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
Total borrowing program	**33**	**29**	**935**	**1 109**	**1 398**

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
	%	%	%	%	%
Average borrowing margin					
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
Cost of borrowing achieved during the year					
Weighted average cost of borrowing	2.22	2.51	4.23	4.01	4.86
Total cost of funds					
Weighted average cost of funds	5.00	5.19	5.21	5.32	5.67

Portfolio Duration and Term to Maturity

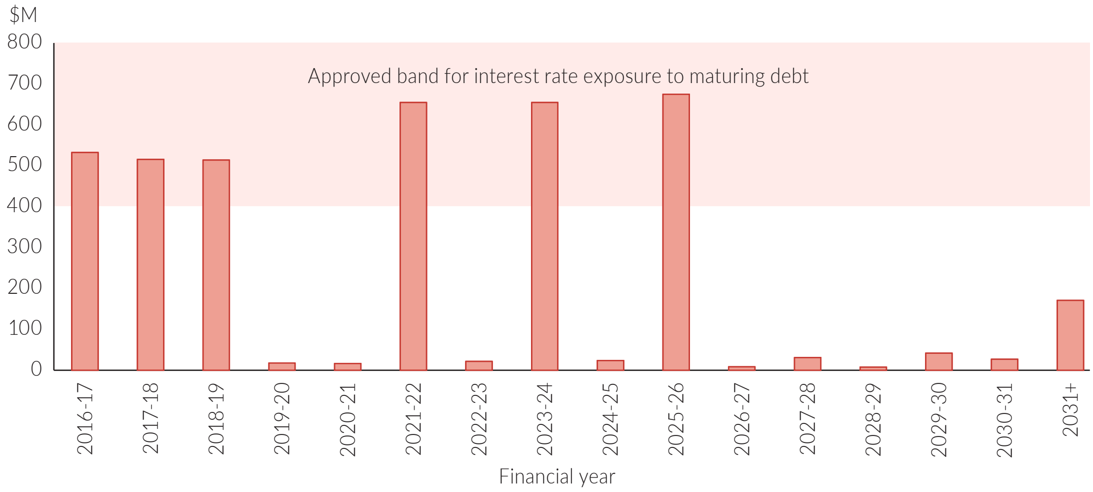
As at 30 June 2016, the weighted average duration of Territory debt on issue was 4.2 years, slightly lower than the 4.3 years reported in June 2015. Similarly, weighted average term to maturity shortened to 5 years compared to 5.3 years in June 2015.

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

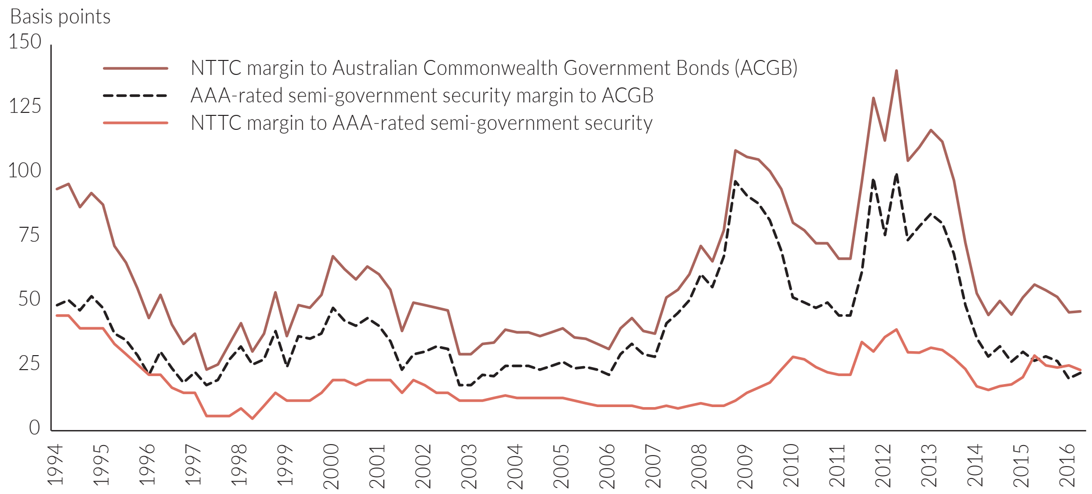
An important influence on trading margins is the perception of liquidity. The relatively small size of the Territory's borrowing program does not promote significant trading activity. As a result, the borrowing margin is more a reflection of the liquidity premium demanded by institutional investors for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