

Northern Territory Treasury Corporation

# ANNUAL REPORT 2015-16



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**Northern  
Territory  
Government**

The Honourable Nicole Manison MLA  
Treasurer  
GPO Box 3146  
DARWIN NT 0801

Dear Treasurer

In accordance with section 31 of the *Northern Territory Treasury Corporation Act*, section 28 of the *Public Sector Employment and Management Act* and section 12 of the *Financial Management Act*, I am pleased to provide to you the 2015-16 Annual Report of the Northern Territory Treasury Corporation (NTTC).

Pursuant to the *Financial Management Act (FMA)*, I advise that to the best of my knowledge and belief:

- proper records of all transactions affecting NTTC are kept and that employees under my control observe the requirements of the FMA, the Financial Management Regulations and the Treasurer's Directions;
- procedures within NTTC are subject to proper internal control, which are recorded in the Accounting and Property Manual, prepared in accordance with the requirements of the FMA;
- there is no indication of fraud, malpractice, major breach of legislation or delegation, major error in, or omission from, the accounts and records;
- in accordance with the requirements of section 15 of the FMA, the internal audit capacity available to NTTC is adequate and the results have been reported to me;
- the financial statements included in the Annual Report have been prepared from proper accounts and records, and are in accordance with Treasurer's Directions;
- all Employment Instructions issued by the Commissioner for Public Employment have been satisfied; and
- NTTC is working in compliance with the *Information Act*.

I can also advise you that the Auditor-General has audited NTTC's financial statements for the year ended 30 June 2016 and her report is included.

Yours sincerely

Craig Graham  
A/Under Treasurer  
30 September 2016

## Mission

To provide the Northern Territory Government with cost-effective funding, efficient financial management and reliable service to assist the Territory in achieving long-term viability for the benefit of Territorians.

## Values

- Open communication and respect
- Trust and integrity in all our dealings and relationships
- Valuable contributions for our stakeholders
- Dedication and professionalism of our people

## Enabling Act

The Northern Territory Treasury Corporation (NTTC) was established on 1 July 1994 under the *Northern Territory Treasury Corporation Act* (NTTC Act).

## Statutory Guarantee

All obligations incurred or assumed by NTTC are guaranteed by the Treasurer on behalf of the Territory under section 20 of the NTTC Act.

## Status

NTTC is a government business division and an administrative unit of the Department of Treasury and Finance (DTF) for the purposes of the *Public Sector Employment and Management Act* (PSEMA).

## Credit Rating

As at June 2016, Moody's Investors Service has assigned NTTC a long-term issuer and debt rating of Aa1 with a negative outlook.

## How to Use this Report

This report is designed to meet NTTC's statutory annual reporting requirements, as specified for public sector agencies in PSEMA, the *Financial Management Act* (FMA), *Information Act* and NTTC Act. It reports NTTC's performance to the Treasurer, the Legislative Assembly, government agencies, stakeholders, financial markets and ratings agencies.

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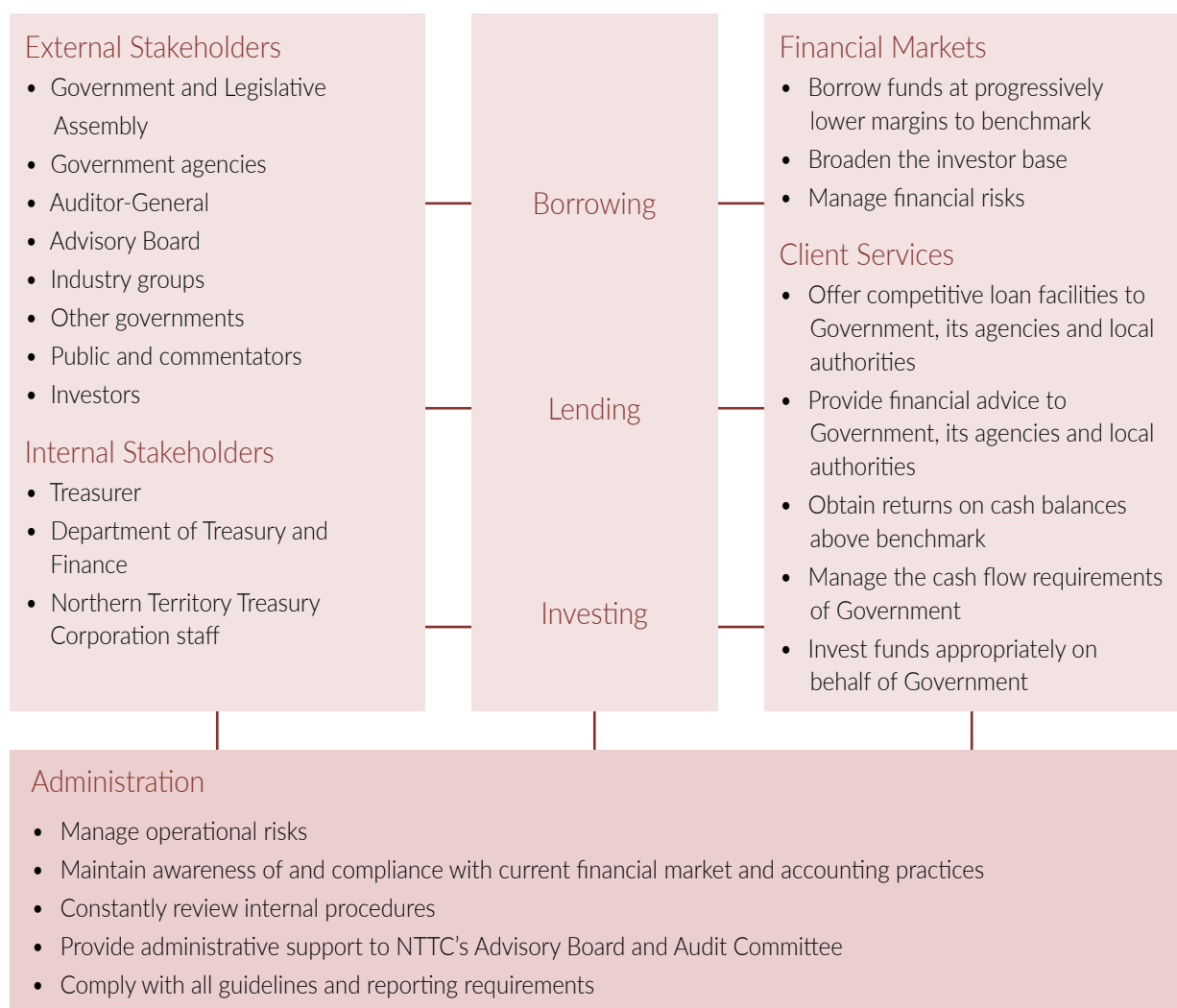
# Profile

## Purpose

NTTC is the central financing authority (CFA) for the Territory Government, responsible for providing specialist financial advice and services to the Territory Government to support the delivery of infrastructure and service to Territorians by:

- undertaking sound borrowing and investing activities for the Territory Government;
- investing surplus short-term cash balances of government accounts; and
- providing cost-efficient loans to its public sector clients and government agencies, government owned corporations and local authorities.

Figure 1: NTTC Stakeholders, Functions and Programs



# Under Treasurer's Address



The financial year 2015-16 has been another challenging year. Volatility in financial markets has continued across the world, mainly driven by events in Europe, United States and China. To date, the action taken to stimulate a sustainable global economic recovery has had mixed success. The US recovery is continuing, albeit at a slow pace, while growth in China is moderating. This, along with continued social unrest in the Middle East has created a volatile environment for financial markets across the world over the past year.

In Australia, the economic fundamentals remain relatively strong as the Australian economy enters its 25<sup>th</sup> year of economic growth. However, the Australian economy faces some headwinds as it transitions from strong resource investment-led growth to broader-based drivers of economic activity. However, the transition is supported by historically low interest rates, the fall in the Australian dollar and low oil prices. Employment growth has strengthened as the economy moves to more labour-intensive sectors such as services and supported by moderate wage growth. While business investment intentions currently remain subdued, conditions conducive to stronger business investment are in place.

Locally, the Territory economy has continued to perform well, building on the record levels of business investment undertaken in recent years. However, the Territory economy faces a range of challenges following a sustained period of record growth across most industries. As the impact of large resource-based projects move beyond their peak growth, gross state product (GSP), business investment, employment and population are expected in the short term to moderate from historical highs.

Despite these challenges, the Territory is well positioned to take advantage of a number of opportunities likely to re-shape the structure of the Territory economy throughout the forecast period and into the next decade. The Territory's position as a gateway to Asia, a key defence hub, world-renowned tourist attractions and a rich diversity of mineral, gas, petroleum, agricultural resources and renewable energy all provide the strategic opportunities required to underpin future growth. This includes opportunities for growth in service industries such as health, education and research.

In terms of borrowing activity, it has been another relatively quiet year for NTTC. The Territory's borrowing program for 2015-16 was a modest \$33 million, a significant reduction from the initial estimate of \$654 million announced in the 2015-16 Budget in April 2015. The retirement of loans from counterparties largely met the funding requirements of NTTC. Accordingly, the reduced borrowing program for 2015-16 resulted in total outstanding issued debt as at 30 June 2016 being lower by approximately \$532 million from the balance reported at 30 June 2015.



NTTC's investment and cash management activities have adjusted to the current economic environment, with a higher level of liquidity maintained throughout the period. NTTC achieved a return of 2.55 per cent on the Government's investment portfolio of surplus cash balances. This was ahead of the benchmark return of 2.24 per cent and is considered to be a good result given investment conditions.

The investment portfolio represents approximately 47 per cent of total funds under management. Its weighting towards high-quality short-term investments has helped to provide consistency and protection from the volatility experienced in longer term investments, which are held to partially meet superannuation-related liabilities.

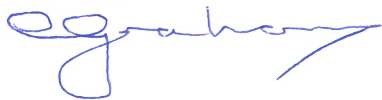
In contrast, the long term investments held in the Conditions of Service Reserve (COSR) returned a modest 1.09 per cent. This represents an under-performance of 1.11 per cent relative to benchmark. While this short-term, absolute performance is disappointing, the fund has managed to outperform its benchmark over a 3, 5, 7 and 10-year timeframe, which more closely reflects the investment term for these funds.

Similarly, the Medium Term Investment Fund (MTIF) delivered weak performance results over the past financial year returning 2.15 per cent compared to the benchmark return of 2.24 per cent. Although the fund has a smaller allocation to growth assets compared to COSR, the fund's exposure to international equities, combined with the subdued performance of cash and other fixed income securities, affected the overall performance of the fund.

The transitional Northern Territory Infrastructure Development Fund (NTIDF) also had a modest performance during the financial year. Nevertheless, the fund performed better than the MTIF and COSR portfolio returning 2.33 per cent over the financial year. The fund also marginally outperformed the benchmark index by about 0.09 per cent, returning 2.24 per cent over the same period. The fund's exposure to more conservative asset classes and real return multi-asset portfolio helped achieve a stronger return compared to the more aggressive COSR and MTIF portfolio.

Administratively, the risk management framework was completed during the year along with the finalisation of NTTC's risk register. This major task, in addition to normal duties and sometimes difficult market conditions have tested NTTC but have been dealt with appropriately and successfully.

In conclusion, I wish to express my thanks to the Advisory Board and staff for their valuable advice, diligence and professionalism during this challenging year.



Craig Graham  
A/Under Treasurer  
30 September 2016

# Performance Summary

## Review of 2015-16

- Increased global financial market volatility
- Mixed domestic economic conditions with low inflation
- Reduced borrowing program of \$33 million
- No term funding issuances into the wholesale market
- About \$3.5 billion on issue in major bond series
- Modest investment returns

## Outlook for 2016-17

- Ongoing market volatility
- Continued low cost of borrowing in line with the low interest rate environment and global divergence
- Borrowing program of \$621 million mainly to refinance maturing debt and fund new loans to counterparties
- New major bond series to be established under the Australian Domestic Note Programme
- Tap issues of existing long-dated bond series
- Utilise short-dated Promissory Note facility

## Strategic Issues for 2016-17

- Managing the Territory Government's pool of investments efficiently within defined risk management frameworks
- Securing attractive term funding arrangements in the most cost-effective manner in order to refinance maturing debt and provide flexible and efficient financing options to clients
- Continuous development of NTTC's business continuity plan and corporate governance framework

Table 1: Five-Year Financial Overview

	2015-16	2014-15	2013-14	2012-13	2011-12
Statement of Income	\$000	\$000	\$000	\$000	\$000
Revenue	239 230	277 249	289 872	258 055	233 453
Expenses	215 098	241 120	256 898	224 250	203 527
Profit before tax	24 132	36 129	32 974	33 805	29 926
Tax expense	7 240	10 839	9 892	10 141	8 978
<b>Net profit after tax</b>	<b>16 892</b>	<b>25 290</b>	<b>23 082</b>	<b>23 664</b>	<b>20 948</b>
Statement of Financial Position					
Total assets	4 085 056	4 648 108	5 283 013	4 848 368	4 098 068
Total liabilities	4 063 426	4 626 478	5 261 383	4 826 738	4 076 438
<b>Total equity</b>	<b>21 630</b>	<b>21 630</b>	<b>21 630</b>	<b>21 630</b>	<b>21 630</b>
Statement of Cash Flows					
Cash flows from operating activities	1 314	9 926	24 194	29 793	30 416
Cash flows from investing activities	582 025	60 012	352 242	770 051	480 057
Cash flows from financing activities	563 648	642 314	410 272	720 774	952 126



Table 2: Five-Year Key Performance Indicators Summary

Performance Measures	2015-16	2014-15	2013-14	2012-13	2011-12
<b>Quantity</b>					
Weighted average cost of borrowing (WACoB)	2.22%	2.51%	4.23%	4.01%	4.86%
<b>Quality</b>					
Borrowing rate margin compared to industry peers <sup>1</sup>	n/a	n/a	+ 0.37%	+ 0.36%	+ 0.38%
Investment portfolio return above benchmark <sup>2</sup>	+ 0.31	+ 0.27%	+ 0.28%	+ 0.36%	+ 0.32%
Stakeholder satisfaction <sup>3</sup>	5	5	5	5	n/a

n/a: not assessable

1 NTTC did not issue any term funding into the wholesale financial market during both the 2014-15 and 2015-16 financial years.

2 The benchmark is the weighted relevant Bloomberg AusBond indices. The composite benchmark return for 2015-16 was 2.24% while NTTC achieved a return of 2.55%.

3 A stakeholder satisfaction rating is obtained from government business divisions, government owned corporations and local government authorities and the Treasurer. Ratings range from 1: extremely dissatisfied to 6: extremely satisfied.

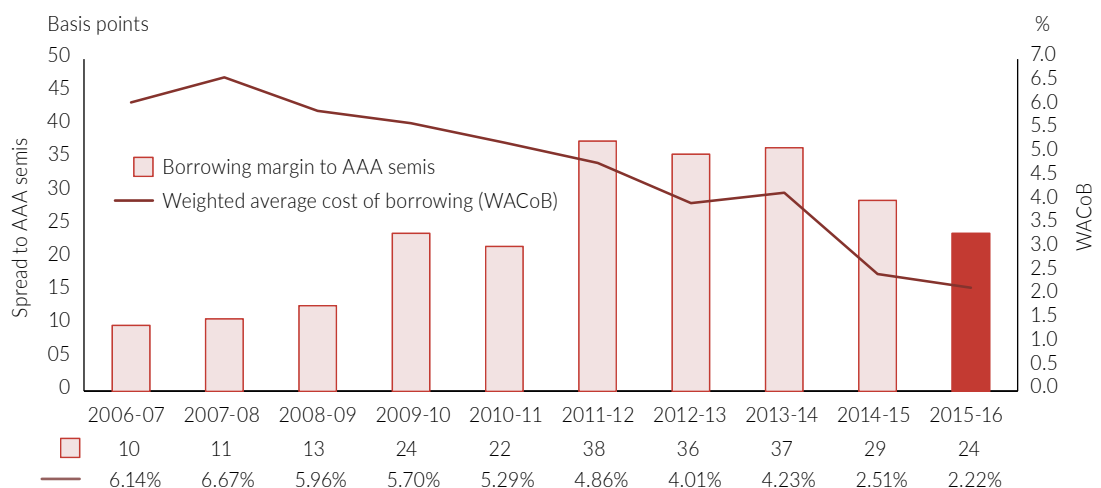
### Performance Measure Analysis

NTTC's cost of borrowing target for 2015-16 was lowered to 3.00 per cent in line with the low interest rate environment throughout the year. The actual outcome achieved for the year was 2.22 per cent. However, when promissory note issuances are excluded, the weighted average cost of borrowing for 2015-16 increases to 2.75 per cent. The weighted average cost of borrowing on outstanding issued debt at 30 June 2016 was 5.00 per cent.

As NTTC did not issue any term funding into the wholesale financial market during the 2015-16 financial year, NTTC's best estimate of current borrowing margins is determined by reference to secondary market activity as reflected on end-of-day rate sheets published by a number of financial institutions and intermediaries. As at 30 June 2016, NTTC's 10-year bond yields are priced at approximately 0.24 per cent over similar bond maturities offered by AAA-rated semi-government authorities.

The Central Holding Authority (CHA) investment portfolio was predominantly invested in short-term securities within the existing credit limits approved by the Treasurer and delivered a 2.55 per cent return for the financial year.

Figure 2: NTTC WACoB versus Spread to AAA Semi-Governments



# Financial Markets

## Funding

NTTC manages the Territory Government's exposure to funding risk by ensuring it is not subject to a significant refinancing risk in any financial year. NTTC's approach to minimise funding risk involves the diversification of borrowing and investment activities across the maturity spectrum and utilising a variety of funding sources to meet its requirements.

NTTC's funding sources are as follows:

» Wholesale Market

- fixed interest securities
- floating rate notes
- promissory notes

» Retail Market

- Territory Bonds
- Migration Linked Bonds

Table 3: Borrowing Composition

	2015-16	2014-15	2013-14	2012-13	2011-12
	\$M	\$M	\$M	\$M	\$M
Refinance maturing Territory debt	565	641	542	411	427
New borrowings	-	-	-	245	479
Debt reduction	- 532	- 219	-	-	-
Pre-funded	-	- 393	-	-	-
Borrowing requirement	33	29	542	656	906
Pre-funding	-	-	393	453	492
<b>Total borrowing program</b>	<b>33</b>	<b>29</b>	<b>935</b>	<b>1 109</b>	<b>1 398</b>

## Borrowing Activity

The borrowing program for 2015-16 was approximately \$33 million raised throughout the financial year compared to \$565 million of matured debt. The reduced borrowing program has resulted in total outstanding issued debt as at 30 June 2016 being lower by approximately \$532 million from last year's reported balance.

During 2015-16 NTTC had not issued into the wholesale financial market. The repayment of loans from counterparties, including an early retirement of outstanding loans by CHA had largely met NTTC's funding requirements for the financial year. A full listing of NTTC's issued debt is provided in Appendix A on page 31.

As at 30 June 2016, NTTC had six institutional benchmark bond issues as detailed in Table 4.

Table 4: Institutional Bond Issues as at 30 June 2016

Maturity Date	Coupon	Amount on Issue
	%	\$M
20 November 2016	5.75	500
17 November 2017	4.75	500
20 September 2018	4.75	500
20 September 2021	4.25	650
15 March 2024	6.00	650
15 March 2026	6.00	650

Table 5: Borrowing Performance as at 30 June

	2016	2015	2014	2013	2012
	%	%	%	%	%
<b>Average borrowing margin</b>					
Short-term – margin to bank bill swap (BBSW) rate	- 0.04	- 0.04	- 0.05	- 0.04	- 0.04
Long-term (fixed rate) – margin to AAA-rated semi-government security	n/a	n/a	0.37	0.36	0.38
<b>Cost of borrowing achieved during the year</b>					
Weighted average cost of borrowing	2.22	2.51	4.23	4.01	4.86
<b>Total cost of funds</b>					
Weighted average cost of funds	5.00	5.19	5.21	5.32	5.67

### Portfolio Duration and Term to Maturity

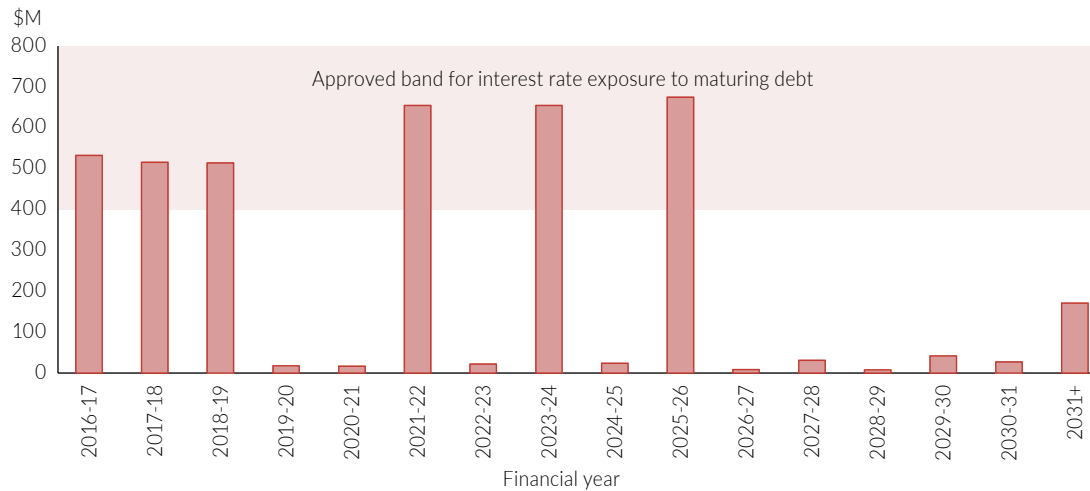
As at 30 June 2016, the weighted average duration of Territory debt on issue was 4.2 years, slightly lower than the 4.3 years reported in June 2015. Similarly, weighted average term to maturity shortened to 5 years compared to 5.3 years in June 2015.

### Interest Rate Risk Management

NTTC's interest rate risk arises from cash flow mismatches in the maturity profiles and repricing dates of its financial assets and liabilities. NTTC manages its exposure to interest rate risk to avoid creating abnormally high refinancing requirements during periods of high interest rates, or unusually low refinancing requirements in periods of low interest rates (see Figure 3 on page 10). NTTC may use interest rate swaps and forward start interest rate swaps to manage interest rate risk as required.

The target level of interest rate exposure to maturing debt in any financial year is \$600 million, with a lower limit of \$400 million and an upper limit of \$800 million. This strategy continues to support NTTC's ability to respond to strong demand from institutional investors and create slightly larger and more liquid bonds series. The target will support the Territory's borrowing requirements anticipated for the next two to three years to fund the capital and operating expenditure requirements of Territory Government agencies, business divisions and government owned corporations.

Figure 3: Interest Rate Exposure of Maturing Debt as at 30 June 2016



### Trading Margin

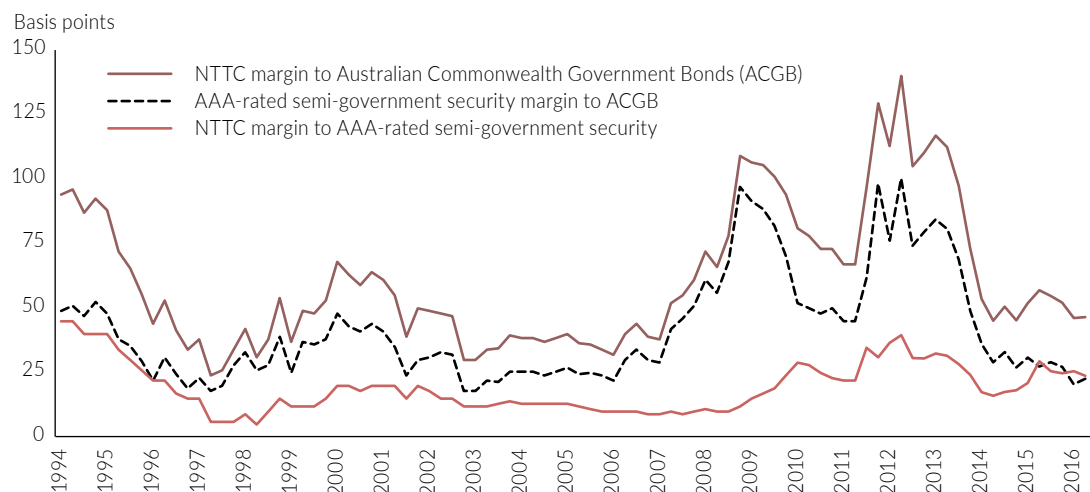
An important influence on trading margins is the perception of liquidity. The relatively small size of the Territory's borrowing program does not promote significant trading activity. As a result, the borrowing margin is more a reflection of the liquidity premium demanded by institutional investors for supporting NTTC's bond issuances.

NTTC did not issue into the wholesale financial market during the financial year 2015-16. Accordingly, NTTC's best estimate of current borrowing margin is determined by reference to secondary market activity as reflected on end-of-day rate sheets published by a number of financial institutions and intermediaries.

Rate sheets as at 30 June 2016 show NTTC's 10-year bond yields are approximately 0.24 per cent over similar bond maturities offered by AAA-rated CFAs such as New South Wales Treasury Corporation and Treasury Corporation of Victoria.

Figure 4 shows NTTC's borrowing margin relative to the Commonwealth and AAA-rated CFAs.

Figure 4: Trading Margin



### Promissory Notes

NTTC's short-term funding requirement is met through its promissory note facility. These notes are issued by way of tender to our key institutional counterparties. While NTTC has no promissory notes outstanding at 30 June 2016, the promissory note facility was used throughout the year to meet short-term funding requirements.

The weighted average yield achieved for the financial year was 2.18 per cent (2014-15: 2.45 per cent), with an average margin to BBSW reference rate of -0.04 per cent. The issuing margins to BBSW in 2015-16 ranged from -0.02 per cent to -0.05 per cent.

### Migration Linked Bonds

The bonds offered by NTTC satisfy the criteria of a Designated Investment under the following programs administered by the Department of Immigration and Border Protection:

- Business Innovation and Investment Programme
- Investor Retirement Migration

As at 30 June 2016, total Designated Investments on issue remained steady at \$0.5 million.

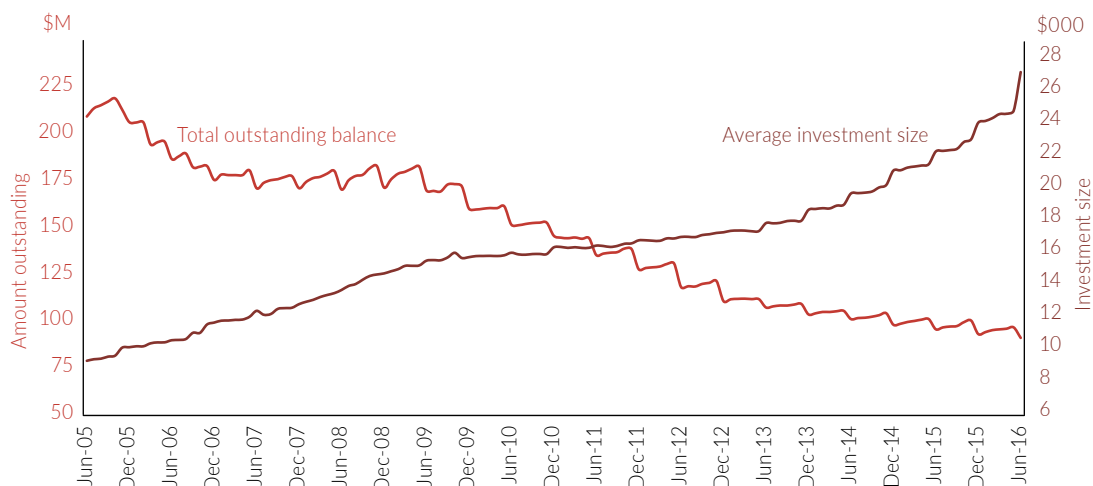
### Territory Bonds

Territory Bonds is NTTC's retail fixed interest borrowing product and is used to attract funds from the general public. Territory Bonds has been issued since 1979 and is offered to investors seeking a safe, secure, government-guaranteed investment.

In 2015-16, Issues 99 and 100 raised approximately \$35.4 million from 933 applications, compared to last year's result of \$30.5 million from 1083 applications. The average conversion rate for 2015-16 was approximately 65 per cent, an improvement from last year's rate of 62 per cent indicating that existing investors continued to show reasonably strong support for the product by reinvesting their investments at maturity.

Over the course of 2015-16, the number of registered investors declined by 957 to 3377. This reduction, combined with the decline in the outstanding face value of Territory Bonds results in an average investment size of about \$27 049 as at year end. While the average subscription size has increased, the total amount outstanding in Territory Bonds continues to decline. As at 30 June 2016, the total outstanding balance was approximately \$91 million, which is about \$5 million lower than the balance recorded at 30 June 2015.

Figure 5: Territory Bonds Outstanding and Average Holding Size



# Client Services

## Loans

NTTC lends funds to the Territory Government, government business divisions, government owned corporations, local authorities and other government organisations. Loans are issued in accordance with commercially based guidelines and practices. All loans are approved by the Treasurer in accordance with section 13(2)(b) of the NTTC Act and section 31(1) of the FMA.

As at 30 June 2016, NTTC had a total outstanding loan portfolio of \$4.04 billion, approximately \$582 million lower than the balance reported at 30 June 2015. Table 6 on page 13 shows the comparative analysis of total outstanding loans provided by NTTC over the past five years. A full listing of NTTC's loans is provided in Appendix B on Page 34.

### General Government Agencies

General government agencies are funded through the CHA via appropriations, some of which are funded by loans provided by NTTC. CHA is the 'parent body' that represents the Territory Government's ownership interest in government-controlled entities. The funds are used to finance general government activities and the Territory's major infrastructure projects.

As at 30 June 2016, loans to the general government sector totalled \$2.52 billion, a decrease of about \$613 million from the previous financial year. The net movement largely represents the full repayment of a maturing \$500 million loan and an early repayment of \$120 million of loans by CHA, less a \$12 million debt-to-equity swap agreement between CHA and Darwin Port Corporation.

### Government Business Divisions

Loans to government business divisions represent borrowings by Territory Government owned entities that operate on a commercial basis. The funds are used to finance capital expenditure requirements.

As at 30 June 2016, loans to this sector totalled about \$231 million, approximately \$48 million lower than the previous financial year. This net movement resulted mainly from the decision by NT Home Ownership to apply some of their surplus cash balances to repay \$28 million of their outstanding loans and the \$12 million debt-to-equity swap arrangement between Darwin Port Corporation and CHA. The remaining \$8 million was due to scheduled loan repayments throughout the year.

### Government Owned Corporations

Loans to government owned corporations represent borrowings by Territory Government owned entities that operate on a commercial basis but whose operations are not guaranteed by the Crown and do not make the Territory liable for its debts, liabilities or obligations. The funds are used to finance capital expenditure requirements.

On 1 July 2014, legislation came into effect to separate the Power and Water Corporation (PWC) into three separate government owned corporations namely PWC, Jacana Energy and Territory Generation. PWC continues to manage the electricity network and remains the water and sewerage services provider. Jacana Energy as a retailer looks after electricity accounts and customer needs, issues bills and collects payments while Territory Generation supplies electricity to the market including Jacana Energy.

Loans to this sector totalled approximately \$1.29 billion as at 30 June 2016, an increase of about \$79 million from last year's balance of \$1.22 billion. This is the net movement resulting from the \$161 million of new loans provided to PWC over the course of the financial year, less the \$82 million scheduled loan repayments.



## Local Authorities

Loans to local authorities represent borrowings by local governing bodies situated throughout the Territory. The funds are used to finance specific council infrastructure projects, working capital requirements or purchase or replace existing plant and equipment. Loans to local authorities are first assessed by the Department of Local Government and Community Services and must carry the support and recommendation of the Minister for Local Government and Community Services prior to being submitted for approval to the Treasurer. As at 30 June 2016, there are no loans outstanding for local authorities.

## Other Government Organisations

Loans to other government organisations represent borrowings by non-financial public sector organisations with which the Territory Government has an association. As at 30 June 2016, NTTC has no outstanding loans to this sector.

Figure 6: Client Loans as at 30 June 2016

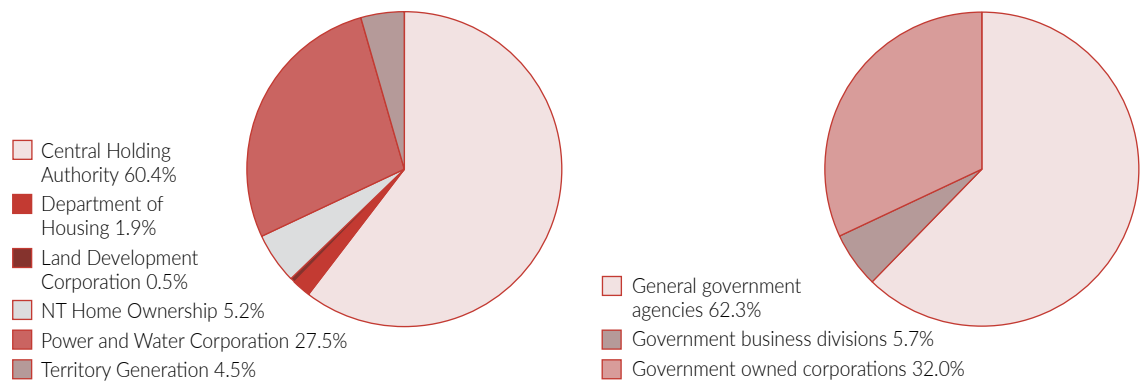


Table 6: Outstanding Loans as at 30 June

	2016	2015	2014	2013	2012
	\$M	\$M	\$M	\$M	\$M
General government agencies	2 516.3	3 128.6	3 017.5	2 640.8	2 113.8
Government business divisions	230.8	279.0	327.0	361.2	246.7
Government owned corporations	1 292.8	1 214.3	1 336.7	1 320.9	1 197.9
Local authorities	-	-	-	-	0.4
Other government organisations	-	-	-	6.0	-
<b>Total</b>	<b>4 039.9</b>	<b>4 621.9</b>	<b>4 681.2</b>	<b>4 328.9</b>	<b>3 558.8</b>

## Central Holding Authority Investments

- » The Territory Government's investment portfolio is formed by pooling the surplus cash balances held in the name of CHA and investing in a variety of secure short, medium and long-term debt securities issued in the Australian financial markets.
  - » The broad objectives of NTTC in managing CHA's investment portfolio are:
    - to ensure sufficient liquidity is maintained in the Government's cash balances to meet all financial obligations as they fall due; and
    - to obtain a return on the Government's cash balances in line with the benchmark, while adhering to the investment guidelines approved by the Treasurer.
- Details of the investment guidelines approved by the Treasurer are outlined in Appendix C on page 35.

### Investment Portfolio

The investment portfolio is composed of a range of secure investments, of which a significant proportion is in short-term instruments such as term deposits, bank accepted bills, promissory notes and negotiable certificates of deposit. A core amount of the investment portfolio is available for investment in longer-term instruments, such as floating rate notes and fixed interest securities.

NTTC aims to achieve the maximum return on investments within defined risk parameters, while ensuring the Government has sufficient cash balances to meet cash flow requirements in anticipation of increased government expenditure and declining revenues. Accordingly, NTTC has maintained a high allocation in cash and short-term securities.

In 2015-16, the investment portfolio generated total investment income of about \$31.5 million, slightly higher than the \$31 million income recognised in 2014-15. All interest revenue on the investment portfolio is paid directly to CHA. As at 30 June 2016, the total investment portfolio had a market value of about \$935 million, approximately \$298 million lower than last year's reported balance of \$1.23 billion (see Table 7). The weighted average return on the investment portfolio in 2015-16 was 2.55 per cent compared to 2.87 per cent in 2014-15 (see Table 8) outperforming the benchmark by 0.31 per cent.

Table 7: Investment Portfolio by Asset Allocation as at 30 June

	2016		2015		2014		2013		2012	
	%	\$M	%	\$M	%	\$M	%	\$M	%	\$M
Cash and term deposits and discount securities	98.9	925	99.2	1 223	98.2	1 054	99.4	840	99.2	650
Floating rate notes	1.1	10	0.8	10	0.9	10	0.6	5	0.8	5
Fixed interest securities	-	-	-	-	0.9	10	-	-	-	-
<b>Total</b>		<b>935</b>		<b>1 233</b>		<b>1 074</b>		<b>845</b>		<b>655</b>

Table 8: Investment Performance against Objective/Comparison to Benchmark

	2015-16	2014-15	2013-14	2012-13	2011-12
	%	%	%	%	%
Weighted average return	2.55	2.87	2.97	3.64	5.02
Weighted Bloomberg AusBond performance indices	2.24	2.60	2.69	3.28	4.70

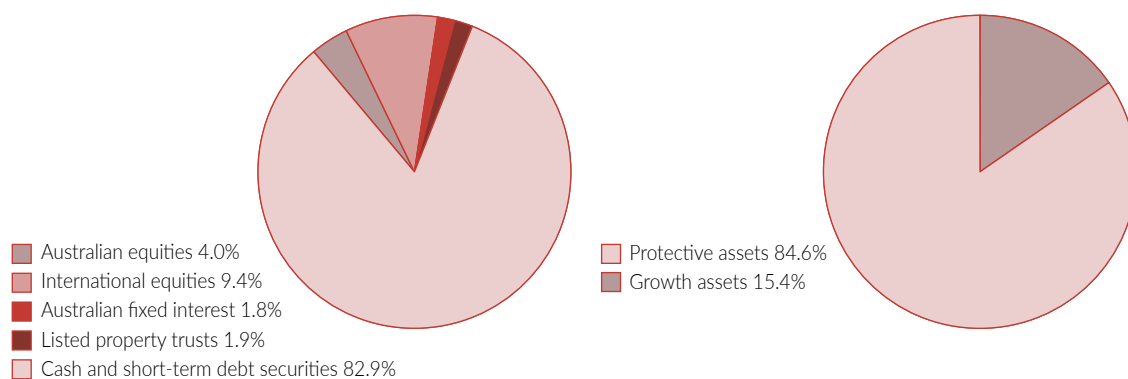
## Medium-Term Investment Fund

The Medium-Term Investment Fund (MTIF) is a segregated pool of investments held within CHA. The MTIF is a tailored solution provided by JANA Investment Advisers. The MTIF has a relatively conservative investment strategy, with a small allocation (about 15 per cent) to growth assets in order to achieve its stated objective of producing a superior return over the medium term (two to three years).

NTTC is responsible for monitoring and reporting on the performance of the fund and managing the relationship with the investment manager.

The MTIF commenced on 27 November 2007 with an initial investment of \$50 million. As at 30 June 2016, the market valuation of the MTIF totalled \$81.4 million, a decrease of about \$96 million from the \$177.2 million reported at 30 June 2015. The decrease largely represents the withdrawal of \$100 million from the fund in May 2016 to the Northern Territory Infrastructure Development Fund (NTIDF).

Figure 7: MTIF Asset Allocation at 30 June 2016



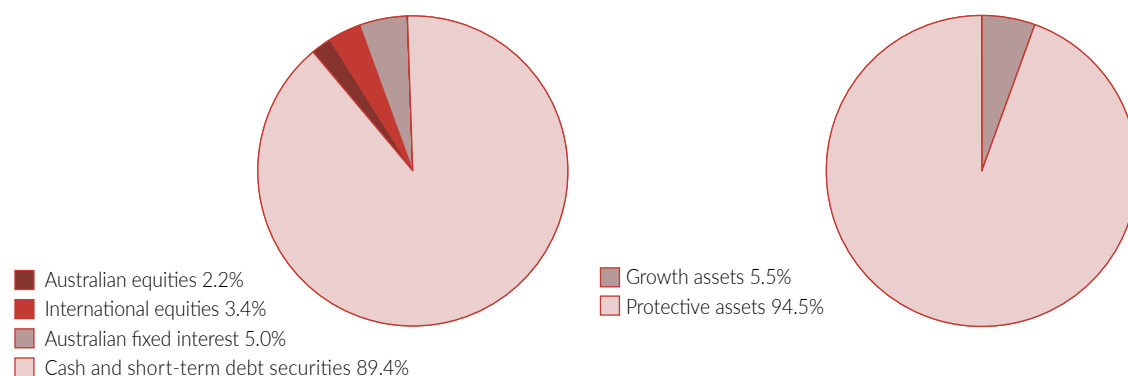
## Northern Territory Infrastructure Development Fund

The NTIDF is a transitional segregated pool of investments held within the CHA.

The NTIDF is managed by JANA via multi-manager sector trusts and has a highly conservative investment approach with a very small (about 5 per cent) allocation to growth assets. The NTIDF commenced on 26 June 2015 with an initial investment of \$210 million. A further \$100 million was added into the fund in May 2016 from MTIF.

As at 30 June 2016, the NTIDF had a market value of about \$315 million (30 June 2015: \$210 million).

Figure 8: NTIDF Asset Allocation at 30 June 2016



## Conditions of Service Reserve

Conditions of Service Reserve (COSR) is a segregated pool of investments held within CHA. The funds are held at the discretion of the Treasurer and are intended for purposes such as meeting the Territory Government's unfunded superannuation liabilities. The funds are managed by three investment managers with a long-term investment strategy oriented towards growth assets such as domestic and international equities. NTTC is responsible for monitoring and reporting on the performance of the fund and managing the relationship with the investment managers.

The investment performance of the fund is benchmarked against performance results for the 'Multisector Growth' product category as published in the monthly Morningstar Australian Superannuation Survey. This is consistent with the asset allocation mix applied to COSR.

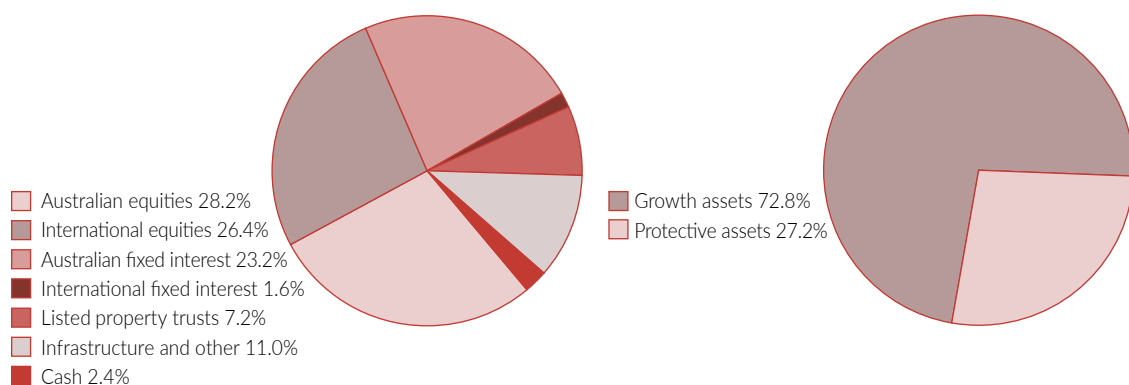
As at 30 June 2016, the market valuation of the COSR fund totalled \$654 million, a small increase of approximately \$7 million from the \$647 million recorded as at 30 June 2015. There were no additional contributions to or withdrawals from the fund during 2015-16.

A snapshot of the COSR pool of investments and fund performance is shown in Table 9 below.

**Table 9: Conditions of Service Reserve – Investment Allocation and Performance Summary**

Fund Manager	Fund Allocation	Market Valuation 30 June		Performance Returns			
	2016	2016	2015	1 Year	3 Years	5 Years	10 Years
	%	\$M	\$M	%	%	%	%
AMP Capital Investors Limited	34.1	222.7	219.5	1.48	9.32	9.36	5.80
Colonial First State Global Asset Management	33.0	216.1	212.6	1.63	7.85	7.57	5.65
JANA Investment Advisers Pty Ltd	32.9	214.9	214.8	0.08	8.26	8.68	5.41
<b>Total</b>	<b>100.0</b>	<b>653.7</b>	<b>646.9</b>				
Weighted average fund return				1.09	8.46	8.44	5.67
Benchmark – Morningstar Multisector Growth Portfolio				2.20	8.20	8.00	4.80
Performance of COSR relative to benchmark				- 1.11	+ 0.26	+ 0.44	+ 0.87

**Figure 9: COSR Asset Allocation at 30 June 2016**



# Administration

The administration program aims to ensure NTTC operates in a professional, prudent and cost-effective manner. This is achieved by implementing policies relating to current financial market and accounting practices, regularly reviewing internal procedures and providing relevant and timely training to employees. Specific functions include:

- providing timely and accurate settlement of all financial market transactions;
- maintaining NTTC's inscribed stock register by recording details of all inscribed stock and holders in accordance with the Registry Services Agreement and NTTC's Inscribed Stock Regulations;
- ensuring NTTC's finances are managed effectively, within stated limits and in accordance with Australian Accounting Standards and legislative frameworks;
- providing administrative support to NTTC's Advisory Board and Audit Committee;
- satisfying NTTC's personnel requirements by maintaining current human resource management practices, and encouraging open communication between management and staff; and
- producing NTTC's annual report in accordance with legislative requirements.

## Major Projects

### Enterprise Risk Management Framework

NTTC finalised its Enterprise Risk Management Framework during the year, which captures and articulates all elements of risk management and compliance in its business environment. The framework comprises a comprehensive risk register, documents NTTC's applicable internal controls and includes internal and external compliance requirements.

### Tax Policy

In line with the Australian Tax Office (ATO) expectations, NTTC has compiled specific tax policies around its goods and services tax and fringe benefit tax requirements. The policy provides guidance on the tax treatment of specific NTTC transactions and how it meets its compliance obligations. This serves as an important tool in managing NTTC's tax risk profile in the event of ATO audit activity.

### Electronic Document Records Management

In conjunction with DTF, NTTC commenced a project transitioning to electronic document records management (EDRM). This project commenced in February 2016 and saw a large number of NTTC records moved to electronic formats, including the provision of audit information. The EDRM implementation will result in a reduction of paper use, a decrease in the cost of off-site storage, reinforce business continuity and disaster prevention/recovery arrangements, facilitate better information flow and collaboration, and enhanced searching capabilities.

## Business Relationships

### Registry Services

NTTC has a key relationship with Link Market Services (Link), which maintains its retail inscribed stock register, recording details of all inscribed stock and holders in accordance with the Registry Services Agreement and the NTTC's Inscribed Stock Regulations. Link has offices in Melbourne, Sydney, Brisbane and Perth, providing convenient access for most bondholders.

NTTC utilises ASX Austraclear Services Limited (ASX) for the registration of its wholesale domestic borrowings. ASX provides NTTC with the full range of corporate actions relating to the life cycle of the security issued to the financial markets, from origination to maturity. Corporate actions include inscribing the securities in the ASX register, making payments, transferring ownership of the security between seller and buyer and effecting payments at maturity of securities.

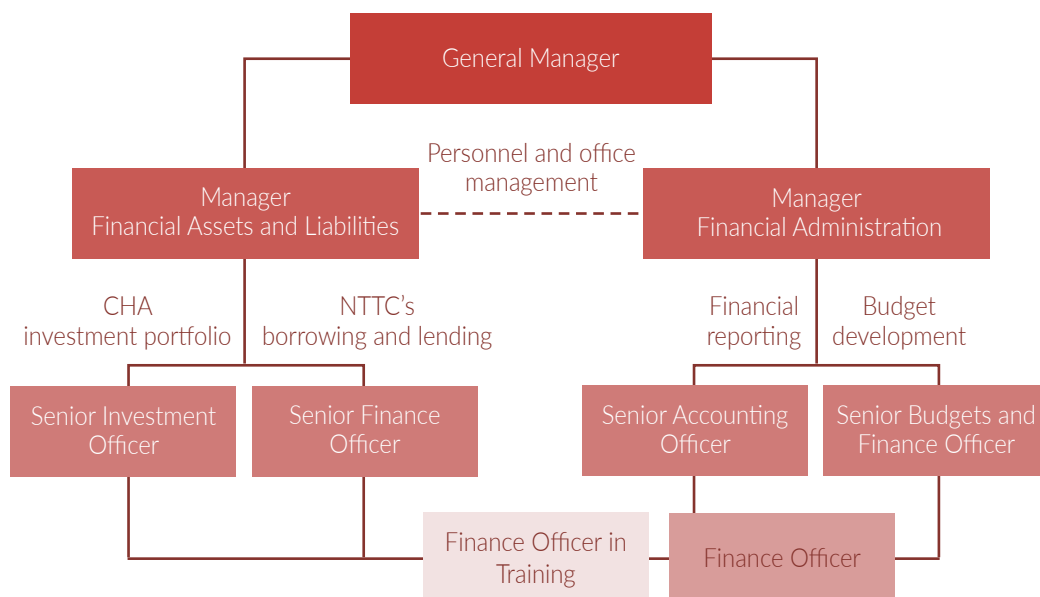
## Human Resource Management

### Staffing

NTTC's employees are employed under PSEMA. Section 10 of the NTTC Act permits the Under Treasurer to assign employees to NTTC from DTF, on either a full-time or part-time basis.

As at 30 June 2016, NTTC had eight full-time employees, four females and four males. Employees are required to comply with the PSEMA, the Northern Territory Government Code of Conduct and the codes of ethics of all relevant professional associations.

Figure 10: NTTC's Organisational Structure



### Employee Performance Management

NTTC, in conjunction with DTF, operates an Employee Development Framework (EDF), which provides a two-way feedback structure between managers and staff. The framework is designed to identify and develop the work performance of employees so NTTC's and employees' objectives and goals are achieved. Staff and management undertake an annual review. Development requirements are recorded and followed up using the DTF EDF system.

### Flexible Work Arrangements

NTTC offers a range of initiatives for work life balance for staff, including flexible work arrangements, flextime, purchased leave options and recreation leave at half pay. The initiatives are all in line with the NTPS 2013-17 Enterprise Bargaining Agreement. In 2016 two staff accessed flexible working arrangements.



## Finance Officer in Training Graduate Program

Throughout the year, graduates employed through the DTF Finance Officer in Training graduate program (FOIT program) may be provided with placement opportunities in NTTC. The FOIT program consists of graduates engaged on a 12-month contract who undertake work experience in several work areas in DTF over the year. This is coupled with regular training through a comprehensive series of workshops and seminars outlining DTF's functions and government processes and structures.

## Training and Professional Memberships

Employees undertake training and professional development aligned with organisational requirements generally identified through the EDF process. In addition to training, they are encouraged to undertake finance and accounting-related study through various professional bodies and institutions at the postgraduate level. Formal study is supported by DTF's Study Assistance program, which provides up to 2.5 hours paid study leave per week and reimbursement of course costs upon successful completion (capped at \$1500 per unit).

Employees are reimbursed half the cost of their annual professional membership fees where membership is relevant to their work role. Management and staff hold memberships with the following professional bodies:

- Australian Financial Markets Association;
- Certified Practising Accountants Australia;
- Australian Institute of Company Directors;
- Finance and Treasury Association; and
- Chartered Accountants Australia and New Zealand.

## Equal Opportunity and Workplace Harassment

NTTC is an equal opportunity employer and is committed to providing a workplace that is free from discrimination and harassment. All employees are required to take sessions on anti-discrimination, cross-cultural and harassment awareness to promote an understanding of such issues and inform staff of policies in place to address any incidents. In addition, DTF has formal and informal complaints processes as well as a grievance resolution procedure in place that staff can access.

## Employee Wellness

NTTC employees have access to DTF's Employee Assistance Program (EAP). This program provides an important service to the agency's employees and forms part of our work health and safety commitments. NTTC recognises that staff may be affected by personal, family or work-related issues and EAP is one way that NTTC supports staff. The EAP offers up to five free confidential counselling sessions for employees and their family members with either of DTF's EAP providers.

Also, flu vaccinations are available to NTTC employees on an annual basis.

### Employment Opportunities

Information on employment opportunities within NTTC can be found on the Territory Government's website at [www.nt.gov.au/jobs](http://www.nt.gov.au/jobs), DTF's website at [www.treasurycareers.nt.gov.au](http://www.treasurycareers.nt.gov.au), or by contacting:

Mr Alex Pollon  
General Manager  
+61 8 8999 6318

Ms Vicky Coleman  
Manager Financial  
Administration  
+61 8 8999 5599

Mr Archellus Lim  
Manager Financial Assets  
and Liabilities  
+61 8 8999 6767

# Treasury Corporation People

## Total Staff Numbers by Gender and Level

Table 10 provides a comparison by gender for each classification level.

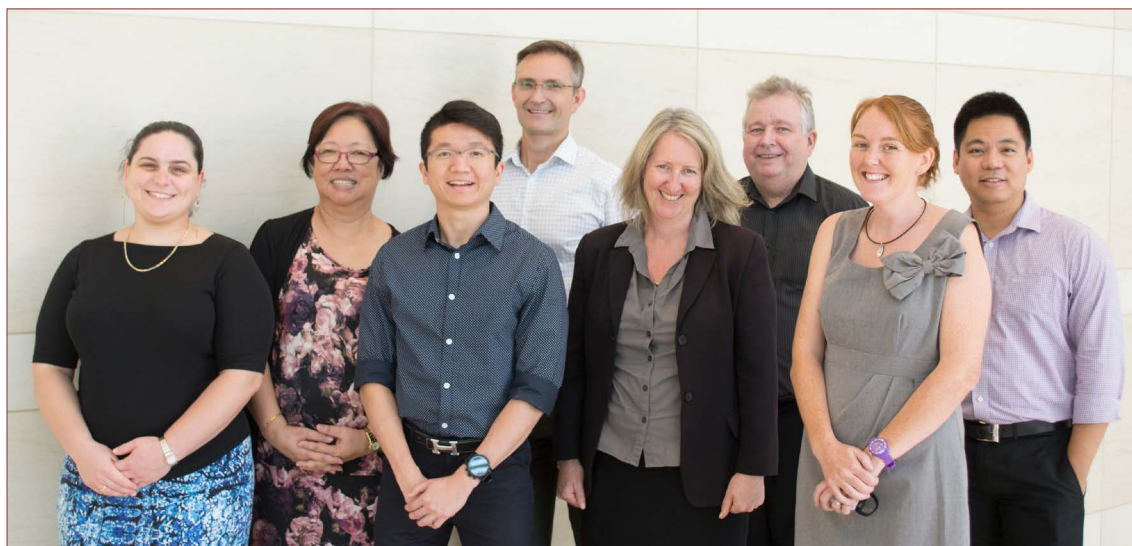
Table 10: Staff Demographics (full-time equivalent) as at 30 June 2016

Designation	Male		Female		Total	
	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16
AO4	1	1	-	-	1	1
AO5	1	1	3	3	4	4
SAO1	1	1	1	1	2	2
ECO1	1	1	-	-	1	1
<b>Total</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>8</b>	<b>8</b>

As part of NTTC's equal employment opportunities (EEO), staff take part in an annual census conducted by DTF to update contact, next of kin and EEO details. This data is used to assist in workforce planning, reporting and for business continuity purposes. Table 11 provides NTTC's reported EEO profile.

Table 11: Reported EEO Profile as at 30 June 2016

Aboriginal and Torres Strait Islanders	-
Non-English speaking background	5
People with a disability	-



Left to right: Niki Mastoros, Gloria Lui, Daniel Susantio, Alex Pollon, Vicky Coleman, John Kidd, Anna Mitchell, Archellus Lim

# Corporate Governance

Figure 11: NTTC's Corporate Governance Framework

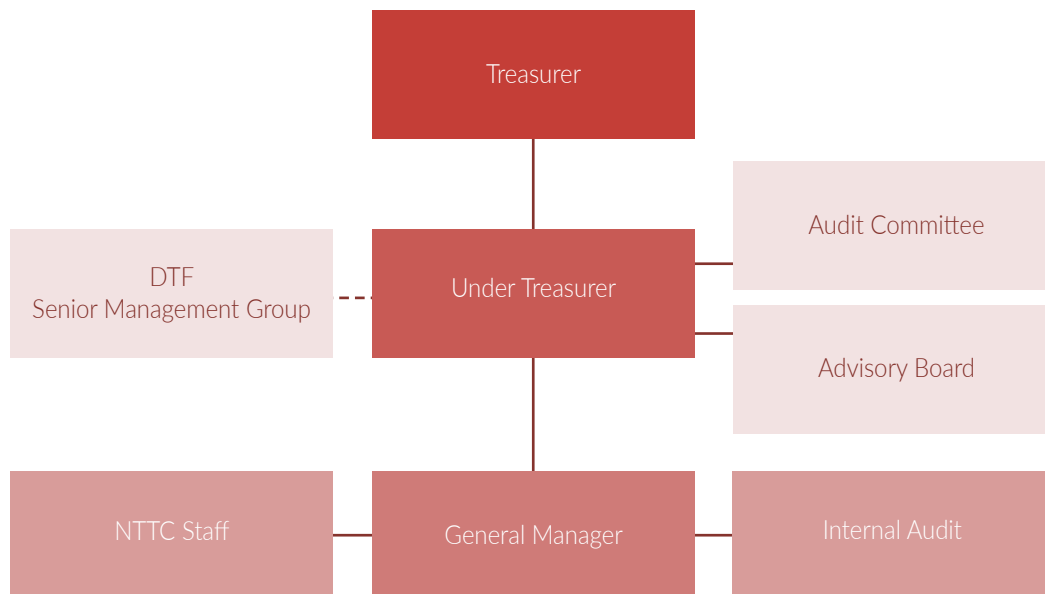


## Corporate Governance

NTTC's objective is to provide the Territory Government with cost-effective funding, efficient financial management and reliable service and advice. Its Advisory Board and management are committed to achieving this objective while upholding high standards of corporate governance, transparency and accountability through controls, policies and best practice frameworks.

NTTC was established as a corporation sole (a corporation that consists solely of a nominated office holder) in June 1994 and is constituted under the NTTC Act. The Under Treasurer of DTF is designated as the office holder, the corporation sole, under the NTTC Act and as such represents the Crown in right of the Territory. Under section 5 of the Act, NTTC is subject to the direction of the Treasurer.

Figure 12: NTTC's Reporting Structure



## Strategic Direction

### Corporate Objectives

NTTC's objectives are to:

- safeguard the Territory's financial resources by establishing and regularly reviewing credit limits and maintaining adequate internal controls and staffing;
- reduce the Territory's cost of borrowings through the effective control and management of its interest rate risk and maintain the exposure to interest rate risk at an acceptable level;
- ensure NTTC's continued ability to meet the Territory's financing obligations in an orderly manner, as and when they fall due, in both the short and long term, through liquidity management;
- minimise the Territory's cost of foreign currency requirements through the effective control and management of its foreign exchange risk and remove the exposure to foreign exchange risk; and
- adopt improved risk management strategies through the ongoing evaluation and review of appropriate risk management frameworks by utilising specialist resources available to NTTC.

## Department of Treasury and Finance's Senior Management Group

NTTC reports to DTF's Senior Management Group (SMG), which is responsible for strategic decision making and policy setting of DTF and its business units. This includes managing performance and improving management and business practices. A key priority of SMG is to develop DTF's corporate capabilities including people, systems and work environment. Monthly management reports are provided to DTF senior executives and SMG.

## Department of Treasury and Finance's Risk and Audit Committee

Audit and compliance reports submitted to DTF's senior executives are reviewed by DTF's Risk and Audit Committee. The committee oversees the internal audit, risk management and compliance with legislative requirements.

## Advisory Board

Under section 8 of the NTTC Act, NTTC has established an Advisory Board to assist the Under Treasurer with issues relating to NTTC's operations. The Advisory Board is constituted to be the Under Treasurer and no more than five other persons appointed by the Treasurer. The Advisory Board meets quarterly to review and monitor the performance of NTTC, its business risks and performance in relation to its objectives. The Advisory Board also provides guidance on policy, analysis of economic conditions and advice on aligning borrowing and investing intentions with interest rate expectations.

### Matters Considered by the Advisory Board

The Advisory Board receives specific papers and management reports that cover:

- financial statements and budget position;
- performance and progress reports on the investment portfolio;
- NTTC's borrowing and lending programs; and
- financial and operational risk exposure reports covering interest rates, counterparties and liquidity.

### Conflict of Interest

Advisory Board members monitor and disclose any actual, potential or perceived conflicts of interest. Formal disclosure declarations are made on an annual basis and verbally on an ad hoc basis at board meetings where a conflict is identified. Where a member has a conflict of interest they will refrain from participating in any discussions and decision making on the matter.

### Advisory Board Members

Ms Jodie Ryan

Chairman

Department of Treasury and Finance

Ms Ryan was appointed Under Treasurer in July 2013. Ms Ryan has over 20 years' experience in Treasury and Finance, having previously held the positions of Deputy Under Treasurer and Deputy Chief Executive of the Department of the Chief Minister. She sits on various inter-agency committees and is on the Board of the Northern Territory Infrastructure Development Fund. Ms Ryan has a Bachelor of Business (Accounting) and is a Certified Practising Accountant.

Mr Anthony Cole AO

External Board Member and Member of the Audit Committee

Mr Cole was appointed to the Board in June 1995. He was a senior partner of Mercer for 15 years. Mr Cole and his team advised institutional investors, including superannuation funds and sovereign wealth funds on the development of their investment programs. Earlier, he spent nearly 30 years in senior Commonwealth Government economic posts. These included Principal Adviser to the then Treasurer, the Hon. Paul Keating MP, Deputy Secretary (Economic) to the Department of the Prime Minister and Cabinet, and Secretary to the Treasury. Mr Cole is also a director of the Commonwealth Superannuation Corporation and of Australian Ethical Investments Ltd. He is also a member of the Investment Committee of the New South Wales Treasury Corporation.

### Mr Richard Ryan AO

#### External Board Member and Chair of the Audit Committee

Mr Ryan was appointed to the Board in June 1995 and is a Fellow of the Chartered Accountants Australia and New Zealand, a Companion of the Institution of Engineers Australia and a Companion of the Institute of Management (UK). He was previously Chancellor of Charles Darwin University, Chair of the Menzies School of Health Research and President of the National Heart Foundation. Mr Ryan is also a non-executive director of several public companies.

### Mr John Montague

#### External Board Member and Member of the Audit Committee

Mr Montague was appointed to the Board in November 2014 and is General Manager of Super SA, the superannuation provider for South Australian public sector employees. Mr Montague began his career with Westpac Banking Corporation in 1986, holding various trading and management positions in Sydney and Melbourne within the bank's Treasury Fixed Interest division. He was seconded to NTTC in 1994 where he was General Manager for 14 years before being appointed as DTF's Senior Director Funds Management in 2008, Assistant Under Treasurer (Funds Management) in 2011 and Commissioner of Superannuation in April 2012.

### Mr David Braines-Mead

#### Deputy Under Treasurer

#### Department of Treasury and Finance

Mr Braines-Mead is Deputy Under Treasurer in DTF and has held various positions at the director level and above within the Financial Management Group since joining DTF in 2004. He represents DTF on both intergovernmental and whole of government committees. Prior to this, he had over 15 years' experience within the accounting profession both in Darwin as a Senior Audit Manager with Ernst & Young and in the UK with various chartered accountancy firms. Mr Braines-Mead is a fellow of the UK-based Association of Chartered Certified Accountants.



Left to right: Richard Ryan, John Montague, David Braines-Mead, Jodie Ryan, Alex Pollon, Vicky Coleman and Anthony Cole



## Northern Territory Treasury Corporation Audit Committee

The Audit Committee is a subcommittee of the Advisory Board. It provides advice to the Chairman on operational issues and in relation to internal and external audits and meets prior to all Advisory Board meetings or as necessary. As at 30 June 2016, the Audit Committee comprised the three external Advisory Board members and is chaired by Mr Ryan.

Merit Partners Darwin, in conjunction with Ernst & Young Adelaide, undertake the internal audit review of NTTC's business while the Auditor-General for the Northern Territory carries out the external audit of NTTC's financial statements.

A partner from Merit Partners attends Audit Committee meetings at the request of the Audit Committee. The Auditor-General may also be invited to attend meetings during the year to provide direct comment to the committee members.

## Treasury Corporation Management Team

Mr Alex Pollon

General Manager

Mr Pollon was appointed General Manager of NTTC in May 2010 and is responsible for the overall management of NTTC's staff and resources, ensuring the efficient, effective and appropriate control of the borrowing, lending and investing activities on behalf of government. Mr Pollon has over 20 years' experience in the finance and treasury industry and is a member of various inter-agency committees and boards including the Public Trustee Investment Board, Superannuation Trustee Board, Agents Licensing Fidelity Guarantee Fund and Legal Practitioners Fidelity fund. Prior to joining NTTC, Mr Pollon held various treasury management positions in the financial services sector. Mr Pollon is a member of the Australian Institute of Company Directors and holds Australian Financial Markets Association dealer accreditation.

Ms Vicky Coleman

Manager Financial Administration and Corporate Secretary

Ms Coleman joined DTF in April 2000 and was appointed Manager Financial Administration for NTTC in February 2002. Ms Coleman is responsible for NTTC's financial reporting, budgeting, corporate governance and risk management functions. Prior to joining DTF, Ms Coleman held various management positions in private industry mainly in the finance sector. She holds a Bachelor of Business (Accounting) and is a Certified Practising Accountant. Ms Coleman is also a member of the Australian Institute of Company Directors, holds a Certificate in Governance and Risk Management from the Chartered Secretaries Australia, and has recently completed a Master of Business Administration at Deakin University.

Mr Archellus Lim

Manager Financial Assets and Liabilities

Mr Lim joined NTTC in September 2013 as Manager Financial Assets and Liabilities and is responsible for the day-to-day activities and operational effectiveness of the treasury functions undertaken by NTTC. Prior to working with NTTC, Mr Lim worked as Chief Financial Officer at an Indigenous college and as an auditor at a chartered accounting firm in Darwin specialising in the financial services sector. He holds a Bachelor of Science in Accountancy and a Bachelor of Science in Business Administration, majoring in Finance and Management Accounting, from Holy Angel University in the Philippines. He is currently completing his Master of Business Administration at Charles Darwin University. He is a Certified Finance and Treasury Professional and a Member of the Finance and Treasury Association of Australia. He is also a Member (Provisional) of the Chartered Accountants Australia and New Zealand and a Member of the Philippine Institute of Certified Public Accountants.

## Risk Management

Risk recognition and management is an essential function of NTTC, given the nature of its operations. NTTC has various frameworks, policies and controls in place to ensure all key risks are identified and managed.

### Enterprise Risk Management Framework

NTTC has developed a framework to capture and articulate all elements of risk management and compliance in the business environment. The framework comprises a comprehensive risk register, documents NTTC's applicable internal controls and includes internal and external compliance requirements.

### Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) Legislation

NTTC is subject to the suspicious matters reporting requirement of the AML/CTF Act. A staff member is appointed as Compliance Officer and oversees the program and monitors risk mitigation processes by maintaining the current AML/CTF program and supporting policies.

### Business Continuity Management

NTTC has a business continuity plan to ensure it is able to meet its financial obligations during an event that disrupts normal processes and procedures. The plan is reviewed on a regular basis to ensure all critical functions are captured and contingency arrangements are documented.

### Compliance Self-Assessment Reviews

NTTC uses compliance self-assessment reviews to identify and monitor risk areas in its environment. Questionnaires are completed by management monthly, and associated reports are reviewed by the Advisory Board quarterly and audited by NTTC's internal auditors on a semi-annual basis.

### Delegations

Clear lines of responsibility and authority to act are specified in Agency Corporate Delegations through DTF and internal policy manuals approved by the Under Treasurer. Both delegations and policy manuals are reviewed on an annual basis to ensure they meet current legislative frameworks and business resourcing requirements.

### Insurance Arrangements

Insurable risks are risks generally related to workers compensation, assets and inventories, public liabilities and indemnities. They exclude financial risk and legal costs in action.

In line with Territory Government policy, NTTC self insures. As a government business division, NTTC can and has elected to pay a premium to DTF as its host agency for workers compensation insurance, in lieu of purchasing commercial insurance. In 2015-16 there were no self-insurance claims. This is consistent with 2014-15.

### Work Health and Safety

Work health and safety (WHS) services are provided to NTTC as part of DTF's WHS program. DTF's WHS Committee meets quarterly and regularly reports to DTF's SMG. The committee reports and advises on workplace safety and systems of work, developing, implementing and monitoring WHS measures, advocating acceptable and responsible practices by employees and others, and promoting a health and safety ethos.

## Compliance

NTTC has a high level of compliance and is subject to several audits and review processes during the year. These are undertaken by both internal and external auditors and their focus reflects the importance of risk management and corporate governance. Findings of reviews and audits conducted during the year are reported in Table 12.

### Policy and Procedures

Formal policy and procedure manuals were created and provided to all staff members. Policy and procedure manuals are updated annually or as required.

### Corporate Planning and Reporting Process

As an agency of DTF, NTTC links into its strategic planning processes, which develop objectives to guide core business areas in the delivery of government outcomes.

### Information Act Compliance

NTTC is subject to the requirements of the *Information Act*, which include records management, freedom of information (FOI) and privacy. DTF is responsible for the management of all information requests on behalf of NTTC. Details of information held by NTTC, including an outline of how to make an application under the *Information Act*, can be found on the website below. NTTC did not receive any requests under the *Information Act* during 2015-16. FOI requests can be made to the following:

Information Policy Officer  
Department of Treasury and Finance  
GPO Box 1974  
Darwin NT 0801

Telephone: +61 8 8999 6982  
Facsimile: +61 8 8999 6150  
Email: [foi.dtf@nt.gov.au](mailto:foi.dtf@nt.gov.au)  
Website: [www.treasury.nt.gov.au/InformationAct](http://www.treasury.nt.gov.au/InformationAct)

### External Audit

Under section 30 of the NTTC Act, the Auditor-General of the Northern Territory is required to review and audit NTTC's accounts and operating environment. Under section 31, the Auditor-General will issue an audit opinion on NTTC's financial statements and report to the Treasurer and Territory Parliament. The Auditor-General also attends NTTC's Audit Committee meetings as requested.

### Internal Audit

NTTC has an internal audit function reporting directly to its Advisory Board, Audit Committee and DTF's senior executives. The internal auditor, Merit Partners Darwin, in conjunction with Ernst & Young Adelaide, audits NTTC's financial statements and reviews its risk and operational controls environment.

Table 12: Audits Undertaken During the Year

Function	Type	Period	Internal/External	Outcomes
2014-15 financial statements	Audit	30/06/15	Internal	Unqualified audit opinion
			External	Unqualified audit opinion
Compliance self-assessment	Review	30/09/15 31/03/16	Internal	No significant matters identified
Information technology controls	Audit	30/06/16	Internal	No significant matters identified
Interim period review	Audit	30/06/16	Internal/external	No significant matters identified

# Territory Economy

The following section provides an overview of the Territory economy, including the overall performance of the economy in 2015-16 and the outlook for 2016-17 through to 2019-20. Table 13 outlines the latest Territory key economic forecasts contained in the 2016 Pre-Election Fiscal Outlook released on 18 August 2016. Updates of key economic indicators are published regularly and can be downloaded at [www.treasury.nt.gov.au/economy](http://www.treasury.nt.gov.au/economy).

Table 13: Territory Key Economic Indicators (%)

	2014-15a	2015-16a	2016-17f	2017-18f	2018-19f	2019-20f
Gross state product <sup>1</sup>	10.5	2.1 <sup>e</sup>	1.5	5.0	4.1	3.8
State final demand <sup>1</sup>	8.0	- 13.5	- 2.3	- 1.8	3.9	3.7
Population <sup>2</sup>	0.1	0.3	1.0	1.0	1.3	1.5
Employment <sup>3</sup>	- 0.6	1.3	0.3	0.7	0.7	0.8
Unemployment rate <sup>4</sup>	4.4	4.2	4.4	4.4	4.7	4.7
Darwin consumer price index <sup>3</sup>	1.4	0.1	0.7	1.6	2.1	2.6
Wage price index <sup>3</sup>	2.6	2.2	1.9	2.3	2.5	2.7

a: actual e: estimate f: forecast

<sup>1</sup> Year ended June, year-on-year percentage change, inflation adjusted.

<sup>2</sup> As at December, annual percentage change.

<sup>3</sup> Year ended June, year-on-year percentage change.

<sup>4</sup> Year average.

Source: Northern Territory Department of Treasury and Finance, Australian Bureau of Statistics.

## Structure of the Economy

The structure of the Territory economy is markedly different to the national economy, reflecting the Territory's abundant natural resources, relatively large public sector and defence presence, and a small open economy that is significantly influenced by major projects.

The Territory economy has grown considerably over the past decade. Total Gross State Product (GSP) has grown from \$15 billion in 2004-05 to over \$22 billion in 2014-15, which represents an increase of nearly 50 per cent. Over the same period the Territory's population has increased by almost 40 000 people to just under 245 000 people.

As a result of major infrastructure projects, the construction sector has overtaken mining as the largest single sector in the Territory economy. Construction, mining and manufacturing, and government and community services, combine to account for about half of the Territory's GSP, compared to about a third of the national gross domestic product.

## Economic Growth

The Territory economy expanded by 10.5 per cent in 2014-15, the highest rate of growth since 1998-99. It was also the highest rate of growth among all jurisdictions and was more than four times the national growth rate of 2.3 per cent.

The estimate for 2015-16 economic growth in the Territory is 2.1 per cent, a considerable slowing from 2014-15, reflecting a marked decline in private investment compared to the record levels reached in the previous year, as well as slower growth in household consumption. However, this follows a sustained period of strong economic growth, with Territory GSP increasing by about 50 per cent since 2004-05. More recent data released since the 2016-17 Budget in May 2016 continues to indicate moderation of the Territory economy.

Growth is expected to moderate slightly in 2016-17 to 1.5 per cent, as construction of the Ichthys liquefied natural gas (LNG) project nears completion and residential dwelling investment remains subdued.

The Territory's 2015-16 net international trade goods balance increased to \$1.5 billion, from \$1.2 billion in 2014-15 in current prices. Although there were decreases in mineral commodities exports as a result of lower global demand and lower mineral commodities prices, the Territory also experienced a decline in the value of manufactured goods imports in 2015-16. This likely reflects the gradual decline in arrival of imported components for construction of the Ichthys LNG project, which boosted the Territory's net trade balance.

From 2016-17, goods imports into the Territory are expected to continue to contract as construction of the Ichthys LNG project nears completion, contributing to an increase in net exports. Exports from the Ichthys LNG project are expected to commence from 2017-18. This will provide a substantial boost to the Territory's exports and is expected to be a key driver of the economy from 2017-18 and support the Territory's net exports into the future.

## Population

The Territory's annual population growth rate continued to remain at modest levels compared to long-term averages, at 0.3 per cent in 2015. This reflects the slowing in net overseas migration and record low levels of net interstate migration, likely due to weakness in the mining sector and moderation in residential building activity.

The Territory's population growth is forecast to remain below the historical average over 2016 and 2017 at 1.0 per cent, before transiting to 1.5 per cent around 2019, slightly below the long-term average of 1.6 per cent. This reflects the labour demands of the Ichthys LNG project, expected to be a major determinant to population growth from 2016 to 2018 as the project transitions from a construction workforce to a smaller production and export workforce.

## Labour Force

Employment growth in the Territory strengthened to 1.3 per cent in 2015-16, compared to a decline of 0.6 per cent in 2014-15. This was likely a result of the Ichthys LNG project approaching peak workforce for the construction phase of the project. The Territory's unemployment rate remained one of the lowest of the jurisdictions, averaging 4.2 per cent over 2015-16. The Territory consistently has the highest labour force participation rate of all jurisdictions in Australia.

Employment growth for 2016-17 is anticipated to be more modest, driven by smaller scale construction and strengthening growth in consumption as the Ichthys LNG project moves into the less labour-intensive operational phase in 2017-18. The Territory's unemployment rate is forecast to return to long-term trend levels over the medium term. However, the Territory's unemployment rate is likely to remain one of the lowest of all jurisdictions.

## Prices and Wages

Growth in the Darwin consumer price index (CPI) moderated from 1.4 per cent in 2014-15 to 0.1 per cent in 2015-16, this continues a trend of moderation of the Darwin CPI, since 2013-14. Slowing growth in the Darwin CPI reflects the impact of declining fuel prices, lower rents and moderation of housing costs and input costs.

Growth in the Darwin CPI is forecast to remain modest and below long-term trends over the forward estimate period, as a result of moderate population and employment growth and lower input costs. The impacts of lower fuel prices and housing conditions are expected to constrain the Darwin CPI growth over the forecast period, compared to their historical impact.

Wage growth in the Territory moderated to 2.2 per cent in 2015-16, reflecting spare capacity in the national labour market as a result of slowing in the resources sector and moderate price growth. Wage growth over the medium term is forecast to remain subdued, following the forecast slowdown in employment growth and moderation in the Darwin CPI.

## External Economic Environment

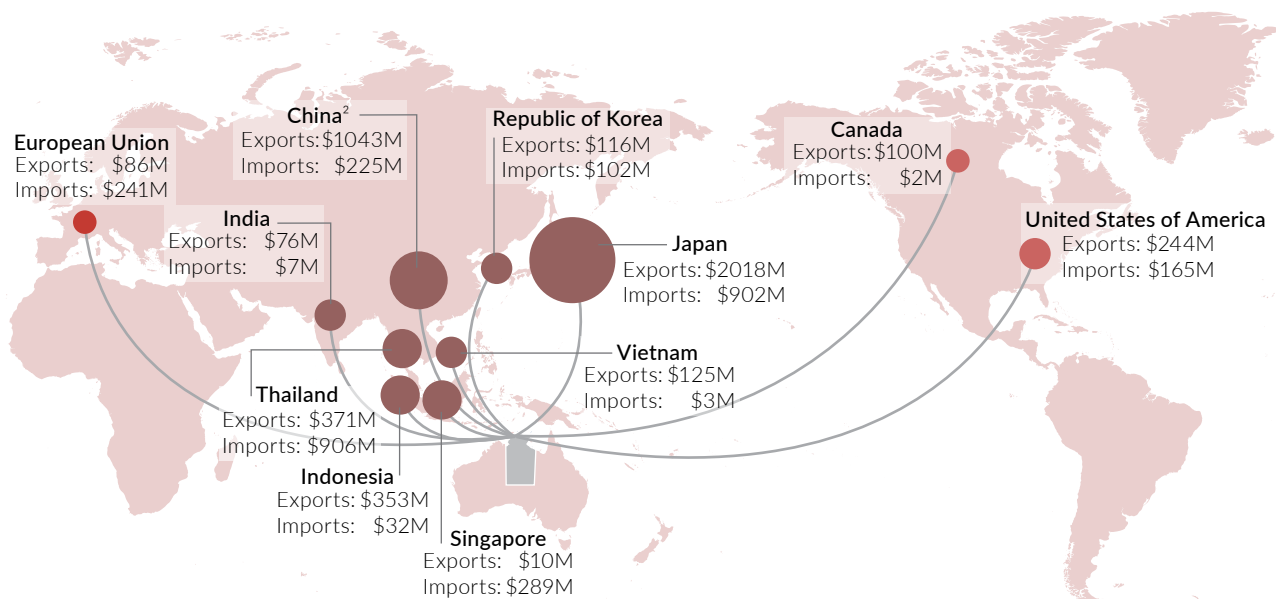
The external influences both nationally and internationally have a relatively large effect on the Territory economy. This is particularly prevalent, given the Territory's relatively small size compared to other Australian jurisdictions and strong dependence on the construction and mining sectors as the major drivers of economic growth. These sectors are typically dependent on overseas trade and investment and movements in global commodity prices.

In its July 2016 World Economic Outlook, the International Monetary Fund (IMF) forecasts global economic growth to remain flat at 3.1 per cent in 2016, consistent with growth experienced in 2015, and forecast growth of up to 3.4 per cent in 2017 (revised down from previous forecasts). Advanced economies' growth is forecast to remain flat at 1.8 per cent by the IMF. While developing economies' growth is stronger, it continues to remain modest compared to long-term averages.

The Territory's five largest export markets in 2015-16 were Japan, China, Thailand, Indonesia and the United States. While the IMF is forecasting economic growth to moderate in China, overall the outlook for economic growth in the Territory's major export markets remains favourable.

The national economy is important to the Territory, primarily through interstate trade and Commonwealth revenue. Based on the May 2016 Commonwealth Treasury Pre-election Economic and Fiscal Outlook, the Australian economy is forecast to grow by 2.5 per cent in 2016-17 and strengthen to 3.0 per cent from 2017-18. Short-term growth is forecast at below the long-term average of 2.8 per cent, however Australia is experiencing higher growth than many other developed economies.

Figure 13: Territory's Major Goods Trading Partners, 2015-16<sup>1</sup>



<sup>1</sup> Current prices.

<sup>2</sup> Excluding special administrative regions (Hong Kong and Macau) and Taiwan.

Source: Department of Treasury and Finance, ABS, *International Trade in Goods and Services*, Cat. No. 5368.0



# Appendix A: Outstanding Domestic Borrowings

As at 30 June 2016

Maturity Date	Coupon Rate	Face Value	Maturity Date	Coupon Rate	Face Value
	%	\$000		%	\$000
<b>2016-17</b>			15-Jun-17	3.90	354
20-Nov-16	5.75	500 000	15-Jun-17	4.00	1 102
15-Dec-16	2.35	720	15-Jun-17	4.35	442
15-Dec-16	2.40	1 763	15-Jun-17	4.40	389
15-Dec-16	2.50	3 171	15-Jun-17	4.50	628
15-Dec-16	3.15	242	15-Jun-17	4.65	133
15-Dec-16	3.20	1 541	15-Jun-17	4.70	15
15-Dec-16	3.30	1 299	15-Jun-17	4.80	122
15-Dec-16	3.55	224	15-Jun-17	4.85	6
15-Dec-16	3.60	158	15-Jun-17	4.90	64
15-Dec-16	3.70	770	15-Jun-17	5.00	594
15-Dec-16	4.00	75	15-Jun-17	5.95	242
15-Dec-16	4.05	40	15-Jun-17	6.00	1 289
15-Dec-16	4.10	117	15-Jun-17	6.05	1
15-Dec-16	4.20	471	15-Jun-17	6.10	1 179
15-Dec-16	4.95	401	15-Jun-17	6.15	369
15-Dec-16	5.00	1 408	15-Jun-17	6.20	435
15-Dec-16	5.10	1 489	15-Jun-17	6.30	193
15-Dec-16	5.45	77			
15-Dec-16	5.50	147	<b>TOTAL 2016-17</b>	<b>5.63</b>	<b>532 840</b>
15-Dec-16	5.60	722			
15-Dec-16	5.95	66	<b>2017-18</b>		
15-Dec-16	6.00	834	26-Sep-17	3.90	250
15-Dec-16	6.05	24	17-Nov-17	4.75	500 000
15-Dec-16	6.10	1 080	15-Dec-17	2.45	605
15-Dec-16	6.20	97	15-Dec-17	2.50	817
15-Jun-17	2.25	827	15-Dec-17	2.60	656
15-Jun-17	2.30	671	15-Dec-17	3.35	5
15-Jun-17	2.40	2 890	15-Dec-17	3.40	388
15-Jun-17	2.45	634	15-Dec-17	3.50	902
15-Jun-17	2.50	602	15-Dec-17	3.85	54
15-Jun-17	2.60	1 018	15-Dec-17	3.90	151
15-Jun-17	2.75	100	15-Dec-17	4.00	491
15-Jun-17	2.80	4	15-Dec-17	4.05	30
15-Jun-17	2.90	85	15-Dec-17	4.10	14
15-Jun-17	3.65	204	15-Dec-17	4.15	254
15-Jun-17	3.70	721	15-Dec-17	4.20	638
15-Jun-17	3.80	528	15-Dec-17	4.30	2 192
15-Jun-17	3.85	63	15-Jun-18	2.35	196

Maturity Date	Coupon Rate	Face Value	Maturity Date	Coupon Rate	Face Value
	%	\$000		%	\$000
15-Jun-18	2.40	1 548	2019-20		
15-Jun-18	2.50	1 553	08-Oct-19	8.14	5 000
15-Jun-18	2.55	47	15-Dec-19	2.75	105
15-Jun-18	2.60	442	15-Dec-19	2.80	43
15-Jun-18	2.70	345	15-Dec-19	2.90	150
15-Jun-18	2.90	50	15-Dec-19	3.95	536
15-Jun-18	3.00	60	15-Dec-19	4.00	2 310
15-Jun-18	3.95	820	15-Dec-19	4.10	3 219
15-Jun-18	4.00	1 299	15-Jun-20	2.65	199
15-Jun-18	4.10	2 067	15-Jun-20	2.70	112
<b>TOTAL 2017-18</b>	<b>4.71</b>	<b>515 874</b>	15-Jun-20	2.80	142
			15-Jun-20	2.90	50
2018-19			15-Jun-20	3.00	240
20-Sep-18	4.75	500 000	15-Jun-20	3.05	277
15-Dec-18	2.55	15	15-Jun-20	3.10	839
15-Dec-18	2.60	622	15-Jun-20	3.20	2 362
15-Dec-18	2.70	501	15-Jun-20	3.35	489
15-Dec-18	3.65	159	15-Jun-20	3.40	102
15-Dec-18	3.70	626	15-Jun-20	3.50	1 423
15-Dec-18	3.80	438	<b>TOTAL 2019-20</b>	<b>4.90</b>	<b>17 598</b>
15-Dec-18	4.15	635			
15-Dec-18	4.20	1 328	2020-21		
15-Dec-18	4.30	2 789	15-Dec-20	3.05	1 140
13-Apr-19	2.80	250	15-Dec-20	3.10	807
15-Jun-19	2.45	159	15-Dec-20	3.20	5 246
15-Jun-19	2.50	115	15-Jun-21	2.85	981
15-Jun-19	2.60	592	15-Jun-21	2.90	921
15-Jun-19	2.75	72	15-Jun-21	3.00	5 546
15-Jun-19	2.80	152	15-Jun-21	3.05	300
15-Jun-19	2.90	717	15-Jun-21	3.10	202
15-Jun-19	3.20	201	15-Jun-21	3.20	1 145
15-Jun-19	4.25	476	<b>TOTAL 2020-21</b>	<b>3.07</b>	<b>16 288</b>
15-Jun-19	4.30	1 246			
15-Jun-19	4.40	3 150	2021-22		
<b>TOTAL 2018-19</b>	<b>4.73</b>	<b>514 243</b>	20-Sep-21	4.25	650 000
			15-Mar-22	6.06	5 000
			<b>TOTAL 2021-22</b>	<b>4.26</b>	<b>655 000</b>

Maturity Date	Coupon Rate	Face Value
	%	\$000
2022-23		
30-Sep-22	8.24	5 000
15-Mar-23	6.00	10 000
20-May-23	5.00	5 000
<b>TOTAL 2022-23</b>	<b>6.31</b>	<b>20 000</b>

2023-24		
15-Mar-24	6.00	650 000
20-May-24	5.00	5 000
<b>TOTAL 2023-24</b>	<b>5.99</b>	<b>655 000</b>

2024-25		
15-Mar-25	6.00	18 900
20-May-25	8.50	5 000
<b>TOTAL 2024-25</b>	<b>6.52</b>	<b>23 900</b>

2025-26		
15-Sep-25	8.50	24 974
15-Mar-26	6.00	650 000
<b>TOTAL 2025-26</b>	<b>6.09</b>	<b>674 974</b>

2026-27		
15-Mar-27	6.00	8 400
<b>TOTAL 2026-27</b>	<b>6.00</b>	<b>8 400</b>

2027-28		
15-Mar-28	6.00	7 900
<b>TOTAL 2027-28</b>	<b>6.00</b>	<b>7 900</b>

2028-29		
15-Mar-29	6.00	7 500
<b>TOTAL 2028-29</b>	<b>6.00</b>	<b>7 500</b>

Maturity Date	Coupon Rate	Face Value
	%	\$000
2029-30		
15-Mar-30	6.00	42 000
<b>TOTAL 2029-30</b>	<b>6.00</b>	<b>42 000</b>

<b>TOTAL</b>	<b>5.28</b>	<b>3 691 517</b>
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# Appendix B: Outstanding Loans

As at 30 June 2016

	Face Value
	\$000
General government agencies	
Central Holding Authority	2 439 995
Department of Housing	76 355
<b>Total</b>	<b>2 516 350</b>
Government business divisions	
Land Development Corporation	20 000
NT Home Ownership	210 793
<b>Total</b>	<b>230 793</b>
Government owned corporations	
Power and Water Corporation	1 112 805
Territory Generation	180 000
<b>Total</b>	<b>1 292 805</b>
<b>TOTAL</b>	<b>4 039 948</b>

# Appendix C: Investment Guidelines

As at 30 June 2016

Institution	Standard & Poor's Credit Rating	Limit \$AUD
		\$000
Short-term investments (< 1 year)		
Governments	A-1+	150 000
	A-1	100 000
	A-2	75 000
Financial institutions	A-1+	75 000
	A-1	50 000
	A-2	30 000
Structured finance instruments	A-1+	30 000
	A-1	20 000
	A-2	10 000
Corporates	A-1+	30 000
	A-1	20 000
	A-2	10 000
Long-term investments (> 1 year)		
Governments	AAA	100 000
	AA+	80 000
	AA	60 000
	AA-	50 000
Financial institutions	AAA	50 000
	AA+	40 000
	AA	30 000
	AA-	20 000
	A+	10 000
	A	5 000
Structured finance instruments	AAA	20 000
	AA+	15 000
	AA	10 000
	AA-	5 000
Corporates	AAA	20 000
	AA+	15 000
	AA	10 000
	AA-	5 000

# Appendix D: Glossary of Terms

## Aaa/AAA

The highest credit rating assigned by credit rating agencies such as Moody's Investors Services and Standard & Poor's.

## Advisory Board

The board established under section 8 of the NTTC Act to exercise such powers and perform such functions as determined by the Treasurer.

## Agency

A unit of government administration, or office or statutory corporation, nominated in an Administrative Arrangements Order, as an agency for the purpose of the *Financial Management Act*.

## Bank Bill Swap Rate (BBSW)

Australian Financial Markets Association (AFMA) bank-bill reference rates published daily on AFMA data page 'BBSW'.

## Bond

A bond is a negotiable certificate or debt security that acknowledges the indebtedness of the bond issuer to the holder. It is a formal agreement to pay interest at defined fixed intervals and repay the borrowed principal at maturity.

## Central Financing Authorities

Central financing authorities (CFAs) are institutions established by state and territory governments primarily to provide finance for their respective governments and other corporations owned or controlled by those governments. CFAs borrow funds, mainly by issuing securities, and on-lend them to their public sector clients. CFAs also administer and invest surplus funds on behalf of government. However, they also engage in other financial intermediation activity for investment purposes and may engage in the financial management activities of the parent government.

## Credit Foncier Loan

A loan that is repaid in instalments comprising both principal and interest components.

## Debt

A debt is an obligation owed by one party (the debtor) to a second party (the creditor). A debt is created when a creditor agrees to lend or invest a stated principal amount of funds to a debtor.

## Designated Investments

NTTC provides Territory Bonds as Designated Investments under the Australian Department of Immigration and Border Protection's Business Innovation and Investment programme and Investor Retirement Migration visa (subclass 405) programme.

## Discount

The amount by which the value of a security is less than its face value.

## Face Value

The amount of money indicated on a security, or inscribed in relation to a security, as being due to be paid on maturity.

## Fixed Interest

Interest on investments such as bonds and debentures, paid at a predetermined and unchanging rate for a specified period, the life of the bond or debenture.

### Floating Rate Note

Medium to long-term debt securities carrying a variable interest rate adjusted periodically by a margin against a benchmark rate.

### Government Business Divisions

Entities that operate on a commercial basis and have a significant proportion of their operating cost recovered through charges on goods and services provided to users.

### Government Owned Corporations

Entities that operate on a commercial basis whose operations are not guaranteed by the Crown and do not make the Territory liable for its debts, liabilities or obligations.

### Inscribed Stock

Securities for which the ownership is recorded in a registry. The owner is issued with a certificate, which is not itself transferable. The stock can only be transferred by use of the appropriate documents.

### Local Authorities

Town, municipal and shire councils within the Territory.

### Margin

The difference between a benchmark interest rate and the rate charged to an individual borrower. It is sometimes called the spread.

### Maturity Date

The date on which the final bond payment is to be made.

### Migration Linked Bonds

Bonds offered by NTTC that satisfy the criteria of a Designated Investment under the relevant programs administered by the Department of Immigration and Border Protection. Refer Designated Investments for details.

### Operational Risk

The risk of loss, whether direct or indirect, arising from inadequate or failed internal processes, people or systems, or from external events. It encompasses risks inherent in the agency's operating activities such as fraud risk, settlement risk, legal risk, accounting risk, personnel risk and reputation risk.

### Premium

The amount by which the value of a security is greater than its face value.

### Principal

The nominal amount or face value of a bond.

### Promissory Note

Issues of a debt security by NTTC with the undertaking to pay the stated amount to the note holder on a specified date.

### Security

A security is generally a fungible, negotiable financial instrument representing financial value.

### Territory Bonds

Issues of NTTC inscribed stock to retail investors.





# Financial Statements

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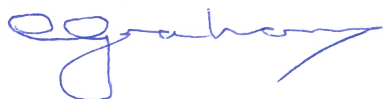
# Certification of Financial Statements

For the financial year ended 30 June 2016

We certify that the attached financial statements for the Northern Territory Treasury Corporation have been prepared from proper accounts and records in accordance with the prescribed format, the *Financial Management Act*, *Northern Territory Treasury Corporation Act* and Treasurer's Directions.

We further state that the information set out in the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, and Notes to and forming part of the financial statements presents fairly the financial performance and cash flows for the year ended 30 June 2016 and the financial position on that date.

At the time of signing, we are not aware of any circumstances that would render the particulars included in the financial statements misleading or inaccurate.



Craig Graham

A/Under Treasurer

26 September 2016



Alex Pollon

General Manager

26 September 2016



## **Auditor-General**

# **Independent Auditor's Report to the Treasurer Northern Territory Treasury Corporation Year Ended 30 June 2016 Page 1 of 2**

I have audited the accompanying financial report of Northern Territory Treasury Corporation ("the Corporation"), which comprises the statement of financial position as at 30 June 2016, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Certification by the Under Treasurer and General Manager.

## **The Responsibility of the General Manager for the Financial Report**

The General Manager of the Corporation is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Northern Territory Treasury Corporation Act*, and for such internal control as management determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

## **Auditor's Responsibility**

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

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

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



## Auditor-General

### Page 2 of 2

#### Opinion

In my opinion, the financial report of the Northern Territory Treasury Corporation:

- is based on proper accounts and is in agreement with the accounts and has been properly drawn up so as to present a true and fair view of the transactions for the financial year ended 30 June 2016 of the Corporation and the financial position at the end of the year;
- the financial report is presented in accordance with Australian Accounting Standards and the *Northern Territory Treasury Corporation Act*; and
- the receipt and expenditure of money and the acquisition and disposal of property by the Corporation during the year have been in accordance with the *Northern Territory Treasury Corporation Act*.

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

Julie Crisp  
Auditor-General for the Northern Territory  
Darwin, Northern Territory

27 September 2016

# Statement of Comprehensive Income

For the financial year ended 30 June 2016

	Note	2016	2015
		\$000	\$000
<b>REVENUE</b>		<b>239 230</b>	<b>277 249</b>
Interest	4	238 408	276 405
Other revenue	5	822	844
<b>EXPENSES</b>		<b>215 098</b>	<b>241 120</b>
Interest	6	212 829	238 841
Administration	7	2 269	2 279
<b>PROFIT BEFORE INCOME TAX</b>		<b>24 132</b>	<b>36 129</b>
Income tax expense	14(b)	7 240	10 839
<b>NET PROFIT AFTER INCOME TAX</b>	<b>8</b>	<b>16 892</b>	<b>25 290</b>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>			
Northern Territory Government		16 892	25 290
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>16 892</b>	<b>25 290</b>

Notes to the financial statements are included on pages 47 to 69.

# Statement of Financial Position

As at 30 June 2016

	Note	2016	2015
		\$000	\$000
<b>TOTAL ASSETS</b>		<b>4 085 056</b>	<b>4 648 108</b>
Cash and cash equivalents	10	39 127	19 436
Trade and other receivables	11	5 909	6 646
Prepayments		72	54
Loans	12	4 039 948	4 621 972
<b>TOTAL LIABILITIES</b>		<b>4 063 426</b>	<b>4 626 478</b>
Deposits held		521	470
Trade and other payables	13	47 090	53 720
Provisions	14	17 030	25 475
Tax liabilities	14	7 240	10 839
Borrowings	15	3 991 545	4 535 974
<b>NET ASSETS</b>		<b>21 630</b>	<b>21 630</b>
<b>TOTAL EQUITY</b>		<b>21 630</b>	<b>21 630</b>
Contributed capital	9	21 630	21 630

Notes to the financial statements are included on pages 47 to 69.

# Statement of Cash Flows

For the financial year ended 30 June 2016

	Note	2016	2015
		\$000	\$000
		inflows	inflows
		(outflows)	(outflows)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>18</b>	<b>1 314</b>	<b>9 926</b>
Interest received from investments		239 140	278 921
Interest and other costs of finance paid		(225 445)	(257 677)
Other receipts:			
Management fee		820	820
Other fees		2	24
Payments to suppliers and employees		(2 364)	(2 270)
Income tax paid		(10 839)	(9 892)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>582 025</b>	<b>60 012</b>
Repayment of loans		743 025	130 012
Drawdown of loans		(161 000)	(70 000)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>(563 648)</b>	<b>(642 314)</b>
Repayment of borrowings		(993 849)	(1 000 598)
Drawdown of borrowings		455 440	381 300
Deposits received		51	66
Dividend paid		(25 290)	(23 082)
<b>NET (DECREASE)/INCREASE IN CASH HELD</b>		<b>19 691</b>	<b>(572 376)</b>
Cash and cash equivalents at the beginning of the financial year		19 436	591 812
Cash and cash equivalents at the end of the financial year	10	39 127	19 436

Notes to the financial statements are included on pages 47 to 69.

# Statement of Changes in Equity

For the financial year ended 30 June 2016

	Note	2016	2015
		\$000	\$000
<b>CONTRIBUTED CAPITAL</b>			
Balance at the beginning of the financial year		21 630	21 630
Movement for the year		-	-
Balance at the end of the financial year	9	21 630	21 630
<b>RETAINED PROFITS</b>			
Balance at the beginning of the financial year		-	-
Net profit	8	16 892	25 290
Dividends provided for	21	(16 892)	(25 290)
Dividends paid		-	-
Balance at the end of the financial year		-	-
<b>TOTAL EQUITY</b>		<b>21 630</b>	<b>21 630</b>

Notes to the financial statements are included on pages 47 to 69.



# Notes to the Financial Statements

For the financial year ended 30 June 2016

## 1. Legal Status, Associated Guarantees and Entity Domicile

### (a) Determination of Government Business Division Status

The Treasurer has determined that the Northern Territory Treasury Corporation (NTTC) is a government business division as defined in section 3(1) of the *Financial Management Act* (FMA). In accordance with section 10(2) of the FMA, the financial statements of NTTC were prepared based on commercial accounting principles and compliance with Australian Accounting Standards.

### (b) Statutory Guarantee

Under section 20 of the *Northern Territory Treasury Corporation Act* (NTTC Act), all financial obligations incurred or assumed by NTTC are guaranteed by the Treasurer on behalf of the Northern Territory Government of Australia.

### (c) Reporting Entity

NTTC is domiciled in Australia. Its registered address is 19 The Mall Darwin NT 0800. NTTC is designated as a not-for-profit entity and is primarily involved in borrowing and investing on behalf of the Northern Territory Government.

## 2. Summary of Accounting Policies

### Statement of Compliance

The financial statements are general purpose financial statements prepared in accordance with the NTTC Act, Australian Accounting Standards as issued by the Australian Accounting Standards Board (AASB), the requirements of the FMA, and the Treasurer's Directions.

The financial statements were authorised for issue by the Under Treasurer on 26 September 2016.

### Basis of Preparation

The financial statements are presented in Australian dollars, rounded to the nearest thousand (unless otherwise indicated), and were prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

The preparation of the financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Use of estimates and judgements in preparing these financial statements has been limited. Information about areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is described in Note 17.

Accounting policies are selected and applied in a manner that ensures the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring the substance of the underlying transactions or other events is reported.

# Notes to the Financial Statements

For the financial year ended 30 June 2016

Note 2 continued

The significant policies adopted in the preparation of these financial statements are:

## (a) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to insignificant risk of changes in value and have a maturity of three months or less at date of acquisition. They are measured at face value or the gross value of the outstanding balance.

## (b) Employee Benefits

Provision is made for benefits accruing to employees in respect to salaries and wages, and annual leave, when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect to employee benefits that are expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Provisions made in respect to employee benefits not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by NTTC in respect to services provided by employees up to the reporting date.

NTTC's long service leave liabilities are recorded by the Central Holding Authority (CHA). This is in accordance with the Territory Government's current policy where all government agencies' long service leave liabilities are assumed by CHA.

## (c) Expense Recognition

Expense is recognised to the extent that it is a probable outflow of economic sacrifice and will flow from the entity and the expense can be reliably measured. Specific expenses are recognised as follows:

### (i) Interest expense:

Interest expense includes accrued interest, loss on extinguishment and amortisation of discount and premiums. Interest expense is recognised on an effective yield basis.

### (ii) Other expense:

Other expense includes administration charges. Expenses for charges are recognised in the period in which the service is provided on an accrual basis.

## (d) Financial Instruments

### (i) Financial assets:

Financial assets include cash and cash equivalents, trade and other receivables (mainly interest) and loan receivables. Loans and receivables are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, such financial assets are measured at amortised cost using the effective interest method (less impairment) with any difference between the initial recognised amount and the amortised cost (less impairment) amount recognised in the Statement of Comprehensive Income over the period of the financial asset.

### (ii) Financial liabilities:

Financial liabilities include deposits held, trade and other payables and borrowings. Financial liabilities are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, financial liabilities are measured at amortised cost with any difference between the initial recognised amount and the redemption amount recognised in the Statement of Comprehensive Income over the period of the financial liability using the effective interest method.

# Notes to the Financial Statements

For the financial year ended 30 June 2016

Note 2 continued

(iii) Effective interest method:

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash receipts or payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial assets or liabilities or, where appropriate, a shorter period. Interest income and expense is recognised on an effective interest rate basis for debt instruments.

(iv) Financial instruments issued by NTTC:

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual agreement.

(v) Impairment of financial assets:

Financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment. A financial asset or group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment, resulting from one or more loss events that occurred after initial recognition, which indicates it is probable that NTTC will be unable to collect all amounts due. The carrying amount of a financial asset identified as impaired is reduced to its estimated recoverable amount.

(vi) Gains and losses on extinguishment:

Gains and losses on extinguishment occur when a loan or a borrowing is redeemed prior to the scheduled maturity date. A gain or loss is derived where the fair value at redemption is higher or lower than the value of the instrument at amortised cost. These gains and losses are recognised in the period in which the instrument is extinguished.

(vii) Derecognition:

Financial assets are derecognised when the right to receive cash flows from the financial assets has expired or been transferred. Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expired.

(e) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- (i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of the acquisition of an asset or as part of an item of expense; or
- (ii) for receivables and payables that are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

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 that is recoverable from, or payable to the taxation authority is classified as operating cash flows.

(f) Operating Leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

# Notes to the Financial Statements

For the financial year ended 30 June 2016

Note 2 continued

## (g) Provisions

Provisions are recognised when NTTC has a present obligation, the future sacrifice of economic benefits is probable and the amount of the provision can be measured reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

## (h) Revenue Recognition

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

### (i) Interest revenue:

Interest revenue includes accrued revenue and gain on extinguishment. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

### (ii) Other revenue:

Other revenue includes fees and commissions for services provided. Revenue for fees and commissions are recognised in the period in which the service is provided on an accrual basis.

## (i) Superannuation

Employee superannuation entitlements are provided through the:

- Northern Territory Government and Public Authorities Superannuation Scheme (NTGPASS);
- Northern Territory Supplementary Superannuation Scheme (NTSSS); and
- employee-nominated non-government schemes for those employees commencing on or after 10 August 1999.

NTTC makes superannuation contributions on behalf of its employees. Any liability for superannuation is met directly by the Territory Government, and NTTC has and will continue to have no other direct superannuation liability.

## (j) Taxation

In accordance with the requirements of the Treasurer's Directions and the Northern Territory Tax Equivalents Regime, NTTC is required to pay notional income tax on its accounting profits at the company tax rate of 30 per cent. Tax for current and prior periods is recognised as a liability to the extent that it is unpaid.

# Notes to the Financial Statements

For the financial year ended 30 June 2016

## 3. New Standards and Interpretations not yet Adopted

### (a) Standards and Interpretations Adopted During the Year Ended

No accounting standard has been adopted earlier than the applicable dates as stated in the standard.

New standards, revised standards, interpretations or amending standards issued prior to the sign-off date applicable to the current reporting period did not have a financial impact on NTTC and are not expected to have future financial impact on NTTC.

### (b) Standards and Interpretations on Issue but not yet Adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2016 and were not applied in preparing these financial statements, none of which are expected to have a significant effect on the financial statements of NTTC.

The table below summarises the standards and interpretations already issued but not applicable until a later date. However, some standards and interpretations are available for voluntary early adoption. NTTC has not opted to adopt any standards and interpretations early. The table below primarily includes those standards and interpretations relevant to NTTC.

Standard/Interpretations	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 Financial Instruments, and the relevant amending standards	1 January 2018	30 June 2019
AASB 15 Revenue from Contracts with Customers	1 January 2018	30 June 2019
AASB 16 Leases	1 January 2019	30 June 2020
AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle	1 January 2016	30 June 2017
AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	1 January 2016	30 June 2017
AASB 2015-6 Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Non-for-Profit Public Sector Entities	1 January 2016	30 June 2017
AASB 2015-7 Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities	1 January 2016	30 June 2017
AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107	1 January 2017	30 June 2018

# Notes to the Financial Statements

For the financial year ended 30 June 2016

## 4. Interest Revenue

	2016	2015
	\$000	\$000
Interest from loans:		
General government agencies	159 741	188 070
Government owned corporations	65 066	68 788
Government business divisions	12 278	15 830
Gain on extinguishment	7	779
Interest from cash balances:		
General government agencies	1 316	2 938
<b>TOTAL INTEREST REVENUE</b>	<b>238 408</b>	<b>276 405</b>

	2016	2016	2015	2015
	Average Balance	Average Rate	Average Balance	Average Rate
	\$000	%	\$000	%
Loans to:				
General government agencies	2 822 498	5.66	3 073 052	6.12
Government owned corporations	1 253 576	5.19	1 275 526	5.39
Government business divisions	254 886	4.82	303 011	5.22
<b>TOTAL</b>	<b>4 330 960</b>		<b>4 651 589</b>	

	2016	2015
	\$000	\$000
Gains on extinguishment:		
Gains on extinguishment of loans at amortised cost	7	779
<b>TOTAL GAINS ON EXTINGUISHMENT</b>	<b>7</b>	<b>779</b>

## 5. Other Revenue

	2016	2015
	\$000	\$000
Management fees	820	820
Other revenue	2	24
<b>TOTAL OTHER REVENUE</b>	<b>822</b>	<b>844</b>

# Notes to the Financial Statements

For the financial year ended 30 June 2016

## 6. Interest Expense

	2016	2015
	\$000	\$000
Interest to:		
Wholesale borrowings	195 848	220 508
Debt to Commonwealth	10 701	11 009
Retail borrowings	3 974	4 780
Promissory notes	2 276	2 519
Losses on extinguishment	30	25
<b>TOTAL INTEREST EXPENSE</b>	<b>212 829</b>	<b>238 841</b>

	2016	2016	2015	2015
	Average Balance	Average Rate	Average Balance	Average Rate
	\$000	%	\$000	%
Borrowings from:				
Wholesale market				
Fixed interest securities	3 942 955	4.97	4 515 299	5.18
Promissory notes	105 205	2.16	100 548	2.50
Debt to Commonwealth	226 668	4.72	233 305	4.72
Retail market	94 136	4.22	99 661	5.09
	4 368 964		4 948 813	

	2016	2015
	\$000	\$000
Losses on extinguishment:		
Losses on extinguishment of borrowings at amortised cost	30	25
<b>TOTAL LOSSES ON EXTINGUISHMENT</b>	<b>30</b>	<b>25</b>

# Notes to the Financial Statements

For the financial year ended 30 June 2016

## 7. Other Expenses

	2016	2015
	\$000	\$000
Administration:		
Salaries and related employee expenses	833	824
Agent service arrangements – external	655	682
Other service arrangements – internal	563	559
Consultants	-	17
Marketing and promotion	3	3
Document production	34	36
General property management	93	67
Operating leases	8	9
Subscriptions	63	62
Training and study	6	7
Official duty fares	-	1
Travel allowance	1	1
Other operating expenses	10	11
<b>TOTAL OTHER EXPENSES</b>	<b>2 269</b>	<b>2 279</b>

## 8. Retained Profits

	2016	2015
	\$000	\$000
Balance at the beginning of the financial year	-	-
Net profit	16 892	25 290
Dividends provided for	(16 892)	(25 290)
<b>BALANCE AT THE END OF THE FINANCIAL YEAR</b>	<b>-</b>	<b>-</b>

## 9. Contributed Capital

	2016	2015
	\$000	\$000
Balance at the beginning of the financial year	21 630	21 630
Movement for the year	-	-
<b>BALANCE AT THE END OF THE FINANCIAL YEAR</b>	<b>21 630</b>	<b>21 630</b>

## 10. Cash and Cash Equivalents

	2016	2015
	\$000	\$000
Cash at bank	39 127	19 436
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>39 127</b>	<b>19 436</b>



# Notes to the Financial Statements

For the financial year ended 30 June 2016

## 11. Trade and Other Receivables

	2016	2015
	\$000	\$000
Accrued interest on loans	5 903	6 641
Debtors	6	5
<b>TOTAL TRADE AND OTHER RECEIVABLES</b>	<b>5 909</b>	<b>6 646</b>
Due from external bodies	6	5
Due from Northern Territory Government agencies	5 903	6 641
<b>TOTAL TRADE AND OTHER RECEIVABLES</b>	<b>5 909</b>	<b>6 646</b>

## 12. Loans

	2016	2015
	\$000	\$000
General government agencies		
Fixed rate loans	2 342 200	2 950 200
Credit foncier loans	174 150	178 447
Government owned corporations		
Fixed rate loans	551 000	430 000
Floating rate loans	741 805	781 805
Credit foncier loans	-	2 541
Government business divisions		
Fixed rate loans	110 000	133 000
Floating rate loans	5 000	22 000
Credit foncier loans	115 793	123 979
<b>TOTAL LOANS</b>	<b>4 039 948</b>	<b>4 621 972</b>

## 13. Trade and Other Payables

	2016	2015
	\$000	\$000
Creditors and accruals	283	295
Accrued interest on borrowings	46 804	53 406
Accrued salaries	3	19
<b>TOTAL TRADE AND OTHER PAYABLES</b>	<b>47 090</b>	<b>53 720</b>
Due to external bodies	47 028	53 629
Due to Northern Territory Government agencies	62	91
<b>TOTAL TRADE AND OTHER PAYABLES</b>	<b>47 090</b>	<b>53 720</b>

# Notes to the Financial Statements

For the financial year ended 30 June 2016

## 14. Provisions and Tax Liabilities

	2016	2015
	\$000	\$000
a) Employee benefits		
Recreation leave		
Opening balance	146	156
Recreation leave paid	(105)	(100)
Recreation leave provided for	66	90
Closing balance	107	146
Leave bonus		
Opening balance	13	12
Leave bonus paid	(12)	(7)
Leave bonus provided for	8	8
Closing balance	9	13
Leave airfares		
Opening balance	-	-
Leave airfares paid	(4)	-
Leave airfares provided for	8	-
Closing balance	4	-
Purchased leave		
Opening balance	1	-
Purchased leave paid	(3)	-
Purchased leave provided for	4	1
Closing balance	2	1
Superannuation external		
Opening balance	23	24
Superannuation paid	(23)	(24)
Superannuation provided for	14	23
Closing balance	14	23
Total employee benefits	136	183
Fringe benefit tax	2	2
Dividend payable	16 892	25 290
<b>TOTAL PROVISIONS</b>	<b>17 030</b>	<b>25 475</b>
b) Tax liabilities		
Notional income tax payable	7 240	10 839
<b>TOTAL TAX LIABILITIES</b>	<b>7 240</b>	<b>10 839</b>

# Notes to the Financial Statements

For the financial year ended 30 June 2016

## 15. Borrowings

	2016	2015
	\$000	\$000
Wholesale market		
Fixed interest securities	3 676 429	4 209 482
Retail market		
Territory Bonds	91 343	95 930
Migration Linked Bonds	500	500
Commonwealth		
Credit foncier loans	223 273	230 062
<b>TOTAL BORROWINGS</b>	<b>3 991 545</b>	<b>4 535 974</b>

## 16. Financial Instruments and Risk Management

### Objectives and Policies

NTTC's objectives in managing financial risks, such as market risk (interest rate risk and foreign exchange risk), credit risk, liquidity risk and funding risk, are to:

- safeguard financial resources by establishing and regularly reviewing counterparty credit limits, maintaining adequate internal controls and staffing;
- minimise borrowing costs via effective control and management of interest rate risk and maintain interest rate risk at an acceptable level;
- ensure there is sufficient short and long-term liquidity to meet debts as and when they fall due;
- minimise the cost of foreign currency requirements through the effective control and management of its foreign exchange risk and neutralise foreign exchange exposures; and
- review and evaluate the risk management policies and procedures on an annual basis to ensure they remain adequate for NTTC to operate in a risk-neutral manner.

These objectives and policies are endorsed by NTTC's Advisory Board and the Under Treasurer.

### Management of Capital

NTTC is not subject to any legislative requirement to maintain a minimum level of equity, however NTTC's Advisory Board reviews and recommends an appropriate balance between debt and equity funding. The current level of contributed equity is deemed appropriate for the risks inherent to NTTC's business.

# Notes to the Financial Statements

For the financial year ended 30 June 2016

Note 16 continued

## Categories of Financial Instruments

The carrying amount of financial instruments by category is as follows:

	30 June 2016	30 June 2015
	\$000	\$000
<b>Financial assets:</b>		
Cash and cash equivalents	39 127	19 436
Loans and receivables at amortised cost:		
Trade and other receivables	5 909	6 646
Loans	4 039 948	4 621 972
Total loans and receivables at amortised cost	4 045 857	4 628 618
<b>Financial liabilities:</b>		
Financial liabilities at amortised cost:		
Deposits held	521	470
Trade and other payables	47 090	53 720
Borrowings	3 991 545	4 535 974
<b>TOTAL FINANCIAL LIABILITIES AT AMORTISED COST</b>	<b>4 039 156</b>	<b>4 590 164</b>

## Market Risk

NTTC adopts a policy of a risk-neutral operation. Risk-neutral means NTTC will generally manage interest rate and foreign exchange risk, firstly, by matching assets and liabilities where possible, and then by utilising a variety of derivative financial instruments to manage any residual exposures.

In the normal course of business, NTTC may utilise the following derivative instruments:

- interest rate swaps to mitigate the risk of rising interest rates; and
- cross-currency swaps to manage the foreign currency risk associated with foreign currency denominated borrowings.

NTTC does not enter into or trade in derivative financial instruments for speculative purposes.

Market risk is reported at each meeting of the Advisory Board. To the extent that there are mismatches between assets and liabilities, the sensitivity to interest rate risk is measured by a parallel shift in the current market yield curve of 1 per cent. There is currently no exposure to foreign exchange risk, therefore, no sensitivity analysis is undertaken. However, should NTTC borrow in foreign currency in the future, the sensitivity to foreign exchange risk can similarly be measured by shifting spot exchange rates by an appropriate margin.

Market risks are discussed in more detail below.

### (a) Interest Rate Risk

Interest rate risk is the risk of financial loss and/or increased costs due to adverse movements in the value of financial assets and liabilities as a result of changes in interest rates. NTTC's interest rate risk arises from cash flow mismatches in the maturity profiles and the repricing dates of its financial assets and liabilities.

# Notes to the Financial Statements

For the financial year ended 30 June 2016

Note 16 continued

NTTC aims to manage the interest rate exposure on its financial assets and liabilities at an acceptable level in an attempt to minimise the cost of its borrowing requirements within stated guidelines.

NTTC's interest rate risk on its financial assets and liabilities is significantly reduced as a result of its relationship with CHA. As at 30 June 2016, approximately 66 per cent (2015: 72 per cent) of NTTC's issued debt is on-lent to CHA. The interest rates and maturity dates set on these loans are closely matched to the debt issued by NTTC to external counterparties. NTTC's loans to CHA attract a margin over the cost of servicing the debt.

When interest rate swaps are used to manage interest rate risk, those that convert floating rate debt to a fixed rate are designated as cash flow hedges. By using interest rate swaps, NTTC agrees to exchange the difference between fixed and floating interest rate amounts calculated by reference to agreed notional principal, thereby enabling NTTC to reduce the risk of rising interest rates now or at a future date.

NTTC enters into interest rate swaps that entitle it to receive interest at floating rates and oblige it to pay interest at fixed rates on the same amount. Interest rate swaps allow NTTC to raise long-term borrowings at floating rates and effectively swap them into fixed rates.

Notional principal amounts represent the contract or face value of the swap. The notional amounts do not represent amounts exchanged by the parties to the contract.

As at 30 June 2016, NTTC did not hold any derivative transactions.

## (i) Sensitivity analysis

Assuming the financial assets and liabilities at 30 June 2016 were to remain until maturity or settlement without any action by NTTC to alter the resulting interest rate risk exposure, an immediate and sustained increase/decrease of 1 per cent in market interest rates across all maturities would have the following impact on profit before tax for the financial year:

	± 1% Movement in Interest Rates	
	Impact on Profit before Tax 2016	Impact on Profit before Tax 2015
	\$000	\$000
Financial assets:		
Cash at bank	± 391	± 194
Floating rate loans	± 464	± 685
NET SENSITIVITY	± 855	± 879

# Notes to the Financial Statements

For the financial year ended 30 June 2016

Note 16 continued

## (ii) Interest Rate Risk Exposures

NTTC's exposure to interest rate risk, re-pricing maturities and the effective interest rates on financial instruments at 30 June 2016 are:

### Re-pricing Maturities

	Weighted Average Interest Rate	Interest Rate Reset Due In					Non- Interest Bearing	Total
		0 to 3 Months	3 Months to 1 Year	1 to 5 Years	More than 5 Years			
	%	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Financial assets:</b>								
Cash	1.75	39 127	-	-	-	-	-	39 127
Trade and other receivables	-	-	-	-	-	-	5 909	5 909
<b>Loans</b>								
Fixed rate loans	5.10	-	410 000	1 656 000	937 200	-	-	3 003 200
Floating rate loans	5.00	-	159 000	587 805	-	-	-	746 805
Credit foncier loans	9.25	-	3 141	388	286 414	-	-	289 943
<b>TOTAL FINANCIAL ASSETS</b>		<b>39 127</b>	<b>572 141</b>	<b>2 244 193</b>	<b>1 223 614</b>	<b>5 909</b>		<b>4 084 984</b>
<b>Financial liabilities:</b>								
Deposits held	-	-	-	-	-	-	521	521
Trade and other payables	-	-	-	-	-	-	47 090	47 090
<b>Borrowings</b>								
Fixed interest securities	5.00	-	533 387	1 059 253	2 175 632	-	-	3 768 272
Promissory notes	-	-	-	-	-	-	-	-
Credit foncier loans	4.65	-	-	385	222 888	-	-	223 273
<b>TOTAL FINANCIAL LIABILITIES</b>		<b>-</b>	<b>533 387</b>	<b>1 059 638</b>	<b>2 398 520</b>	<b>47 611</b>		<b>4 039 156</b>

# Notes to the Financial Statements

For the financial year ended 30 June 2016

Note 16 continued

For comparative purposes, NTTC's exposure to interest rate risk, repricing maturities and the effective interest rates on financial instruments at 30 June 2015 was as follows:

	Interest Rate Reset Due In						Non-Interest Bearing	Total
	Weighted Average Interest Rate	0 to 3 Months	3 Months to 1 Year	1 to 5 Years	More than 5 Years			
	%	\$000	\$000	\$000	\$000	\$000		\$000
<b>Financial assets:</b>								
Cash	2.00	19 436	-	-	-	-	-	19 436
Trade and other receivables	-	-	-	-	-	-	6 646	6 646
<b>Loans</b>								
Fixed rate loans	5.33	40 000	553 000	1 995 000	925 200	-	-	3 513 200
Floating rate loans	5.53	15 000	158 000	630 805	-	-	-	803 805
Credit foncier loans	9.16	-	2 540	6 143	296 284	-	-	304 967
<b>TOTAL FINANCIAL ASSETS</b>		<b>74 436</b>	<b>713 540</b>	<b>2 631 948</b>	<b>1 221 484</b>	<b>6 646</b>		<b>4 648 054</b>
<b>Financial liabilities:</b>								
Deposits held	-	-	-	-	-	-	470	470
Trade and other payables	-	-	-	-	-	-	53 720	53 720
<b>Borrowings</b>								
Fixed interest securities	5.19	-	564 915	1 558 139	2 182 858	-	-	4 305 912
Promissory notes	-	-	-	-	-	-	-	-
Credit foncier loans	4.65	-	-	-	230 062	-	-	230 062
<b>TOTAL FINANCIAL LIABILITIES</b>		<b>-</b>	<b>564 915</b>	<b>1 558 139</b>	<b>2 412 920</b>	<b>54 190</b>		<b>4 590 164</b>

## (b) Foreign Exchange Risk

Foreign exchange risk is the risk of financial loss due to adverse movements in foreign exchange rates. NTTC's assets are denominated solely in Australian dollars, therefore exposure to foreign exchange risk arises only if and when borrowings are denominated in foreign currencies. NTTC does not currently issue any foreign currency debt, however should it do so in the future, foreign exchange exposures will be neutralised using cross-currency interest rate swaps.

## (c) Credit Risk

Credit risk is the risk of financial loss and/or increased costs due to the failure of a counterparty to meet its financial obligations. NTTC's exposure to credit risk arises out of lending and derivative transactions. This risk is mitigated by the fact that lending activities are limited to Territory Government entities and its wholly-owned corporations and that derivative transactions may only be entered into with counterparties rated A- or better by Standard & Poor's rating group.

NTTC aims to ensure its exposures to individual and group counterparties are within acceptable levels, and to minimise the likelihood that a counterparty will fail to execute its financial obligations.

# Notes to the Financial Statements

For the financial year ended 30 June 2016

Note 16 continued

NTTC's dealings in physical securities and/or derivative financial instruments are transacted only with counterparties possessing strong or extremely strong credit rating criteria as determined by Standard & Poor's rating group. In addition, derivative financial instruments are only transacted with counterparties that have signed an International Swaps and Derivatives Association (ISDA) Master Agreement.

The credit risk arising from funds advanced to loan counterparties is considered minimal, as loans are only advanced to counterparties within the Northern Territory public sector, as directed by the Treasurer. Accordingly, ultimate responsibility for loans advanced by NTTC lies with the Territory Government. The Standard & Poor's credit rating criteria are not applied to loan counterparties.

In the case of recognised financial assets, the carrying amount of the assets recorded in the Statement of Financial Position represents NTTC's maximum exposure to credit risk.

## (d) Liquidity Risk

Liquidity risk is the risk of financial loss or increased costs due to unanticipated events or errors in cash flow forecasts, which result in additional borrowing costs, reduced investment income, or an inability to meet financial or operational commitments as they fall due. NTTC's exposure to liquidity risk may arise due to inadequate or inaccurate communication of actual cash flows and the need to fund unanticipated operating cash requirements when an insufficient cash balance forces NTTC to liquidate investments or utilise backup funding facilities at higher costs.

NTTC seeks to ensure adequate cash reserves or funding sources are available at all times to meet its short-term commitments as they arise.

NTTC's approach in minimising liquidity risk involves diversification of physical borrowing and investment activities across the maturity spectrum and utilising a variety of funding sources to meet NTTC's requirements.

In addition, NTTC at all times maintains:

- minimum cash balances;
- a committed overdraft facility;
- an uncommitted short-term borrowing program via NTTC's promissory note facility;
- a diverse list of counterparties; and
- its borrowing exposures in a manner that avoids undue reliance on any one counterparty.

## (e) Funding Risk

Funding risk refers to the medium to long-term risk that NTTC may be unable to raise funds when required or at a cost that is substantially higher than could be achieved under normal market conditions. Funding risk typically relates to periods greater than one year, whereas liquidity risk relates to periods less than one year. The objective of funding risk management is to ensure NTTC is not exposed to a significant refinancing risk in any financial year.

NTTC's approach to minimising funding risk involves diversification of physical borrowing and investment activities across the maturity spectrum and utilising a variety of funding sources to meet its requirements.

NTTC has limited funding risk, as the Territory Government supports the financial viability of NTTC under section 20 of the NTTC Act. Such a Government guarantee is believed to be sufficient to allow NTTC to issue debt at competitive rates under normal market conditions.



# Notes to the Financial Statements

For the financial year ended 30 June 2016

Note 16 continued

NTTC's current funding sources are as follows:

Wholesale market

Fixed interest securities

Floating rate notes

Promissory notes

Retail market

Territory Bonds

Migration Linked Bonds

Wholesale market issues account for approximately \$3.60 billion (2015: \$4.13 billion) or 98 per cent (2015: 98 per cent) of all outstanding issued debt as at 30 June 2016. Borrowing from the retail market is primarily sourced via the Territory Bonds program. As at 30 June 2016, \$91.3 million (2015: \$95.9 million) of Territory Bonds was issued and spread across a large number of investors, approximately 3377 (2015: 4334) at an average loan balance of \$27 049 (2015: \$22 134).

NTTC constantly monitors credit markets and maintains key investor relationships to ensure there is sufficient diversification of available funding sources.

# Notes to the Financial Statements

For the financial year ended 30 June 2016

Note 16 continued

## (iii) Maturity Analysis

The following tables detail the maturity analysis of NTTC's financial instruments including deposits held, loans and borrowings. The maturity analysis for loans is based on expected timing of receipts. The maturity analysis for domestic borrowings is based on the earliest possible date on which NTTC can be required to pay. The tables have been drawn up based on undiscounted cash flows, and hence include both interest and principal cash flows. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected cash flows as illustrated by the yield curves existing at balance date.

30 June 2016	At Call	0 to 3 Months	3 Months to 1 year	1 to 5 Years	More than 5 Years	Total
	\$000	\$000	\$000	\$000	\$000	\$000
<b>Loans:</b>						
General government agencies						
Fixed rate loans	-	30 603	467 871	1 249 048	1 020 526	2 768 048
Credit foncier loans	-	6 296	19 566	103 380	254 273	383 515
Government owned corporations						
Fixed rate loans	-	6 649	34 547	584 886	-	626 082
Floating rate loans	-	9 935	27 211	682 870	165 820	885 836
Credit foncier loans	-	-	-	-	-	-
Government business divisions						
Fixed rate loans	-	1 326	8 804	110 177	-	120 307
Floating rate loans	-	57	171	5 057	-	5 285
Credit foncier loans	-	3 485	10 456	42 897	104 031	160 869
<b>TOTAL LOANS</b>	-	<b>58 351</b>	<b>568 626</b>	<b>2 778 315</b>	<b>1 544 650</b>	<b>4 949 942</b>
Deposits held	521	-	-	-	-	521
<b>Borrowings:</b>						
Due to other financial institutions						
Wholesale market						
Fixed interest securities	-	68 947	608 404	1 513 797	2 472 268	4 663 416
Retail market						
Territory Bonds	-	106	35 889	63 297	-	99 292
Migration Linked Bonds	-	5	12	519	-	536
Commonwealth						
Credit foncier loans	-	-	17 484	69 866	282 391	369 741
<b>TOTAL BORROWINGS</b>	<b>521</b>	<b>69 058</b>	<b>661 789</b>	<b>1 647 479</b>	<b>2 754 659</b>	<b>5 133 506</b>

# Notes to the Financial Statements

For the financial year ended 30 June 2016

Note 16 continued

30 June 2015	At Call	0 to 3 Months	3 Months to 1 year	1 to 5 Years	More than 5 Years	Total
	\$000	\$000	\$000	\$000	\$000	\$000
<b>Loans:</b>						
General government agencies						
Fixed rate loans	-	40 150	598 040	1 820 305	1 053 685	3 512 180
Credit foncier loans	-	6 296	19 573	103 407	280 108	409 384
Government owned corporations						
Fixed rate loans	-	45 300	14 671	435 453	-	495 424
Floating rate loans	-	26 500	55 271	598 338	303 146	983 255
Credit foncier loans	-	661	1 983	-	-	2 644
Government business divisions						
Fixed rate loans	-	1 766	57 181	86 761	-	145 708
Floating rate loans	-	283	10 841	9 783	5 706	26 613
Credit foncier loans	-	3 485	10 456	46 114	114 755	174 810
<b>TOTAL LOANS</b>	-	<b>124 441</b>	<b>768 016</b>	<b>3 100 161</b>	<b>1 757 400</b>	<b>5 750 018</b>
Deposits held	470	-	-	-	-	470
<b>Borrowings:</b>						
Due to other financial institutions						
Wholesale market						
Fixed interest securities	-	69 471	665 874	2 076 079	2 587 338	5 398 762
Retail market						
Territory Bonds	-	125	42 052	62 608	-	104 785
Migration Linked Bonds	-	5	11	536	-	552
Commonwealth						
Credit foncier loans	-	-	17 490	69 894	299 847	387 231
<b>TOTAL BORROWINGS</b>	<b>470</b>	<b>69 601</b>	<b>725 427</b>	<b>2 209 117</b>	<b>2 887 185</b>	<b>5 891 800</b>

# Notes to the Financial Statements

For the financial year ended 30 June 2016

## 17. Fair Values of Financial Instruments

AASB7, paragraph 25 requires NTTC to provide fair value information through supplementary disclosures for any financial assets or financial liabilities not measured at fair value in its Statement of Financial Position.

Fair values of financial instruments are determined on the following basis:

- the fair value of cash and non-interest-bearing monetary financial assets and liabilities approximate their carrying value, which is defined as their amortised cost;
- the fair value of other monetary financial assets is based on discounting the expected future cash flows by applying current market yields. Current market yields used for valuing loans to counterparties, excluding loans to government agencies, are determined with reference to the Thomson Reuters Australian Dollar Interest Rate Swaps plus a margin. Market yields used for valuing loans to government agencies are derived from current market interest rates for debt securities issued by NTTC plus a margin. The market yields are then used to discount the expected future cash flows arising from the financial assets to their present value. The margins applied to the current market yields on NTTC's loans take into account credit quality and liquidity considerations;
- the fair value of other monetary financial liabilities is determined using valuation models, whereby appropriate direct market inputs are used to benchmark, extrapolate or otherwise derive a fair value on the instrument's risk characteristics and correlations. The market rates are then used to discount the expected future cash flows arising from the financial liabilities to their present value; and
- the fair value of derivative financial instruments are derived using current market yields and exchange rates appropriate to the instrument.

The fair values represent NTTC's best estimate of the replacement cost of the financial transactions undertaken by the entity. NTTC concedes that in its estimation of fair value there is an element of subjectivity involved in the calculations, given that NTTC's financial assets and liabilities are not readily priced and are not frequently traded in the financial markets.

The carrying value of all other assets and liabilities not recorded at fair value approximates fair value.

The following table presents financial assets and liabilities measured at fair value for disclosure purposes in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the degree to which the fair value is observable.

- Level 1 – derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – derived from valuation techniques that include inputs for the asset or liability not based on observable market data (unobservable inputs).

# Notes to the Financial Statements

For the financial year ended 30 June 2016

Note 17 continued

The fair value of loans and domestic borrowings not recorded at fair value is as follows:

2016	Total Carrying Amount	Net Fair Value Total	Net Fair Value Level 1	Net Fair Value Level 2	Net Fair Value Level 3
	\$000	\$000	\$000	\$000	\$000
<b>Financial assets:</b>					
<b>Loans:</b>					
Fixed rate loans	3 003 200	3 248 025	-	3 248 025	-
Floating rate loans	746 805	765 372	-	765 372	-
Credit foncier loans	289 943	398 182	-	398 182	-
<b>TOTAL FINANCIAL ASSETS</b>	<b>4 039 948</b>	<b>4 411 579</b>	<b>-</b>	<b>4 411 579</b>	<b>-</b>

**Financial liabilities:**

**Borrowings and advances:**

Wholesale	3 676 429	4 197 945	-	4 197 945	-
Retail	91 843	95 525	-	95 525	-
Commonwealth	223 273	273 865	-	273 865	-
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>3 991 545</b>	<b>4 567 335</b>	<b>-</b>	<b>4 567 335</b>	<b>-</b>

2015	Total Carrying Amount	Net Fair Value Total	Net Fair Value Level 1	Net Fair Value Level 2	Net Fair Value Level 3
	\$000	\$000	\$000	\$000	\$000
<b>Financial assets:</b>					
<b>Loans:</b>					
Fixed rate loans	3 513 200	3 758 651	-	3 758 651	-
Floating rate loans	803 805	823 670	-	823 670	-
Credit foncier loans	304 967	398 882	-	398 882	-
<b>TOTAL FINANCIAL ASSETS</b>	<b>4 621 972</b>	<b>4 981 203</b>	<b>-</b>	<b>4 981 203</b>	<b>-</b>

**Financial liabilities:**

**Borrowings and advances:**

Wholesale	4 209 482	4 622 303	-	4 622 303	-
Retail	96 430	100 302	-	100 302	-
Commonwealth	230 062	250 060	-	250 060	-
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>4 535 974</b>	<b>4 972 665</b>	<b>-</b>	<b>4 972 665</b>	<b>-</b>

# Notes to the Financial Statements

For the financial year ended 30 June 2016

## 18. Reconciliations of Net Profit from Operating Activities

	2016	2015
	\$000	\$000
Net profit	16 892	25 290
<i>Reconciliation flows in net profit</i>		
Add (gain)/loss on extinguishment	23	(754)
Less (premium) and discount amortisation	(6 043)	(5 310)
<i>Changes in assets and liabilities</i>		
Less decrease/(increase) in interest receivable	738	3 295
Less decrease/(increase) in debtors	(1)	1
Add decrease/(increase) in prepayments	(18)	(1)
Add increase/(decrease) in employee benefits	(48)	(9)
Add increase/(decrease) in trade creditors	(28)	17
Add increase/(decrease) in tax liabilities	(3 599)	947
Add increase/(decrease) in interest payable	(6 602)	(13 550)
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>1 314</b>	<b>9 926</b>

## 19. Auditor's Remuneration

External audit services are provided by the Auditor-General for the Northern Territory. The Auditor-General's Office has advised that the estimated cost of this service for the 2015-16 year is \$76 916 (2015: \$76 674).

## 20. Fiduciary Activities

NTTC acts as manager for the investments portfolio of CHA. Any associated assets and liabilities are not recognised in these financial statements. Management fees generated in carrying out these activities are included in the Statement of Comprehensive Income. The aggregate income from fiduciary activities for the 2015-16 year was \$820 000 (2015: \$820 000). As at 30 June 2016, CHA Investment Portfolio balances were:

	2016	2015
	\$000	\$000
Investment Portfolio	935 000	1 233 000
Conditions of Service Reserve	653 758	646 880
Medium Term Investment Fund	81 362	177 151
NT Infrastructure Development Fund	314 788	209 900
<b>TOTAL</b>	<b>1 984 908</b>	<b>2 266 931</b>

# Notes to the Financial Statements

For the financial year ended 30 June 2016

## 21. Dividends

NTTC has provided for a dividend of \$16.892 million, which is at the rate of 100 per cent of its net profit for the 2015-16 year in accordance with the Treasurer's budget direction.

## 22. Advisory Board

The Northern Territory Treasury Corporation Advisory Board was established in October 1994. The Under Treasurer of the Department of Treasury and Finance, Ms Jodie Ryan, is the Chair of the Board and the following people held the position of member during the year ended 30 June 2016:

Mr Anthony S Cole AO	Company Director
Mr Richard V Ryan AO	Editure Limited
Mr John R P Montague	Super SA
Mr David Braines-Mead	Department of Treasury and Finance, Deputy Under Treasurer

During the year ended 30 June 2016 only three members were entitled to receive Advisory Board sitting fees, amounting to \$59 555 (2015: \$54 511). Members who are permanently employed under the *Public Sector Employment and Management Act*, or on similar terms, are not entitled to fees.

	2016	2015
	\$000	\$000
Sitting fees	60	55

## 23. Fees and Commissions

NTTC currently has commission and maintenance arrangements with the following service providers:

	2016	2015
	\$000	\$000
Link Market Services Pty Ltd	250	258
SunGard Asia Pacific Inc.	91	85
Thomson Reuters Pty Ltd	21	29
Austraclear Ltd	67	74

## 24. Segment Information

NTTC acts predominantly in the finance industry and lends funds and provides financial advice to the Northern Territory Government, its government owned corporations, its government business divisions and local authorities. NTTC operates predominantly in one geographical area, being the Northern Territory of Australia.

## 25. Events Subsequent to Reporting Date

There were no subsequent events.





## Executive

A/Under Treasurer



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General Manager



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Financial Administration



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Financial Assets and Liabilities



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