills. Board members, other than representatives from the Treasury, are appointed by the NSW Treasurer.

The board must comprise:

- the Chief Executive
- the Secretary of the Treasury (or an officer of the Treasury nominated for the time being by the Secretary of the Treasury to represent the Secretary)
- another officer of the Treasury (if any) nominated for the time being by the Secretary of the Treasury to represent the Treasury
- not fewer than three and not more than seven persons appointed by the Treasurer.

Each board member is appointed for a term of up to five years and is eligible to be reappointed.

The Chair of TCorp's board, Philip Chronican, will retire on 30 September 2019. From 1 March 2019, he has been on a leave of absence and Peter Warne assumed the role as Chair. The Secretary of Treasury, Michael Pratt, has held the position of Deputy Chair since 1 August 2017.

Conduct of board business

Our governing legislation and the board charter define the responsibilities of the board, individual members and the chief executive. Our board also incorporates practices commonly required by entities regulated by the *Corporations Act 2001* (Cth).

The board Code of Conduct and Ethics outlines the standards for appropriate ethical and professional conduct for members of TCorp's board. TCorp operates within the broader expectations of the NSW government, clients, stakeholders and general community. The board Code of Conduct therefore reflects the expectation that board members have the highest level of integrity and ethical standards in the performance of their responsibilities on the board.

Our board meets regularly throughout the year and will meet whenever necessary to discharge its responsibilities.

The performance of the board, its committees and individual members is evaluated at regular intervals. The board and its committees either arrange for an independent review or undertake a self-review of its performance. An independent review was conducted during the financial year.

Conflicts of interest

For board members, actual or potential conflicts of interest are managed in accordance with the requirements of our governing legislation and the board Code of Conduct.

As well as disclosing actual interests in transactions, board members must disclose matters that may give rise to an interest. Board members with an interest in a matter may not vote on it or participate in discussions about it, unless the chairperson or board determines otherwise.

Committees

The board has established three standing committees, the Audit and Risk Committee, Board Investment Committee and the People and Remuneration Committee, to enhance its effectiveness in key areas, while discharging its responsibilities. The objectives of each committee are determined by the board and codified in a charter.

Audit and Risk Committee

The Audit and Risk Committee acts as an advisory body to the board on issues relating to internal and external audit, financial reporting, enterprise risk management and other risk management accountabilities.

Consistent with best practice, all members of the Audit and Risk Committee are non-executive directors. Its primary responsibility is to provide independent assistance to the board by overseeing, monitoring and reporting on:

- TCorp's governance, risk and controls frameworks (including internal and external audit functions), and its external accountability requirements.
- TCorp's annual financial statements for the Corporation and as Trustee for the TCorpIM Trusts.

This committee meets a minimum of four times a year. TCorp's internal and external auditors have standing invitations to attend these meetings.

Board Investment Committee

The objective of the Board Investment Committee is to support the board in discharging its investment governance responsibilities in respect of managing funds on behalf of the NSW Government and its agencies, departments and businesses.

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 Board Investment Committee.

People and Remuneration Committee

The objective of the People and Remuneration Committee is to act as an advisory body to the board on issues relating to TCorp's human resources. The People and Remuneration Committee is responsible for ensuring that effective plans are in place to underpin continuous improvement in the return on TCorp's investment in people.

Our governing legislation defines the board's role as directing management to achieve our mission and fulfil our annual agreement between the board and the NSW Treasurer.

Attendance at board and board committee meetings

The following table sets out the number of scheduled board and committee meetings attended by each board member.

Board member	Board		Audit and Risk Committee		People and Remuneration Committee		Board Investment Committee[10]	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Philip Chronican[1, 7, 10]	6	6	-	-	4	4	2	2
Michael Pratt[7]	8	7	-	-	-	-	-	-
Rob Whitfield[8, 9]	8	7	2	2	3	3	-	-
Philip Gardner	8	7	-	-	5	5	-	-
Peter Warne[7, 8]	8	7	5	5	1	1	5	5
Kerry Schott[3]	5	3	3	2	-	-	-	-
Jenny Boddington[9]	8	8	3	3	2	2	-	-
David Deverall[11]	8	8	-	-	-	-	-	-
Susan Doyle[2, 10]	4	4	-	-	-	-	2	2
Anne Brennan[4]	6	6	2	1	-	-	-	-
Gregory Cooper[5, 10]	4	1	-	-	-	-	2	2
Michael Dwyer[6]	1	1	-	-	-	-	-	-

1 Leave of Absence for period 1 March 2019 – 31 August 2019. Retiring from TCorp board 30 September 2019.
2 Director until 28 October 2018.
3 Director until 16 January 2019.
4 Appointed as director effective 1 September 2018.
5 Appointed as director effective 1 December 2018.
6 Appointed as director effective 1 June 2019.
7 Chairperson of TCorp board (P Chronican until 28 February 2019, P Warne (Interim Chair) until 31 August 2019).
8 Chair of Audit and Risk Committee (P Warne until 31 December 2018, R Whitfield effective 1 January 2019).
9 Chair of People and Remuneration Committee (R Whitfield until 31 December 2018, J Boddington effective 1 January 2019).
10 Chair of Board Investment Committee (S Doyle until 28 October 2018, P Chronican (Interim BIC Chair) until 28 Feb 2019, G Cooper effective 1 March 2019).
11 Observer at Audit and Risk Committee, People and Remuneration Committee and Board Investment Committee meetings.
12 Independent members, Bernard Reilly and David Rickards, attend Board Investment Committee meetings.

Risk management and compliance

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

Our Risk Management Framework is set by the board and is defined within the Risk Management Strategy and Risk Appetite Statement. The Risk Management Framework is underpinned by a suite of board and management policies, supported by a well-defined governance structure and control environment.

In respect of our broader risk management programme, the Audit and Risk Committee provides regular oversight of the programme and reports to the board as to the appropriateness of the enterprise risk management process and effectiveness of the internal control framework. To assist with this process, the Audit and Risk Committee receives regular reports from internal audit, external audit and TCorp management.

At a management level, governance over the risk management programme is provided by the Enterprise Risk and Compliance Committee (ERiCC), responsible for ensuring that board policies are adequately embedded in business practices and that appropriate levels of control, procedures, monitoring and training have been embedded within the broader enterprise. Our risk management objectives are further supported by a range of management committees and forums whose broader purpose is to oversee specific issues such as market, credit and operational risk exposures and activities.

The Risk and Compliance department is a centralised function responsible for monitoring of board policies, management procedures and any other risk matters identified as potentially requiring attention. The department reports daily to management, monthly to ERiCC, and quarterly to the board and Audit and Risk Committee.

In conjunction with the Risk and Compliance department, the individual business units identify risks specific to their areas and develop controls to reduce the identified risks to acceptable levels. This decentralised approach ensures comprehensive identification of risks and entrenches management of them in the most appropriate areas. An example is Risk and Compliance and Investment Operations jointly undertaking the day-to-day monitoring of client mandates.

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

Legal and regulatory compliance

We are regulated by several pieces of NSW legislation, including our own Act, the *Treasury Corporation Act 1983* (NSW), as well as the *Public Finance and Audit Act 1983* (NSW), the *Annual Reports (Statutory Bodies) Act 1984* (NSW) and the *Government Sector Finance Act 2018* (NSW) (GSF Act). We are ultimately accountable to the NSW Parliament, through the NSW Treasurer.

Although we are not directly regulated by either the Australian Prudential Regulatory Authority (APRA) or the Australian Securities and Investments Commission (ASIC), we actively utilise their guidance notes as the basis for our risk management policies, both at the board and management levels. We also voluntarily adopt relevant industry practices which help us to align with market best practice. We continue to monitor changes in the regulatory environment to determine if any changes to our business practices are required.

Our activities are subject to review and monitoring by a number of external parties.

- The NSW Treasurer, the NSW Government shareholder representative.
- 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 *Public Finance and Audit Act 1983* (NSW).

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

Use of capital

While we do not hold subscribed share capital in the conventional commercial sense, we do retain capital appropriate to the market, credit and operational risks relevant to our business. This retained capital is determined with reference to APRA's standardised approach and in consultation with our owner, the NSW Government.

Within these capital constraints, which are specific to TCorp, we manage the market, credit and operational risks to which we are exposed to ensure that the level of capital is sufficient to cover the financial and operational risks incurred in our daily business.

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.

Market risk

We use a value-at-risk model based on historical simulation to assess capital requirements arising from market risk. The model captures the potential for loss of earnings or changes in the value of our assets and liabilities arising from movements in interest rates and key credit spreads and from fluctuations in the prices of bonds or other financial instruments. Market risk exposures are monitored daily against board-approved limits and reported on a quarterly basis.

Credit risk

In conducting our business, we invest in high-grade financial assets issued by parties external to the NSW public sector. The returns achieved on these financial assets must be sufficient to protect against a loss in value caused by a decline in the counterparty's creditworthiness or ultimate default.

Credit exposures are monitored daily against board-approved limits and reported on a quarterly basis.

Operational risk

Operational risk can arise from a wide variety of events such as settlement errors, system failures, breakdowns in procedures and external factors. We review possible risks of this nature, assessing the mitigating factors and controls to determine residual risks. We use enterprise risk management software to aid the identification and measurement of risk and implementation of associated internal controls.

High ongoing residual risks are managed by a combination of improving procedures and process flows, ensuring appropriate segregation of duties, insurance cover and business continuity plans.

Operational risk issues are reported to the board on a quarterly basis and material issues are escalated to the next scheduled Audit and Risk Committee.

Auditor independence

We are 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 and all internal audit review reports are reported directly and independently to the Audit and Risk Committee.

Insurance

During financial year 2019, 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, professional indemnity and directors' and officers' liability).
- Miscellaneous (e.g. personal accident).

Code of Conduct and Ethics

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

All staff sign the Code of Conduct and Ethics upon commencement to acknowledge they have understood it and at the time of writing agree to act according to its requirements. Staff subsequently reattest this understanding annually.

Internal audit and risk management attestation for financial year 2019 for the New South Wales Treasury Corporation

The directors are of the opinion that the New South Wales Treasury Corporation has internal audit and risk management processes in operation that are compliant with the eight core requirements set out in the Internal Audit and Risk Management Policy for the NSW Public Sector, specifically:

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

Member	Status on ARC	Appointment to ARC	Retired
Mr Robert Whitfield	Independent Chair	January 2019	N/A
Mr Peter Warne	Independent Chair	March 2018	December 2018
Mr Peter Warne	Independent Member	March 2012 January 2019	February 2018 N/A
Ms Anne Brennan	Independent Member	January 2019	N/A
Dr Kerry Schott	Independent Member	December 2015	December 2018
Ms Jenny Boddington	Independent Member	August 2017	December 2018

David Deverall
Chief Executive

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

22 August 2019

Contact Officer
Kevin Masling
Chief Risk Officer

Human resources

We focus on building the right culture to deliver our strategy and to make a financial difference for NSW.

We aim for high levels of engagement across our workforce and develop our people and leaders' capability through investment in leadership and increasing diversity and inclusion.

We aim to attract and retain people who are driven by our sense of purpose, and have the skills, capability and client focus to deliver strong performance for our clients and the NSW Government family.

Management and structure

There were two key changes to our Executive Committee during the reporting year. Following a restructure of the Technology division in early 2018 and an extensive executive search process, we appointed a new General Manager, Technology, in September 2018.

In May 2019, we recruited a new General Manager, Financial Markets, through a similar executive search process following the resignation of the incumbent.

Senior executives

D Deverall
Chief Executive
BEHons, MBA

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

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

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

K Masling
Chief Risk Officer
B.Ec, M AppFin, MBA

K McDonald
General Manager, People & Workplace
BA. LLB, MSc

S Ling
General Manager, Financial Markets
BA (Hons)

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

Key HR priorities in financial year 2019

Culture review

In late 2018, we started a review to redefine and evolve our culture in order to enable the organisational strategy. The project attracted high levels of engagement from across the business with input from directors, executives, leaders and staff who participated in the research and design phases of the project. In June 2019, the board endorsed our cultural blueprint, which articulates our cultural intent and the underlying behaviours needed to make our cultural aspirations a reality. We will begin implementing the cultural change in the second half of 2019, focused on aligning employees and leaders around a common cultural vision, and prioritising behavioural and operating model shifts required to deliver our cultural intent.

Cultural intent

We work in **partnership** within TCorp and across the Government family to achieve significant financial **impact** over the **long-term** to create a stronger NSW.

Our cultural pillars

- **Partnership.** We are stronger together.
- **Impact.** We make a difference to the financial health of NSW.
- **Long-term.** We stay the course.

Performance management framework

In financial year 2019, we implemented a new performance management framework and operating rhythm. The framework is directly aligned to the organisational and divisional strategies and includes organisation-wide goals for all staff, as well as role-based goals for individuals. As part of this change, we required all staff to include and meet people, risk and culture goals. We also moved to ongoing performance conversations throughout the year. This supports the outcomes-focused approach to managing performance needed for effective flexible working practices.

Flexible working

We embed flexible working practices through a combination of:

- adopting an outcomes-focused approach to performance management
- communication to reinforce desired behaviours
- role modelling of behaviours aligned to our 'house rules'
- ongoing training on the technologies we have in place.

Talent and development

Our talent and development programmes are highlighted under the heading *Building our people and organisation* on page 25.

Our cultural behaviours

The following behaviours underpin our cultural pillars

Our cultural pillars		
Partnership We are stronger together	**Impact** We make a difference to the financial health of NSW	**Long-term** We stay the course
Be curious Think beyond your own team. Be open to the ideas of others. Walk in our clients' shoes.	**Care like an owner** If you see a problem, offer solutions. If you can't – find someone who can. Take ownership.	**Act with integrity** Say what you mean and do what you say. It matters.
Don't wait for perfection Consult widely, co-develop, iterate early.	**Step up** Don't wait to be told, take the initiative. Be accountable. Get it done.	**Be an advisor** Always think of long-term outcomes for TCorp and our clients.
Be humble Ask for help and offer it. Learn from ourselves, clients and stakeholders. We don't need to have all the answers.	**Use judgement** Take measured risks. Balance risk and reward – our actions matter.	**Deliver on our commitments** Ignore short-term noise. We are in this with our clients for the long-term.

Numbers and remuneration of senior executives

	FY2019	FY2018
Number of executive officers	8	7
Number of female executive officers	2	2

Band	FY2019		FY2018	
	Female	Male	Female	Male
Bands 3 & 4[1]	2	6	2	5
Band 2	0	0	0	0
Band 1	0	0	0	0

Band	Range $	Average remuneration	Average remuneration
		2018/2019	2017/2018
Bands 3 & 4[1]	$337,101 to $475,150+	$591,325[2]	$658,857
Band 2	$268,001 to $337,100	N/A	N/A
Band 1	$187,900 to $268,000	N/A	N/A

1 Bands 3 and 4 have been consolidated for disclosure purposes as individual confidential salary arrangements would be identifiable.
2 The 2018/19 average remuneration calculation was impacted by employee movements and variable entitlements in the senior executive team.

- 12.4 per cent of TCorp's staff-related expenditure in financial year 2019 was related to senior executives, who represented 4.6 per cent of full-time equivalent employees as at year end.
- 12.9 per cent of TCorp's staff-related expenditure in financial year 2018 was related to senior executives, who represented 4.3 per cent of full-time equivalent employees as at year end.

Number of employees[1]

	FY2019	FY2018	FY2017	FY2016
Chief executive	1	1	1	1
General managers	7	6	7	8
Professional employees	136.0	131.70	132.6	113.7
Support employees	31.0	21.30	26.0	23.3
Total	**175.0**	**160.00**	**166.6**	**146.0**

1 Headcount excludes casual and maximum term employees.

Exceptional movements in salaries

There were three exceptional salary increases of greater than 10 per cent in financial year 2019. These were required so that the relevant salaries complied with TCorp's remuneration policy and practice.

The overall movement in salaries was 1.91 per cent.

Industrial relations policies

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

Code of Conduct and Ethics

In 2019, the Code of Conduct and Ethics was substantially revised and modernised to align with our new cultural blueprint. It will be published in the first quarter of financial year 2020 in preparation for the annual staff acknowledgement and attestation of the code.

During the reporting year, there were performance rating consequences for four staff who did not meet mandatory compliance learning requirements.

Work Health and Safety (WHS)

Our WHS Policy and Procedures were reviewed in full during the reporting year. This was needed to account for our relocation in June 2018 and the transition to flexible working practices. The review also included an independent hazard inspection of the new premises. The review is aimed at ensuring our WHS and Recover at Work system, policies and procedures support a safe and healthy work environment for all staff and meet legislative obligations.

During the year there were no workers compensation injury claims.

All new staff have completed an online learning assignment on appropriate workplace behaviour as part of their onboarding programme. In 2019, all staff attended face-to-face training as part of our biennial programme. The board induction includes WHS, and board members are regularly updated on WHS matters through the People and Remuneration Committee. The biennial face-to-face legal update on WHS developments was provided to all board members in financial year 2019.

Staff members are invited to take advantage of our wellbeing benefits; 100 staff members took part in our annual flu vaccination programme, while 16 accessed the annual health check programme available to all permanent staff. Three staff returning to work from parental leave completed TCorp's Return to Work Coaching Programme.

A confidential counselling service is available to staff and their families as part of the Employee Assistance Program (EAP). It provides support to those dealing with work, personal or financial issues. Dedicated EAP resources are available to leaders to help them support people dealing with psychological or mental health issues. In addition to the more traditional areas of WHS legislation, compliance and injury management, preventative health and wellbeing is an increasingly important area of focus. During the year we delivered learning programmes focused on multiple dimensions of wellbeing and building resilience.

Correct ergonomic set up of workspaces, both in the office and when working elsewhere remains a focus. As part of their onboarding programme, all new starters receive training on correct desk and chair operation and set up. If staff need expert help, we hire a specialist to conduct an on-site ergonomic assessment.

As a requirement of their role, facilities and front-of-house staff completed safe manual handling and security awareness training.

Disability Inclusion Action Plan

We have a Disability Inclusion Action Plan. Due to our relatively small workforce, the focus of ongoing disability planning is directed internally rather than for the broader general 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 offices comply with Australian Building Codes and Standards.

We ask new staff to let us know of any particular requirements so we can make relevant modifications or adjustments. Where staff need help to evacuate the building, we work with them to develop and implement a Personal Emergency Evacuation Plan.

Multicultural Policies and Services programme

As we do not offer services to the general 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, values and through initiatives that promote inclusion and diversity in the workplace. We are implementing our Diversity and Inclusion Strategy, approved in November 2018, in line with the associated programme of work.

We held our annual 'A Taste of Harmony' event in celebration of Harmony Day in 2019. This event celebrates the diverse multicultural background of our workforce by inviting staff to share a plate of food from their cultural background or a country they have recently visited.

We celebrated International Women's Day through communications. Staff also donated appropriate items of clothing to the Sydney chapter of the Dress for Success organisation, supporting disadvantaged women returning to the workforce.

Workforce diversity

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

% of Total Staff[2]

	Benchmark or target (%)	FY2017	FY2018	**FY2019**
Women	50	40.2	40.6	41.7
Aboriginal people and Torres Strait Islanders	3.3[3]	0.0	0.0	0.0
People whose first language is not English	23.2	28.0	30.2	27.1
People with a disability	5.6[4]	0.5	0.5	1.0
People with a disability requiring work-related adjustment	N/A	0.0	0.0	0.0

Table 5: Trends in the distribution of diversity groups

Distribution Index[5]

	Benchmark or target (%)	FY2017	FY2018	**FY2019**
Women	100	91	93	94
Aboriginal people and Torres Strait Islanders	100	N/A	N/A	N/A
People whose first language is not English	100	92	92	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 Staff numbers are as at 30 June 2019.

2 Excludes casual staff.

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

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 per cent to 5.6 per cent by 2027.

5 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 staff. 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 staff.

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* (NSW), relating to reporting on the performance of the liability portfolio, benchmark portfolio and investments.

One of our core businesses is the raising of debt in the private sector capital markets and the on-lending to the NSW Government sector. The profile of the borrowings from the private sector is substantially determined by the amounts and maturities required by the government and public authorities. As such, unlike other authorities that fall under the regulation, 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 such regulation. Any savings we make in connection with our debt are, however, reflected in the statutory accounts 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. As such, 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 seen as directly related to our core business, rather than an ancillary activity of an authority.

Production of the annual report

The majority of the production of this report was undertaken internally and less than $11,500 in costs were incurred.

Consumer response

TCorp takes a proactive approach to working with its clients and seeks feedback regarding the quality of service and overall engagement with them. Our independent annual client survey was conducted by telephone and in person in April 2019. This involved contacting 35 clients across 27 entities. The results of the survey revealed that:

- TCorp is perceived as technically competent, dependable and client-focused
- clients value our proactive and responsive client service.

There were no thematic weaknesses identified by the survey.

TCorp has more than 160 clients from the NSW Government sector and takes feedback very seriously. TCorp has documented procedures for dealing with complaints such that all complaints are dealt with promptly and fairly, and in a manner which safeguards TCorp's reputation. A complaint is defined as an 'expression' of dissatisfaction with the service or products provided by TCorp. During the year there were two expressions of dissatisfaction from clients which were dealt with promptly and to their satisfaction.

Public Interest Disclosures Act 1994

The *Public Interest Disclosures Act 1994* (NSW) (PID Act) provides a system 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 that disclosures of this type are made and acted upon.

Our PID policy sets out TCorp's 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 PID Act policy.

Privacy management

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

Legal change

On 1 December 2018, the *Public Authorities (Financial Arrangements) Act 1987* (PAFA) was repealed along with the *Annual Reports (Statutory Bodies) Act 1984*, the *Annual Reports (Departments) Act 1985* and regulations made under any of these acts.

1 December 2018 also marked the commencement of certain parts of the *Government Sector Finance Act 2018* (GSFA) which together with the *Government Sector Finance Legislation (Repeal and Amendment) Act 2018* (Cognate Act) replaced the previous financial arrangements and annual reporting regimes, affecting certain areas of TCorp's business and introducing consequential changes to the *Treasury Corporation Act 1984 (NSW)*.

The GSFA will be introduced by way of staged implementation, with certain parts of the GSFA taking effect from 1 July 2019 and new reporting arrangements commencing progressively to 2021.


05

SECTION 5

Financial Statements

Financial statements

TCorp

The audited financial statements for TCorp for the year ended 30 June 2019 commence on the next page and finish on page 115.

All financial information quoted before this section and after page 115 is unaudited.

Statement of Comprehensive Income

For the year ended 30 June 2019

	Note	2019 $'000	2018 $'000
Net gains on financial instruments at fair value through profit and loss	3	137,373	102,297
Fee income	4	80,487	76,189
Total net income		**217,860**	**178,486**
Operating costs	5	(77,365)	(75,723)
Transaction costs	5	(16,482)	(13,952)
Total operating and transaction costs		**(93,847)**	**(89,675)**
Profit before income tax equivalent expense		**124,013**	**88,811**
Income tax equivalent expense	1(c)	(37,176)	(26,636)
Profit for the year		**86,837**	**62,175**
Other comprehensive loss			
Items that will not be reclassified to profit or loss: Actuarial losses on defined benefit plans		(93)	(24)
Total comprehensive income for the year		**86,744**	**62,151**

The accompanying notes form part of these financial statements.

Balance Sheet

As at 30 June 2019

	Note	2019 $'000	2018 $'000
Assets			
Cash and liquid assets[1]	6	2,182,026	1,766,780
Due from financial institutions[1]	7	4,303,826	5,982,670
Securities held	8	5,196,538	4,599,959
Derivatives receivable	13	978,764	502,811
Loans to government clients	9	61,798,872	52,912,735
Other assets	21	55,754	49,821
Plant and equipment	22	5,995	7,274
Total assets		**74,521,775**	**65,822,050**
Liabilities			
Due to financial institutions	10	6,436,864	4,474,986
Outstanding settlements payable		-	22
Due to government clients	11	860,119	2,695,665
Borrowings	12	65,885,112	57,882,426
Derivatives payable	13	930,445	439,661
Income tax equivalent payable		6,984	8,558
Other liabilities and provisions	23	139,592	27,317
Total liabilities		**74,259,116**	**65,528,635**
Net assets		**262,659**	**293,415**
Represented by:			
Equity			
Retained earnings	17	262,659	293,415
Total equity		**262,659**	**293,415**

[1] *Comparatives have been restated to better reflect the nature of assets held in these classes. Further details on the change are provided in Note 1 (a).*

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 2017	17	**231,264**	**231,264**
Profit for the year		62,175	62,175
Other comprehensive loss		(24)	(24)
Total comprehensive income for the year		**62,151**	**62,151**
Transactions with owners in their capacity as owners: Dividend payable	23	-	-
Total equity at 30 June 2018	17	**293,415**	**293,415**
Profit for the year		86,837	86,837
Other comprehensive loss		(93)	(93)
Total comprehensive income for the year		**86,744**	**86,744**
Transactions with owners in their capacity as owners: Dividend payable	23	(117,500)	(117,500)
Total equity at 30 June 2019	17	**262,659**	**262,659**

The accompanying notes form part of these financial statements.

Statement of Cash Flows

	Note	2019 $'000	2018 $'000
Cash inflows/(outflows) from operating activities			
Interest and other costs of finance received		2,207,415	2,239,106
Interest and other costs of finance paid		(2,144,600)	(2,180,171)
Fee income received		96,747	78,873
Payments of tax equivalents		(38,750)	(27,603)
Payments of Goods and Services Tax		(5,178)	(3,581)
Payments of operating and transaction costs		(97,174)	(90,022)
Loans to government clients made		(7,194,632)	(4,268,301)
Loans to government clients repaid		1,600,221	2,130,112
Net cash inflows/(outflows) from other financial instruments		342,677	(340,616)
Net cash used in operating activities	30	**(5,233,274)**	**(2,462,203)**
Cash inflows/(outflows) from investing activities			
Purchases of plant and equipment and intangible assets		(5,915)	(9,196)
Net cash from market securities held		1,266,216	47,182
Net cash provided by investing activities		**1,260,301**	**37,986**
Cash inflows/(outflows) from financing activities			
Proceeds from issuance of borrowings and short term securities		61,502,241	69,031,325
Repayment of borrowings and short term securities		(57,392,712)	(67,377,237)
Dividends paid		-	(80,000)
Net cash provided by financing activities		**4,109,529**	**1,574,088**
Net increase/(decrease) in cash held		**136,556**	**(850,129)**
Cash and cash equivalents at the beginning of the year		1,765,780	2,615,909
Cash and cash equivalents at the end of the year	29	**1,902,336**	**1,765,780**

The accompanying notes form part of these financial statements.

Notes to the 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. Where required the financial statements present restated comparative information for consistency with the current year's presentation.

This financial statements were authorised for issue in accordance with a resolution of the directors of New South Wales Treasury Corporation on 22 August 2019.

(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 *Public Finance and Audit Act* 1983, the Public Finance and Audit Regulation 2015 and the New South Wales Treasurer's Directions. They have also been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB).

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (IFRS) and Australian Accounting Interpretations. 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.

During the year, securities purchased under agreements to resell were reclassified from Due from Financial Institutions to Cash and Liquid Assets on the balance sheet. This is to better reflect the nature of these liquid holdings. A reclassification of $1,002.0 million has also been made to prior period comparative information.

(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 2019 (2018: 30%).

(d) 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.

(e) Standards and interpretations adopted during the year

The Corporation has applied the following standards and amendments for the first time for the annual reporting period commencing 1 July 2018:

AASB 9 *Financial Instruments* (and applicable amendments)

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

The adoption of the standard did not impact the Corporation as it requires it to continue to measure financial assets and financial liabilities at fair value through profit and loss.

AASB 15 *Revenue from Contracts with Customers* (and applicable amendments)

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

The Corporation's main source of income is interest and from movements in the fair value of financial instruments which is outside the scope of the new revenue standard. Further, the adoption of the new recognition rules did not have an impact on the amounts recognised in the financial statements in relation to the Corporation's fee income.

(f) Relevant standards and interpretations issued but not yet effective

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

Standard/ Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 16 Leases	1 January 2019	30 June 2020

The Corporation has not early adopted any new accounting standards, amendments and interpretations in compliance with NSW Treasury Circular 19/04 "Mandates of options and major policy decisions under Australian Accounting Standards".

AASB 16 *Leases*, (effective from 1 January 2019)

The new standard for leases will result in almost all leases being recognised on the balance sheet, the only exceptions being short-term and low-value leases. The standard will require lessees of leases within the scope of AASB 16 to recognise a 'right-of-use asset' and related lease liability, being the present value of future lease payments.

The application of the standard will result in the Corporation's operating lease in respect of its business premises (refer Note 25) being recognised on the balance sheet for the first time. This will result in an immaterial increase in the recognised assets and liabilities on the balance sheet as well as an immaterial change in expense recognition, with interest and depreciation replacing operating lease expense.

(g) 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 division is responsible for lending to government clients and the associated funding through debt issuance and balance sheet risk management activities. This division 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 division provides funds management activities including direct management of cash & fixed income and infrastructure portfolios, 'Manager-of-managers' services through the TCorpIM Funds and other tailored investment management services.

   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. There were no intersegment sales during the year.

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 the new standard, 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.

Financial assets designated at fair value through profit and loss	**2019 $'000**	**2018 $'000**
Interest income – government clients	1,940,288	1,922,815
Interest income – financial institutions	260,855	279,112
Increase/(decrease) in fair value of financial assets	3,301,210	(294,902)
	5,502,353	**1,907,025**
Financial liabilities designated at fair value through profit and loss		
Interest expense – government clients	(44,759)	(2,250)
Interest expense – financial institutions	(2,156,325)	(2,172,185)
(Increase)/decrease in fair value of financial liabilities	(3,132,213)	410,241
	(5,333,297)	**(1,764,194)**
Net gains on foreign exchange	746	1,097
Net losses on derivatives	(32,429)	(41,631)
Net Gains from Financial Instruments at Fair Value Through Profit and Loss	**137,373**	**102,297**

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

4. 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.

	2019 $'000	2018 $'000
Investment Management Fees		
Asset client mandate fees[1]	49,970	47,091
TCorpIM Funds management fees[1]	28,085	24,459
Other fees from NSW Government entities[1]	298	287
Other fees from financial institutions	1,035	2,356
	79,388	**74,193**
Financial Markets		
Debt portfolio management fees[1]	740	1,510
Other fees from NSW Government entities	335	486
Other fees from financial institutions	24	-
	1,099	**1,996**
	80,487	**76,189**

[1] *Relates to fees earned on funds and portfolios under management as disclosed in Note 26.*

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.

Rent on operating leases is recognised as an expense and incurred over the lease term. Lease incentives received are recognised as an integral part of the total rent on operating leases and spread over the lease term.

Operating Costs

	2019 $'000	2018 $'000
Salaries, wages and entitlements	49,983	47,589
Information technology	8,446	10,439
Market information services	5,300	4,642
Depreciation and amortisation	2,077	1,340
Rent on operating leases	1,989	2,299
Other operating costs	9,570	9,414
	77,365	**75,723**
The operating costs above include the following specific items:		
Consultants' fees	**2,163**	**1,672**
	2,163	**1,672**
Auditor's remuneration to the Audit Office of NSW		
For audit of the financial report of the Corporation	338	320
Other services	85	84
	423	**404**
Superannuation expense		
- Defined contribution plans	2,507	2,542
- Defined benefit plans	21	40
	2,528	**2,582**
Transaction Costs		
Bond issuance fees	4,800	2,475
Other transaction costs	11,682	11,477
	16,482	**13,952**

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

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 purchased under agreements to resell, where the Corporation does not acquire the risks and rewards of ownership, are retained within Cash and Liquid Assets (Note 6). The securities provided as collateral are not included in the balance sheet as the Corporation is not substantially exposed to the risks and rewards of the securities.

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

	2019 $'000	2018 $'000
Cash and short term placements (unsecured)	1,081,651	764,804
Securities purchased under agreements to resell	1,100,375	1,001,976
	2,182,026	**1,766,780**

Cash and liquid assets include assets that are readily convertible to cash.

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

Securities purchased under agreement to resell are collateralised by highly liquid debt securities (Note 19) and have a maturity of less than 30 days.

7. Due from Financial Institutions

	Note	2019 $'000	2018 $'000
Short term bank deposits		4,064,084	5,890,164
Cash collateral	19	239,742	92,506
		4,303,826	**5,982,670**

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

8. Securities Held

	2019 $'000	2018 $'000
Floating rate notes	1,101,590	349,571
Certificates of deposit	1,469,791	1,663,287
Semi-government bonds[1]	1,909,770	1,326,165
Supranational bonds	624,318	1,169,367
Other Commonwealth and NSW Government related securities	91,069	91,569
	5,196,538	**4,599,959**

[1] *Includes securities sold under agreements to repurchase of $599.4 million (2018: Nil).*

Securities held are used mainly to cover liquidity requirements. Of the above amounts, $2,442.1 million (2018: $2,569.8 million) is scheduled to mature more than twelve months from the balance date.

9. Loans to Government Clients

	2019 $'000	2018 $'000
New South Wales public sector clients:		
- Crown entity	36,628,446	30,582,806
- Water sector	12,861,815	10,820,790
- Electricity sector	6,185,418	5,764,671
- Transport sector	2,666,438	3,114,328
- Other sectors	2,811,943	2,262,302
- Local Government	644,812	367,838
	61,798,872	**52,912,735**

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 $7,457.4 million (2018: $7,348.0 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 $1,984.8 million (2018: $1,949.1 million).

Loans to New South Wales public sector clients are guaranteed by the New South Wales Government. Of the above amounts, $58,421.5 million (2018: $50,832.8 million) is scheduled to mature more than twelve months from the balance date.

10. Due to Financial Institutions

		2019		2018	
	Note	Face Value $'000	Fair Value $'000	Face Value $'000	Fair Value $'000
Promissory notes		5,420,074	5,407,231	4,348,278	4,338,382
Cash collateral	19	163,990	163,984	135,610	135,604
Short term borrowings		279,900	279,690	1,000	1,000
Securities sold under agreements to purchase		585,088	585,959	-	-
		6,448,852	**6,436,864**	**4,484,888**	**4,474,986**

Promissory notes are short term securities issued by the Corporation, usually for terms ranging up to six 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 90 days.

11. Due to Government Clients

	2019		2018	
	Face Value $'000	Fair Value $'000	Face Value $'000	Fair Value $'000
Client deposits:				
- Crown entity	406,524	409,687	2,306,825	2,307,283
- Other	449,997	450,432	388,060	388,382
	856,521	**860,119**	**2,694,885**	**2,695,665**

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

12. Borrowings

	2019		2018	
	Face Value $'000	Fair Value $'000	Face Value $'000	Fair Value $'000
Benchmark bonds				
- domestic	46,692,401	52,671,980	42,168,260	45,391,719
- global exchangeable	-	-	63,960	66,907
Total benchmark bonds	**46,692,401**	**52,671,980**	**42,232,220**	**45,458,626**
Euro Medium Term Notes	817,609	1,074,385	789,744	969,039
Capital indexed bonds	6,065,409	7,161,477	6,254,921	7,176,221
Floating rate notes	2,430,000	2,432,552	3,435,500	3,441,141
Other borrowings	2,365,408	2,544,718	875,111	837,399
	58,370,826	**65,885,112**	**53,587,496**	**57,882,426**

Domestic benchmark bonds and global exchangeable bonds pay semi-annual coupons with the face value repayable on maturity. Global exchangeable bonds are convertible to domestic benchmark bonds at the option of the holder. The last issuance under the Global exchangeable bonds programme matured in April 2019.

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, $1,065.4 million (2018: $969.0 million) Euro Medium Term Notes 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. All 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. All floating rate notes are scheduled to mature more than twelve months from the balance date (2018: $2,631.0 million, fair value)

Other borrowings include Waratah bonds, bonds issued under the Sustainability Bond Programme and other non-benchmark domestic bonds. The fair value of Waratah bonds and sustainability bonds at the balance date totalled $468.9 million (2018: $773.6 million) and $1,997.6 million (2018: Nil) respectively. In fair value terms, $2,418.2 million (2018: $421.7 million) of other borrowings are scheduled to mature more than twelve months from the balance date.

12. Borrowings (continued)

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.

The benchmark bonds on issue, by maturity were:

		2019		2018	
Maturity	**Coupon % p.a.**	**Face Value $'000**	**Fair Value $'000**	**Face Value $'000**	**Fair Value $'000**
20 March 2019	3.50	-	-	2,510,226	2,563,300
1 April 2019[1]	6.00	-	-	516,595	540,523
1 May 2020	6.00	2,814,370	2,958,786	4,598,924	4,969,518
1 June 2020[1]	6.00	77,424	81,484	82,894	89,696
8 April 2021	4.00	3,196,446	3,387,792	3,722,946	3,939,646
1 March 2022	6.00	5,158,450	5,922,693	5,488,450	6,312,662
20 April 2023	4.00	4,540,254	5,048,454	4,427,094	4,773,255
1 May 2023[1]	6.00	582,617	695,702	605,317	712,647
20 August 2024	5.00	5,943,990	7,142,280	5,636,690	6,507,926
20 May 2026	4.00	2,968,528	3,471,955	2,498,528	2,723,526
20 May 2027	3.00	4,599,450	5,090,535	3,134,450	3,166,738
20 March 2028	3.00	5,609,820	6,247,286	5,061,020	5,107,412
20 April 2029	3.00	4,937,100	5,490,406	1,685,000	1,683,276
20 February 2030	3.00	5,372,298	5,996,903	1,711,333	1,703,712
1 May 2030	6.00	344,004	486,414	366,753	474,810
20 March 2034	3.50	325,950	385,829	-	-
20 November 2037	3.50	221,700	265,461	186,000	189,979
		46,692,401	**52,671,980**	**42,232,220**	**45,458,626**

[1] *Commonwealth Government guaranteed borrowings at 30 June 2019 total $777.2 million, fair value (2018: $1,342.9 million, fair value). Refer to Other disclosures concerning financial liabilities (Note 14).*

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:

	2019 $'000	2018 $'000
Derivatives receivable		
Cross currency swaps	80,659	60,896
Interest rate swaps	871,388	392,069
Forward foreign exchange contracts	26,175	48,529
Forward dated loans	-	1,317
Commodity swaps	542	-
	978,764	**502,811**
Derivatives payable		
Cross currency swaps	(27,949)	(17,246)
Interest rate swaps	(870,171)	(417,303)
Forward foreign exchange contracts	(27,595)	(1,559)
Exchange traded futures	(4,188)	(3,553)
Commodity swaps	(542)	-
	(930,445)	**(439,661)**
Net amount receivable under derivatives	**48,319**	**63,150**

The majority of derivative financial instruments (with the exception of exchange traded futures, commodity swaps and prior year forward foreign exchange contracts) 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 benchmark 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 benchmark bonds issued by the Corporation in existence as at the Final Issuance Date remain guaranteed by the Commonwealth, in accordance with the terms of the Scheme.

Financing Arrangements

The Corporation is able to access both domestic and offshore capital markets to ensure an adequate funding base. The Corporation has the highest level of credit ratings available to any Australian borrower, which derives from the guarantee of 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:

	2019 $bn	**2018 $bn**
Global exchangeable bonds[1]	AUD 18	AUD 18
Multi-currency Euro medium term note	USD 10	USD 10
Multi-currency Euro commercial paper	USD 10	USD 10

	2019 ¥bn	**2018 ¥bn**
Japanese shelf registration	JPY 300	JPY 300

[1] *The last issuance under the Global exchangeable bonds programme matured in April 2019.*

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).

TCorp'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.

2019	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**TOTAL $'000**
Financial assets				
Securities purchased under agreement to resell	-	1,100,375	-	1,100,375
Due from financial institutions	239,742	4,064,084	-	4,303,826
Securities held	3,700,083	1,496,455	-	5,196,538
Derivatives receivable	-	978,764	-	978,764
Loans to government clients	10,311	61,788,561	-	61,798,872
Futures margins deposits	23,512	-	-	23,512
Financial assets	**3,973,648**	**69,428,239**	**-**	**73,401,887**
Financial liabilities				
Due to financial institutions	(443,676)	(5,993,188)	-	(6,436,864)
Due to government clients	(171,826)	(688,293)	-	(860,119)
Borrowings	(61,779,593)	(3,378,480)	(727,039)	(65,885,112)
Derivatives payable	(4,188)	(926,257)	-	(930,445)
Financial liabilities	**(62,399,283)**	**(10,986,218)**	**(727,039)**	**(74,112,540)**

15. Fair Value Measurement (continued)

2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	TOTAL $'000
Financial assets				
Securities purchased under agreement to resell	-	1,001,976	-	1,001,976
Due from financial institutions	92,506	5,890,164	-	5,982,670
Securities held	2,910,531	1,689,428	-	4,599,959
Derivatives receivable	-	502,811	-	502,811
Loans to government clients	-	52,912,735	-	52,912,735
Futures margins deposits	14,578	-	-	14,578
Financial assets	**3,017,615**	**61,997,114**	**-**	**65,014,729**
Financial liabilities				
Due to financial institutions	(136,605)	(4,338,381)	-	(4,474,986)
Outstanding settlements payable	(22)	-	-	(22)
Due to government clients	(175,672)	(2,519,993)	-	(2,695,665)
Borrowings	(55,534,271)	(1,711,836)	(636,319)	(57,882,426)
Derivatives payable	(3,553)	(436,108)	-	(439,661)
Financial liabilities	**(55,850,123)**	**(9,006,318)**	**(636,319)**	**(65,492,760)**

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

The table below summarises Level 3 financial instruments.

	Note	2019 $'000	2018 $'000
Euro Medium Term Notes	12	727,039	636,319
Closing balance		**727,039**	**636,319**

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

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

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 as at 30 June 2019.

	2019 $'000	2018 $'000
Opening balance	(636,319)	(620,887)
Unrealised gains/(losses)[1,2]	(103,986)	(28,108)
Coupons paid[1]	13,266	12,676
Closing balance	**(727,039)**	**(636,319)**

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

[2] *These 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 – Sensitivity Analysis

As at balance date, a 0.01% change in the market prices (interest rates) used to value the Level 3 Euro Medium Term Note securities would impact the fair value by approximately +/- $1.2 million (2018: +/- $1.0 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		
2019	**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)		981,493	(2,729)	978,764	(622,702)	(158,012)	198,050
Derivatives receivable - futures		251	(251)	-	-	-	-
Total derivatives receivable	13	**981,744**	**(2,980)**	**978,764**	**(622,702)**	**(158,012)**	**198,050**
Securities purchased under agreements to resell	6	1,100,375	-	1,100,375	-	(1,096,467)	3,908
Futures margins receivable[1]		2,459	-	2,459	-	(2,459)	-
Futures margins deposits	21	23,512	-	23,512	-	(1,729)	21,783
Financial assets		**2,108,090**	**(2,980)**	**2,105,110**	**(622,702)**	**(1,258,667)**	**223,741**
Financial liabilities							
Derivatives payable (excluding futures)		(928,986)	2,729	(926,257)	622,702	231,127	(72,428)
Derivatives payable - futures		(4,439)	251	(4,188)	-	4,188	-
Total derivatives payable	13	**(933,425)**	**2,980**	**(930,445)**	**622,702**	**235,315**	**(72,428)**
Securities sold under agreements to repurchase	10	(585,959)	-	(585,959)	-	585,959	-
Financial liabilities		**(1,519,384)**	**2,980**	**(1,516,404)**	**622,702**	**821,274**	**(72,428)**

[1] *Included in Note 21 Other debtors and receivables.*

16. Offsetting Financial Assets and Financial Liabilities (continued)

		Effects of offsetting on the Balance sheet			Related amounts not offset		
2018	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)		502,811	-	502,811	(307,013)	(127,435)	68,363
Total derivatives receivable	13	**502,811**	**-**	**502,811**	**(307,013)**	**(127,435)**	**68,363**
Securities purchased under agreements to resell	6	1,001,976	-	1,001,976	-	(1,001,976)	-
Futures margins receivable[1]		490	-	490	-	(490)	-
Futures margins deposits	21	14,578	-	14,578	-	(3,063)	11,515
Financial assets		**1,519,855**	**-**	**1,519,855**	**(307,013)**	**(1,132,964)**	**79,878**
Financial liabilities							
Derivatives payable (excluding futures)		(436,108)	-	(436,108)	307,013	90,456	(38,639)
Derivatives payable - futures		(3,553)	-	(3,553)	-	3,553	-
Total derivatives payable	13	**(439,661)**	**-**	**(439,661)**	**307,013**	**94,009**	**(38,639)**
Financial liabilities		**(439,661)**	**-**	**(439,661)**	**307,013**	**94,009**	**(38,639)**

[1] *Included in Note 21 Other debtors and receivables.*

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 and Reverse Repurchase Agreements

Repurchase agreements (securities sold under agreements to repurchase) and reverse repurchase agreements (securities purchased under agreements to resell) 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 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 treasury process are segregated between dealing, settlement, accounting and compliance. In addition, position limits, liquidity limits and counterparty credit limits have been established. These limits are monitored independently of the dealing and settlement functions, with utilisation of these limits summarised and reported to management on a daily basis.

The nature of the Corporation's 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 30/06/2019 % pa	Market Rates (Yield to Maturity) at 30/06/2018 % pa
Nominal			
Overnight	-	1.250	1.500
90 days	-	1.165	2.041
180 days	-	1.179	2.132
1 May 2020	6.000	1.084	2.071
1 June 2020[1]	6.000	1.004	1.969
8 April 2021	4.000	1.109	2.169
1 March 2022	6.000	1.117	2.282
20 April 2023	4.000	1.197	2.442
1 May 2023[1]	6.000	1.092	2.324
20 August 2024	5.000	1.300	2.583
20 May 2026	4.000	1.473	2.786
20 May 2027	3.000	1.601	2.912
20 March 2028	3.000	1.697	2.991
20 April 2029	3.000	1.814	3.076
20 February 2030	3.000	1.901	3.158
1 May 2030	6.000	1.866	3.107
20 December 2032	4.250	2.023	3.183
20 March 2034	3.500	2.119	-
20 November 2037	3.500	2.214	3.377
20 November 2040	5.000	2.241	3.413
26 April 2041	6.000	2.241	3.413
Capital Indexed			
20 November 2020	3.750	0.098	0.371
20 November 2025	2.750	0.199	0.829
20 November 2035	2.500	0.701	1.252

[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 2019, the maximum potential loss expected over a 10-day period is $7.4 million (2018: $6.0 million), with a 1% probability that this maximum may be exceeded. The average VaR over the year ended 30 June 2019 was $4.9 million (2018: $7.5 million).

Foreign Exchange Risk

The Corporation has policies and procedures in place to ensure that it has no material exposure to changes in foreign exchange rates. Foreign exchange risk arising from borrowings undertaken in foreign currencies through Promissory Notes (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 (refer to Note 14). These securities are separately identified in Note 12.

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.

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 $164.0 million of collateral received under these arrangements at balance date (2018: $135.6 million). Refer below for the net impact of collateral received on credit risk.

	Note	2019 $'000	2018 $'000
Derivative financial instruments		167,065	145,871
Carrying amount of collateral received	10	(163,984)	(135,604)
Net credit risk		**3,081**	**10,267**

The Corporation had paid $239.7 million of collateral under these arrangements at balance date (Amount paid in 2018: $92.5 million). Refer Note 7.

19. Credit Risk (continued)

Reverse Repurchase Agreements (securities purchased under agreements to resell)

At year end, the Corporation had purchased securities under agreements to resell of $1,100.4 million (2018: $1,002.0 million) (refer Note 6). These financial instruments are collateralised by highly liquid debt securities which are legally transferred and can be liquidated in the event of counterparty default. The securities provided are not included in the balance sheet as the Corporation is not substantially exposed to the risks and rewards of the securities. The terms and conditions of the reverse repurchase agreements are governed by standard industry agreements. In the event of default, the Corporation is immediately entitled to offset the collateral against the amounts owed by the defaulting counterparty. The effect of these offsetting arrangements is disclosed in Note 16.

Repurchase Agreements (securities sold under agreements to repurchase)

At year end, the Corporation had securities sold under agreements to repurchase of $599.4 million (2018: $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	2019 $'000	2018 $'000
Securities sold under agreements to repurchase	8	599,360	-
Carrying amount of collateral received	10	(585,959)	-
Net credit risk		**13,401**	**-**

19. Credit Risk (continued)

Concentration of credit risk

By credit rating – 2019[1]

	AAA $'000	AA+ $'000	AA $'000	AA- $'000	A+ $'000	A $'000	Other[2] Ratings $'000	Total $'000
Cash and liquid assets	-	-	-	1,981,313	200,713	-	-	2,182,026
Due from financial institutions	-	-	-	2,858,835	792,382	652,609	-	4,303,826
Securities held[6]	1,545,741	1,347,187	-	807,156	972,718	198,851	324,885	5,196,538
Derivative financial instruments	-	-	-	527,312	235,500	4,789	211,163	978,764
Futures margins deposits	-	-	-	-	-	-	23,512	23,512
	1,545,741	**1,347,187**	**-**	**6,174,616**	**2,201,313**	**856,249**	**559,560**	**12,684,666**
Additional potential exposure to derivatives	-	-	-	143,163	71,859	250	34,507	249,779
Additional potential exposure to financial instruments	-	-	-	-	3,946	1,149	115	5,210
	1,545,741	**1,347,187**	**-**	**6,317,779**	**2,277,118**	**857,648**	**594,182**	**12,939,655**

By credit rating – 2018[1]

	AAA $'000	AA+ $'000	AA $'000	AA- $'000	A+ $'000	A $'000	Other[2] Ratings $'000	Total $'000
Cash and liquid assets	13	-	-	1,766,598	169	-	-	1,766,780
Due from financial institutions	-	-	-	5,392,546	585,024	-	5,100	5,982,670
Securities held[6]	1,730,512	977,919	202,100	-	550,061	646,578	492,789	4,599,959
Derivative financial instruments	1,317	-	-	254,831	176,473	13,084	57,106	502,811
Futures margins deposits	-	-	-	-	-	-	14,578	14,578
	1,731,842	**977,919**	**202,100**	**7,413,975**	**1,311,727**	**659,662**	**569,573**	**12,866,798**
Additional potential exposure to derivatives	-	-	-	127,453	70,996	3,020	5,722	207,191
Additional potential exposure to financial instruments	-	205	3,661	-	1,080	3,422	2,211	10,579
	1,731,842	**978,124**	**205,761**	**7,541,428**	**1,383,803**	**666,104**	**577,506**	**13,084,568**

19. Credit Risk (continued)

By classification of counterparty – 2019

	Governments[3] $'000	Banks[4] $'000	Other[5] $'000	Total $'000
Cash and liquid assets	-	2,182,026	-	2,182,026
Due from financial institutions	-	4,303,826	-	4,303,826
Securities held[6]	2,268,609	2,276,947	650,982	5,196,538
Derivative financial instruments	197,948	780,816	-	978,764
Futures margins deposits	-	-	23,512	23,512
	2,466,557	**9,543,615**	**674,494**	**12,684,666**
Additional potential exposure to derivatives	33,519	216,260	-	249,779
Additional potential exposure to financial instruments	-	5,210	-	5,210
	2,500,076	**9,765,085**	**674,494**	**12,939,655**

By classification of counterparty – 2018

	Governments[3] $'000	Banks[4] $'000	Other[5] $'000	Total $'000
Cash and liquid assets	13	1,766,767	-	1,766,780
Due from financial institutions	-	5,982,670	-	5,982,670
Securities held[6]	1,741,164	1,663,287	1,195,508	4,599,959
Derivative financial instruments	49,927	452,884	-	502,811
Futures margins deposits	-	-	14,578	14,578
	1,791,104	**9,865,608**	**1,210,086**	**12,866,798**
Additional potential exposure to derivatives	4,234	202,957	-	207,191
Additional potential exposure to financial instruments	3,866	6,713	-	10,579
	1,799,204	**10,075,278**	**1,210,086**	**13,084,568**

[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 $64.4 million (2018: $65.4 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 client funding requirements, maturing commitments, and balance sheet management activities.

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

2019	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	2,182,473	-	-	-	-	-	2,182,473
Due from financial institutions	692,161	656,421	2,978,388	-	-	-	4,326,970
Securities held	437,316	414,520	1,980,700	835,735	920,797	759,684	5,348,752
Loans to government clients	313,251	945,133	3,936,286	5,512,219	17,752,755	39,477,591	67,937,235
Other assets	18,469	23	105	141	410	-	19,148
Futures margins deposits	23,512	-	-	-	-	-	23,512
Financial assets	**3,667,182**	**2,016,097**	**8,895,479**	**6,348,095**	**18,673,962**	**40,237,275**	**79,838,090**
Financial liabilities							
Due to financial institutions	(2,771,265)	(1,551,926)	(2,127,000)	-	-	-	(6,450,191)
Due to government clients	(613,026)	(204,471)	(43,608)	-	-	-	(861,105)
Borrowings	(26,657)	(558,363)	(4,600,456)	(7,516,174)	(15,235,218)	(44,554,389)	(72,491,257)
Creditors, expense accruals and other provisions	(4,974)	-	-	-	-	-	(4,974)
Financial liabilities	**(3,415,922)**	**(2,314,760)**	**(6,771,064)**	**(7,516,174)**	**(15,235,218)**	**(44,554,389)**	**(79,807,527)**
Net financial assets/(liabilities)	**251,260**	**(298,663)**	**2,124,415**	**(1,168,079)**	**3,438,744**	**(4,317,114)**	**30,563**
Derivatives							
Derivatives receivable	12,737	62,113	188,975	299,803	706,825	650,371	1,920,824
Derivatives payable	(22,080)	(50,588)	(187,567)	(228,208)	(579,620)	(806,782)	(1,874,845)
Net derivatives	**(9,343)**	**11,525**	**1,408**	**71,595**	**127,205**	**(156,411)**	**45,979**
Net	**241,917**	**(287,138)**	**2,125,823**	**(1,096,484)**	**3,565,949**	**(4,473,525)**	**76,542**
Cumulative	**241,917**	**(45,221)**	**2,080,603**	**984,118**	**4,550,067**	**76,542**	**-**

20. Liquidity Risk (continued)

2018	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	1,767,182	-	-	-	-	-	1,767,182
Due from financial institutions	546,796	2,070,972	3,412,255	-	-	-	6,030,023
Securities held	111,685	1,473,403	549,399	1,110,601	1,116,398	433,106	4,794,592
Loans to government clients	571,228	472,344	2,567,536	5,552,113	19,561,659	33,303,162	62,028,042
Other assets	26,411	-	-	-	-	-	26,411
Futures margins deposits	14,578	-	-	-	-	-	14,578
Financial assets	**3,037,880**	**4,016,719**	**6,529,190**	**6,662,714**	**20,678,057**	**33,736,268**	**74,660,828**
Financial liabilities							
Due to financial institutions	(2,139,865)	(2,080,022)	(265,000)	-	-	-	(4,484,887)
Outstanding settlements payable	(22)	-	-	-	-	-	(22)
Due to government clients	(227,887)	(1,071,389)	(1,424,024)	-	-	-	(2,723,300)
Borrowings	(44,416)	(1,413,930)	(4,867,500)	(6,753,890)	(21,594,956)	(32,272,772)	(66,947,464)
Creditors, expense accruals and other provisions	(8,537)	-	-	-	-	-	(8,537)
Financial liabilities	**(2,420,727)**	**(4,565,341)**	**(6,556,524)**	**(6,753,890)**	**(21,594,956)**	**(32,272,772)**	**(74,164,210)**
Net financial assets/(liabilities)	**617,153**	**(548,622)**	**(27,334)**	**(91,176)**	**(916,899)**	**1,463,496**	**496,618**
Derivatives							
Derivatives receivable	38,980	84,229	203,735	271,279	643,549	482,146	1,723,918
Derivatives payable	(24,463)	(57,605)	(205,521)	(251,763)	(554,865)	(757,384)	(1,851,601)
Net derivatives	**14,517**	**26,624**	**(1,786)**	**19,516**	**88,684**	**(275,238)**	**(127,683)**
Net	**631,670**	**(521,998)**	**(29,120)**	**(71,660)**	**(828,215)**	**1,188,258**	**368,935**
Cumulative	**631,670**	**109,672**	**80,552**	**8,892**	**(819,323)**	**368,935**	**-**

Contractual commitments are disclosed in Note 25. Undertakings on behalf of certain New South Wales public sector clients and undrawn loan commitments are disclosed in Note 27.

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 is classified as an intangible asset and amortised on a straight line basis over the estimated useful life of the asset. Estimated useful lives are generally up to five years from the date the computer software is commissioned. The assets' useful lives are reviewed 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 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.

	Note	2019 $'000	2018 $'000
Fee income accruals and receivables		13,862	21,188
Interest receivable from cash and liquid assets		1,897	2,192
Intangible assets		6,730	1,712
Futures margins deposits		23,512	14,578
Prepaid superannuation	24	-	103
Lease receivables		668	-
Other prepayments		4,465	4,295
Other debtors and receivables		4,620	5,753
		55,754	**49,821**
Reconciliation of Intangible assets			
Opening carrying value		1,712	194
Additions		5,837	1,799
Amortisation		(819)	(281)
Carrying value at year end		**6,730**	**1,712**

22. Plant and Equipment

Accounting Policy

Plant and equipment comprising leasehold improvements, office furniture and equipment, computer hardware and motor vehicles are stated at cost less accumulated depreciation and impairment which approximates fair value. Cost includes expenditure that is directly attributable to the acquisition or construction of the item.

Depreciation is calculated on a straight-line basis, from the date the assets are commissioned, over their estimated useful lives as follows:

- Leasehold improvements (including the lease make good provision) over the term of the lease, which expires on 31 May 2025.
- Equipment and vehicles
  - Computer hardware - three years
  - Motor vehicles - five years
  - Office furniture and equipment - over the 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. Residual values of assets are reviewed on a regular basis. 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 (continued)

	Leasehold Improvements		Equipment & Vehicles		Total	
	2019 $'000	**2018 $'000**	**2019 $'000**	**2018 $'000**	**2019 $'000**	**2018 $'000**
Opening fair value	5,363	4,123	2,564	1,538	7,927	5,661
Opening accumulated depreciation	(493)	(3,515)	(160)	(1,010)	(653)	(4,525)
Opening carrying amount	**4,870**	**608**	**2,404**	**528**	**7,274**	**1,136**
Changes during the year:						
Additions at fair value	-	4,927	44	2,333	44	7,260
Net disposals and write-offs[1]	-	-	(65)	(63)	(65)	(63)
Depreciation expense	(704)	(665)	(554)	(394)	(1,258)	(1,059)
Closing carrying amount	**4,166**	**4,870**	**1,829**	**2,404**	**5,995**	**7,274**
Closing fair value	4,927	5,363	2,460	2,564	7,387	7,927
Closing accumulated depreciation	(761)	(493)	(631)	(160)	(1,392)	(653)
Carrying amount at year end	**4,166**	**4,870**	**1,829**	**2,404**	**5,995**	**7,274**

[1] *2018 includes the disposal of fully depreciated assets totalling $4.8 million in relation to the Corporation's previous business premises.*

23. Other Liabilities and Provisions

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 *Public Finance and Audit 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.

	2019 $'000	2018 $'000
Provisions for employee benefits	12,956	13,915
Creditors, expense accruals and other provisions	4,974	8,537
Lease incentive	4,162	4,865
Dividend payable	117,500	-
	139,592	**27,317**

24. Superannuation

Accounting Policy

Amounts representing prepaid superannuation contributions arising from defined benefit schemes are recognised as an asset and included in other assets (Note 21). Actuarial gains and losses are recognised in the statement of comprehensive income in the year they occur.

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

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

These funds are all defined benefit schemes, where at least a component of the employee's final benefit is derived from a multiple of member salary and years of membership. All schemes are closed to new members. All fund assets are invested at arms-length[1]. Payments may be made to Mercer Administration Services to reduce the superannuation liability. These payments are held in investment reserve accounts by Mercer Administration Services. The weighted average duration of the defined benefit obligation is 14.9 years (2018: 8.4 years).

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

	2019 % pa	**2018 % pa**
Discount rate at 30th June[2]	3.2	3.7
Expected return on assets backing current pension liabilities	7.4	7.4
Expected rate of CPI Increase		
- 2018 / 2019 to 2019 / 2020	1.8	2.3
- 2020 / 2021	2.0	2.5
- 2021 / 2022 to 2022 / 2023	2.3	2.5
- thereafter	2.5	2.5

[1] The Corporation provides investment management services to SAS Trustee Corporation, the Trustee of the schemes. Fees earned by the Corporation in carrying out these activities are included in the statement of comprehensive income.

[2] *This reflects market yields of high-quality corporate bonds.*

Reconciliation of the movement in (net) prepaid contribution

				Totals	
	SASS $'000	**SANCS $'000**	**SSS $'000**	**2019 $'000**	**2018 $'000**
Net (asset)/liability at start of year	(90)	6	(19)	(103)	(132)
Employer contributions	-	(10)	-	(10)	(34)
Net expense recognised in the Statement of comprehensive income	90	4	19	113	63
Net (asset)/liability at end of year	**-**	**-**	**-**	**-**	**(103)**

25. Contractual Commitments

	2019 $'000	2018 $'000
Operating lease commitments		
Not later than one year	3,566	3,517
Later than one year but not later than five years	15,716	15,183
Later than five years	3,962	8,187
Total (including GST)[1]	**23,244**	**26,887**
Other expenditure commitments		
Not later than one year	2,605	338
Later than one year but not later than five years	10,839	-
Later than five years	3,328	-
Total	**16,772**	**338**

[1] *Total operating lease commitments above include Goods and Services Tax (GST) of $2.1million (2018: $2.5 million) of which a portion is expected to be recoverable from the ATO.*

Operating lease commitments relate to obligations to Property NSW ("PNSW") in respect of the occupation of business premises by the Corporation. The Corporation has entered into an occupancy arrangement with PNSW. Under this arrangement:

- PNSW agrees to grant the right of occupancy of the Corporation's premises for the period 1 June 2018 to 31 May 2025 with options to renew the lease for 2 further terms of 5 years;
- The Corporation is liable for rent, charges and expenses in respect of these premises; and
- The Corporation must pay PNSW a management fee of 2.1% (excluding GST) of gross rent, charges and expenses on the leased premises.

Other expenditure commitments include foreign denominated implementation and licence costs on significant Information Technology related contracts.

26. 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 liabilities and assets are not recognised in the balance sheet of the Corporation. Fees earned by the Corporation in carrying out these activities are included in the statement of comprehensive income on an accruals basis.

	2019 $'000	2018 $'000
Funds under management[1]	**106,847,428**	**93,880,756**
These funds were managed by:		
- External fund managers	79,701,990	67,801,684
- The Corporation	27,145,438	26,079,072
Total funds under management	**106,847,428**	**93,880,756**
Debt portfolios under management	**40,529,223**	**34,163,087**

[1] *Funds within the TCorpIM Funds were $59,319.5 million (2018: $47,753.0 million).*

27. 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 $3,943.0 million (2018: $6,923.0 million) and undrawn commitments were $3,810.5 million (2018: $6,876.8 million). Drawn commitments are recognised as loans to government clients (Note 9) on the balance sheet.

(b) The Corporation has 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 $74.7 million (2018 $84.0 million). These amounts are payable on demand.

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

(c) The Corporation has a commitment totalling $650.0 million (2018: $650.0 million) to provide motor vehicle finance to the New South Wales Government. As at year end, the undrawn commitments under these commitments were $543.7 million (2018: $443.8 million). Drawn commitments are recognised on the balance sheet as loans to government clients (Note 9), included within Crown entity.

28. 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

	2019 $'000	2018 $'000
Short-term employee benefits	4,993	5,381
Post-employment benefits	207	212
Other long-term employee benefits	303	15
Termination benefits	-	419
	5,503	**6,027**

The total compensation above is paid by the Corporation and includes $596,000 (2018: $612,000) 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.

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 *Public Finance and Audit Act 1983*. The financial results of the Corporation are consolidated annually in the *New South Wales Report on State Finances*.

The *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.

28. Related Parties (continued)

Other New South Wales Government Entities

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

– The provision of finance.

– The management, administration or advice on management of assets and liabilities.

– The acceptance of funds for investment.

All clients of the Corporation are New South Wales Government entities or other public bodies. The Corporation transacts with its clients under the Corporation's normal terms and conditions.

29. 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	2019 $'000	2018 $'000
Cash and liquid assets	6	2,182,026	1,766,780
Short term borrowings	10	(279,690)	(1,000)
Cash and cash equivalents		**1,902,336**	**1,765,780**

30. Reconciliation of Cash Flow from Operating Activities to Profit for the Year

	2019 $'000	2018 $'000
Net cash used in operating activities	(5,233,274)	(2,462,203)
Add/(less) adjustments arising from:		
- net change in loans to clients	5,594,411	2,138,189
- net change in coupons accrued at each year end on financial assets and liabilities	(79,317)	(38,238)
- net change in other financial instruments	(342,677)	340,616
- net change in other assets	779	20,298
- net change in other liabilities and provisions, excluding dividends	6,798	(8,313)
	(53,280)	**(9,651)**
Add/(less) amounts contributing to net profit but not generating operating cash flows:		
- actuarial losses on defined benefit plans	93	24
- losses/(gains) on disposal of plant and equipment and intangible assets	37	(8)
- gains on sale of financial instruments	45,842	129,476
- unrealised fair value loss/(gain) on financial instruments	96,222	(56,326)
- depreciation and amortisation	(2,077)	(1,340)
Profit for the year	**86,837**	**62,175**

31. Reconciliation of Liabilities Arising from Financing Activities

	2019 $'000	2018 $'000
Opening Balance	65,053,077	64,037,273
Cash flows:		
Proceeds from issue of borrowings and short terms securites	61,502,241	69,031,325
Repayment of borrowing and short term securities	(57,392,712)	(57,392,712)
Non-cash changes	4,019,490	(638,284)
Closing Balance	**73,182,095**	**65,053,077**

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

32. 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 2019.

END OF AUDITED FINANCIAL STATEMENTS

Statement by the Board of Directors

Certificate under Section 41C(1B) and 41C(1C) of the *Public Finance and Audit Act* 1983 and Clause 7 of the *Public Finance and Audit Regulation* 2015.

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

a. the financial statements have been prepared in accordance with the provisions of the *Public Finance and Audit Act* 1983, the *Public Finance and Audit Regulation* 2015 and the Treasurer's Directions. They have also been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting 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 2019 exhibit a true and fair view of the position and transactions of New South Wales Treasury Corporation; 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:

P H Warne
Director

D M Deverall
Director

Sydney,
22 August 2019

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 comprises the Statement of Comprehensive Income for the year ended 30 June 2019, the Balance Sheet as at 30 June 2019, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, notes comprising a Basis of Preparation and Accounting Developments and other explanatory information.

In my opinion, the financial statements:

- give a true and fair view of the financial position of the Corporation as at 30 June 2019, and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (PF&A Act) and the Public Finance and Audit Regulation 2015
- comply with International Financial Reporting Standards as disclosed in Note 1 (a).

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' (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.

Other Information

The Corporation's annual report for the year ended 30 June 2019 includes other information in addition to the financial statements and my Independent Auditor's Report thereon. The members of the Board of the Corporation are responsible for the other information. At the date of this Independent Auditor's Report, the other information I have received comprise the Statement by the Board of Directors.

Level 19, Darling Park Tower 2, 201 Sussex Street, Sydney NSW 2000
GPO Box 12, Sydney NSW 2001 | t 02 9275 7101 | f 02 9275 7179 | mail@audit.nsw.gov.au | audit.nsw.gov.au

My opinion on the financial statements does not cover the other information. Accordingly, I do not express any form of assurance conclusion on the other information.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude there is a material misstatement of the other information, I must report that fact.

I have nothing to report in this regard.

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, International Financial Reporting Standards and the PF&A Act, and for such internal control as the members of the Board determine is necessary to enable the preparation and fair presentation of the 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 except where the Corporation will be dissolved by an Act of Parliament or otherwise cease operations.

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/ar4.pdf. The description forms part of my auditor's report.

My opinion does *not* 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.

Margaret Crawford
Auditor-General for NSW

28 August 2019
SYDNEY

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06

SECTION 6

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	Yes – Investment Stewardship Policy

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
% of Total	0%	0%	

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	
% of Total	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	
% of Total	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)	1	100%
Application contravenes restraint order (section 110 of the Act)	0	0%
Total number of invalid applications received	1	100%
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	

* *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	

Table F: Timeliness

	Number of applications*	% of Total
Decided within the statutory timeframe (20 days plus any extensions)	1	100%
Decided after 35 days (by agreement with applicant)	0	0%
Not decided within time (deemed refusal)	0	0%
Total	1	

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

	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	
% of Total	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	

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	

Promotion

Table 6 below details overseas visits made by TCorp employees during financial year 2019. As one of Australia's largest asset managers and as the central financing authority for NSW, our employees have significant interactions with global fund managers, banks and other investors. This necessitates the requirement for overseas travel in order to achieve our business objectives.

Table 6: Overseas meetings, financial year 2019

Employee	Travel date	Purpose
David Deverall	September 2018	Host NSW Treasurer/client meetings (London)
Katherine Palmer	September 2018	European Roadshow 2018 (Stockholm, Warsaw, London, Amsterdam, Frankfurt, Munich, Paris, Madrid)
Paul Verschuer	September 2018	European Roadshow 2018 (Stockholm, Warsaw, London, Amsterdam, Frankfurt, Munich, Paris, Madrid)
Lucy Thomas	September 2018	ESG – responsible investment conference/peer engagement (San Francisco, Montreal, Toronto)
Komal Jalan	September 2018	ESG – responsible investment conference/peer engagement (San Francisco, Montreal, Toronto)
Susan Ding	September 2018	Global Equities Research Forum (New York, Boston)
James Murray	September 2018	Industry forum/Fund Manager meetings (New York, Boston)
Matthew Dellit	October 2018	Research trip (Los Angeles, Boston, New York)
Stewart Brentnall	October 2018	International Centre for Pension Management Conference (Santiago)
Victoria Rati	November 2018	Best of Breed Global Research And Investment Program for Institutional Investors (Singapore, Hong Kong)
Lianne Buck	March 2019	Infrastructure Global Summit, investment fund manager meetings, UK assets site visits (Berlin, London)
Davin Briner	March 2019	Investment fund manager meetings and UK assets site visits (London)
Tanya Branwhite	April 2019	Industry forum & conference/investment fund manager meetings (London)
Adrian Trollor	April 2019	Investment fund manager meetings (New York, Chicago)
John Zavone	April 2019	Investment fund manager meetings (New York, Boston, Los Angeles)
Simon Murphy	June 2019	Peer engagement meetings (Vancouver)
James Murray	June 2019	Industry forum/investment fund manager meetings (London, Barcelona)
Lucy Thomas	June 2019	Peer engagement meetings (London, Amsterdam, Copenhagen)
Ben Griffiths	June 2019	Peer engagement meetings (London, Amsterdam, Copenhagen)
Derek Mock	June 2019	Peer engagement meetings (London, Amsterdam, Copenhagen)
Omahlee Norburn	June 2019	Investment fund manager meeting/meetings with custodian (New York, London, Hong Kong)
Ricky Notarangelo	June 2019	Investment fund manager meetings/meetings with custodian (San Francisco, Washington, New York, London, Hong Kong)

Consultant costs

Consultancy costs in financial year 2019 included costs associated with the implementation of a best-in-class investment management model, a comprehensive market scan of potential software solutions to support our investment management business, forming our future risk management framework as well as assistance in developing of our organisational culture.

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.

Table 7: Consultants, financial year 2019

Consultants	Nature of consultancy	2019 $ cost (inclusive of GST)
Towers Watson Australia Pty Ltd	Investment Management transformation advice	1,102,677
Ernst & Young	Remuneration and governance advice, Culture Project	418,776
Shoreline Consulting Pty Ltd	Investment Management Solution architecture definition and assistance with RFP decision	358,441
PricewaterhouseCoopers	Three Lines of Accountability model future approach	127,347
Deloitte Risk Advisory Pty Ltd	Fraud review and cyber security assessment	96,560
Thomas Murray Limited	Custodian due diligence	51,755
Consultancies equal to or more than $50,000		**2,155,556**
Consultancies less than $50,000 (eight engagements)		**223,984**

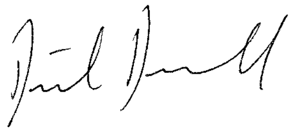
Cyber security annual attestation statement for financial year 2019 for the New South Wales Treasury Corporation

I, David Deverall, Chief Executive of New South Wales Treasury Corporation, am of the opinion that the New South Wales Treasury Corporation has managed cyber security risks in a manner consistent with the mandatory requirements set out in the NSW Government Cyber Security Policy.

Risks to the information and systems of the New South Wales Treasury Corporation have been assessed and are managed.

Governance is in place to manage the cyber-security maturity and initiatives of the New South Wales Treasury Corporation.

There exists a current cyber incident response plan for the New South Wales Treasury Corporation which has been tested during the reporting period.



David Deverall
Chief Executive

Payment performance indicators

Aged analysis at end of each quarter

Quarter	Current (within due date) $'000	Less than 30 days overdue $'000	Between 30 and 60 days overdue $'000	Between 61 and 90 days overdue $'000	More than 90 days overdue $'000
All suppliers					
September	990	0	0	24	16
December	348	23	0	0	0
March	670	0	0	0	0
June	84	29	0	0	5
Small business suppliers[1]					
September	44	0	0	0	0
December	0	0	0	0	0
March	0	0	0	0	0
June	0	0	0	0	0

1 *NSW Government Faster Payment Terms Policy came into effect on 1 December 2018 replacing NSW Treasury Circular 11/12 "Payment of Accounts". TCorp is exempt from this new policy and therefore ceased reporting on small business payments from this date.*

Accounts due or paid within each quarter

Measure	Sep 2018	Dec 2018	Mar 2019	Jun 2019
All suppliers				
Number of accounts due for payment	579	640	650	893
Number of accounts paid on time	566	626	641	867
Actual percentage of accounts paid on time (based on number of accounts)	97.8%	97.8%	98.6%	97.1%
Dollar amount of accounts due for payment ($)	11,731,957	13,083,412	11,170,062	22,559,741
Dollar amount of accounts paid on time ($)	11,387,905	13,012,257	11,122,784	22,347,866
Actual percentage of accounts paid on time (based on $)	97.1%	99.5%	99.6%	99.1%
Number of payments for interest on overdue accounts	0	0	0	0
Interest paid on overdue accounts ($)	0	0	0	0

Measure	Sep 2018	Oct to Nov 2018
Small business suppliers[1]		
Number of accounts due for payment to small businesses	73	59
Number of accounts due to small business paid on time	73	59
Actual percentage of small business accounts paid on time (based on number of accounts)	100%	100%
Dollar amount of accounts due for payment to small business ($)	691,303	356,736
Dollar amount of accounts due to small business paid on time ($)	691,303	356,736
Actual percentage of small business accounts paid on time (based on $)	100%	100%
Number of payments to small business for interest on overdue accounts	0	0
Interest paid to small business on overdue accounts ($)	0	0

1 *NSW Government Faster Payment Terms Policy came into effect on 1 December 2018 replacing NSW Treasury Circular 11/12 "Payment of Accounts". TCorp is exempt from this new policy and therefore ceased reporting on small business payments from this date.*

Late payment interest

No late payment interest was incurred or paid in the years ended 30 June 2019 or 30 June 2018.

Budgets

	2019 budget $'000	2019 actual $'000	2020 budget $'000
Investment Management revenue	68,387	70,426	72,997
Financial Markets revenue	95,791	132,966	126,036
Total income	**164,178**	**203,392**	**199,033**
Transaction costs	2,662	2,770	3,006
Operating costs			
Staff costs	50,947	50,393	54,949
Finance services costs	4,565	4,560	5,230
Travel and corporate promotion	1,423	913	1,336
Computer costs	9,129	9,112	9,322
Premises and other operating costs	7,637	8,320	6,613
Subtotal – operating expenses	73,701	73,298	77,450
Project costs	2,832	3,404	2,200
Total expenses	**79,195**	**79,472**	**82,656**
Operating profit before tax equivalent expense	**84,983**	**123,920**	**116,377**

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

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
Telephone	+61 2 9325 9325
Facsimile	+61 2 9325 9333
Enquiries	generalq@tcorp.nsw.gov.au
Website	www.tcorp.nsw.gov.au

TCorp dealing desk

Bonds	+61 2 9325 9340
Money Market	+61 2 9325 9329
Authority Deposits	+61 2 9325 9352
Borrowings	+61 2 9325 9354

Settlements

Telephone	+61 2 9325 9203
Facsimile	+612 9325 9355

Registry offices

Link Market Services Limited	Level 12, 680 George Street Sydney NSW 2000
Telephone	+61 2 8280 7915
Enquiries	tcorp@linkmarketservices.com.au

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Annual Report Compliance Requirements

Key to Legislative Reference Codes

ARSBA	*Annual Reports (Statutory Bodies) Act 1984* (NSW)
ARSBR	*Annual Reports (Statutory Bodies) Regulation 2015* (NSW)
DIA	*Disability Inclusion Act 2014 (NSW)*
DISP 2.0	NSW Government Digital Information Security Policy Version 2.0 - April 2015
GIPAA	*Government Information (Public Access) Act 2009* (NSW)
GIPAR	*Government Information (Public Access) Regulation 2018* (NSW)
IPARTA	*Independent Pricing and Regulatory Tribunal Act 1992* (NSW)
PIDA	*Public Interest Disclosures Act 1994* (NSW)
PIDR	*Public Interest Disclosures Regulation 2011* (NSW)
PC	Premier's Circular
PM	Premier's Memorandum
PSC	Public Service Commission
TC	Treasury Circular
TD	Treasurer's Direction

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