9.2. Investment and Loan Borrowings Report as at 31 January 2026

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ATTACHMENTS	1. North Sydney Monthly Report January 2026 [**9.2.1** - 21 pages]
CSP LINK	**Outcome 8 – An effective, accountable and sustainable Council that serves the community** G8. Manage Council's finances through robust long-term planning and ongoing financial management

PURPOSE:

The purpose of this report is to provide details of the performance of Council's investments and loans for the months ending 31 January 2026.

EXECUTIVE SUMMARY:

- All investments have been made in accordance with the Local Government Act and Regulations and Council's Financial Investments Policy.

- For the month of January, the total investment portfolio (which includes Term Deposits, Floating Rate Notes and Bonds) provided a return of +0.34% (actual), or +4.11% p.a. (annualised), outperforming the AusBond Bank Bill Index return of +0.30% (actual) or +3.64% p.a. (annualised).

- Returns on investments exceeded the January YTD budget by $450,425. This result includes fees paid to Council's investment advisers for the period.

RECOMMENDATION:
1. THAT the report on investments held at 31 January 2026, prepared in accordance with clause 212 of the Local Government (General) Regulation 2021, and the information on Loan Borrowings, be received.

Background

Clause 212 of the Local Government (General) Regulation 2021, states that the Responsible Accounting Officer must provide Council with a monthly report detailing all funds invested under Section 625 of the Local Government Act 1993. This report must include certification that the investments have been made in accordance with the Act and the Regulations made thereunder, also the revised Investment Order issued by the Minister for Local Government and Council's Financial Investment Policy.

It is also prudent to report loan balances and compliance with borrowing orders issued by the Minister for Local Government and Council's *Loan Borrowing Policy*.

Total Cash and Investment Balance and Reserves

The total cash and investment balances are $163,449,089. Most of this balance is held in reserves to be spent on certain activities and projects, in accordance with Council's *Restricted Reserves Policy*.

Reserves fall into one of two categories:

- external restrictions (Council is obliged by legislation, or contract, to spend the funds on certain projects and activities); and
- internal allocations (Council has resolved to spend the funds on certain projects and activities).

The following table details the reserves held. Council had an unrestricted cash balance of $19,315,085. All movements in reserves are in accordance with Council's Restricted Reserve Policy.

The unrestricted cash balance tends to be high in the first half of the financial year due to the timing of rate receipts and the timing of capital works being at the construction stage in the second part of the year. This is reflected in the decline in the unrestricted cash balance in January 2026.

It should be noted that Council has drawn an additional $10 million loan from TCorp to fund the North Sydney Pool project, which is included in the cash balances.

Council held higher than usual cash balances due to anticipated variations for the North Sydney Olympic Pool project towards the end of the project's completion.

The Elections Reserve and Property Reserve, adopted by Council on 8 December 2025, will be created as reserves commencing from 2026-2027 financial year.

External Restrictions and Internal Allocations	Dec-25	Net Movement	Jan-26
External restrictions			
Developer contributions	$58,862,768	$446,350	$59,309,118
Domestic waste management	$19,584,396	$878,249	$20,462,645
Stormwater management charges	$166,046	$11,902	$177,948
Unexpended Special Rates	$1,960,918	$111,945	$2,072,863
Specific purpose grants	$4,805,638	-$349,972	$4,455,666
Other specific purpose contributions	$1,145,327	-$23,107	$1,122,220
Bradfield Park TfNSW Lease Reserve	$857,844	$0	$857,844
Cammeray Park TfNSW Lease Reserve	$650,142	$0	$650,142
Victoria Cross TfNSW Reserve	$0	$1,500,000	$1,500,000
Olympic Pool Redevelopment	$23,368,346	-$132,408	$23,235,938
Total external restrictions	**$111,401,425**	**$2,442,959**	**$113,844,384**
Internal allocations			
Project carry-forward balances	$496,849	-$218,307	$278,542
Community Housing - Capital Purchases	$1,010,000	$0	$1,010,000
Community Housing - Major Maintenance	$491,000	$0	$491,000
Deposits, retentions, and bonds	$16,465,184	-$7,515	$16,457,669
Employees leave entitlement	$7,127,000	$0	$7,127,000
Income Producing Projects	$498,000	$0	$498,000
I.T. hardware and software	$1,022,310	$4,482	$1,026,792
Plant and vehicle replacement	$2,070,555	-$271,693	$1,798,862
Financial Assistance Grant	$1,284,000	$0	$1,284,000
Kirribilli Neighbourhood Centre Reserve	$77,250	$0	$77,250
Crows Nest Centre Reserve	$240,505	$0	$240,505
Total internal allocations	**$30,782,653**	**-$493,033**	**$30,289,620**
Total Restrictions and Allocations	**$142,184,078**	**$1,949,926**	**$144,134,004**
Unrestricted Cash and Investments	$20,730,300	-$1,415,215	$19,315,085
Total Cash and Investments	**$162,914,378**	**$534,711**	**$163,449,089**

Investment Portfolio

The following tables detail the performance of Council's investment portfolio (excluding cash deposits) to the benchmark for the month of January 2026 - and annualised for the year-to-date (including investments that have matured prior to that date).

	January	Annualised YTD
Actual Return	0.34%	4.11%
Benchmark	0.30%	3.64%
Variance	+0.04%	+0.47%

Asset Type	Market Value	Portfolio Breakdown
Term Deposits	$117,500,000	71.89%
Cash	$ 42,949,089	26.28%
Fixed Bonds	$3,000,000	1.84%
	$163,449,089	**100.00%**

Council's average duration of term deposits, which comprised 71.89% of the investment portfolio, is approximately 191 days. The average duration aligns maturities with the expected outflows of the capital works program.

Council is holding higher-than-usual cash and deposit-at-call balances in anticipation of the funding requirements associated with the completion of the North Sydney Pool project.

All funds have been invested in accordance with the Act and the Regulations made thereunder. Council's investment portfolio complies with the revised Investment Order issued by the Minister for Local Government, which places restrictions on the type of investments permitted. All investments accord with Council's Financial Investments Policy.

Council continues to seek independent advice for investments and are actively managing the portfolio to ensure that returns are maximised, considering diversification and risk. A complete analysis of the performance is covered in the Monthly Investment Reports (Attachment 1) prepared by Council's investment advisor, Arlo Advisory. The report contains advice about optimal investment options but also notes that Council's scope to act on that advice is limited by its cash flow requirements. Council has considerable requirements for short term investments and deposits at call to fund its Capital Works budget including the North Sydney Olympic Pool project.

Summary of Returns from Investments (includes Fair Value adjustments)

The actual investment returns for the year-to-date 31 January 2026 are $450,425 more than the revised year-to-date budget.

Year	Original Annual Budget	Revised Annual Budget	YTD Budget	YTD Interest	YTD Actual FV adjustment	YTD Budget to Actual Variance
2025/26	$3,912,000	$3,912,000	$2,282,007	$2,732,432	-	$450,425
Previous Years						
Year	**Original Annual Budget**	**Revised Annual Budget**		**Final Result Interest**	**Final Result FV adjustment**	**Final Budget to Actual Variance**
2024/25	$2,534,059	$5,234,059		$5,518,399	-$1,596	$282,744
2023/24	$2,490,000	$5,490,000		$5,425,310	$5,334	-$71,356
2022/23	$1,384,350	$3,340,000		$3,697,634	$4,647	$350,281

Floating Rate Notes (FRNs) are required to be revalued each month using the Fair Value (FV) method, which estimates the market value of the investment. There has been no FRN since February 2025, therefore no disclosure is required.

Council will focus on shorter-term term deposits to meet cash flow needs.

Financial Investment Policy

All categories are within the Policy limits for credit ratings. The portfolio remains well diversified, with credit quality rated as A, or higher. The maximum holding limit in each rating category and the target credit quality weighting for Council's portfolio are:

Long Term Rating Range (Standard & Poors)	Invested	Maximum Policy Holding	Distribution
AA Category	$141,449,089	100.00%	86.54%
A Category	$13,000,000	60.00%	7.95%
BBB Category	$9,000,000	35.00%	5.51%
Unrated ADIs (NR)	$0	10.00%	0.00%

Loan Borrowings

Council's *Loan Borrowing Policy* is the framework for Council's borrowing activities. This defines responsibilities and parameters for borrowing and related risk management activities. The Policy's objective is to control Council's exposure to movements in interest rates through the application of fixed, floating, or a combination thereof, to maintain a risk averse strategy.

Loan borrowings are in line with the following principles:

- That the capital cost of infrastructure be recognised over the period during which the benefits will be enjoyed.
- That loan funds are a resource to fund the replacement and upgrading of existing infrastructure and fund the creation of new infrastructure.

That loan funds will be limited to:

- acquisition or enhancement of income producing assets;
- construction and/or upgrading of buildings; and
- infrastructure assets that have a life expectancy greater than 10 years.

Council has three debt facilities:

Alexander Street Carpark and On-Street Carparking Management System Loan

This is a fixed loan financing option, fully amortising the drawn down amount of $9,500,000 over 10 years, fixed interest rate, with quarterly repayments of interest and principal. The loan details are:

Loan amount:	$ 9,500,000.00			
Loan term:	10 years			
From:	31/07/2018			

To:	31/07/2028			
Interest rate:	4.02%p.a.(fixed)			
Repayment:	Quarterly			
Dates	**Principal Outstanding**	**Interest**	**Principal**	**Payment**
1/07/2025	$3,513,002			
31/07/2025	$3,258,958	$35,596	$254,044	$289,640
31/10/2025	$3,002,340	$33,022	$256,618	$289,640
30/01/2026	$2,742,791	$30,091	$259,549	$289,640
30/04/2026	$2,480,339	$27,188	$262,452	$289,640

Loan Funded Capital Projects

Project 1: Upgrading the Car Park in Alexander Street, Crows Nest
$5 million loan was sourced to fund project.
Current length of Loan as per the Long-Term Financial Plan (LTFP): 10 years to 2028

Project 2: Upgrading of On-Street Parking Management System
$4.5 million loan was sourced to fund project.
Current length of Loan as per LTFP: 10 years to 2028

Loans for North Sydney Olympic Pool Redevelopment

In February 2022, Council established a $31 million TCorp loan facility to partially fund the redevelopment of North Sydney Olympic Pool. Drawdown on the facility was processed on 28 April 2022. The funds were restricted and released, as required, to fund project cash outflows. These loan funds had been fully expended.

This loan is a fixed loan financing option, fully amortising the drawn down amount of $31,000,000 over 20 years, fixed interest rate with semi-annual repayments of interest and principal. The loan details are:

Loan amount:	$31,000,000			
Loan term:	20 years			
From:	28/04/2022			
To:	28/04/2042			
Interest rate:	4.24%p.a.(fixed)			
Repayment:	Semi-Annual			
Dates	**Principal Outstanding**	**Interest**	**Principal**	**Payment**
01/07/2025	$27,836,354			
28/10/2025	$27,269,273	$590,131	$567,082	$1,157,213
28/04/2026	$26,690,169	$578,109	$579,104	$1,157,213

In July 2024, Council established a $20 million TCorp loan facility to fund further budget requirements of the redevelopment of North Sydney Olympic Pool. Drawdown on the facility was processed on 27 July 2024. The funds were invested with a maturity profile to match cash flow requirements of the project. The funds were restricted and are being released, as required, to fund project cash outflows.

This loan is a fixed loan financing option, fully amortising the drawn down amount of $20,000,000 over 10 years, fixed interest rate with semi-annual repayments of interest and principal.

The loan details are:

Loan amount:	$20,000,000			
Loan term:	10 years			
From:	26/07/2024			
To:	26/07/2034			
Interest rate:	5.29%p.a.(fixed)			
Repayment:	Semi-Annual			
Dates	**Principal Outstanding**	**Interest**	**Principal**	**Payment**
01/07/2025	$19,228,419			
28/07/2025	$18,436,431	$508,592	$791,989	$1,300,581
27/01/2026	$17,623,494	$487,644	$812,937	$1,300,581

In May 2025, Council established a $10 million TCorp loan facility to fund further budget requirements of the redevelopment of North Sydney Olympic Pool. Drawdown on the facility was processed on 14 November 2025. The funds were invested with a maturity profile to match cash flow requirements of the project. The funds were restricted and are being released, as required, to fund project cash outflows.

This loan is a fixed loan financing option, fully amortising the drawn down amount of $10,000,000 over 10 years, fixed interest rate with semi-annual repayments of interest and principal.

The loan details are:

Loan amount:	$10,000,000			
Loan term:	10 years			
From:	14/11/2025			
To:	14/11/2035			
Interest rate:	5.06%p.a.(fixed)			
Repayment:	Semi-Annual			
Dates	**Principal Outstanding**	**Interest**	**Principal**	**Payment**
15/11/2025	$10,000,000			
14/05/2026	$9,607,654	$250,921	$392,346	$643,267

Consultation Requirements

Community engagement is not required.

Financial/Resource Implications

Based on the year-to-date investment results, Council has exceeded its investment return target, primarily due to higher-than-expected cash balances and interest rates.

Legislation

Section 625 of the Local Government Act (NSW) allows councils to invest money that is not currently required for any other purpose. It further specifies how councils may invest. It specifies investments must be in accordance with the local government minister's orders. Clause 212 of the Local Government Regulation (NSW) 2021 requires that the Responsible Accounting Officer must make a monthly report to Council, setting out all details of money invested under Section 625 of the Local Government Act.

Sections 621 to 624 of the Local Government Act give councils the ability to borrow money and specify some further regulations on that borrowing. Council's staff consider it prudent to provide monthly reporting of loans.

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Monthly Investment Review

NORTH SYDNEY COUNCIL

CAMMERAYGAL

January 2026

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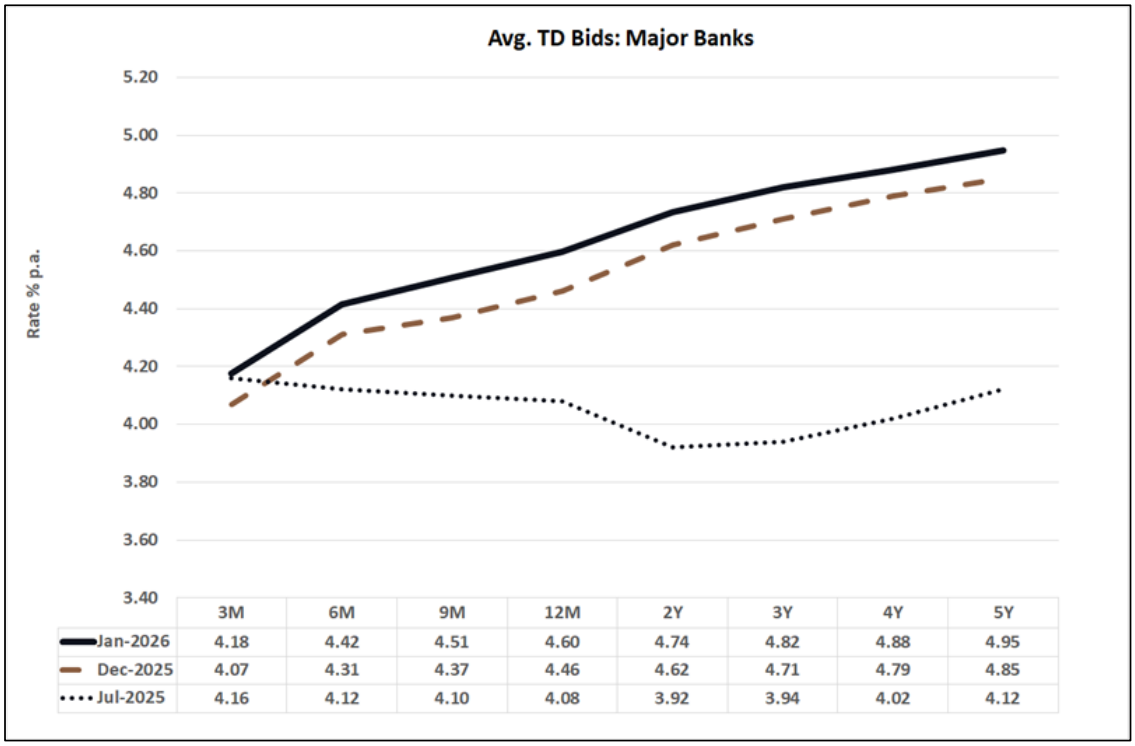
Market Update Summary

Financial markets were positive in January on the back of strong corporate earnings, ongoing investment and demand in the AI sector, as well as market optimism on expectation that the US Fed will continue cutting official interest rates later this year.

In the deposit market, over January, the average deposit rates offered by the domestic major banks was up to ~15bp higher compared to where they were the previous month (December). The market is now factoring up to two rate hikes in 2026 after recent signs on inflation spiking and the labour market remaining tight. At the longer-end of the curve (1-5 years), the average rates were ~10bp compared to where they were the previous month, with the market expecting official rates to be slightly higher in coming years.



	3M	6M	9M	12M	2Y	3Y	4Y	5Y
Jan-2026	4.18	4.42	4.51	4.60	4.74	4.82	4.88	4.95
Dec-2025	4.07	4.31	4.37	4.46	4.62	4.71	4.79	4.85
Jul-2025	4.16	4.12	4.10	4.08	3.92	3.94	4.02	4.12

Source: Imperium Markets

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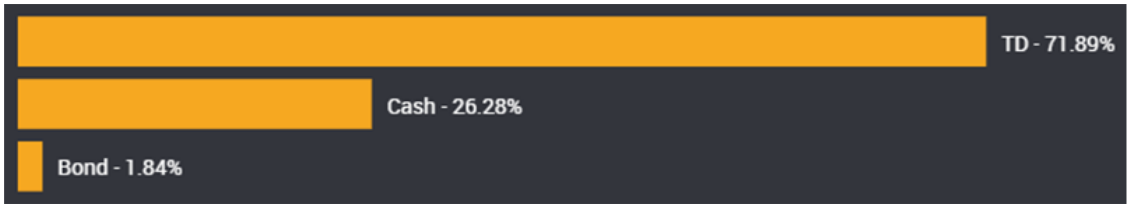
North Sydney Council' Portfolio & Compliance

Asset Allocation

As at the end of January 2026, the portfolio was mainly directed to fixed term deposits (~72%). The remaining portfolio is directed to fixed bonds (~2%) and overnight cash accounts (~26%).



Senior FRNs are currently considered 'expensive' on a historical basis but new issuances should continue to be considered on a case by case scenario for diversification purposes (duration and asset type). In the interim, staggering a mix of fixed deposits between 12 months to 3 years remains a more optimal strategy for the 'core' assets to maximise returns over a longer-term cycle, which can be supplemented by investing a small proportion of surplus funds in senior FRNs.

Should inflation be within the RBA's target band of 2-3% over the longer-term, fixed assets yielding above 4½% p.a. for 1-3 years or higher should outperform benchmark and remains acceptable.

However, noting the significant capital outflows expected in the near term, Council is currently largely restricted to investing into very short-term investments (under 6-12 months). This is suitable to invest in short-dated fixed term deposits or high yielding cash accounts.

Term to Maturity

Overall, the portfolio remains highly liquid from a maturity perspective. The whole portfolio is directed to short-term assets (less than 12 months), there is still high capacity to invest in the short-medium term horizon (1-2 years), with approximately $114m at month-end.

Where liquidity permits (once immediate capital projects are finalised), we recommend new surplus funds be directed to 1-3 year horizon given this will help optimise returns over the long-run. We suggest this be allocated to any remaining attractive fixed term deposits.

In the interim, given the large ongoing capital expenditure flagged in the short-term, Council is likely to invest across shorter-tenors to match the capital program's cash flow requirements.

Compliant	Horizon	Invested ($)	Invested (%)	Min Limit (%)	Max Limit (%)	Available ($)
✓	0 - 90 days	$56,449,089	34.54%	10%	100%	$107,000,000
✓	91 - 365 days	$107,000,000	65.46%	20%	100%	$56,449,089
✓	1 - 2 years	$0	0.00%	0%	70%	$114,414,362
✓	2 - 5 years	$0	0.00%	0%	50%	$81,724,544
✓	5 - 10 years	$0	0.00%	0%	25%	$40,862,272
		$163,449,089	**100.00%**			

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Counterparty

As at the end of January, all individual limits comply with the Policy. We remind Council exposures to individual ADIs are driven by the portfolio's movements throughout any month. Overall, the portfolio is lightly diversified across the investment grade spectrum, with no exposure to the unrated ADIs (high credit quality).

We welcomed the decision to place a new deposit with Australian Unity (BBB+) recently. New accounts with different ADIs should continue to be considered, especially when it provides diversification and increases the overall returns of the portfolio.

Compliant	Issuer	Rating	Invested ($)	Invested (%)	Max. Limit	Available ($)
✓	ANZ (Suncorp)	AA-	$9,000,000	5.51%	30.00%	$40,034,727
✓	CBA	AA-	$42,949,089	26.28%	30.00%	$6,085,638
✓	NAB	AA-	$40,000,000	24.47%	30.00%	$9,034,727
✓	NTTC Treasury	AA-	$3,000,000	1.84%	30.00%	$46,034,727
✓	Westpac	AA-	$46,500,000	28.45%	30.00%	$2,534,727
✓	ICBC Sydney	A	$13,000,000	7.95%	15.00%	$11,517,363
✓	Bank Australia	BBB+	$9,000,000	5.51%	10.00%	$7,344,909
			$163,449,089	**100.00%**		

In December 2025, Bank Australia's acquisition of Australian Unity Bank was completed. As such, Council's exposure to Australian Unity Bank is now reflected under the parent company being Bank Australia.

Credit Quality

The portfolio remains lightly diversified and is of very high quality. As at the end of January 2026, all categories were within the Policy limits, with the majority now in the AA or A rated categories:

Compliant	Credit Rating	Invested ($)	Invested (%)	Max. Limit (%)	Available ($)
✓	AA Category	$141,449,089	86.54%	100%	$22,000,000
✓	A Category	$13,000,000	7.95%	60%	$85,069,453
✓	BBB Category	$9,000,000	5.51%	35%	$48,207,181
✓	Unrated ADI Category	$0	0.00%	10%	$16,344,909
		$163,449,089	**100.00%**		

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Performance

Council's performance for the month ending January 2026 is summarised as follows:

Performance (Actual)	1 month	3 months	6 months	FYTD	1 year	2 years	3 years
Official Cash Rate	0.30%	0.90%	1.80%	2.13%	3.78%	4.07%	4.05%
AusBond Bank Bill Index	0.30%	0.91%	1.83%	2.14%	3.89%	4.18%	4.12%
Council's T/D Portfolio	0.35%	1.04%	2.03%	2.36%	4.11%	4.02%	3.78%
Council's FRN Portfolio	0.00%	0.00%	0.00%	0.00%	1.02%	3.34%	3.85%
Council's Bond Portfolio	0.12%	0.33%	0.66%	0.79%	1.30%	1.24%	1.22%
Council's Total Portfolio^	**0.34%**	**1.00%**	**1.95%**	**2.30%**	**3.99%**	**3.86%**	**3.60%**
Rel. Performance	**0.04%**	**0.09%**	**0.12%**	**0.16%**	**0.10%**	**-0.33%**	**-0.52%**

^Total portfolio performance excludes Council's cash account holdings.

Performance (% p.a.)	1 month	3 months	6 months	FYTD	1 year	2 years	3 years
Official Cash Rate	3.60%	3.60%	3.60%	3.64%	3.78%	4.07%	4.05%
AusBond Bank Bill Index	3.64%	3.67%	3.67%	3.66%	3.89%	4.18%	4.12%
Council TDs	4.22%	4.20%	4.07%	4.04%	4.11%	4.02%	3.78%
Council FRNs	0.00%	0.00%	0.00%	0.00%	1.02%	3.34%	3.85%
Council's Bond Portfolio	1.42%	1.33%	1.31%	1.35%	1.30%	1.24%	1.22%
Council Total Portfolio^	**4.11%**	**4.03%**	**3.90%**	**3.94%**	**3.99%**	**3.86%**	**3.60%**
Rel. Performance	**0.48%**	**0.36%**	**0.23%**	**0.28%**	**0.10%**	**-0.33%**	**-0.52%**

^Total portfolio performance excludes Council's cash account holdings.

For the month of January, the total investment portfolio (excluding cash) provided a solid return of +0.34% (actual) or +4.11% p.a. (annualised), outperforming the AusBond Bank Bill Index return of +0.30% (actual) or +3.64% p.a. (annualised). The relative 'underperformance' over the past few years was due to the unexpected aggressive rate hikes undertaken by the RBA following the aftermath of the pandemic and Russia's invasion of Ukraine, which resulted in spike in global inflation.

Note the period of underperformance is also highly dependent on reinvesting maturing funds at prevailing market rates *beyond 6 month tenors*. With large capital outflows, maturing funds are largely being spent or kept in low yielding short-dated assets. Council should also remind itself it has consistently 'outperformed' over longer-term time periods (last +10yrs).

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Recommendations for Council

Term Deposits

As at the end of January 2026, Council's **deposit** portfolio was yielding 4.08% p.a. (down 2bp from the previous month), with a weighted average duration of around 191 days (~6½ months). We recommend Council slightly increases this weighted average duration, should cash flows allow in future. Despite the possibility of a few rate hikes in 2026, locking in rates above 4¾-5% p.a. across 1-3 year tenors (small proportion of surplus funds) should still outperform benchmark in the long-run, on assumption that the RBA can contain inflation within their 2-3% target band.

In the immediate future, given the significant outflows anticipated from capital projects, short-dated term deposits are suitable for North Sydney Council's purposes.

Please refer to the section below for further details on the Term Deposit market.

Securities

Primary (new) **FRNs** (with maturities between 3-5 years) are expensive on a historical basis but remains an option (particularly for those investors with portfolios skewed towards fixed assets) and should be considered on a case by case scenario. **Fixed Bonds** may also provide attractive opportunities from new (primary and secondary) issuances.

Please refer to the section below for further details on the FRN market.

Council's Senior Bonds

During October 2020, Council placed $3m in the Northern Territory Treasury Corporation (NTTC), locking in a yield of 1.00% p.a. for a 5 year term. In August 2021, it placed another $3m parcel with NTTC (AA-), locking in a yield of 1.50% p.a. for a 5 year term. Currently, Council has $3m in NTTC bond maturing in December 2026.

Council received the full rebated commission of 0.25% on the total face value of investments (i.e. $6m x 0.25% = $15,000) as it was introduced by Imperium Markets (sister company of Arlo Advisory). We believe these investments were prudent at the time of investment especially after the rate cut delivered in early December 2020 to 0.10% and the RBA's forward guidance on official interest rates (no rate rises "*until at least 2024*"). The NTTC bonds are a 'retail' offering and not 'wholesale' issuances. Given the lack of liquidity and high penalty costs if they were to be sold/redeemed prior to the maturity date, they are considered to be a hold-to-maturity investment and will be marked at par value ($100.00) throughout the term of investment.

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Term Deposit Market Review

Current Term Deposits Rates

As at the end of January, we see value in the following:

ADI	LT Credit Rating	Term	Rate % p.a.
ING	A	5 years	5.14%
Westpac	AA-	5 years	5.01%
NAB	AA-	5 years	5.00%
ICBC Sydney	A	5 years	4.80%
ING	A	4 years	5.05%
NAB	AA-	4 years	4.95%
Westpac	AA-	4 years	4.94%
ING	A	3 years	4.98%
NAB	AA-	3 years	4.90%
Westpac	AA-	3 years	4.80%
BankVic	BBB+	3 years	4.80%
ING	A	2 years	4.92%
NAB	AA-	2 years	4.91%
Westpac	AA-	2 years	4.82%
BankVic	BBB+	2 years	4.80%

The above deposits are suitable for investors looking to maintain diversification and lock-in a slight premium compared to purely investing short-term.

For terms under 12 months, we believe the strongest value is currently being offered by the following ADIs (*we stress that rates are indicative, dependent on daily funding requirements and different for industry segments*):

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ADI	LT Credit Rating	Term	Rate % p.a.
ING	A	12 months	4.78%
Westpac	AA-	12 months	4.76%
ICBC Sydney	A	12 months	4.75%
CBA	AA-	12 months	4.72%
NAB	AA-	12 months	4.70%
Westpac	AA-	9 months	4.70%
CBA	AA-	9 months	4.63%
ING	A	9 months	4.61%
MyState Bank	BBB	9 months	4.60%
NAB	AA-	9 months	4.58%
MyState Bank	BBB	6 months	4.60%
Westpac	AA-	6 months	4.59%
ANZ	AA-	6 months	4.57%
CBA	AA-	6 months	4.51%
Suncorp	AA-	6 months	4.50%
Heritage Bank	BBB+	3 months	4.40%
CBA	AA-	3 months	4.32%
Westpac	AA-	3 months	4.31%
MyState Bank	BBB	3 months	4.30%
ANZ	AA-	3 months	4.29%

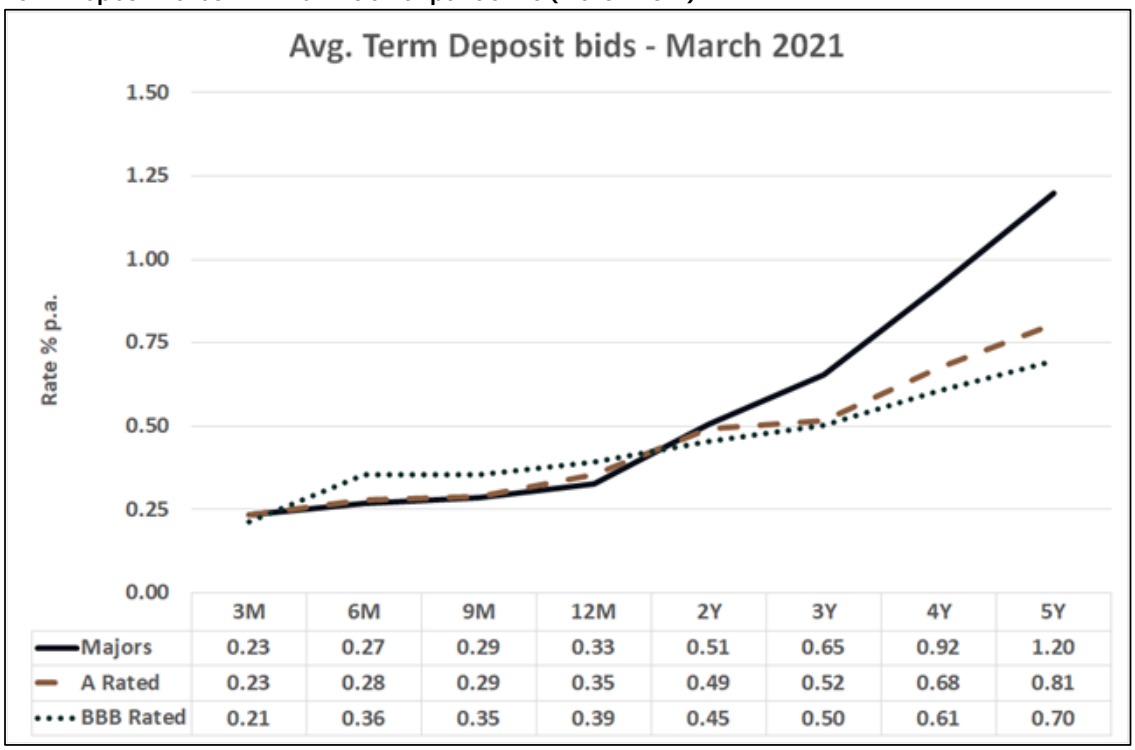
For those investors that do not require high levels of liquidity and can stagger their investments longer term, they will be rewarded over a longer-term cycle if they roll for an average min. term of 12 months, with a spread of investments out to 5 years (this is where we see current value). In a normal market environment (upward sloping yield curve), investors could earn over a cycle, on average, up to ¼-½% p.a. higher compared to those investors that entirely invest in short-dated deposits.

Despite the potential for a few rate hikes to get inflation under control, investors should consider allocating some longer-term surplus funds and undertake an insurance policy by investing across 1-5 year fixed deposits and locking in rates above 4½% p.a. This will provide some income protection if official rates remain steady over a cycle.

Term Deposits Analysis

Pre-pandemic (March 2020), a 'normal' marketplace meant the lower rated ADIs (i.e. BBB category) were offering higher rates on term deposits compared to the higher rated ADIs (i.e. A or AA rated). But due to the cheap funding available provided by the RBA via their Term Funding Facility (TFF) during mid-2020, allowing the ADIs to borrow as low as 0.10% p.a. fixed for 3 years, those lower rated ADIs (BBB rated) did not require deposit funding from the wholesale deposit. Given the higher rated banks had more capacity to lend (as they have a greater pool of mortgage borrowers), they subsequently were offering higher deposit rates. In fact, some of the lower rated banks were not even offering deposit rates at all. As a result, most investors placed a higher proportion of their deposit investments with the higher rated (A or AA) ADIs over the past three years.

Term Deposit Rates – 12 months after pandemic (March 2021)



	3M	6M	9M	12M	2Y	3Y	4Y	5Y
Majors	0.23	0.27	0.29	0.33	0.51	0.65	0.92	1.20
A Rated	0.23	0.28	0.29	0.35	0.49	0.52	0.68	0.81
BBB Rated	0.21	0.36	0.35	0.39	0.45	0.50	0.61	0.70

Source: Imperium Markets

The abnormal marketplace experienced during the pandemic is starting to reverse as the competition for deposits slowly increases, partially driven by the RBA's term funding facility coming to an end. In recent months, we have started to periodically see some of the lower rated ADIs ("A" and "BBB" rated) offering slightly higher rates compared to the domestic major banks ("AA" rated) on different parts of the curve (i.e. pre-pandemic environment). Some of this has been attributed to lags in adjusting their deposit rates as some banks (mainly the lower rated ADIs) simply set their rates for the week.

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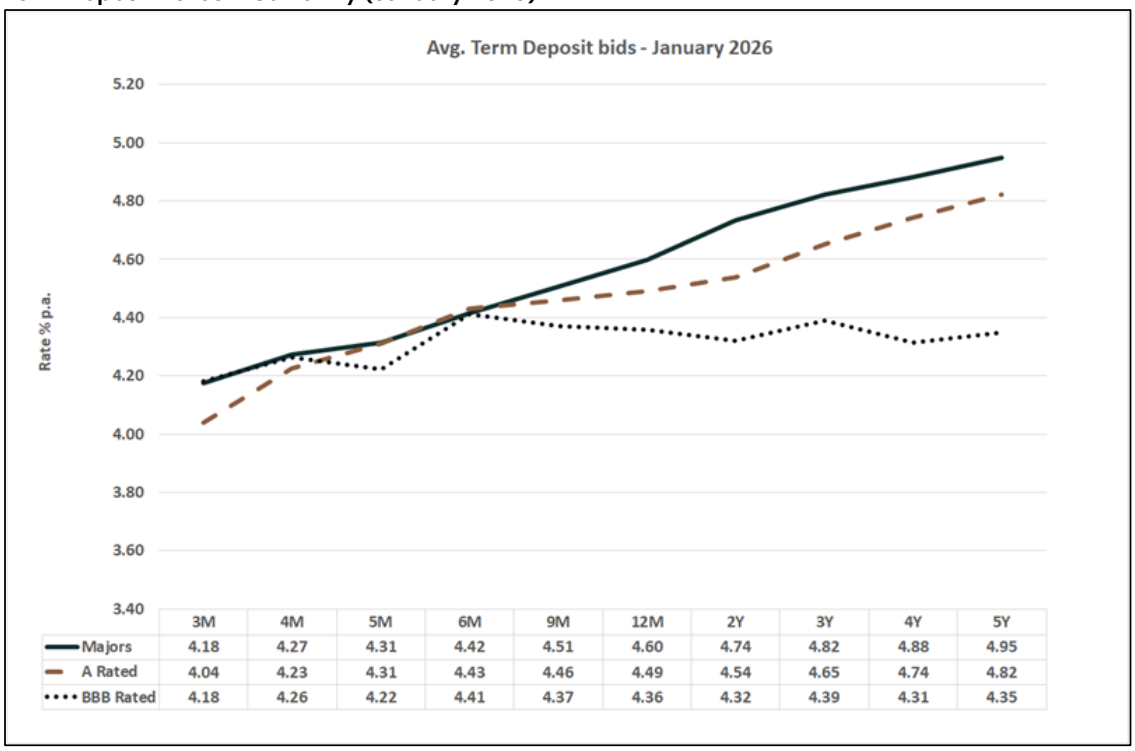
Going forward, investors should have a larger opportunity to invest a higher proportion of its funds with the lower rated institutions (up to Policy limits), from which the majority are not lending to the Fossil Fuel industry or considered 'ethical'. We are slowly seeing this trend emerge, although the major banks always seem to react more quickly than the rest of the market during periods of volatility:

Term Deposit Rates – Currently (January 2026)



	3M	4M	5M	6M	9M	12M	2Y	3Y	4Y	5Y
Majors	4.18	4.27	4.31	4.42	4.51	4.60	4.74	4.82	4.88	4.95
A Rated	4.04	4.23	4.31	4.43	4.46	4.49	4.54	4.65	4.74	4.82
BBB Rated	4.18	4.26	4.22	4.41	4.37	4.36	4.32	4.39	4.31	4.35

Source: Imperium Markets

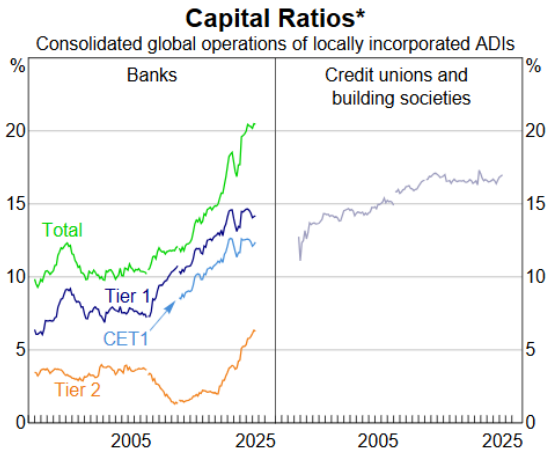
Financial Stability of the Banking (ADI) Sector

The RBA's Financial Stability reaffirms the strong balance sheet across the ADI sector. They noted that the risk of widespread financial stress remains limited due to the generally strong financial positions of most (individual) borrowers. Very few mortgage borrowers are in negative equity, limiting the impact on lenders (ADIs) in the event of default and supporting their ability to continue providing credit to the economy. Most businesses that have entered insolvency are small and have little debt, limiting the broader impact on the labour market and thus household incomes, and on the capital position of lenders (ADIs).

Australian banks (collectively the APRA regulated ADIs) have maintained prudent lending standards and are well positioned to continue supplying credit to the economy. A deterioration in economic conditions or temporary disruption to funding markets is unlikely to halt lending activity. Banks have anticipated an

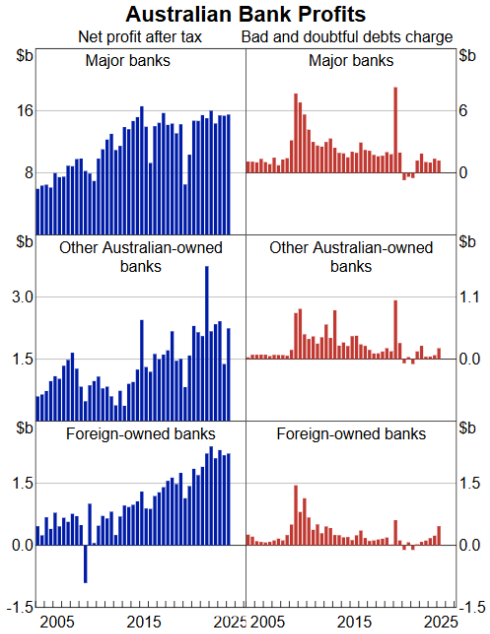
increase in loan arrears and have capital and liquidity buffers well above regulatory requirements (*see Capita Ratios chart below*). APRA's mandate is to "*protect depositors*" and provide "*financial stability*".

Over the past two decades, both domestic and international banks continue to operate and demonstrate high levels of profitability (*see Australian Bank Profits chart below*), which also covers two stress-test environments being the GFC (September 2008) and the COVID pandemic period (March 2020):



* Per cent of risk-weighted assets; break in March 2008 due to the introduction of Basel II for most ADIs; break in March 2013 due to the introduction of Basel III for all ADIs.

Source: APRA.



Sources: APRA; RBA.

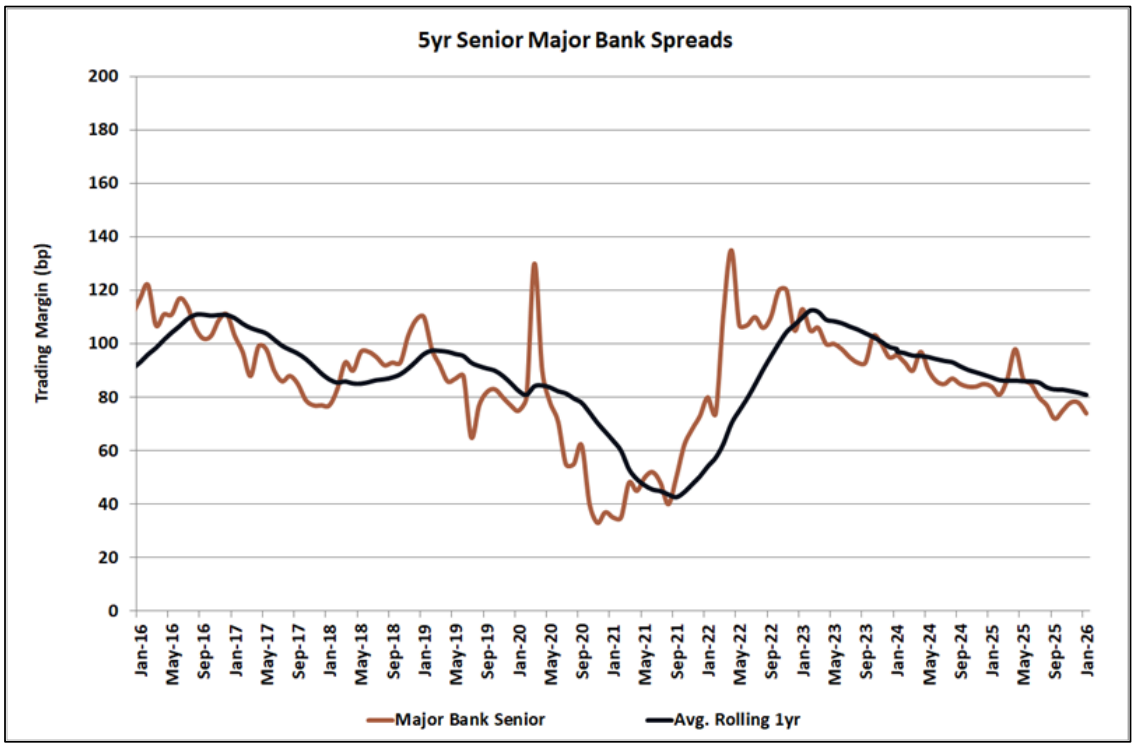
The Council of Financial Regulators (CFR) - being the Australian Prudential Regulation Authority (APRA), the Australian Securities and Investments Commission (ASIC), the Australian Treasury and the Reserve Bank of Australia (RBA), have the ultimate aim of promoting the stability of the financial system, whilst supporting effective and efficient regulation. In their latest quarterly review, the CFR agreed on the following priorities heading into 2026:

- Improving preparedness for geopolitical risks;
- Operational vulnerabilities, including cyber, third parties and AI;
- Amplification of systemic liquidity risk: further strengthening CFR and industry readiness to respond to systemic liquidity stress events; and
- High household leverage: continuing to closely monitor household leverage and bank lending standards.

The Council noted that in each of these priority areas, CFR agencies are taking forward a number of initiatives to strengthen the resilience of the financial system.

Senior FRNs Market Review

Over January, amongst the senior major bank FRNs, physical credit securities tightened up to 4bp at the long-end of the curve. During the month, CBA (AA-) issued a new 5 year senior security at +74bp. Long-term major bank senior securities are looking 'expensive' on a historical basis, noting the 5yr margin has averaged around the +92bp level over a cycle (currently around +74bp).



Source: IBS Capital

During the month, there were a few issuances to start off the calendar year:

- OCBC, Sydney Branch (AA-) 3 year senior FRN at +60bp
- Newcastle Greater Mutual (BBB+) 5 year senior FRN at +113bp
- Rabobank Australia (A+) 5 year senior security at +75bp
- Mizuho, Sydney Branch (A) 3 year senior FRN at +58bp
- UOB, Sydney Branch (AA-) 5 year senior security at +72bp

Amongst the "A" and "BBB" rated sector, the securities tightened up to at the 3-5 year part of the curve.

Overall, credit securities are slightly expensive on a historical basis but remain a good option for diversification purposes. FRNs will continue to play a role in investors' portfolios mainly based on their liquidity and the ability to roll down the curve and gross up returns over ensuing years (in a relatively stable credit environment), whilst also providing some diversification to those investors skewed towards fixed assets (and especially if the RBA's easing cycle is over).

Senior FRNs (ADIs)	31/01/2026	31/12/2025
"AA" rated – 5yrs	+74bp	+78bp
"AA" rated – 3yrs	+59bp	+61bp
"A" rated – 5yrs	+80bp	+85bp
"A" rated – 3yrs	+65bp	+70bp
"BBB" rated – 3yrs	+95bp	+100bp

Source: IBS Capital

We now generally recommend switches ('benchmark' issues only) into new primary issues, out of the following senior FRNs that are maturing:

- On or before early-2029 for the "AA" rated ADIs (domestic major banks);
- On or before early 2027 for the "A" rated ADIs; and
- Within 6-9 months for the "BBB" rated ADIs (consider case by case).

Investors holding onto the above senior FRNs ('benchmark' issues only) in their last few years are now generally holding sub optimal investments and are not maximising returns by foregoing realised capital gains. In the current challenging economic environment, any boost in overall returns should be locked in when it is advantageous to do so, particularly as switch opportunities become available.

Senior Fixed Bonds – ADIs (Secondary Market)

Investors may look at some opportunities in the secondary market. We currently see value in the following fixed bond lines (please note supply in the secondary market may be limited on any day):

ISIN	Issuer	Rating	Capital Structure	Maturity Date	~Remain. Term (yrs)	Fixed Coupon	Indicative Yield
AU3CB0314763	Bendigo	A-	Senior	24/10/2028	2.73	4.79%	4.97%
AU3CB0308955	BoQ	A-	Senior	30/04/2029	3.24	5.30%	5.11%
AU3CB0319879	Nova Sco.	A-	Senior	21/03/2030	4.14	5.23%	5.41%

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Economic Commentary

International Market

Financial markets were positive in January on the back of strong corporate earnings, ongoing investment and demand in the AI sector, as well as market optimism on expectation that the US Fed will continue cutting official interest rates later this year.

Across equity markets, the US S&P 500 Index gained +1.37%, whilst the NASDAQ added +0.95%. The UK's FTSE index climbed above 10,000 points for the first time, passing a significant stock market milestone, on the first trading day of the calendar year. Europe's main indices were mixed, with gains in UK's FTSE (+2.80%) and Germany's DAX (0.28%), whilst France's CAC (-0.15%) marginally fell.

The US FOMC kept rates unchanged at 3.50%-3.75% as expected, although the decision was not unanimous, with two members opting for a 25bp cut.

US headline CPI for December rose +0.3% m/m and +2.7% y/y as expected, but core came in at +0.24% m/m and +2.6% y/y, which was lower than expectations. Overall payrolls in the US showed a gain of +50k in December, with +76k of downward revision for the prior two months. The unemployment rate for December was revised down to 4.4% from 4.5% (November was also revised down from 4.6% to 4.5%).

The Bank of Canada (BoC) left their policy rate on hold at 2.25% as widely expected. Canada's unemployment rate jumped to 6.8% from 6.5%, so reversing half of the October-November fall from 7.1%. Headline CPI for December came in at +2.4% y/y, up from +2.2% y/y in November. The average of the two core measures fell to +2.7% y/y and +2.8% y/y respectively.

In the UK, November monthly GDP surprised to the upside with a +0.3% m/m rise against a +0.1% consensus and after a -0.1% contraction in October.

New Zealand's Q4 CPI climbed +3.1% y/y, accelerating from +3.0% y/y in the third quarter, raising chances of official rates moving higher in 2026.

Yields on 40-year Japanese bonds surged above 4.2% during the month, crossing above 4% for the first time since their introduction in 2007, pushing up borrowing costs and bond yields around the world.

The MSCI World ex-Aus Index rose +2.19% for the month of January:

Index	1m	3m	1yr	3yr	5yr	10yr
S&P 500 Index	+1.37%	+1.44%	+14.87%	+19.40%	+13.31%	+13.59%
MSCI World ex-AUS	+2.19%	+3.39%	+20.15%	+20.09%	+13.49%	+13.77%
S&P ASX 200 Accum. Index	+1.78%	+0.36%	+7.37%	+9.81%	+10.21%	+10.12%

Source: S&P, MSCI

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Domestic Market

RBA Deputy Governor Hauser revealed the Bank's assessment had not changed since the December meeting. He reiterated that for now, the primary measure of underlying inflation will remain the quarterly trimmed mean, which came in slightly higher than expected.

The unemployment rate fell 0.2% to 4.1% in December, its lowest level in 6 months, beating expectations for no change. Employment rebounded, up +65k in December with the participation rate also climbing 0.1% to 66.7%.

The RBA's preferred measure of annual inflation (trimmed mean) came in at +3.3% y/y in December, up from +3.2% y/y in November. Headline annual inflation rose was +3.8% y/y in December, up from +3.4% y/y in November. This increases the chance that the RBA may move on lifting official interest rates earlier than previously anticipated.

Household spending continued to rise strongly in November, increasing by +1.0% m/m (+6.3% y/y), following an upwardly revised October gain of +1.4% m/m.

Dwelling prices across the combined capitals rose +8.2% over 2025. In December, prices rose +0.5% m/m, even as Sydney and Melbourne slowed.

The Australian dollar surged around +4.65%, finishing the month at US70.04 cents (from US66.93 cents the previous month).

Credit Market

The global credit indices marginally tightened during the month. They are back near the levels observed in July 2025. The stability indicates a period of relative calm in credit markets, with spreads maintaining levels below historical averages.

Index	January 2026	December 2025
CDX North American 5yr CDS	49bp	56bp
iTraxx Europe 5yr CDS	52bp	51bp
iTraxx Australia 5yr CDS	65bp	63bp

Source: Markit

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Fixed Interest Review

Benchmark Index Returns

Index	January 2026	December 2025
Bloomberg AusBond Bank Bill Index (0+YR)	+0.30%	+0.31%
Bloomberg AusBond Composite Bond Index (0+YR)	+0.21%	-0.63%
Bloomberg AusBond Credit FRN Index (0+YR)	+0.46%	+0.37%
Bloomberg AusBond Credit Index (0+YR)	+0.32%	-0.25%
Bloomberg AusBond Treasury Index (0+YR)	+0.04%	-0.76%
Bloomberg AusBond Inflation Gov't Index (0+YR)	+0.32%	-1.38%

Source: Bloomberg

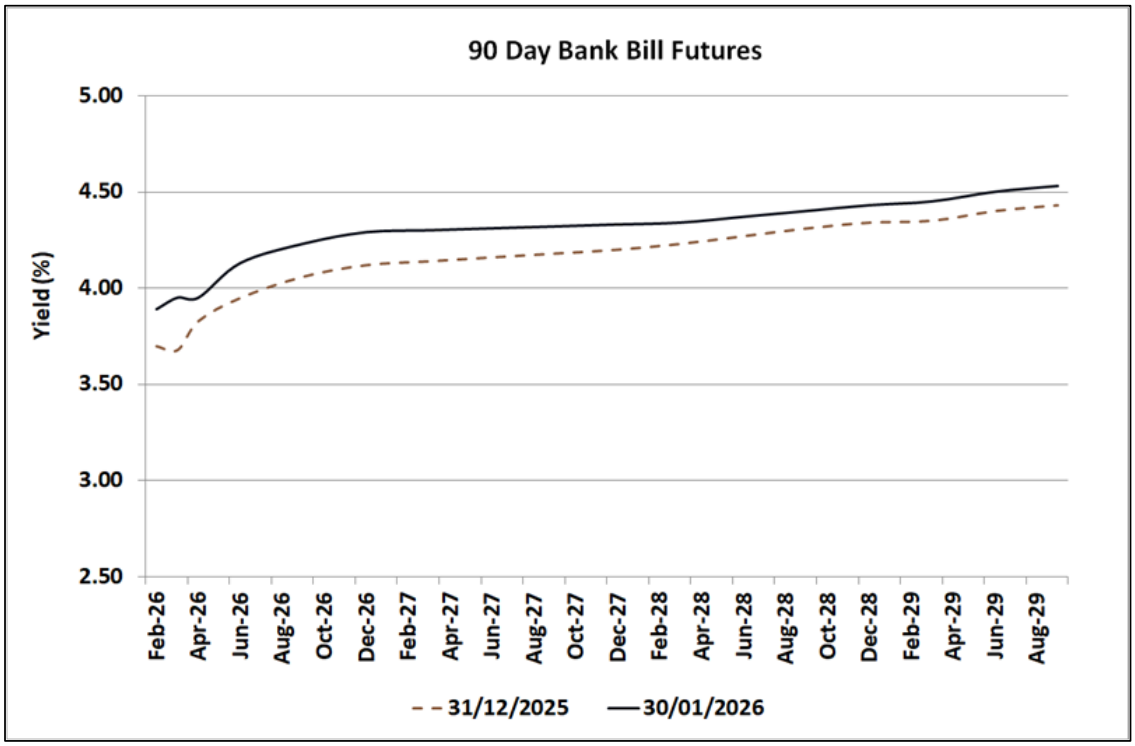
Other Key Rates

Index	January 2026	December 20255
RBA Official Cash Rate	3.60%	3.60%
90 Day (3 month) BBSW Rate	3.84%	3.74%
3yr Australian Government Bonds	4.25%	4.15%
10yr Australian Government Bonds	4.78%	4.74%
US Fed Funds Rate	3.50%-3.75%	3.50%-3.75%
2yr US Treasury Bonds	3.52%	3.47%
10yr US Treasury Bonds	4.26%	4.18%

Source: RBA, ASX, US Department of Treasury

90 Day Bill Futures

Bill futures rose across the board this month on expectation that the RBA will have to lift rates earlier than previously anticipated, potentially as early as 3rd February:



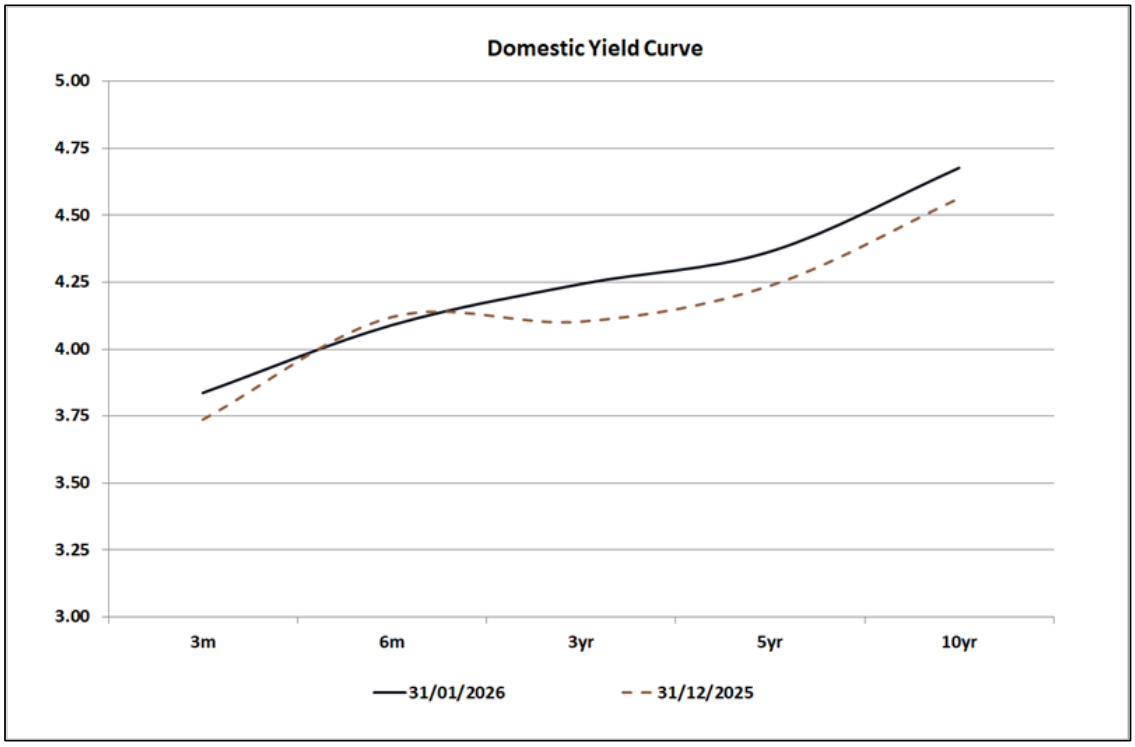
Source: ASX

Fixed Interest Outlook

After keeping rates unchanged in January, the US FOMC statement noted that the economy was expanding at a "*solid pace*", that the unemployment rate had shown "*some signs of stabilising*" but that inflation remained "*somewhat elevated*". Overall, their forward guidance was unchanged from which they retain an easing bias (up to three rate cuts in 2026).

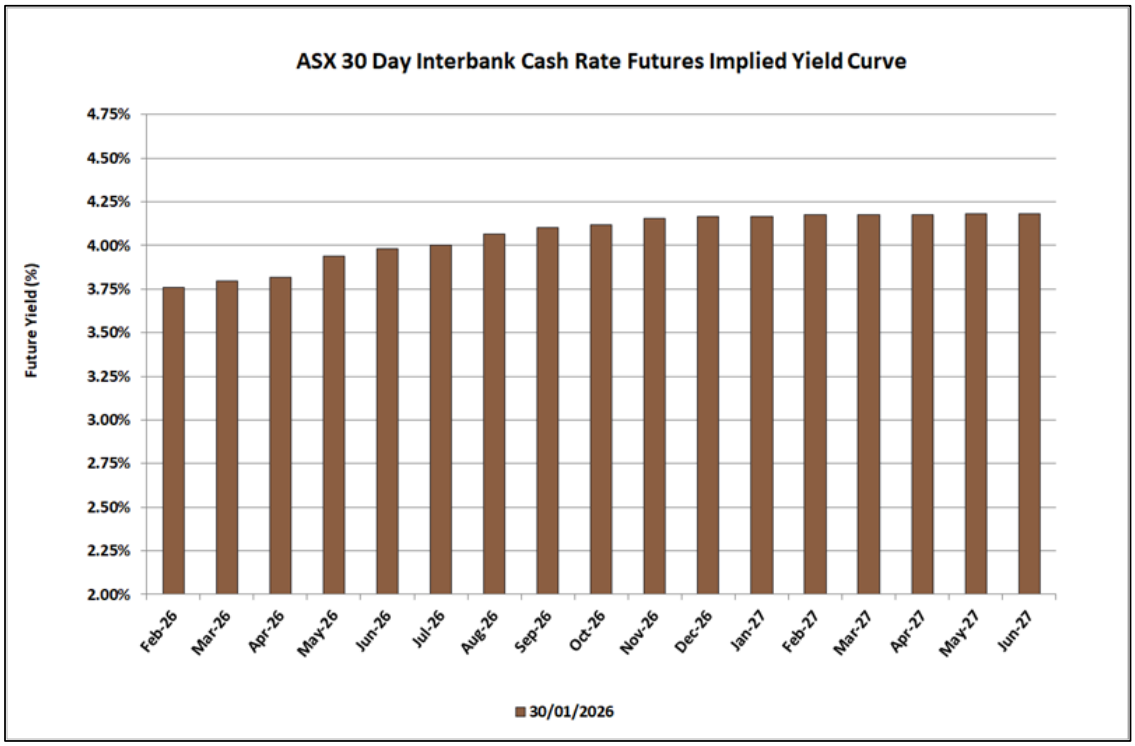
Domestically, the RBA has indicated they are on a tightening bias due to persistently high inflation prints, particularly in housing and services, coupled with a tight labour market. The latest employment figures as well as the spike in inflation adds pressure on the RBA to potentially move quicker than previously anticipated.

Yields rose up to 25bp at the longer-end of the curve this month:



Source: ASX, RBA

Financial markets are now fully pricing in two rate hikes by Q3 2026, with the first move potentially as early as 3rd February:



Source: ASX

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