

Financial Markets

Table 3: Borrowing Composition

	2010-11	2009-10	2008-09	2007-08	2006-07
	\$M	\$M	\$M	\$M	\$M
Refinance maturing territory debt	363	376	295	441	338
New borrowings	207	515	-	46	-
Total borrowing program	570	891	295	487	338

Borrowing

The 2010-11 borrowing requirement was significantly lower than last year, with approximately \$570 million raised to refinance maturing debt and additional borrowings to fund capital and operating expenditure for Northern Territory Government agencies, business divisions and corporations. This follows \$891 million raised in 2009-10 and \$295 million in 2008-09, 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 2010-11 resulted in the establishment of a new benchmark line of bonds to November 2016. As at 30 June 2011, the Corporation had six institutional bond issues, as detailed in Table 4.

Table 4: Institutional Bond Issues as at 30 June 2011

Maturity Date	Coupon	Amount on Issue
	%	\$M
15 November 2011	6.00	325.0
15 September 2012	6.25	300.0
15 October 2013	6.75	400.0
14 July 2014	5.75	500.0
20 October 2015	6.25	500.0
20 November 2016	5.75	300.0

The Corporation's retail funding sources continued to contribute towards the Territory's funding requirement, raising approximately \$41 million in total from both Territory Bonds and Migration Linked Bonds.

Table 5: Borrowing Performance as at 30 June

	2010-11	2009-10	2008-09	2007-08	2006-07
	%	%	%	%	%
Average Borrowing Margin					
Short-term – margin to bank bill swap (BBSW) rate	-0.04	- 0.05	- 0.21	- 0.14	- 0.10
Long-term (floating rate) – margin to swap	-	-	-	- 0.10	-
Long-term (fixed rate) – margin to AAA rated semi-government security	0.22	0.24	0.13	0.11	0.10
Cost of Borrowing Achieved During the Year					
Weighted average cost of borrowing	5.29	5.70	5.96	6.67	6.14
Total Cost of Funds					
Weighted average cost of funds	6.10	6.15	6.10	6.34	6.14

Portfolio Duration and Term to Maturity

As at 30 June 2011, the weighted average duration of the Northern Territory debt on issue was 3.0 years, a slight decrease from the 3.3 years reported in 2010. Similarly, weighted average term to maturity was slightly lower at 3.6 years compared to 4.1 years recorded in 2010.

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 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 \$500 million, with a lower limit of \$350 million and an upper limit of \$600 million.

This strategy continues to support the Corporation's ability to respond to strong demand from institutional investors and create slightly larger and more liquid bonds series. The target will support the increase in the Territory's borrowing requirements anticipated for the next two to three years to fund the capital and operating expenditure requirements of Government agencies, government business divisions (GBDs) and government owned corporations (GOCs).

Figure 2 shows the Corporation's interest rate exposure of maturing debt as at 30 June 2011.

Figure 2: Interest Rate Exposure of Maturing Debt as at 30 June 2011

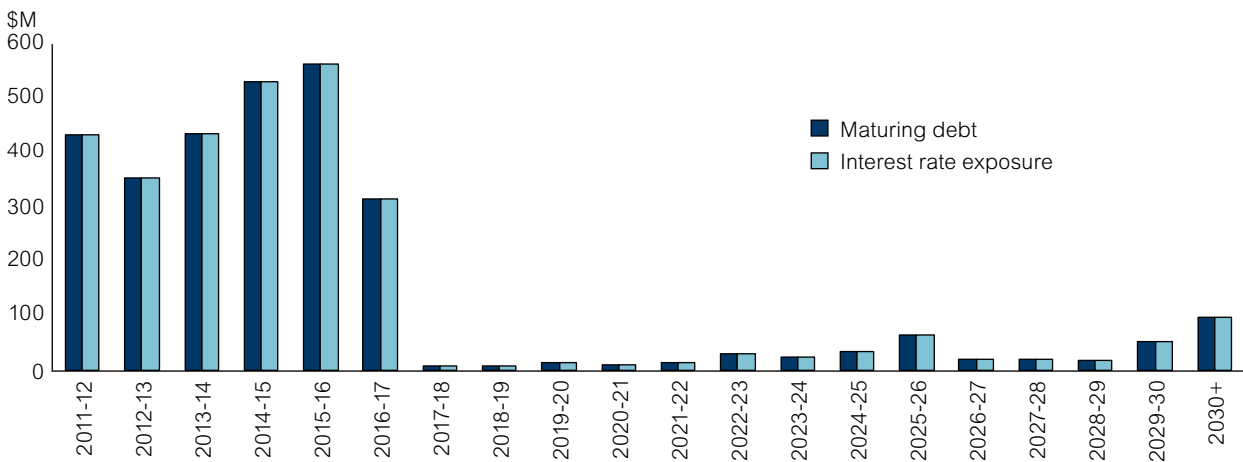
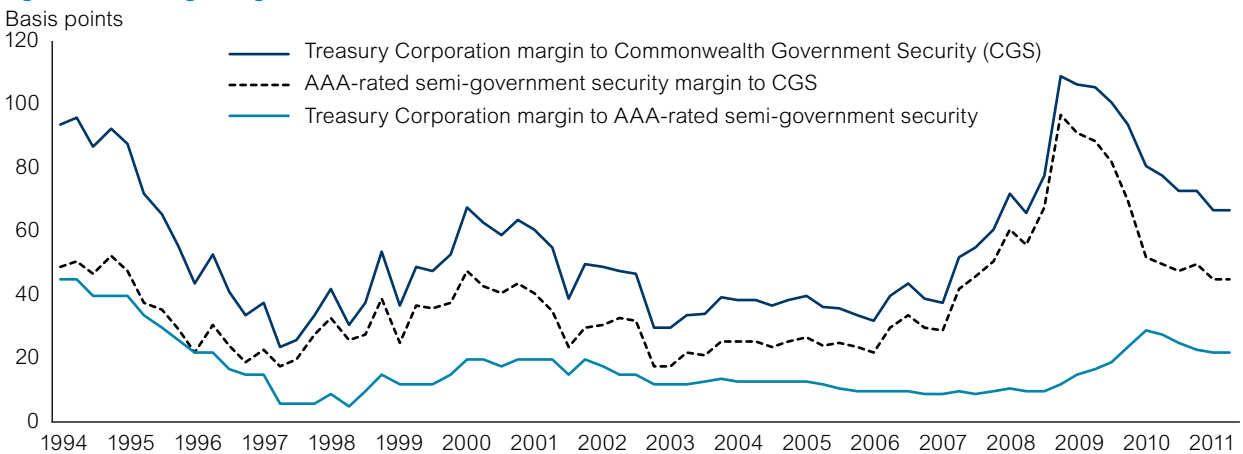


Figure 3: Trading Margin



Funding

The Corporation manages the Northern Territory Government's exposure to funding risk by ensuring it 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:

Wholesale Market

» Private Placements and Public Issues

- Fixed Interest Securities
- Floating Rate Notes

» Promissory Notes

Retail Market

» Territory Bonds

» Migration Linked Bonds

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 and, as such, the borrowing margin is more of a reflection of the liquidity premium demanded by institutional investors for supporting the Corporation's bond issuances.

The implied trading margin between a Northern Territory Government-issued bond and an interpolated AAA-rated state government fixed interest security has improved throughout the course of the year, declining by around 0.06 per cent.

Figure 3 on page 8 shows the Corporation's borrowing margin relative to the Commonwealth and AAA-rated central financing authorities.

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 the ability to tailor terms of issuance to satisfy investor demand.

In recent years, the Corporation has developed a series of select bond issues across a number of years that have between \$300 million and \$500 million on issue. These issues have been established to meet investor demand for greater liquidity and promote market awareness. The Corporation anticipates having approximately \$2.7 billion outstanding in these select lines at the end of next financial year.

Promissory Notes

The Corporation's short-term funding requirements are met through its promissory note facility. These notes are issued by way of tender to our main banking counterparties.

The Corporation had \$50 million of promissory notes outstanding as at 30 June 2011. 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 4.87 per cent, with an average margin to Bank Bill Swap (BBSW) reference rate of -0.04 per cent. The issuing margins to BBSW in 2010-11 ranged from -0.03 per cent to -0.06 per cent.

Territory Bonds

Territory Bonds is the Corporation's retail fixed interest borrowing product and 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 2010-11, a total of \$39.9 million was raised from 1965 applications, slightly down on the previous year's result of \$43.8 million from 2592 applications. As at 30 June 2011, total outstanding Territory Bonds on issue stood at about \$136 million, down from the \$152 million recorded at the end of fiscal year 2010.

Territory Bonds has become a more cost-effective borrowing source over the last ten years, due to the increase in the average investment size per bond holding. This trend continued in 2010-11 and as Figure 4 below shows the average investment size has more than doubled since June 2001.

Migration Linked Bonds

The bonds offered by the Corporation satisfy the criteria of a Designated Investment under the following programs administered by the Department of Immigration and Citizenship (DIAC):

- Business Skills Migration
- Investor Retirement Migration

In 2010-11, the Corporation raised \$1.25 million from two applications. One bond was issued under the Business Skills Migration program and the other under the Investor Retirement Program.

Figure 4: Territory Bonds Outstanding and Average Holding Size

