

# Financial Markets

**Table 3: Borrowing Composition**

	2007-08	2006-07	2005-06	2004-05	2003-04
	\$M	\$M	\$M	\$M	\$M
Refinance Maturing Territory Debt	441	338	540	373	300
New Borrowings	46	-	53	-	-
Total Refinancing	487	338	593	373	300
Less Debt Reduction	-	-	-	-	63
Gross Borrowing Program	487	338	593	373	237

## Borrowing

The 2007-08 borrowing requirement was considerably higher than last year with approximately \$487 million raised to refinance maturing debt. This follows \$338 million raised in 2006-07 and \$593 million in 2005-06, as shown in Table 3.

As in recent years, the Corporation's entire borrowing requirement was met from domestic financial and retail markets. The bulk of the funds were raised through a number of medium to long-term fixed interest securities, issued to institutional investors via private placement and public issue. The Corporation's funding requirements in 2007-08 resulted in the establishment of its fifth major line of bonds. As at 30 June 2008, the Corporation had five institutional bond issues, as detailed in Table 4.

**Table 4: Institutional Bond Issues**

Maturity Date	Coupon	Amount on Issue
	%	\$M
14 July 2009	6.75	279.2
15 September 2010	5.75	305.0
15 November 2011	6.00	325.0
15 September 2012	6.25	300.0
15 October 2013	6.75	100.0

The Corporation's retail funding sources continued to make a significant contribution towards the Territory's funding requirement, raising approximately \$70 million from the combination of Territory Bonds and Migration Linked Bonds.

**Table 5: Borrowing Performance as at 30 June**

	2007-08	2006-07	2005-06	2004-05	2003-04
	%	%	%	%	%
1. Average Borrowing Margin					
Short Term – Margin to Bank Bill Swap Rate (BBSW)	-0.14	-0.10	-0.10	-0.11	-0.15
Long Term (floating rate) – Margin to Swap	-0.10	-	-0.12	-0.08	-
Long Term (fixed rate) – Margin to 'AAA' Rated Semi-Government Security	0.11	0.10	0.10	0.13	0.17
2. Cost of Borrowing Achieved During the Year					
Weighted Average Cost of Borrowing	6.67	6.14	5.93	5.65	5.78
3. Total Cost of Funds					
Weighted Average Cost of Funds	6.34	6.14	6.27	6.72	7.26

### Portfolio Duration and Term to Maturity

As at 30 June 2008, the weighted average duration of the Northern Territory debt on issue was 3.3 years, consistent with the weighted average duration reported in 2007. Similarly, the term to maturity remained steady with a weighted average term to maturity of 4.3 years compared to 4.4 years recorded in June 2007.

### Interest Rate Risk Management

The Corporation's interest rate risk arises from cash flow mismatches in the maturity profiles and repricing dates of its financial assets and liabilities. The Corporation manages its exposure to interest rate risk so as to avoid creating abnormally high refinancing requirements during periods of high interest rates, or unusually low refinancing requirements in periods of low interest rates.

The Corporation uses interest rate swaps and forward start interest rate swaps to manage interest rate risk.

No new interest rate swaps or forward start interest rate swap agreements were entered into during 2007-08.

In December 2007, the Treasurer approved a revised target level of interest rate exposure to maturing Territory debt in any financial year of \$350 million, with a lower limit of \$300 million and an upper limit of \$400 million. This strategy aims to provide the flexibility to respond to the strongest demand from investors and assists in reducing interest costs without significantly increasing interest rate exposure.

Figure 1 shows the Corporation's interest rate exposure of maturing debt as at 30 June 2008.

Figure 1: Interest Rate Exposure of Maturing Debt as at 30 June 2008

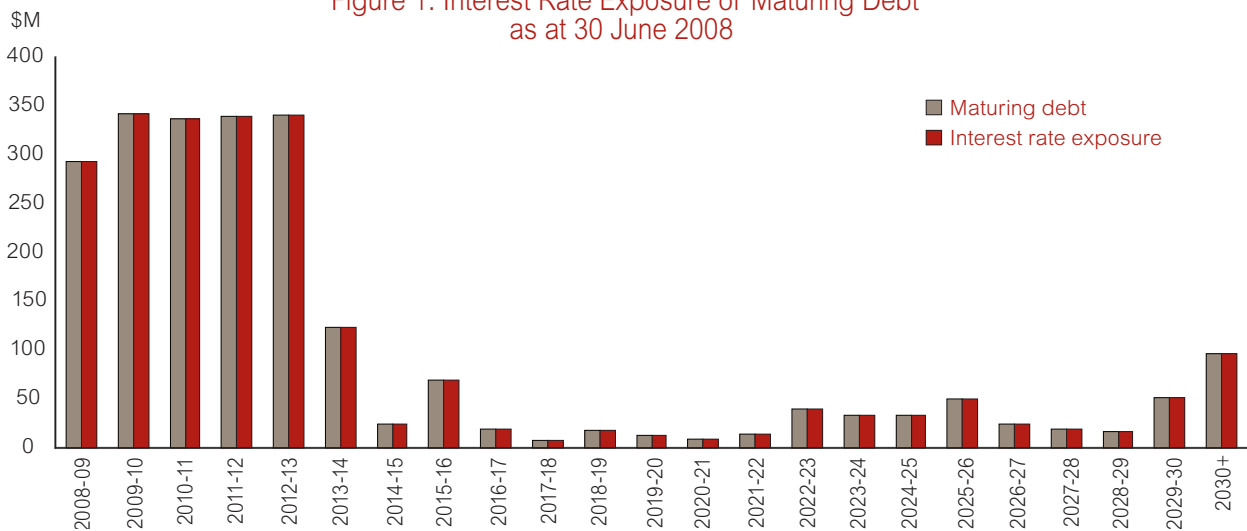
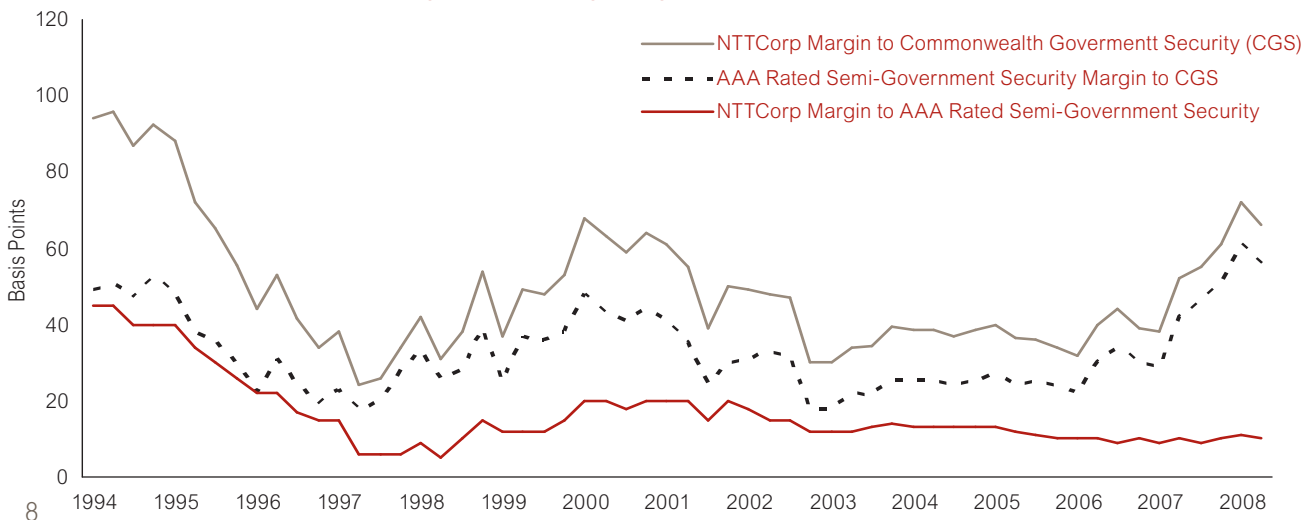


Figure 2: Trading Margin on 10-Year Debt



## FUNDING

The Corporation manages the Northern Territory's exposure to funding risk by ensuring the Northern Territory Government is not exposed to a significant refinancing risk in any financial year. The Corporation's approach to minimising funding risk involves the diversification of borrowing and investment activities across the maturity spectrum and utilising a variety of funding sources to meet the Corporation's requirements. The Corporation's funding sources are as follows:

### DOMESTIC BORROWINGS

#### » Wholesale Market

- Private Placements and Public Issues
  - Fixed Interest Securities
  - Floating Rate Notes

- Promissory Notes

#### » Retail Market

- Territory Bonds
- Migration Linked Bonds

### Trading Margin

The relatively small size of the Corporation's bond issues does not promote significant trading activity and, as such, the trading margin is more of a reflection of the semi-government bond sector. An important influence on trading margins is the perception of liquidity.

The implied margin between a 10-year Northern Territory Government issued bond and an interpolated "AAA" rated state government fixed interest security has remained steady throughout the year.

Figure 2 on page 8 shows the trading margin on 10-year debt.

### Private Placements and Public Issues

Private placements have been used by the Corporation for a number of years to satisfy specific funding needs. These placements are an alternative to the main semi-government bond market, which is made up of large issues of homogenous debt that have been issued by the central financing authorities of each jurisdiction. Private placements are attractive because of the ease of issuance, which makes them suitable for small parcels of debt and their flexibility for tailoring to domestic market movements and investor demand.

In recent years, the Corporation has developed a major class of bond issues across a number of years that have between \$275 million and \$325 million on issue. These issues have been established to meet investor demand for greater liquidity and promote market awareness. The Corporation anticipates having in excess of \$1.3 billion outstanding in these select lines within the next financial year.

### Promissory Notes

The Corporation's short-term funding requirements are met through its promissory note facility. The notes are issued by way of tender, using ASX Austraclear Services Limited.

While the Corporation had no outstanding promissory notes as at 30 June 2008, the facility was used throughout the year to meet short-term funding requirements.

The weighted average yield achieved throughout the financial year was 6.81 per cent with an average margin to Bank Bill Swap Reference Rate (BBSW) of -0.14 per cent. The margins to BBSW throughout 2007-08 varied from -0.08 per cent to -0.20 per cent.

### Euro Medium Term Note Programme (EMTN)

The EMTN programme has been the Corporation's main method for raising funds from outside Australia since it was introduced in 1995. It provided standardised documentation, which made issuance relatively easy and gave the Corporation added market profile.

In recent years the development of larger bond issues and favourable issuance opportunities in the domestic market have meant that the EMTN programme has not been utilised. The Corporation has no securities

outstanding under this facility and has decided to discontinue the use of the current EMTN documentation for further offshore fund raising.

### Territory Bonds

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

In 2007-08, a total of \$60 million was raised from 3853 applications, down slightly from the previous year's results of \$63 million from 4210 applications. As at 30 June 2008, total outstanding Territory Bonds on issue stood at approximately \$170 million, consistent with the \$171 million recorded in 2007.

The Corporation seeks to maintain the efficiency of Territory Bonds as a borrowing source. As the variable costs associated with Territory Bonds are generally set by the number of bond holdings, the Corporation has sought to increase the average investment size per

bond holding. Figure 3 shows that since June 2000 the average investment size has more than doubled.

Interest rates and terms and conditions for Territory Bonds are reviewed on a regular basis, in line with changes in the market and to ensure that Territory Bonds remain a competitive investment.

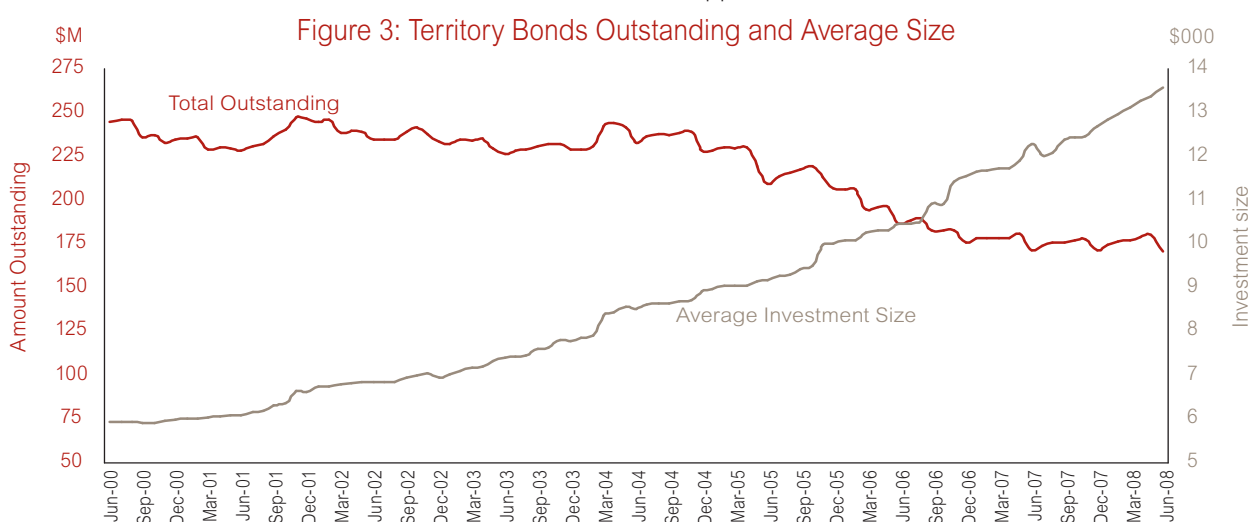
Table 6 shows an analysis by term and interest payment frequency of Territory Bonds raised in 2007-08.

### Migration Linked Bonds

In June 2007, the Department of Immigration and Citizenship (DIAC) announced changes to the General Skilled Migration Scheme, which resulted in no bonus points being issued for capital investments in Australia for applications lodged on or after 1 September 2007.

As a result, from 1 December 2007 the Corporation ceased offering Territory Bonds as a designated investment to people seeking to migrate to Australia under schemes made available by the DIAC.

In 2007-08 the Corporation raised \$10.4 million from 104 applications.



**Table 6: Analysis of Funds Raised from Territory Bonds in 2007-08**

Term	Interest Paid			Total
	Quarterly	Semi-Annual	Annually	
	%	%	%	%
1 Year	11.4	15.6	24.7	51.7
2 Years	2.2	6.3	9.3	17.8
3 Years	2.6	8.3	7.5	18.4
5 Years	1.4	0.9	2.8	5.1
7 Years	0.9	2.1	4.0	7.0
Total %	18.5	33.2	48.3	100.0
Total Amount - \$M	11.1	19.9	28.9	59.9