

TREASURY



CORPORATION

2002 ANNUAL REPORT TO PARLIAMENT



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**WESTERN AUSTRALIAN
TREASURY CORPORATION**

**THE HON. ERIC RIPPER, MLA
TREASURER OF WESTERN AUSTRALIA**

In accordance with section 66 of the Financial Administration and Audit Act 1985, we hereby submit for your information and presentation to Parliament the Annual Report of the Western Australian Treasury Corporation for the year ended 30 June 2002.

The Report has been prepared in accordance with the provisions of the Financial Administration and Audit Act 1985.

**J L LANGOULANT
CHAIRMAN
WESTERN AUSTRALIAN
TREASURY CORPORATION**

30 August 2002

**R N HUGHES
CHIEF EXECUTIVE OFFICER
WESTERN AUSTRALIAN
TREASURY CORPORATION**

30 August 2002



CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER'S REVIEW

The Corporation delivered a strong performance over the past twelve months, further establishing its position as the leading provider of financial services to the Western Australian public sector.

During the review period, official interest rates around the globe continued to move lower following the tragic terrorist attack on the US in September 2001. In some cases, rates reached levels not seen in the past forty years. The first synchronized slowdown in the global economy for the past twenty years occurred during 2001, giving way to a modest recovery in the first half of 2002, although growth was uneven between economies and financial markets remained wary of further geopolitical or economic shocks. US official interest rates remained on hold during the second half of the year, but countries with cheaper currencies and relatively low interest rate settings began to tighten monetary policy late in the year.

With strong growth in Australia and inflation close to the top of its target range, the Reserve Bank of Australia started tightening monetary policy in the June quarter 2002, lifting its cash rate target from 4.25% to 4.75%. In response to these developments, 90-day bank bill yields, which declined modestly during the first half of the year to a low of around 4.2% from 5.0% at the start of the year, rose during the second half of the year to finish at 5.1%. 10-year Commonwealth bond yields followed a broadly similar pattern. They reached a low point for the year of just under 5.0% in November 2001 and a peak of 6.5% in late March 2002, finishing the year at just over 6.0%.

In Western Australia, strong growth in business and dwelling investment provided a substantial boost to the State's economy in 2001/02. Overall real gross state product rebounded strongly in the year, after recording negative growth during 2000/01. Encouragingly, the improvement in business investment involved a large number of small (less than \$100 million) resource projects, which should ensure that the recovery in business investment is both broad and sustainable in the years ahead.

The uncertainty in world markets has made this year more difficult, although the Corporation has, in achieving a profit of \$7.7 million, exceeded its required rate of return on capital with a return of 12.1%. A feature of the markets this year that impacted on the return was the historically low spread between the yields on debt issues of the central borrowing authorities and those of interest rate swaps.

State Government agencies and local governments throughout Western Australia have continued to support the Corporation by using it as their primary source for debt funding. This purchasing strength enables the Corporation to consolidate the State's funding requirements, allowing it to provide investors in the capital markets with liquid lines of single name debt paper. In turn, the volume issuance enables the Corporation to raise funds at rates below that which the agencies could achieve individually. By also being an active participant in the international financial markets, the Corporation is able to take advantage of any opportunity that offers favourable borrowing costs compared to those available in the domestic market. Overall, the Corporation's activities in the various financial markets allow it to offer clients a comprehensive range of flexible lending and risk management products that meet their needs.

The Corporation remains committed to maintaining a professional and high standard of service to its clients. It values the relationships it has developed with them and continues to place considerable emphasis on maintaining and further developing these relationships. In this regard, the Corporation works closely with its clients to ensure that it continues to have a clear understanding of their business and financing requirements, thereby enabling it to provide financial solutions that more closely meet their individual needs.

The majority of the Corporation's clients continue to effectively manage their borrowings via a portfolio approach to debt management. This funding arrangement applies the principles of diversification to reduce refinancing risk and volatility in interest costs. The portfolio approach essentially provides clients with a balanced portfolio of debt with maturities spread evenly across the yield curve.

In addition to the portfolio approach to debt management, the Corporation provides other lending products to meet the individual requirements of clients. Some of the alternate lending products utilised over the past year include interest only loans, fixed-rate principal and interest loans, zero-coupon loans, liquidity funding and forward fixed interest rate setting on loans. The Corporation is able to advance funds with the interest rate fixed for any term out to around twenty years. The funds can be advanced at short notice and this capability is particularly useful for clients with liquidity funding requirements. Clients advising the Corporation of their funding needs on any day can be assured that the funds will be available and accessible the following morning.

To complement the provision of funds and debt management, the Corporation provides a wide range of other financial services including liability and risk management, financial analysis, economic advice, foreign exchange management, interest rate forecasting and the valuation of debt portfolios. By providing these services, the Corporation supports the Western Australian public sector in the prudent management of its financial assets and liabilities.

During the year, the Corporation successfully implemented the Summit treasury management system that it has been working on over the past two years. Although the completion date was a little later than originally planned, the cost came in under budget. Initial expectations for the system are also being realized, producing a most pleasing outcome. This system has replaced the Corporation's existing disparate front and middle office systems with an integrated solution that, as expected, is proving particularly flexible in enabling all areas of the Corporation to access relevant functionality in a timely and efficient manner. For example, the availability of hedge modelling tools has facilitated better risk benchmarking and assisted in the Corporation's day-to-day portfolio hedging activities. The completion of this phase of the upgrading of the treasury management system now enables the Corporation to address the replacement of its back office systems and achieve its aim of straight through processing.

The Corporation has been following with great interest the commentary in the press on the Public Private Partnership ("PPP") concept. Any decisions to proceed with PPPs invariably involves an assessment by government that the value of the risk transfer from government to the private sector is greater than the additional cost of private sector finance compared to the cost of government funding. However, this logic is found to be wanting if the public sector has to meet the cost if the PPP project fails to deliver, regardless of who is allocated the risk. In this regard, there are many examples, both internationally and domestically, of where governments have had to financially shore up failed PPP projects, as it was ultimately obliged to maintain the service. In these instances, government funding would clearly have provided the cheapest option. Invariably, it is the case that the government is ultimately responsible for the provision of essential goods and services such as health, water, power, education, law and order and defence. Accordingly, governments should give due consideration to issues associated with risk transfer in these instances.

We would like to take this opportunity to thank our fellow Board members for their wise counsel over the past twelve months in fine tuning and developing sound policy for the successful operation of the Corporation. The year has again produced many challenges, particularly those that arose as a result of the implementation of the new front and middle office systems. These challenges along with the many operational tasks have been addressed in a timely and professional manner and we would like to record our appreciation to all staff for their efforts in ensuring the success of the Corporation over the year. We look forward to the continuing support of all our colleagues in the year ahead.



J L LANGOULANT

Chairman



R N HUGHES

Chief Executive Officer



PERFORMANCE

AGAINST TARGETS FOR 2001/02

The Board sets annual performance targets for the Corporation. These targets form part of the Statement of Corporate Intent which is published at the start of each financial year in accordance with Section 16I(1) of the Western Australian Treasury Corporation Act 1986.

The Corporation's performance against its targets for 2001/02 is set out below.

1. ESTIMATED INTEREST RATE SAVINGS

In order to gauge its effectiveness in providing competitively priced loan funds to clients, the Corporation calculates the estimated interest rate savings to clients borrowing from the Corporation compared to the estimated cost to clients of borrowing in the corporate bond market. The following table shows the average of the estimated month end savings for the year. The results are summarised by the credit rating of the corporate bonds used in the calculation. It should be noted that the cost of borrowing from the Corporation does not include any guarantee fees collected by the Corporation on behalf of the State.

Target: Savings > 0.00%.
Outcome: Refer to table below.

**2001/02 Estimated Interest Rate Savings to Clients
by Reference Bond Credit Rating and Term to Maturity***

Maturity Bucket (Years)	AAA	AA+	AA	AA-
1 to 2	0.10%		0.15%	0.14%
2 to 3	0.11%			0.13%
3 to 4	0.10%	0.46%		0.28%
4 to 5	0.27%			
5 to 6	0.14%			
6 to 7	0.14%			
8 to 9	0.50%			
12 to 13	0.41%			
17 to 18	0.47%			

* A blank entry in the table means there is no reference bond available in the corporate bond market for comparative purposes.

2. ASSESSMENT OF SATISFACTION OF CLIENT NEEDS

The Corporation undertakes a program of client visits to assess the level of client satisfaction with existing services and facilities and to assess the need for new services or facilities. Only a subset of the Corporation's clients is assessed each year.

Feedback is obtained as to the suitability of the structure and available maturity choices in relation to the Corporation's lending products and also in relation to risk management and other financial services provided by the Corporation.

Target: 100% Satisfaction level.
Outcome: Refer to table below.

2001/02 Client Satisfaction Assessment Summary

	Corporation Products and Services	
	Structure & Maturities	Risk Management & Other Financial Services
Client has unmet needs	0	0
All needs currently met	22	22
Number of clients assessed during the period	22	22

3. ADMINISTRATION RATIO

The Corporation monitors its administrative efficiency by measuring its Administration Ratio. The Administration Ratio is a measure of the average administrative on-cost that must be borne by the Corporation's clients.

$$\text{Administration Ratio (\%)} = \frac{\text{Net Administration Expense}}{\text{Average Lending Assets}} \times \frac{100}{1}$$

Net administration expense is defined as total administration expenses less non-interest revenue. Average lending assets is defined as the average of the opening and closing book value of loans to clients for the year.

Target: Administration Ratio < 0.15%
Outcome: Administration Ratio = 0.11%

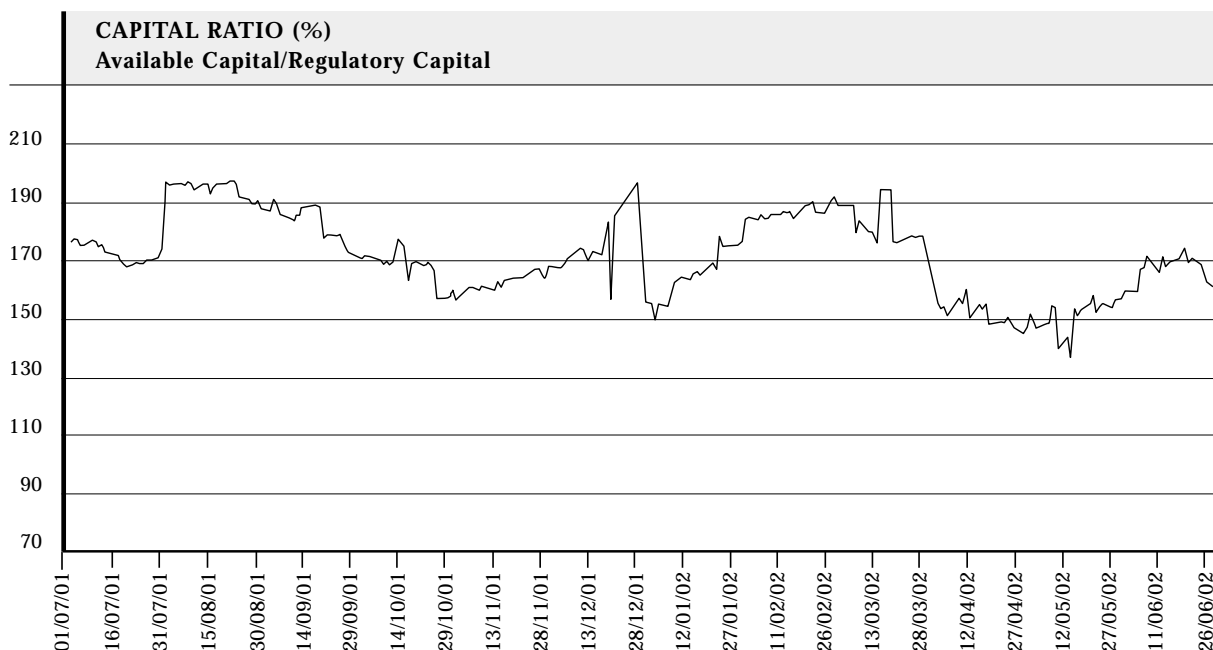
4. CAPITAL RATIO

In view of the Corporation's activities as a participant in financial markets, it is essential that it has sufficient capital to efficiently manage its portfolio within prescribed risk parameters. Hence, the Corporation's capital ratio is monitored on a daily basis.

$$\text{Capital Ratio (\%)} = \frac{\text{Available Capital}}{\text{Regulatory Capital}} \times \frac{100}{1}$$

Available capital is defined as the previous year-end equity plus unaudited year to date profits less dividend payments made during the current year. Regulatory capital is defined as the minimum capital required under the Corporation's Board approved capital policy. This policy is based on the Australian Prudential Regulation Authority's standards and guidelines.

Target: Capital Ratio ≥ 100% on a daily basis
Outcome: The capital ratio exceeded the target of 100% on each day of the reporting period as shown in the following graph.





PERFORMANCE

AGAINST TARGETS FOR 2001/02 (Continued)

5. RETURN ON CAPITAL

In line with market practice, the target return on capital for the Corporation is adjusted for risk on the basis of the Capital Asset Pricing Model.

$$\text{Return (\%)} = \frac{\text{Annual Pre-Tax Profit}}{\text{Capital as at start of current year}} \times \frac{100}{1}$$

Target: 11.2% - being the risk adjusted pre-tax return on capital required under the Board approved capital policy of the Corporation.

Outcome: 12.1%

6. MARKET SHARE

The Corporation calculates its market share as set out in the following formula.

$$\text{Market Share (\%)} = \frac{\text{Book value of WATC client debt}}{\text{Book value of total eligible public sector debt}} \times \frac{100}{1}$$

Eligible public sector debt includes debt in the form of borrowings by the State of Western Australia but excludes finance leases, debt to the Commonwealth and borrowings by Keystart.

Target: Market Share \geq 95%

Outcome: Market Share = 98% (as at 30/6/2001)

It should be noted that the result is lagged due to the timing of the release of relevant source data in relation to the State's debt.

OVERVIEW

OF THE CORPORATION

ENABLING LEGISLATION

The Corporation was established on 1 July 1986 under the Western Australian Treasury Corporation Act 1986 (the "Act") as the State's central borrowing authority. Amendments to the Act during 1998 expanded the Corporation's role to include the provision of financial management services to the Western Australian public sector.

VISION

To be the provider of choice for loan funds and financial services to the Western Australian public sector.

MISSION

To work with our clients to satisfy their financing needs.

CORPORATE OBJECTIVES

The objectives of the Corporation are to:

- Lend at a commercially competitive cost to our clients;
- Provide lending structures and maturities to satisfy our clients' needs;
- Identify and provide information to the public sector on financial risks and strategies to manage these risks;
- Satisfy our clients' needs for financial and risk management services;
- Conduct our operations in an efficient and cost effective manner;
- Efficiently manage our portfolio within prescribed risk parameters; and
- Be the primary lender to the Western Australian public sector.

CORPORATE VALUES

The Corporation is focussed on providing efficient and cost effective financial products and services for the management of the Western Australian public sector's financial assets and liabilities.

The Corporation's values are as follows:

- Customer satisfaction is the top priority of its employees and the ultimate aim of every activity. Cost-effective, on-going achievement of customer satisfaction is the foundation of the Corporation's business.
- Every employee is an important and valued member of a team which strives to provide the highest standard of service to the Corporation's clients.
- The Corporation encourages its employees to be resourceful and creative in the resolution of problems and in the conduct of its business.
- The pursuit of excellence with integrity is promoted throughout the organisation and expected in the quality of work done in every function.
- Clear communication of the corporate strategies and objectives to all employees is a priority. Feedback is valued as an integral part of this process.
- Willing co-operation between employees to fulfil commitments to the Corporation's clients and in support of its strategies and objectives is valued and commended.
- The Corporation undertakes to ensure that all its employees have the skills necessary to take advantage of new technologies and adjust well to the changes and dynamics of its business.
- The Corporation undertakes to employ modern and appropriate technologies to effectively carry out its Mission.

These values provide the foundation for the Corporation achieving its objectives.



OVERVIEW

OF THE CORPORATION (Continued)

BOARD OF DIRECTORS

The responsibility for the performance of the Corporation's functions is vested in a board of directors appointed under Section 5B of the Act.

At 30 June 2002, the Corporation's Board comprised:

- Mr John Langoulant, Under Treasurer for the State of Western Australia and Chairperson;
- Ms Anne Nolan, Executive Director (Economic), Department of Treasury and Finance and Deputy Chairperson;
- Mr David Eiszele, Managing Director, Western Power;
- Mr William Heron, Consultant;
- Ms Catherine Nance, Director, PricewaterhouseCoopers
- Mr Raymond Hughes, Chief Executive Officer.

STATE GUARANTEE

Under Section 13(1) of the Act, the financial liabilities incurred or assumed by the Corporation are guaranteed by the Treasurer on behalf of the State. This guarantee is secured upon the Consolidated Fund of the State.

CREDIT RATINGS

The debt of the Corporation is rated as follows:

RATING AGENCY	LONG TERM	LONG TERM	SHORT TERM
	AS	Foreign Currency	
Standard & Poor's	AAA	AA+	A-1+
Moody's Investors Service	Aaa	Aa2	Prime-1

All long-term credit ratings currently have a "stable" rating outlook.

There were no changes to the Corporation's credit ratings or rating outlooks during the 2001/02 financial year.

The foreign currency ratings for the Corporation are constrained by the sovereign ceiling ratings for the Commonwealth Government of Australia.

INFORMATION STATEMENT

In accordance with Part 5 of the Freedom of Information Act 1992, the Corporation has prepared an Information Statement. This document is available for inspection at the Corporation's office at Level 7, Central Park, 152-158 St. George's Terrace, Perth.

ECONOMIC OVERVIEW

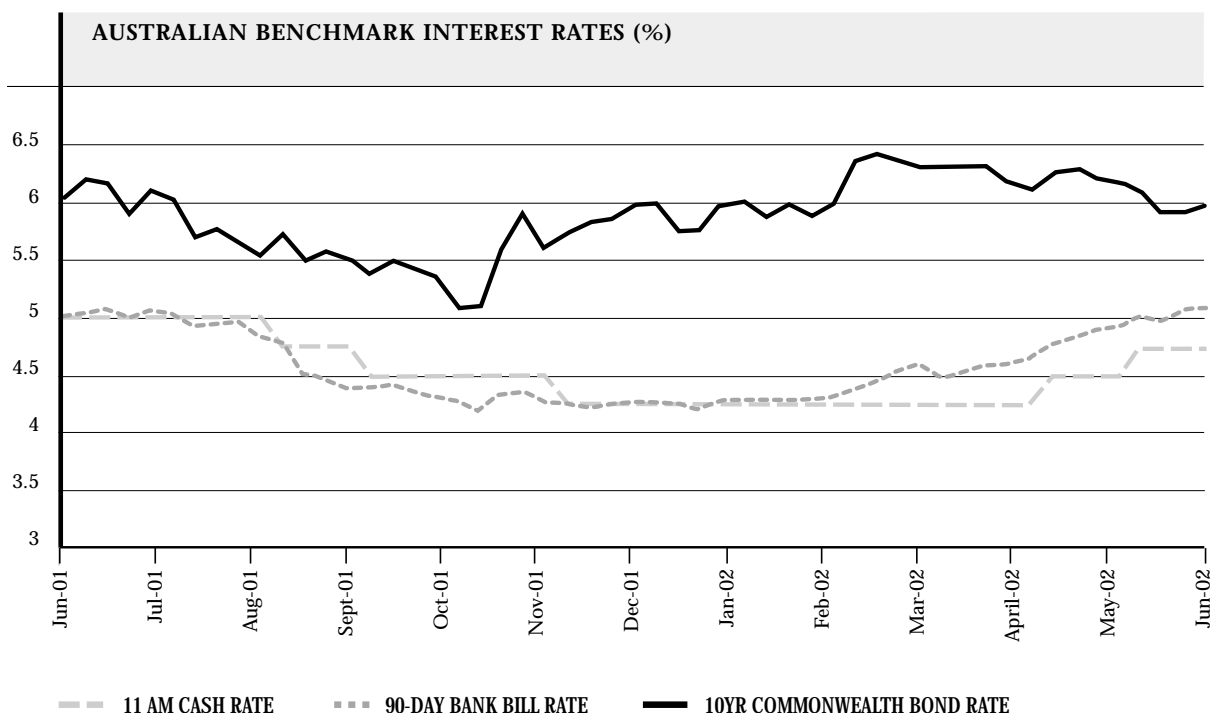
DOMESTIC MARKET

The Australian economy was confronted by numerous external shocks in the 2001/02 financial year, which it withstood to record another year of above average growth. In fact, Australia's economic growth over calendar year 2001 was the highest amongst comparable OECD countries. Dominating the financial year was undoubtedly the terrorist attack on the World Trade Center and Pentagon on September 11 in the US, and the subsequent 'War on Terror' campaign in Afghanistan. These events, in conjunction with continuing fallout from the demise of the so called 'New Economy', shook global consumer and investor confidence to such an extent that much of the developed world suffered an economic slowdown during the second half of 2001.

The domestic economy was strong during 2001/02 as a boom in housing construction in the latter half of last financial year carried on into the first half of the year, helped by falling mortgage interest rates and the Federal Government's first home buyers grant. The timely

response of monetary policy settings in response to global economic factors in a now low inflation environment led to a boom in house prices, particularly in the major capital cities, despite a slowdown in construction in the latter half of the year. Rising house prices increased household wealth and led to a rapid expansion in household borrowing, and this supported relatively high levels of consumer spending throughout the year. In addition, the depreciation of the Australian dollar helped to maintain the competitiveness of Australian exports in the face of falling international demand.

Over the year to the March quarter 2002, GDP growth was a strong 4.2%. This was well in excess of most other developed nations. The unemployment rate increased in the first half of the year, reaching a peak of 7.0%, before declining rapidly to a low for the year of 6.3%. Inflation declined from its post-GST highs, but remained around the top of the Reserve Bank of Australia ("RBA")'s target 2-3% band. Total CPI inflation for the year to the June quarter 2002 was 2.8%.





ECONOMIC

OVERVIEW (Continued)

The RBA continued to ease monetary policy during the first half of the year, consistent with other major economies. At the beginning of the year, the RBA target cash rate stood at 5.00%. It moved to 4.75% in early September. Following the events of September 11, the RBA was quick to reduce rates further in line with the US, cutting the cash rate to 4.25% by December. However, by the end of the March quarter 2002, with the economy growing strongly despite the global slowdown and inflation near the top of the RBA's target range, it became clear that monetary policy was too accommodative, and the cash rate was raised by 25 basis points in both May and June to 4.75%.

Like the cash rate, short-term money market yields finished the year close to where they started. 90-day bank bill yields were trading at just above 5.0% in July, before falling to 4.23% by late November in anticipation of the final cut in the cash rate. Late in 2001/02, bill yields rose to around 5.2%, pricing in expectations of a swift increase in the official cash rate.

Longer term bond yields were dominated by international developments for much of the year. 10-year bond yields fell significantly from 6.2% to 5.0% in early November. Over the following three months, this trend was reversed, with yields rising back to 6.4% as the market responded to a more positive growth outlook and renewed inflationary expectations. In the last quarter of 2001/02, the market responded to falling US bond yields and equity markets, and 10-year yields moved down again to just below 5.9% at year-end.

The Australian dollar traded in a range of US\$48.5 – 57.5 cents during 2001/02, although it spent most of the year appreciating after reaching its low point in mid-September. The local currency outperformed most others for much of the latter half of the year, before stalling in June, while the Euro and Yen continued to appreciate against the US dollar. Much of the Australian dollar's climb can be attributed to US dollar weakness, although the late year decline may be attributable to a general shift away from dollar-bloc currencies into European and Japanese markets.

INTERNATIONAL MARKETS

The terrorist attacks in September 2001 saw interest rates around the world driven to their lowest levels in decades, while many of the major economies suffered negative growth for one or more quarters. Continuing corporate scandals, led by the collapse of Enron late in 2001, contributed to declining investor confidence which drove US equity markets down to 1998 levels, and saw them return their worst performance since 1987.

In the US, after a lengthy period of expansion, the economy suffered three quarters of negative growth during calendar year 2001. This was the culmination of a slowing trend in economic activity traceable to the end of the NASDAQ stock market bubble in 2000. In response to this slowdown, and to a slump in business and investor confidence, the Federal Reserve continued its aggressive easing of monetary policy which saw the Federal funds rate cut by 475 basis points from its peak of 6.5% in January 2001 to a forty year low of just 1.75%.

The Federal funds rate started 2001/02 at 3.75% and was cut to 3.5% in August. Following September 11, the rate was rapidly cut to 1.75% by December. 10-year US treasury bond yields fell in the first half of the year, from a high of 5.4% in July, reaching a low of 4.2% in November, before rising rapidly again in response to emerging signs of a rapid economic recovery and expectations of a tightening in monetary policy. Thus by March, 10-year bond yields were about 5.4%.

In the last quarter of the year, however, it became apparent that the recovery was not as strong as expected, and with equity market weakness driven by several notable corporate collapses and scandals, 10-year bond yields fell again, and by the end of June 2002 had fallen to 4.8%. 2-year bonds followed a similar pattern, reaching a high of 3.7% in March 2002 before falling to 2.8% by year-end.

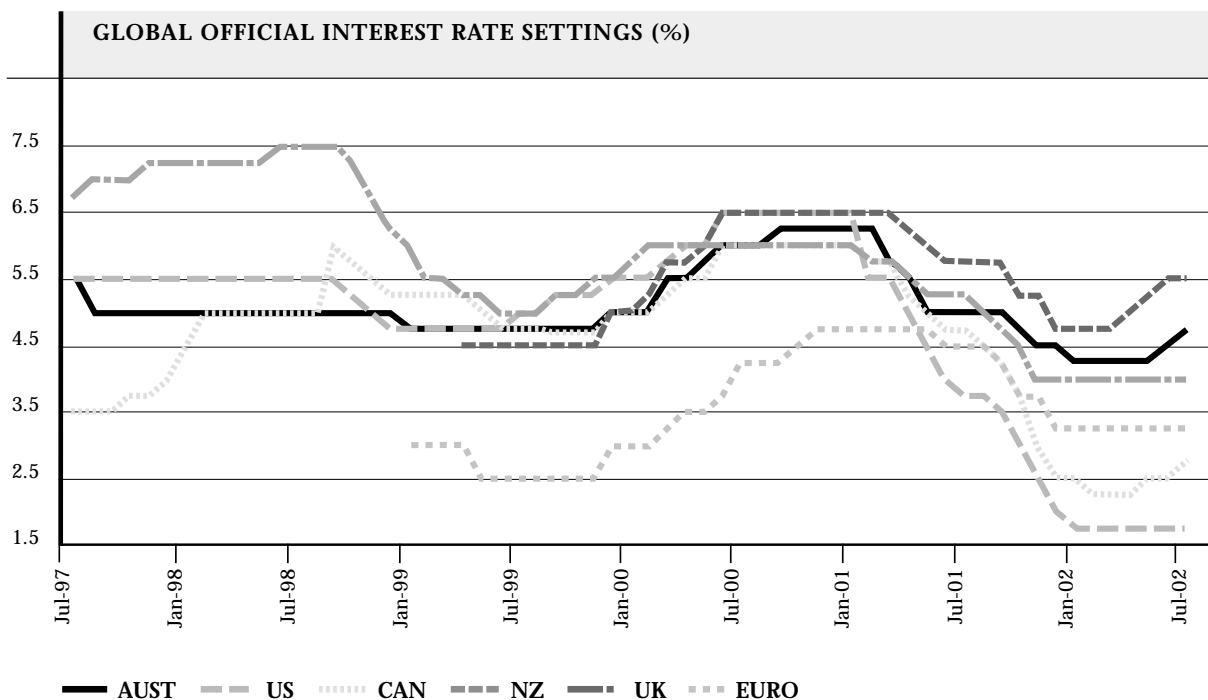
The performance of equity markets in the US over the year was tumultuous, and a significant bear market emerged over the year, following the record bull market of the late 1990s. The S&P500 fell 20% during 2001/02 and by the end of the year was 35% from its peak in 2000. The NASDAQ, unsurprisingly, performed worse, down 32% for the year to a massive 71% below its early 2000 peak. Over the last months of the year, it became apparent that the collapse of the telecommunications sector may exceed that of the so-called 'dotcoms', and a persistent bear market in equities may present a danger to the real economy.

The latter half of the year also saw a reversal in the fortunes of the US dollar, which weakened considerably against the other major global currencies, Euro, Yen, Australian dollar and Canadian dollar. The Euro started the year at historical lows, below US84.0 cents, before rebounding above US90.0 cents. Post September 11 2001, the US dollar appreciated, and the Euro fell back to US86.0 cents. Since January 2002, however, the Euro continued to appreciate, hitting US99.1 cents before year-end. The Yen followed a similar pattern, strengthening early in the year before falling to 135 Yen to the dollar. In the latter half of the year, however, it rallied strongly and closed the year below 120 Yen. This depreciation in the US dollar closely followed the decline in the US equity market and concerns over the level of the US current account deficit.

In the Euro-zone, economic growth was slowing significantly at the beginning of the year and the European Central Bank ("ECB") was initially reluctant to aggressively cut rates due to inflation being above its 2% target. However, with these concerns abating, and the danger of recession emerging, the ECB was quick to follow the lead of the Federal Reserve and cut the Euro

short-term Repo rate from 4.5% in June 2001 to 3.25% by November. The rate was held at this level for the remainder of the year. Growth was negative in the Euro-zone in the last quarter of 2001, and although showing signs of picking up, remained sluggish for the remainder of 2001/02. At year-end, inflation remained under control below the 2% target level.

The Japanese economy spent most of the year in recession, as the new Koizumi government struggled to force through any meaningful structural reforms. Fiscal policy remained tight, despite the slowdown, as concerns mounted over unprecedented government debt levels. Towards the end of the year, however, the economy was showing signs of a mild recovery, boosted by a global upswing and the associated rise in export volumes. Concern still exists, however, particularly over continued deflation and an unemployment rate still near record highs. With the Yen rising against the dollar, and no significant long-term reform of the banking system, there is as yet little evidence to suggest that Japan's long-term economic decline is over.





DOMESTIC BORROWING

OVERVIEW

The Corporation's domestic borrowing activities during 2001/02 centred primarily on:

- maintaining sufficient volumes on issue and enhancing the liquidity in its "hot stock" lines maturing in 2003, 2005, 2007 and 2009;
- launching the new 15 April 2011 "hot stock" line to meet debt management requirements;
- pursuing opportunities to issue stocks longer than ten years to hedge specific client requirements;
- issuing short-term inscribed stock to meet floating rate funding requirements; and
- transacting in interest rate swaps to facilitate asset/liability management

FIXED INTEREST

Domestic fixed interest markets continued to take their cue from US bond and equity markets, which for the first half of the year were dominated by events on September 11 in the US and the aftermath. Markets in Australia rallied strongly as they sought to follow the rapid falls in US Treasury Bonds which were inspired by the aggressive easing stance adopted by the US Federal Reserve following these events.

In the second half of the year, yields in domestic markets slowly drifted higher from their lows in November, as employment, economic growth and consumer spending activity pointed to a buoyant domestic economy.

The spreads between semi-government and Commonwealth bonds were driven predominantly by flows in the swap market. In the first half of the year, strong domestic corporate bond issuance, ongoing AS\$ issuance into the Japanese Uridashi market and falling outright yields contributed to a narrowing swap spread, culminating in semi-government bonds being better bid comparative to Commonwealth bonds. The second half of the year was characterised by a period of stability in the spread between semi-government and Commonwealth bonds, followed by some widening in the latter stages due to "payside" pressures in the swap market which emerged as outright yields moved higher and the financing of major projects impacted on expectations.

During the year, the Corporation matured its 01/08/2001 stock line. Ongoing client requirements enabled the Corporation to undertake the launch of a new 7% 15/04/2011 "hot stock". The new stock line was issued in October, with an initial tranche of \$200 million by tender and a further \$300 million issued by way of consolidation from the existing 15/10/2009 "hot stock" and the purchase of other central borrowing authority assets. In addition to normal market activities in its "hot stock" lines, the Corporation also actively sought to add to its outstandings in the 15/06/2013, 15/07/2017 and 15/10/2019 off-the-run maturities. It is envisaged that the 15/06/2013 stock line will become the Corporation's new "hot stock" sometime during the 2002/03 financial year.

Market Making Panel

The Market Making Panel and contacts at 30 June 2002 are shown below.

PANEL MEMBERS	CONTACT	TELEPHONE
ABN AMRO Bank NV	Mr Michael Cheetham	03 9612 1344
Commonwealth Bank of Australia	Mr Kevin Brinsmead	02 9235 0122
CS First Boston Pac Cap Mkts Ltd	Ms Gia Sessa	02 9394 4444
Deutsche Capital Markets Australia Ltd	Ms Marissa Han	03 9270 4333
Macquarie Bank Ltd	Mr David Castle	02 9391 3711
National Australia Bank Ltd	Mr Chris Bibby	03 9277 3321
RBC-DS Global Markets	Mr Michael Kenneally	02 9223 6011
Salomon Smith Barney Aust Sec Pty Ltd	Mr Simon Walters	03 8643 9820
UBS Warburg Australia Ltd	Mr David Harris	03 9659 3888
Westpac Banking Corporation	Mr Rick Ewins	02 9283 4100

Taking into account overall performance, the prominent institutions on the Corporation's Market Making Panel for the financial year ended 30 June 2002 were:

- Westpac Banking Corporation
- ABN AMRO Bank NV
- UBS Warburg Australia Ltd
- Deutsche Capital Markets Australia Ltd
- National Australia Bank

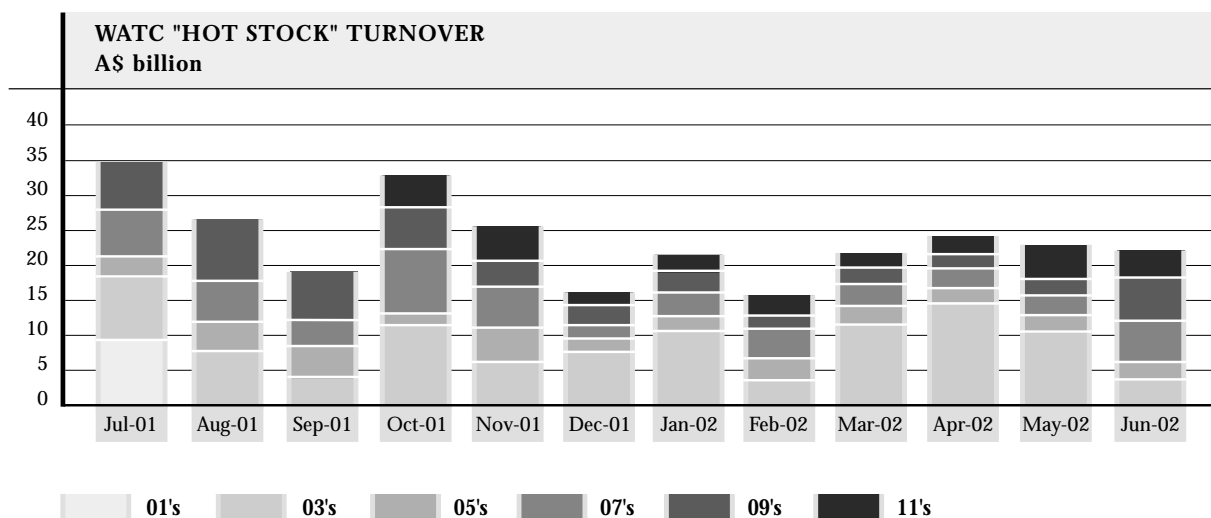
Stocklending and Repurchases

The volume of stocklending of the Corporation's "hot stocks" decreased slightly in 2001/02 to \$179.4 million, compared to the \$261.2 million transacted in 2000/01. The overall volume of stocklending remained at historically low levels. The Corporation maintained its policy of being a lender of last resort to its Market Making Panel for "hot stocks" and did not actively compete against market participants in the lending of Corporation stocks.

The Corporation continued to maintain a presence in the "Repo" market involving other central borrowing authorities' "hot stocks" which are held from time to time as part of its debt management function. This "Repo" activity enables the Corporation to more effectively manage these holdings to enhance the overall debt management performance. The Corporation maintained a minimal holding of this asset class throughout the financial year and "Repo" turnover for 2001/02 was \$616.0 million, compared to \$1,787.0 million for 2000/01.

Turnover in the Corporation's "hot stocks" for the financial year ended 30 June 2002 was \$280,969 million. The Corporation's domestic "hot stock" volumes on issue at 30 June 2002 and the turnover volumes for the financial year are shown below.

COUPON % P.A.	MATURITY DATE	VOLUME ON ISSUE	TURNOVER VOLUME
12.00	01/08/2001	\$0M	\$9,716M
8.00	15/07/2003	\$1,772M	\$99,761M
10.00	15/07/2005	\$1,012M	\$36,304M
8.00	15/10/2007	\$1,060M	\$53,956M
7.50	15/10/2009	\$ 967M	\$53,358M
7.00	15/04/2011	\$ 732M	\$27,874M





DOMESTIC BORROWING (Continued)

SHORT-TERM INSCRIBED STOCK

During 2001/02, the Corporation issued a total of \$8,999 million of short-term inscribed stock with an average maturity of 71 days, resulting in an average daily amount outstanding of \$1,636 million. This continues to be a reliable source of domestic short-term funds for the Corporation. At 30 June 2002, \$2,026 million was outstanding in short-term inscribed stock.

End of month outstandings of short-term inscribed stock are shown in the graph below.

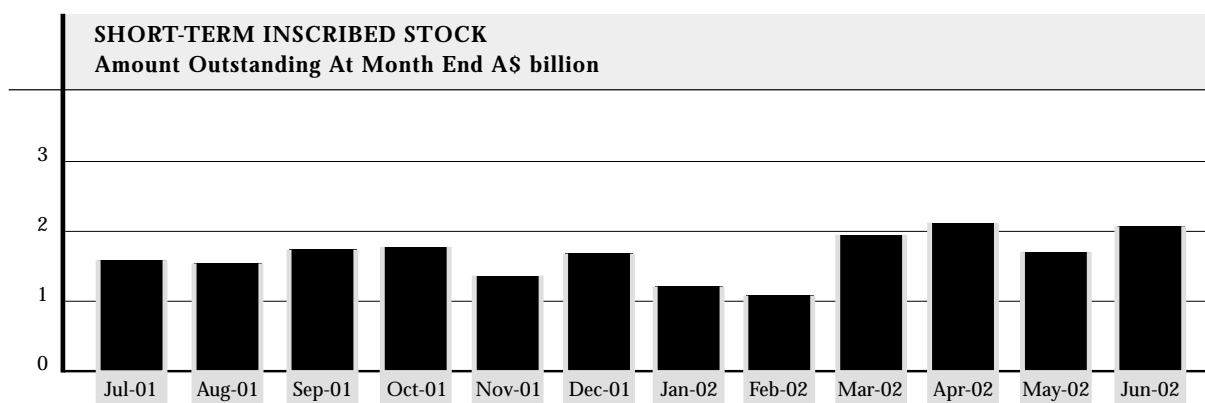
RETAIL BORROWING

During 2001/02, the Corporation continued to make State Bonds available to retail investors looking for the security of a government guaranteed investment. Market yields were monitored daily to ensure that attractive rates of interest for retail investments were on offer at all times. The Corporation also continued to advertise State Bonds in the West Australian newspaper and the Personal Investor magazine during 2001/02.

The aggregate face value amount of funds borrowed from retail investors during 2001/02 was \$86.8 million. This amount consisted of new investments and funds reinvested by existing stockholders.

The amount of funds raised during 2001/02 from new investments was \$61.7 million. Included in this amount was \$43.5 million raised from State Bonds issued as designated investments under the Business Skills and General Skills Migration schemes administered by the Department of Immigration and Multicultural and Indigenous Affairs.

The remaining amount of \$25.1 million was raised from the reinvestment of inscribed stock that matured during the year.



OVERSEAS BORROWING

OVERVIEW

Through its access to international markets, the Corporation is able to:

- (i) save on the interest cost of borrowing, where it can obtain funding for the borrowing program at rates below equivalent domestic rates after hedging any foreign currency exposure;
- (ii) undertake issues in a range of currencies or with specific structures or of particular terms to meet any special portfolio or client requirements; and
- (iii) diversify its investor base.

The Corporation's ongoing strategy is to tap overseas markets on an opportunistic basis through bond issues, private loans and its range of continuous note issuance facilities. These facilities include:

- US\$2,000 million Euro Medium Term Note Program;
- US\$1,500 million Eurocommercial Paper Program; and
- US\$1,000 million United States Commercial Paper Program.

EURO MEDIUM TERM NOTE PROGRAM

The Corporation's multi-currency Euro Medium Term Note ("EMTN") Program was established in 1990 and is designed to provide the Corporation with a ready and flexible means of raising its borrowing requirements in a range of currencies, maturities and interest rate bases.

Up to 30 June 2002, 29 issues had been made under the Program comprising fifteen Australian dollar denominated issues, two ECU denominated issues, two Lire denominated issues, three US dollar denominated issues and seven Yen denominated issues (including a ¥/A\$ dual currency issue). All foreign currency denominated issues were swapped into Australian dollars.

Details of the Euro Medium Term Note Program are set out below.

The Program documentation also has a "reverse inquiry" facility which allows the Corporation to issue to institutions which are not dealers.

Copies of the Offering Circular for this Program are available from any of the dealers or the Corporation itself.

During the year, demand for Australian dollar bonds increased in the Japanese retail market due to the differential between Yen and Australian dollar interest rates and a perception that the outlook for the Australian dollar had become more favourable. The Corporation made two issues into that market as follows:

	EMTN 28	EMTN 29
Dealer:	Daiwa Securities SMBC Europe Limited	Tokyo-Mitsubishi International plc
Issue Size:	A\$400 million	A\$80 million
Coupon:	4.3% p.a.	5.14% p.a.
Term:	4 years	3 years

EMTN PROGRAM DETAILS

Amount	Up to US\$2,000 million or its equivalent in other currencies
Dealers	Commonwealth Bank of Australia Credit Suisse First Boston (Europe) Limited Daiwa Securities SMBC Europe Limited Deutsche Bank AG London Lehman Brothers International (Europe) Merrill Lynch International Mizuho International plc Nomura International plc Royal Bank of Canada Europe Limited Salomon Brothers International Limited UBS Warburg
Maturities	1 month to 30 years
Fiscal Agent, Registrar and Transfer Agent	Citibank, N.A., London
Paying Agent	BNP Paribas Securities Services, Luxembourg Branch
Listing	Where listing is required, Notes will be listed on the London Stock Exchange.



OVERSEAS

BORROWING (Continued)

EUROCOMMERCIAL PAPER PROGRAM

The Eurocommercial Paper ("ECP") Program continues to provide attractive short-term overseas funding for the Corporation. At 30 June 2002, the equivalent of A\$1,435 million face value was outstanding under this Program.

The dealer panel for the Program comprises:

- Barclays Bank PLC
- Citibank International plc
- Commonwealth Bank of Australia, London
- Deutsche Bank AG, London
- Goldman Sachs International
- Lehman Brothers International (Europe)

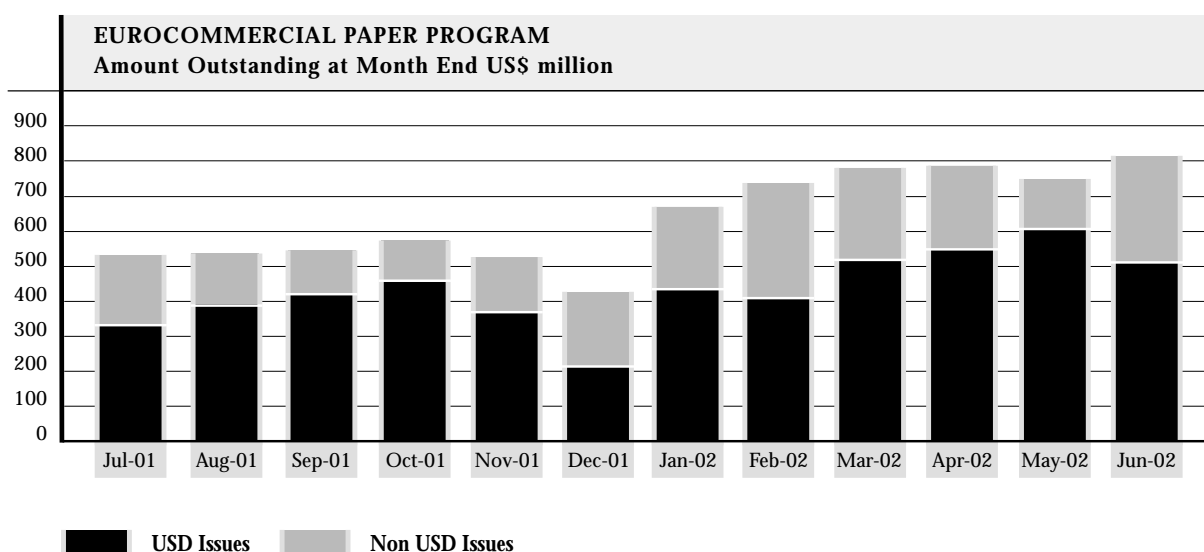
- National Australia Bank Limited, Hong Kong Branch
- National Westminster Bank Plc
- UBS Warburg
- Westpac Banking Corporation, Hong Kong Branch

Citibank, N.A., London, is the Issuing and Paying Agent for the Program.

The graph below shows the level of the US dollar denominated issues, and the US dollar equivalent of issues in other currencies, outstanding under the Program at the end of each month during 2001/02, whilst the following table details some of this facility's key performance statistics.

ECP PERFORMANCE STATISTICS - 2001/02

Currency	Weighted Average Daily Balance	Total Issues (Face Value)	Weighted Average Term of Issues (Days)	Outstanding At 30 June 2002
USD	430.2M	2,361.5M	69	515.0M
AUD	175.8M	1,427.4M	46	140.1M
HKD	791.4M	4,340.0M	72	1,210.0M
GBP	11.5M	88.0M	79	40.0M



UNITED STATES COMMERCIAL PAPER PROGRAM

The Corporation did not issue during the year under the United States Commercial Paper Program. The Corporation was able to borrow at significantly lower rates through its ECP Program.

The dealer panel for the Program comprises:

Goldman Sachs & Co; and
Credit Suisse First Boston Corporation.

The Chase Manhattan Bank N.A. is the Issuing and Paying Agent for the Program.

The Corporation maintains a Revolving Credit Facility with a New York bank in support of the United States Commercial Paper Program. This Facility comprises a committed portion of US\$60 million providing same day funds and a further uncommitted portion of up to US\$40 million. These bank lines are additional to the Corporation's overdraft facilities and other sources of funding in the international and Australian capital markets.

FOREIGN EXCHANGE MANAGEMENT

In 2001/02, all funds raised through the ECP Program were swapped into Australian dollars through the foreign exchange market.

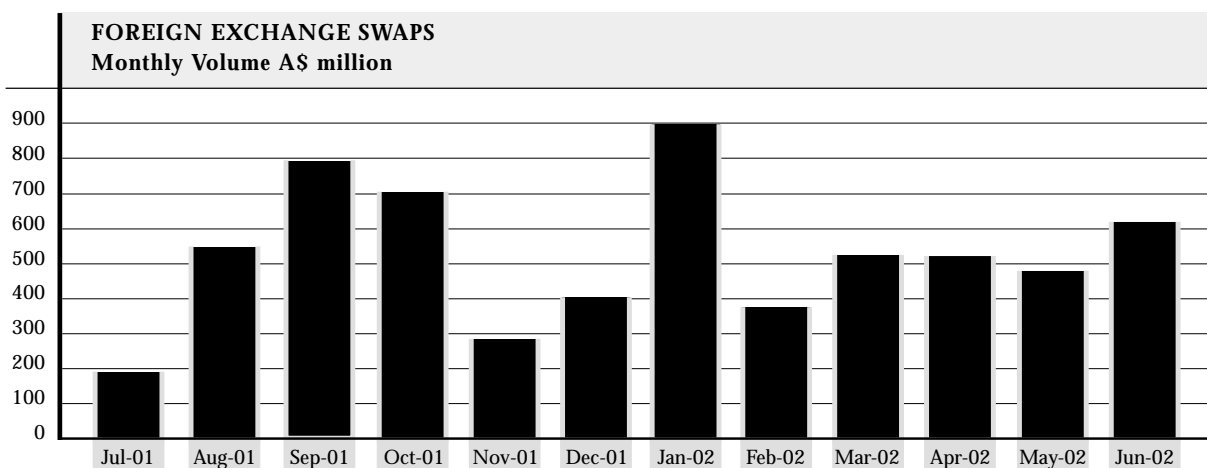
The swaps enabled the Corporation to fund its short-term borrowing requirements at levels below equivalent domestic bank bill rates.

The following table details the swaps negotiated by the Corporation during 2001/02:

SWAP DETAILS 2001/02

PROCEEDS FROM ISSUES		SWAPPED TO	
Currency	Amount	Currency	Amount
USD	2,644.2M	AUD	5,075.4M
HKD	2,169.3M	USD	278.1M
HKD	2,152.9M	AUD	524.2M
G B P	9.9M	USD	14.1M
G B P	77.4M	AUD	208.7M

The following graph shows the volume of foreign exchange swap transactions undertaken on a monthly basis during the year.





CLIENT SERVICES

INTRODUCTION

The Corporation is the primary provider of loan funds and associated financial risk management services to Western Australian State Government agencies and local governments.

An essential part of the Corporation's role is to provide debt financing to clients at a cost below that which they could achieve under their own name. The Corporation is able to provide low cost debt financing by consolidating the funding requirements of the State's agencies and issuing high volume, homogenous one-name debt, for which investors are prepared to accept lower interest rates. These low cost funds are delivered to clients through the Corporation's comprehensive range of flexible lending products, where the interest rate can be fixed for terms from one day out to twenty years and longer. The Corporation is able to deliver these funds to clients on the business day following the receipt of a funding request.

In addition to the provision of loan funds and debt management, the Corporation also provides a wide range of other financial services, which include liability and risk management, financial analysis, economic advice and foreign exchange management.

The Corporation is committed to providing clients with a professional and high standard of customer service and it values the positive relationships that it has with its clients. In this regard, the Corporation's Client Services Branch is directly responsible for facilitating the provision of loan funds and associated financial risk management services to clients. By working with its clients and by gaining an understanding of their business and financing requirements, the Corporation is able to provide financial solutions that satisfy clients' specific requirements.

The Corporation actively seeks and encourages feedback from its clients to assist in the development and enhancement of the Corporation's products and services and to ensure that it is meeting clients' needs. The continued feedback is appreciated and valued.

ACTIVITY

During the past year, the Corporation continued to deliver low cost funding to clients through its comprehensive range of flexible and diversified lending products. At 30 June 2002, the Corporation had a total of \$8,507 million in face value net debt outstanding to 170 Western Australian public sector organisations, which include State Government trading enterprises, authorities and agencies and local governments. This represents a net increase in debt outstanding of \$134 million from the previous year debt outstanding of \$8,373 million.

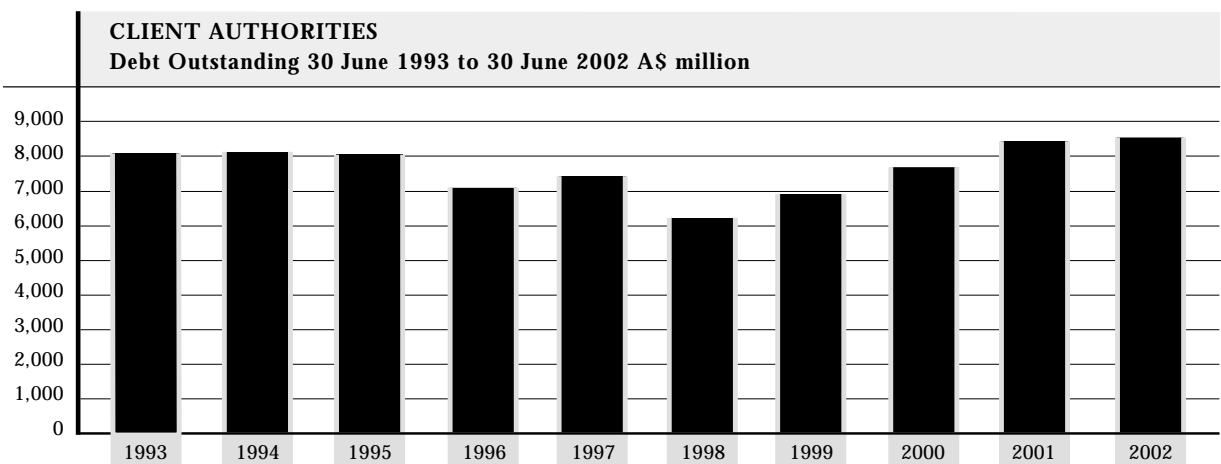
SEMI-GOVERNMENT LENDING

The majority of the Corporation's lending is advanced to semi-government agencies. Of the Corporation's total face value net debt outstanding at 30 June 2002 of \$8,507 million, the debt outstanding by semi-government agencies was \$8,308 million. Over the past year, the amount of debt outstanding to the Corporation by semi-government agencies increased by \$109 million.

The Corporation provides debt funding to a diverse group of semi-government agencies, with individual semi-government agencies' debt outstanding to the Corporation ranging in size from \$40,000 to over \$2,300 million.

The greater proportion of the Corporation's semi-government agency clients continue to effectively manage their borrowing requirements via a portfolio approach to debt management. The essential feature of the portfolio approach to debt management is the application of the principles of diversification. The diversification of debt into a variety of maturity dates and interest rates reduces refinancing risk and the volatility of interest costs, while the average interest cost of a portfolio of debt continually tracks towards current interest rates.

In addition to the portfolio approach to debt management, the Corporation also provides other lending products to meet the particular requirements of



clients. Some of the alternate lending products utilised over the past year include interest only loans, fixed-rate principal and interest loans, zero-coupon loans, forward-fixed interest rate setting and short-term loans. A number of clients also utilised the Corporation's ability to provide funding at short notice to manage their liquidity funding requirements.

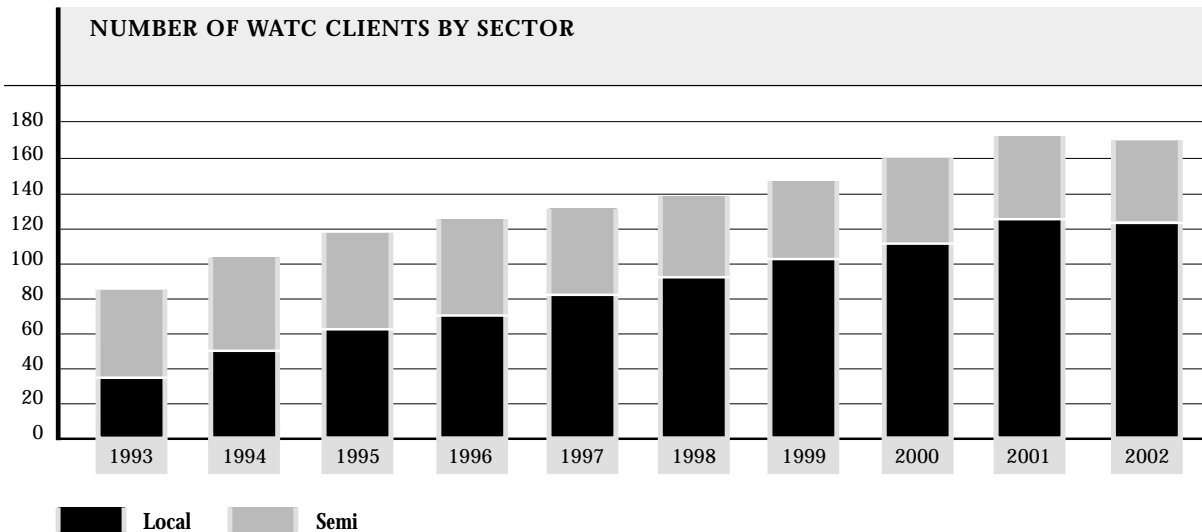
The Corporation is constantly reviewing and developing ways in which it can add value to its clients. During the past year, a number of enhancements were made to the reports provided by the Corporation to ensure that relevant information is available to assist agencies with their financial planning, budgeting and funding decisions and reporting requirements.

LOCAL GOVERNMENT LENDING

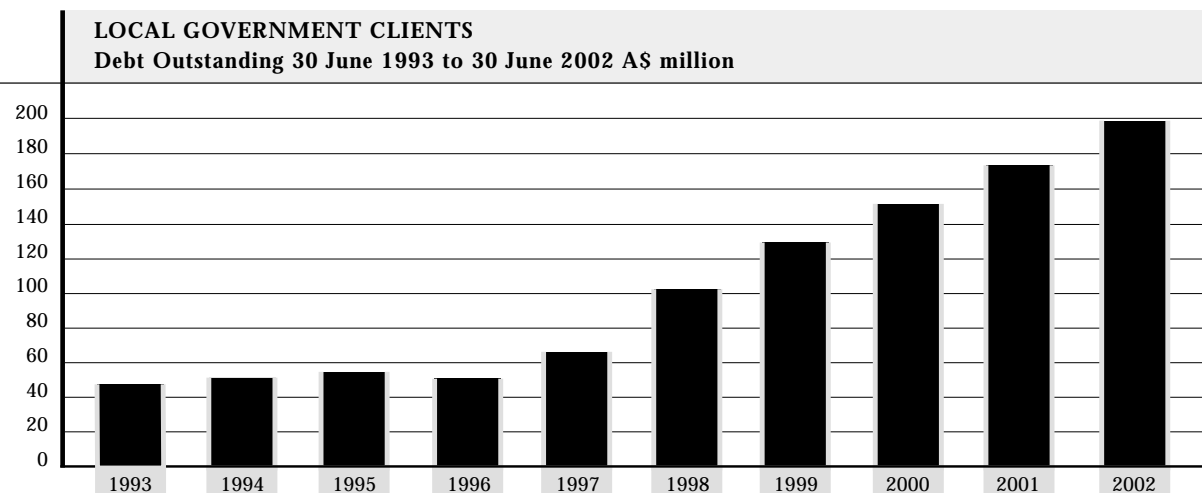
Over the past year, the level of debt to local governments increased by 14% from the previous year. The Corporation's local government clients number 123 and the amount of funds advanced to local governments is approaching \$200 million. The Corporation's ability to provide competitively priced, flexible lending products, together with prompt and efficient service, has enabled the Corporation to consolidate its position as a major lender to local governments.

During the year, the Corporation was very active in providing information and assistance in relation to local governments' financing and debt management requirements. The Corporation provided funds to local governments through various loan structures including short-term loans, loans with delayed payments, interest only loans, forward-rate loans and structured loans. However, as in previous years, funding to local governments was predominantly advanced on a fixed-term and fixed interest rate basis.

NUMBER OF WATC CLIENTS BY SECTOR



LOCAL GOVERNMENT CLIENTS
Debt Outstanding 30 June 1993 to 30 June 2002 AS\$ million





CLIENT SERVICES (Continued)

In addition to the provision of funds, the Corporation assisted local governments with the refinancing and restructuring of existing loans. The Corporation also advised local governments on appropriate debt structures for various projects as well as providing economic and financial information to assist in their budgeting and planning decisions.

OTHER DEVELOPMENTS

The Corporation recognises the importance of meeting with its clients. During the year, the program of regular meetings with clients continued and was expanded. The meetings with clients incorporate economic presentations and reviewing financing requirements, as well as providing the opportunity to obtain feedback in respect to debt structures, maturities, risk management and other financial services provided by the Corporation.

Following the establishment of the Corporation's website, which is located at www.watc.wa.gov.au, general information about the Corporation can now be accessed via the internet. Planned future development of the website will provide the Corporation's clients with direct access to weekly economic newsletters, research notes and other relevant information.

FINANCIAL ADVISORY SERVICES

The Corporation continues to provide specialist financial skills and services to the Western Australian public sector. In addition to the provision of funds and debt

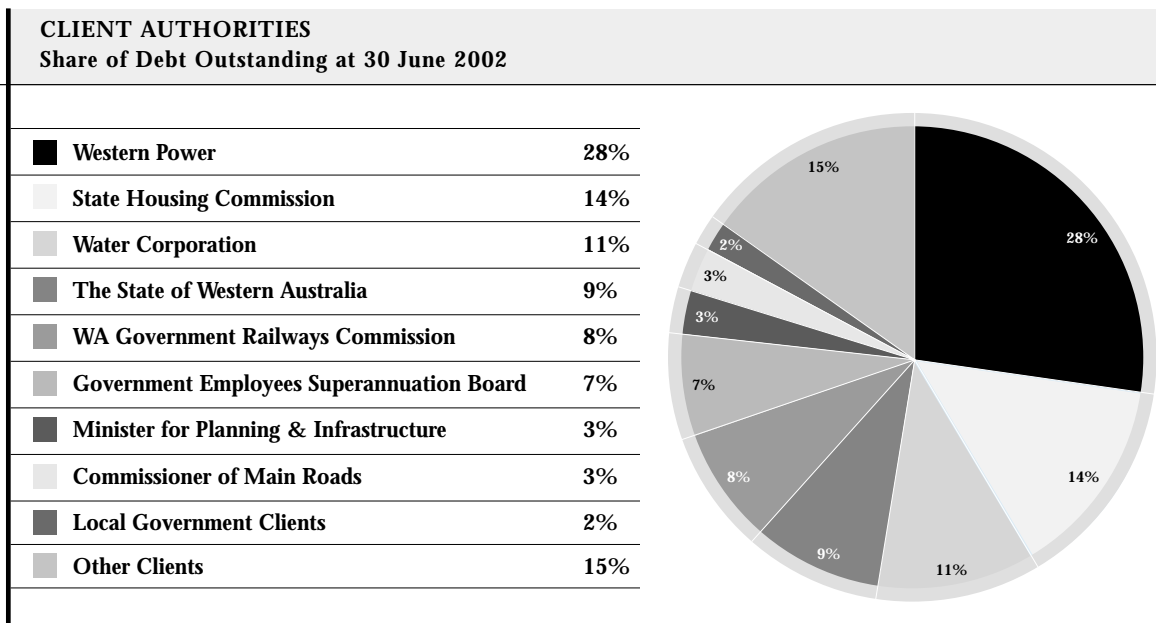
management, the Corporation provides a wide range of other services including liability and risk management, financial analysis, economic advice, foreign exchange management, interest rate forecasting and the valuation of debt portfolios.

By providing these services, the Corporation supports the Western Australian public sector in the prudent management of its financial assets and liabilities.

CONTACTS

The following officers in the Client Services team can be contacted for any queries or additional information on the services provided by the Corporation:

Marco Mottolini	(08) 9235 9150 mmottolini@watc.wa.gov.au
Karen Chan	(08) 9235 9153 kchan@watc.wa.gov.au
Stephen Cole	(08) 9235 9153 scole@watc.wa.gov.au
Evonne Meath	(08) 9235 9156 emeath@watc.wa.gov.au
Christopher Rinsma	(08) 9235 9152 crinsma@watc.wa.gov.au
Eric Schuppli	(08) 9235 9155 eschupp@watc.wa.gov.au



RISK MANAGEMENT

The Corporation marks to market all its financial assets and financial liabilities on a daily basis as this provides a more stringent foundation for accountability and making decisions, particularly with regard to managing risk and capital adequacy.

The three key risks that the Corporation manages are market risk, credit risk and operational risk. Of these, the risk that requires most management by the Corporation is market risk and this arises primarily through the mismatch between assets and liabilities.

The Corporation has policies and management structures in place to monitor and manage these risks. A Liability Management Committee, comprising the Chief Executive Officer and other senior management, provides policy advice to the Board and has the primary responsibility for the formulation of strategy in managing the Corporation's assets and liabilities as well as oversight of risk management activities.

The Corporation applies the Australian Prudential Regulation Authority's Prudential Guidelines across all portfolios. Under these Guidelines, capital is set aside to cover losses arising from market risk and credit risk. The capital for market risk is determined using a Value at Risk ("VaR") model based on a 99% confidence limit and a 10 day trading period. Capital covering credit risk is based on a set of rules detailed in the Guidelines and will vary depending on the principal amount invested, the maturity of the investment and the credit standing of the counterparty. Capital is also maintained for the credit risk associated with derivatives. Specific details of these risks are included in Note 17 accompanying the Financial Statements.

MARKET RISK

Market risk is the risk that a movement in financial market prices will cause a loss. As indicated above, the primary tool that the Corporation uses to control this risk is a VaR measure. The market risks managed by the Corporation are discussed below.

(1) Interest rate risk

The Corporation lends to authorities across the term spectrum with maturities ranging from one day to ten years and beyond. In order to obtain funds at the lowest cost, the Corporation must satisfy the needs of investors and therefore must, for example, be prepared to accept maturities which do not match its lending assets. In practice, this means that the Corporation has assets spread across all maturities while the liabilities are limited to larger amounts in fewer maturity dates.

The Corporation regards the minimisation of the risk it incurs through this process as a high priority. Its philosophy is to minimise the risk inherent in its activities so that no more risk is incurred than is necessary in fulfilling its mission.

The activities of the Corporation can be broken down into two main areas for the purpose of interest rate risk management:

- (a) funding of the lending portfolio; and
- (b) market support.

(a) Funding of the lending portfolio

The Corporation adopts a portfolio approach to hedging its lending portfolio as a transaction by transaction approach is not efficient. The underlying premise of the risk policy is that all exposures must be minimised. In addition, no new type of transaction will be considered where the risk cannot be measured and accommodated within the Corporation's hedging process and information systems.

The use of derivatives is therefore primarily limited to risk minimisation. However, derivatives may be used to add value to hedging activities provided that no additional exposure is assumed.

(b) Market Support

An important role of the Corporation in minimising the cost of its debt portfolio is the support it provides to its debt paper, market making panels and investors generally. By monitoring secondary market activity and maintaining a constant presence in the marketplace, the Corporation seeks to minimise the impact of perceived adverse market developments.

Market support transactions are conducted on the basis that all positions, individually and in aggregate, are within all limit policies and have no material impact on overall portfolio statistics due to the Corporation's policy that all such activity must be hedged.

(2) Liquidity Risk

Liquidity risk involves the Corporation's ability to meet all financial commitments as they fall due. This policy requires that a minimum prudent level of liquid assets is held at all times. In addition, a US dollar standby facility is maintained to support the United States Commercial Paper Program. The daily average level of financial assets held during the year was \$1,724 million.



RISK

MANAGEMENT (Continued)

(3) Funding Risk

This is the risk that funding is sourced from too small or concentrated a range of sources that it may not always be available. This risk is minimised through the diversification of the Corporation's funding activity across domestic and offshore markets and across the maturity spectrum. The range of facilities and their use is discussed elsewhere in this Report.

(4) Exchange Rate Risk

Exchange rate risk is the risk of a loss due to changes in foreign exchange rates. The policy for sometime has been, and is, not to take any foreign exchange risk apart from the minor exposure created by the need to maintain small balances in foreign currency bank accounts. Whereas the Corporation manages interest rate risk on a portfolio basis, it manages the exchange rate risk on foreign currency borrowings as part of the borrowing transaction. Information on this year's activity is provided under Overseas Borrowing on page 17. In instances where the Corporation advances funds to clients in a currency other than Australian dollars, the exchange rate risk is borne by the individual authority.

CREDIT RISK

Credit risk is the risk of financial loss due to a counterparty not meeting its financial obligations to the Corporation. The Corporation lends only to the Western Australian public sector and this restriction is laid down in the Corporation's governing legislation so that credit risk is limited to its liquid assets and use of derivatives.

The Corporation's credit policy establishes limits for all counterparties based on the credit ratings assigned by the major rating agencies.

OPERATIONAL RISK

Operational risk is the risk of loss from such events as fraud, settlement errors, information system failure, etc. The Corporation does all possible to minimise this risk by, for example, ensuring the segregation of duties and maintaining a business continuity plan. The Corporation also allocates capital to this risk.

BUSINESS CONTINUITY RISK

The Corporation has in place a Business Continuity Plan to ensure the continuity of the critical activities of the Corporation in the face of a disruptive event that would otherwise prevent the continuation of business operations. The plan is subject to ongoing review and testing to reflect changes in circumstances with alternative sites, new systems and initiatives.

CORPORATE GOVERNANCE

The Board of Directors (the "Board") of the Corporation is responsible for the performance of the functions of the Corporation under the Western Australian Treasury Corporation Act 1986, as amended, (the "Act").

In order to ensure that the Corporation carries out its functions in the best interests of the State, its clients and other stakeholders, the Board sets the strategic direction of the Corporation (with the agreement of the Treasurer) and establishes the policies and principles under which the Corporation operates.

The corporate governance processes established by the Board ensure that it is able to fulfil its statutory obligations, guide the affairs of the Corporation and oversee its performance.

The Board relies on, and holds to account, the Chief Executive Officer for the operational management of the Corporation and implementing the strategic direction.

Board of Directors

NAME	POSITION	FIRST APPOINTED	TERM EXPIRES
John Leslie Langoulant	Chairperson	Statutory	Statutory
Anne Lesley Nolan	Deputy Chairperson	22 October 1999	Not Applicable
Raymond Norman Hughes	Chief Executive Officer	Statutory	Statutory
David Russell Eiszele	Director	15 July 1998	31 December 2002
William Cowan Heron	Director	15 July 1998	31 December 2002
Catherine Anne Nance	Director	15 July 1998	31 December 2004

BOARD COMPOSITION

The membership of the Board is determined in accordance with Section 5B of the Act and comprises:

- (i) the Under Treasurer as Chairperson;
- (ii) a Treasury Officer nominated by the Under Treasurer from time to time as the Deputy Chairperson;
- (iii) the Chief Executive Officer or Acting Chief Executive Officer; and
- (iv) up to three other persons with relevant commercial or financial experience appointed by the Treasurer ("appointed directors").

An appointed director may hold office for a term, not exceeding three years, as is specified in the instrument of appointment, but may be reappointed from time to time.

At 30 June 2002, the directors of the Corporation were:



CORPORATE

GOVERNANCE (Continued)

BOARD RESPONSIBILITIES

The Board is responsible for the performance of the functions of the Corporation under the Act. These functions are to:

- (i) borrow moneys and lend moneys to the Western Australian public sector;
- (ii) develop and implement borrowing programs for the purposes of the Act;
- (iii) manage the financial rights and obligations of the Corporation;
- (iv) advise on financial matters including debt management, asset management and project and structured financing;
- (v) manage the investments for the Treasury and other government agencies;
- (vi) assist authorities with managing their financial exposures; and
- (vii) assist the State with the management of any debt raised prior to the establishment of the Corporation.

In fulfilling this role, the Board guides and monitors the affairs of the Corporation. This includes:

- (i) reviewing and establishing (with the Treasurer's agreement) the Corporation's strategic development plan and statement of corporate intent each year;
- (ii) monitoring the performance of the Corporation; and
- (iii) ensuring that appropriate accounting, risk management, budgeting, compliance, information technology and internal control policies, systems and reporting processes are in place. These include its risk management policy and business continuity plan.

Audit Committee

NAME	POSITION
William Cowan Heron, Director	Chairperson
Catherine Anne Nance, Director	Member
Raymond Norman Hughes, Chief Executive Officer	Member
David Victor Butler, Deputy Chief Executive Officer	Member
Melvin Arthur Nunes, General Manager	Member

BOARD COMMITTEES

To assist in the execution of its responsibilities, the Board has established an Audit Committee and a Remuneration Committee.

Audit Committee

The role of the Audit Committee is to give the Board additional assurance regarding the quality, integrity and reliability of information systems and the adequacy of accounting and control systems.

The Audit Committee is responsible for contact with the Corporation's external and internal auditors to ensure that significant issues and information arising from the auditors' activities are brought to the attention of the Board.

The external audit of the Corporation is conducted by the Auditor General who utilises the services of Ernst & Young to conduct the annual audit. The internal audit function is outsourced to KPMG.

The Chairperson reports to the Board after each meeting, including any findings and recommendations of the Committee.

The members of the Audit Committee at 30 June 2002 were:

Remuneration Committee

The Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the employment terms and conditions of all members of the Corporation's staff, including the Chief Executive Officer, and the directors themselves.

With the approval of the Board, the Remuneration Committee uses the services of external remuneration experts to advise it on appropriate levels of remuneration and other terms and conditions of employment for Corporation staff including the Chief Executive Officer.

The remuneration and allowances payable to appointed directors is determined by the Treasurer on the recommendation of the Minister for Public Sector Management.

The members of the Remuneration Committee at 30 June 2002 were:

Remuneration Committee

NAME	POSITION
John Leslie Langoulant, Chairperson of Board of Directors	Chairperson
David Russell Eiszele, Director	Member
Raymond Norman Hughes, Chief Executive Officer	Member

Attendance at Meetings by Directors

Details of attendance at the Board and Board Committee meetings by each director during the year are as follows:

Director	Board		Audit Committee		Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended
J L Langoulant	11	11			3	3
A L Nolan	11	7				
R N Hughes	11	11	3	3	3	3
D R Eiszele	11	10			3	3
W C Heron	11	8	3	3		
C A Nance	11	10	3	3		



CORPORATE GOVERNANCE (Continued)

CONSTITUTION AND PROCEEDINGS OF THE BOARD

The Constitution and Proceedings of the Board are provided for in Schedule 2 to the Act.

STATUTORY CORPORATIONS (LIABILITY OF DIRECTORS) ACT 1996

The Corporation's directors are bound by the provisions of the Statutory Corporations (Liability of Directors) Act 1996. Accordingly, directors are required to comply with the same fiduciary responsibilities and duties of loyalty and good faith owed by directors of companies incorporated under the Corporations Law.

ETHICAL STANDARDS AND CODES OF CONDUCT

The Board acknowledges the need for, and the continued maintenance of, the highest standards of corporate governance practices and ethical conduct by the Corporation's directors and staff and has established codes of conduct for directors and staff respectively. These codes of conduct endorse in principle the code of conduct developed by the Australian Financial Markets Association.

The Corporation has adopted the Western Australian Public Sector's Code of Ethics.

PROFESSIONAL ADVICE

Directors are entitled, with the prior approval of the Chief Executive Officer, to obtain such resources and information from the Corporation, including direct access to management and professional advisers as they may require, in order to carry out their duties as directors. Directors are also entitled, with the prior approval of the Chairperson, to seek independent professional advice at the expense of the Corporation to assist them to carry out their duties as directors.

COMPLIANCE

The role of the Corporation's compliance function is to ensure that the Corporation continues to maintain its high prudential standards and has the appropriate procedures in place to comply with the Act and other relevant legislation, its policies and industry standards.

CORPORATE ADMINISTRATION

STAFFING

At 30 June 2002, the Corporation employed 31 male and 13 female staff. Details of the staffing structure and senior officers appointed to the Corporation are set out on page 63.

EMPLOYEE DEVELOPMENT

The Corporation continues to provide a training budget and actively promotes the development and education of its staff. Currently, staff are being assisted in acquiring higher qualifications at university level and are also supported in upgrading business skills through courses delivered by professional bodies and specialist training providers. In-house presentations are also used to advance corporate knowledge.

EQUAL OPPORTUNITY

The Corporation is an equal opportunity employer. Trained grievance officers are available to staff for counselling and dispute resolution.

EMPLOYEE RELATIONS

The Corporation has a Joint Consultative Committee ("JCC") in place to provide a forum for discussion and action concerning staff employment conditions and to resolve any issues of concern. The JCC is comprised of representatives from management and elected representatives from each of the Corporation's branches. The JCC meets on a periodical basis.

There were no industrial disputes during the year to 30 June 2002.

OCCUPATIONAL HEALTH AND SAFETY

The Corporation provides a safe environment for its staff and visitors. There were no claims for workers' compensation during the year to 30 June 2002 and no staff are currently undergoing rehabilitation.

DISABILITY SERVICES

While the Corporation has little direct contact with members of the general public, it acts to ensure that a safe environment exists for all persons entering its offices.

There were no requests received during the year to 30 June 2002 for services to be modified to meet the needs of persons with disabilities.

CODE OF CONDUCT

The Corporation has established a Code of Conduct for its staff. This Code incorporates the Western Australian Public Sector's Code of Ethics and endorses in principle the Code of Conduct developed by the Australian Financial Markets Association ("AFMA"). The Corporation is included on the public register established by AFMA.

STRATEGIC PLANNING

During 2001/02, the Corporation developed and implemented a three-year strategic development plan to assist in its management and future direction. A Statement of Corporate Intent, in which the Corporation reports on its progress towards meeting its functions and objectives, its dividend and accounting policies and performance targets for the 2002/03 financial year, was completed and submitted to Parliament through the Treasurer.

CUSTOMER SERVICE COUNCIL

The role of the Customer Service Council is to monitor and improve the level of service provided to the Corporation's clients. With its membership being drawn from throughout the Corporation, including senior management, the council provides a forum to discuss new initiatives to improve the level of service that the Corporation can provide to its clients, based on client feedback.

A copy of the Corporation's Customer Services Charter is available on request.

PRICING POLICY

The Corporation operates in a dynamic market where the price of its lending to the public sector is primarily driven by the cost of its borrowings. This cost fluctuates according to the prevailing level of interest rates. The Corporation sets its lending rates at a competitive level after taking into account the cost of funds, market risk, administration and the return on capital.

The pricing for financial advice and funds management is determined on a cost recovery basis.



CORPORATE ADMINISTRATION (Continued)

REGISTRY AND TREASURY OPERATIONS

The Corporation is committed to providing its stockholders with a high quality registry service. The Corporation's agent for the supply of registry services is Computershare Investor Services Pty Limited ("Computershare"). Address details of the branch offices of Computershare are shown on the last page of this Report.

The Corporation uses an electronic clearing and settlement system provided by SFE Austraclear to conduct the settlement of Australian dollar financial market transactions.

The Corporation uses an electronic payment system provided by Bank of America for settlement of transactions in other currencies.

The Corporation also uses an electronic clearing and settlement system provided by Clearstream Banking, Luxembourg for settlement of repurchases of its offshore issues.

ELECTORAL ACT DISCLOSURES

Under the Electoral Act, the Corporation is required to disclose any expenditures it makes to:

- advertising agencies;
- market research organisations;
- polling organisations;
- direct mail organisations; and
- media advertising organisations.

For the year ended 30 June 2002, the only disclosable expenditure incurred was in relation to advertising, where an amount of \$49,543 was spent comprising:

- \$46,237 for the advertising of State Bonds and
- \$3,306 for the advertising of staff vacancies.

OUTLOOK

2002/03

ECONOMIC OVERVIEW

The global economy looks set to remain on a recovery path during 2002/03 barring any further geopolitical or economic shocks. The recovery, however, looks set to remain modest rather than spectacular and as a result of a unique set of circumstances in the US, official interest rates in the world's largest economy look set to remain at historic lows of 1.75% until early 2003. This, and declines in the US stock market, is having a short-term positive impact on US bond yields and this is impacting on bond yield curves in a number of countries, including Australia. When the Federal Reserve in the US eventually does start to raise official US interest rates, most probably during the first half of 2003, bond yields are likely to rise sharply.

While monetary policy in the US remains on hold, central banks in countries that are performing more strongly are already raising interest rates. Included in this group are Australia, Canada, New Zealand and Sweden. In Australia, the RBA is committed to bringing its target cash rate back to a more "neutral" or "normal" level. Thus, we can expect further rises in the cash rate, most probably in 25 basis point increments, during 2002/03.

ESTIMATED BORROWING PROGRAM – 2002/03

	\$ million
Net Lending to Clients	725
Projected Maturities	
Domestic Long-Term Inscribed Stock	82
Domestic Short-Term Inscribed Stock	2,026
Overseas Bonds / Medium Term Notes	0
Overseas Commercial Paper	1,435
	3,543
Reduction in Financial Assets	(365)
Total Borrowing Requirement	3,903
Proposed Borrowings*	
Domestic Long-Term Inscribed Stock	900
Domestic Short-Term Inscribed Stock	1,400
Overseas Bonds / Medium Term Notes	400
Overseas Commercial Paper	1,203
	3,903
Total Borrowing Program	3,903

* The sourcing of the Corporation's funding is subject to conditions in the various markets and the market mix during the year may be amended as necessary to meet the Corporation's pricing, liquidity, lending and capital usage targets.

BORROWING STRATEGY

In order to meet its funding and debt management needs for 2002/03, the Corporation proposes to:

- (a) maintain the critical mass of at least \$1,000 million in each of the 2005, 2007, 2009 and 2011 "hot stocks" during the year;
- (b) enhance the liquidity of the existing "hot stock" lines by supporting these securities in the marketplace and by issuing through the Fixed Interest Market Making Panel, either by tender or private placement;
- (c) establish the existing 2013 stock line as the Corporation's new "hot stock" maturity;
- (d) continue to take the opportunities to issue stocks longer than ten years to hedge specific client lendings and target the maturities to comply with the program of future "hot stocks";
- (e) continue to issue short-term inscribed stock to meet the floating rate funding needs of the Corporation;
- (f) utilize the overseas commercial paper programs to meet the floating rate funding needs of the Corporation when these facilities can provide funds at either a cheaper or an equal cost to that of alternative funding; and
- (g) borrow in overseas capital markets through bond issues, the Euro Medium Term Note Program or private loans to satisfy funding or debt management requirements where the cost is lower than that of domestic borrowings for an equivalent term and risk.



FINANCIAL STATEMENTS

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STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2002

REVENUE	Note	2002 \$'000	2001 \$'000
Revenue from ordinary activities			
Interest on Investments		72,220	121,542
Interest from Authorities		547,188	543,806
Proceeds from Sale of Property & Equipment	2	466	9
Fee Income		250	250
Net Market Value Movement	4	28,788	60,659
		648,912	726,266
EXPENSES			
Expenses from ordinary activities			
Interest on Borrowings		631,280	702,080
Depreciation		1,218	721
Administration Expenses		6,611	6,542
Loan Raising Expenses		1,607	1,539
Foreign Exchange Loss	3	19	0
Other Expenses		460	1
		641,195	710,883
Profit from ordinary activities before income tax equivalent		7,717	15,383
Income Tax Equivalent Expense	5	2,315	5,246
Net Profit		5,402	10,137

The Statement of Financial Performance should be read in conjunction with the accompanying notes.



STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2002

ASSETS	Note	2002 \$'000	2001 \$'000
- Cash Assets	6	3,130	1,766
- Investments	7	2,243,203	2,585,976
- Receivables	8	143,416	176,487
- Loans to Authorities	9	8,624,971	8,532,498
- Deferred Tax Assets	10	166	75
- Property and Equipment	11	1,947	3,230
TOTAL ASSETS		11,016,833	11,300,032
LIABILITIES			
- Payables	12	237,400	229,326
- Borrowings	13	10,718,299	11,002,570
- Tax Liabilities	14	1,834	1,753
- Provisions	15	2,661	2,378
TOTAL LIABILITIES		10,960,194	11,236,027
NET ASSETS		56,639	64,005
EQUITY			
- Retained Profits	16	56,639	64,005
TOTAL EQUITY		56,639	64,005

The Statement of Financial Position should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2002

CASH FLOWS FROM OPERATING ACTIVITIES	Note	2002 \$'000	2001 \$'000
Interest received on Loans to Authorities		512,696	550,558
Interest received on Investments		78,216	125,785
Fee Income		250	313
Interest and other Cost of Finance paid		(668,625)	(711,392)
Administration and Loan Raising Expenses		(8,144)	(8,159)
Net Cash used in Operating Activities	18b	(85,607)	(42,895)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from Sale and Maturity of Investments		1,139,325	2,091,278
Payment for Investment Securities		(1,153,735)	(2,174,626)
Loans to Client Authorities		(5,111,311)	(7,138,526)
Loans repaid by Client Authorities		4,993,431	6,645,536
Payment for Property & Equipment		(395)	(2,690)
Proceeds from Sale of Property & Equipment		466	9
Net Cash used in Investing Activities		(132,219)	(579,019)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Issuance of Borrowings		18,802,359	14,162,249
Repayment of Borrowings		(18,923,929)	(13,953,272)
Payment on behalf of Client Authorities		19	(324)
Net Cash (used in)/provided by Financing Activities		(121,551)	208,653
CASH FLOWS TO GOVERNMENT			
Payment of Dividend		(12,768)	(4,597)
Payment of Taxation Equivalents		(2,325)	(8,750)
Net Cash provided to Government		(15,093)	(13,347)
Net Increase/(Decrease) in Cash Held		(354,470)	(426,608)
Cash at the Beginning of the Financial Year		2,436,315	2,862,923
Exchange Rate Adjustments to Opening Cash		(19)	0
Cash at the End of the Financial Year	18a	2,081,826	2,436,315

The Statement of Cash Flows should be read in conjunction with the accompanying notes.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been adopted in the preparation of the financial statements.

Unless otherwise stated, these policies are consistent with those adopted in the preceding year.

(a) General Statement

- (i) The accrual basis of accounting is adopted.
- (ii) The financial statements constitute a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board, and Urgent Issues Group (UIG) Consensus Views as applied by the Treasurer's Instructions. Several of these are modified by the Treasurer's Instructions to vary application, disclosure, format and wording. The Financial Administration and Audit Act and the Treasurer's Instructions are legislative provisions governing preparation of financial statements and take precedence over Australian Accounting Standards and UIG Consensus Views. The modifications are intended to fulfil the requirements of general application to the public sector, together with the need for greater disclosure and also to satisfy accountability requirements. If any such modification has a material or significant financial effect upon the reported results, details of that modification and where practicable the resulting financial effect are disclosed in individual notes to these financial statements.
- (iii) All amounts in these financial statements are rounded to the nearest thousand dollars.

(b) Market Value Accounting

The Corporation marks to market all its financial assets and financial liabilities. All other assets, including receivables and prepayments, and other liabilities, including creditors, accruals and provisions, are stated at cost. Property and equipment is also stated at cost. The Corporation manages its business daily on a market value basis as it believes it provides a better basis for making decisions and evaluating its portfolios. The external reporting of these market values was seen as a natural extension of providing more meaningful information. This basis of measurement has also been common practice amongst state central borrowing authorities in Australia. AAS 32 "Specific Disclosures by Financial Institutions" and AAS 33 "Presentation and Disclosure of Financial Instruments" are applicable to the Corporation.

(c) Fee Income

Fee Income in respect of services provided is recognised in the period in which the service is provided.

(d) Interest

Interest revenue and expense is recognised as it accrues and includes items of a similar nature realised in managing the relevant portfolios.

NOTE 1 (Continued)

(e) Property and Equipment

Property and Equipment, which are stated at cost, are depreciated over their estimated useful lives using the straight line method. The depreciation rates used for each class of asset are as follows:

	2002	2001
- Computer Equipment	33.3%	33.3%
- Other Equipment	10 - 17%	10 - 17%

(f) Investments

Investments are valued at the market value applicable at reporting date. Unrealised gains or losses arising from this policy are brought to account in the Statement of Financial Performance. Commonwealth, State and Local Government investments are held for portfolio management purposes. Whilst these investments generally have maturity dates greater than twelve months, they are used in the ordinary course of business to provide liquidity for the Corporation's "hot stocks" and are therefore held in the expectation of being realised within twelve months.

(g) Loans to Authorities

Loans to Authorities are valued at the market value applicable at reporting date and are recorded as assets in the Statement of Financial Position. Unrealised gains or losses arising from this policy are brought to account in the Statement of Financial Performance. In normal circumstances, maturities of loans to authorities are either rolled over or refinanced.

(h) Borrowings

Borrowings are valued at the market value applicable at reporting date. Unrealised gains or losses arising from this policy are brought to account in the Statement of Financial Performance. In normal circumstances, maturities of borrowings are either rolled over or refinanced.

(i) Derivative Financial Instruments

Derivatives are used exclusively to hedge interest rate and foreign currency exposures. Accordingly, the contracts are accounted for in a manner consistent with the accounting treatment of the underlying physical exposures, which are marked to market daily. Changes in net fair value during the year are recognised as revenues or expenses in the Statement of Financial Performance.

(j) Foreign Currency Translation

Foreign currency transactions are brought to account in Australian dollars at settlement date at the rate of exchange applying at that date. At reporting date, foreign currency transactions are translated at the exchange rates existing at 30 June 2002. Exchange gains or losses are brought to account in the Statement of Financial Performance.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002 (Continued)

NOTE 1 (Continued)

(k) Employee Entitlements

(i) Sick Leave

No provision is made for sick leave entitlements as they are non-vesting and the sick leave taken in a financial year is not expected to exceed the entitlement accruing in a year.

(ii) Annual Leave

The employee entitlement for annual leave is calculated as the amount of accrued unpaid leave at the reporting date at current salary rates grossed up for payroll oncosts.

(iii) Long Service Leave

The liability for employees' entitlements to long service leave represents the present value of the estimated future cash outflows to be made by the Corporation resulting from employees' services provided up to reporting date. In determining the provision, consideration is given to expected salary levels, employee turnover and payroll oncosts. Estimated future cash outflows are discounted using yields on government guaranteed securities which have terms to maturity that match as closely as possible the future cash flows.

(iv) Superannuation

Staff may contribute to the Gold State Superannuation Scheme, a defined benefit lump sum scheme now closed to new members. All staff who do not contribute to this scheme become non-contributory members of the West State Superannuation Scheme, an accumulation fund complying with the Commonwealth Government's Superannuation Guarantee (Administration) Act 1992. Both of these schemes are administered by the Government Employees Superannuation Board.

The liabilities for superannuation charges under the Gold State Superannuation Scheme and the West State Superannuation Scheme are extinguished by payment of employer contributions to the Government Employees Superannuation Board. The Corporation also has a superannuation liability as a result of prior service of current staff who were previously within the public service. This is recorded as a liability in the Statement of Financial Position.

The note disclosure required by paragraph 51(e) of AAS 30 "Accounting for Employee Entitlements" (being the employer's share of the difference between employees' accrued superannuation benefits and the attributable net market value of plan assets) has not been provided. State scheme deficiencies are recognised by the State in its whole of government reporting. The Government Employees Superannuation Board's records are not structured to provide the information for the Corporation. Accordingly, deriving this information for the Corporation is impractical under current arrangements and thus any benefits thereof would be exceeded by the cost of obtaining the information.

(l) Dividend Policy

The Corporation's dividend policy has been formulated to ensure that the Corporation pays an appropriate dividend to the State which is consistent with sound commercial practice and has regard to the financial health of the Corporation. The Corporation's policy provides for dividends to be paid to the Consolidated Fund at a level of 50% of the Corporation's after tax equivalent profit subject to adjustments which have been agreed with the Treasurer. Dividends for the current financial year will be declared by the Board and provided and paid in the subsequent financial year.

NOTE 1 (Continued)

(m) Taxation Equivalent Regime (TER)

The Corporation operates within a tax equivalent environment whereby an equivalent amount in respect of income tax is payable to State Treasury. The TER guidelines and directions approved by Government, which are comparable to those in current Federal legislation, determine the calculation of the liability in respect of the tax.

The liability method of tax effect accounting has been adopted, whereby the income tax expense shown in the Statement of Financial Performance is based on the pre-tax accounting profit adjusted for permanent differences. Timing differences are brought to account as either a Provision for Deferred Income Tax Equivalent or as an asset described as Future Income Tax Equivalent Benefit at current tax rates. Future income tax equivalent benefits in relation to timing differences are brought to account when realisation of the asset is assured beyond reasonable doubt. Future income tax equivalent benefits in relation to tax losses are brought to account when the benefit can be regarded as being virtually certain of realisation.

(n) Segments

The Corporation is an individual reporting entity which operates within the Capital Markets as the central financing authority within Western Australia. The Corporation operates entirely within this sector.

(o) Recoverable Amount

Assets are not carried at an amount above their recoverable amount and where carrying values exceed this recoverable amount, assets are written down.

(p) Comparative Amounts

Where necessary, comparative amounts have been adjusted in accordance with changes in presentation made in the current year.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002 (Continued)

NOTE 2	2002	2001
	\$'000	\$'000
PROCEEDS FROM SALE OF PROPERTY AND EQUIPMENT		
Freehold Land		
Gross proceeds of disposed land	460	0
Book Value of disposed land	460	0
Profit on disposal of land	0	0
Computer Hardware		
Gross proceeds of disposed hardware	6	9
Book Value of disposed hardware	0	1
Profit on disposal of hardware	6	8
Profit on disposal of Property and Equipment	6	8

NOTE 3

FOREIGN EXCHANGE GAIN/LOSS

The Corporation maintains balances in its foreign currency bank accounts for the payment of expenses incurred through its overseas borrowings. At 30 June 2002, after taking account of exchange fluctuations, a loss of A\$19 thousand (2001, gain of A\$53) had resulted on this balance.

NOTE 4

NET MARKET VALUE MOVEMENT

Market Value Adjustment - Investments	(1,330)	(445)
Market Value Adjustment - Loans to Authorities	(25,406)	13,126
Market Value Adjustment - Borrowings	55,524	47,978
	28,788	60,659

The Corporation manages its operations on a portfolio basis to achieve its long term objective. Realised gains and losses are reflected in interest revenue and expense. The net market value movement represents unrealised market value adjustments to be realised over the term of the underlying securities.

NOTE 5	2002	2001
	\$'000	\$'000

INCOME TAX EQUIVALENT

The prima facie income tax equivalent expense on pre-tax accounting profit reconciles to the income tax equivalent expense in the accounts as follows:

Profit from ordinary activities before income tax equivalent	7,717	15,383
Income tax equivalent expense at 30% (2001, 34%)	2,315	5,230
Tax effect of permanent differences		
Add non deductible expenses	1	2
Add restatement due to changed tax rate	0	16
Deduct non assessable profit on disposal of property	(1)	(2)
Income tax equivalent expense attributable to profit from ordinary activities	2,315	5,246

Income tax equivalent expense comprises movements in:

Provision for income tax equivalent expense	2,406	5,258
Future income tax equivalent benefit	(91)	18
Provision for deferred income tax equivalent	0	(30)
Total income tax equivalent expense	2,315	5,246

NOTE 6

CASH ASSETS

Bank Deposits	2,421	1,556
Overseas Bank Accounts	709	210
	3,130	1,766
Average Balance	1,645	1,631
Interest Revenue	77	90
Average Interest Rate	4.68%	5.52%

Cash Assets represent only those funds held in accounts with banks and does not include money market investments.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002 (Continued)

NOTE 7	2002	2001
	\$'000	\$'000

INVESTMENTS

Investments comprise the following:

Short Term Money Market Investments	2,078,174	2,433,159
Government Stock	138,906	76,386
Corporate Bonds	26,123	76,431
Total	2,243,203	2,585,976

Maturity Profile

At Call	242,800	238,400
Up to 3 Months	1,661,401	2,242,587
3 to 12 Months	132,566	0
1 to 5 Years	65,337	26,431
Over 5 Years	141,099	78,558
Total	2,243,203	2,585,976

Repricing Profile

At Call	242,800	238,400
Up to 3 Months	1,726,738	2,242,587
3 to 12 Months	132,566	0
1 to 5 Years	0	26,431
Over 5 Years	141,099	78,558
Total	2,243,203	2,585,976

Credit Exposure

Rating	%	%
AAA	23.22	31.20
AA	58.44	52.45
A	18.34	15.68
BBB	0.00	0.67
	100.00	100.00

Average Balance	1,769,272	1,961,130
Interest Revenue	72,143	121,452
Average Interest Rate	4.08%	6.19%

The Corporation invests its surplus funds in accordance with the Western Australian Treasury Corporation Act. Further information on valuation methods is shown in Note 17. The credit exposure table does not include Local Government and non-rated State Government investments as these investments are not material balances at 30 June 2002.

NOTE 8	2002	2001
	\$'000	\$'000
RECEIVABLES		
Accrued Interest Receivable	143,416	110,574
Foreign Currency Receivable	0	65,913
	143,416	176,487

Accrued Interest Receivable comprises accruals relating to advances made to clients and investment sundry debtors due from financial institutions. Foreign currency receivables are discussed in more detail in Note 17. There are no foreign currency amounts included which are not effectively hedged.

NOTE 9**LOANS TO AUTHORITIES**

Loans to Authorities	8,624,971	8,532,498
Maturity Profile		
Up to 3 Months	1,443,535	1,195,099
3 to 12 Months	1,152,501	1,301,723
1 to 5 Years	2,790,920	2,789,227
Over 5 Years	3,238,015	3,246,449
Total	8,624,971	8,532,498
Repricing Profile		
Up to 3 Months	1,443,535	1,195,099
3 to 12 Months	1,152,501	1,301,723
1 to 5 Years	2,790,920	2,789,227
Over 5 Years	3,238,015	3,246,449
Total	8,624,971	8,532,498
Average Balance	8,571,519	7,848,151
Interest Revenue	547,188	543,806
Average Interest Rate	6.38%	6.93%

The Corporation advances funds to State Government and Local Government authorities within Western Australia. In normal circumstances, these advances are either rolled over or refinanced. State Government advances (97.7% of total (2001, 97.9%)) are guaranteed by the State whilst Local Government advances (2.3% of total (2001, 2.1%)) are secured by debenture and are charged in accordance with the provisions of the Local Government Act upon the general funds of the local government. Loans to Authorities are not readily traded on organised markets in standardised form.

Further information on valuation methods is shown in Note 17.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002 (Continued)

NOTE 10	2002	2001
	\$'000	\$'000

DEFERRED TAX ASSETS

Future Income Tax Equivalent Benefit	166	75
--------------------------------------	------------	----

NOTE 11

PROPERTY AND EQUIPMENT

Freehold Land (at cost)	0	460
Equipment (at cost)	5,318	4,999
Less Accumulated Depreciation	3,371	2,229
	1,947	2,770
Total Property and Equipment	1,947	3,230

Reconciliation

Freehold Land		
Opening balance	460	460
Disposals	(460)	0
Closing balance	0	460
Equipment		
Opening balance	2,770	802
Additions	395	2,690
Disposals	(77)	(93)
Depreciation	(1,218)	(721)
Accumulated depreciation on disposal	77	92
Closing balance	1,947	2,770

NOTE 12

PAYABLES

Interest Accrued	179,992	202,702
Interest Prepayments by Lenders	10,006	24,641
Foreign Currency Payable	45,609	0
Other Creditors	1,793	1,983
	237,400	229,326

Payables comprises accrued interest and sundry creditors relating to debt instruments and unrepresented cheques. Interest Accrued and Interest Prepayments by Lenders are owing to financial institutions. Foreign currency payables are discussed in more detail in Note 17. There are no foreign currency amounts included which are not effectively hedged.

NOTE 13	2002	2001
	\$'000	\$'000
BORROWINGS		
ANALYSIS OF DEBT OUTSTANDING AT 30 JUNE 2002		
Payable 12 months or less from 30 June		
- Domestic	2,108,394	2,979,260
- Overseas	1,425,185	1,656,333
	3,533,579	4,635,593
Payable more than 12 months from 30 June		
- Domestic	6,431,042	5,799,870
- Overseas	388,192	158,881
	6,819,234	5,958,751
Balance 30 June at face value	10,352,813	10,594,344
Balance 30 June at market value	10,718,299	11,002,570
Maturity Profile		
Up to 3 Months	2,514,256	3,865,473
3 to 12 Months	817,746	602,494
1 to 5 Years	3,803,664	3,368,075
Over 5 Years	3,582,633	3,166,528
Total	10,718,299	11,002,570
Repricing Profile		
Up to 3 Months	2,695,124	3,844,340
3 to 12 Months	818,924	1,017,112
1 to 5 Years	3,621,588	3,279,239
Over 5 Years	3,582,663	2,861,879
Total	10,718,299	11,002,570
Average Balance	10,231,987	9,778,225
Interest Expense	631,229	702,080
Average Interest Rate	6.17%	7.18%

The Corporation raises its funds in the domestic and offshore capital markets. Under Section 13(1) of the Western Australian Treasury Corporation Act, the financial liabilities of the Corporation are guaranteed by the Treasurer on behalf of the State of Western Australia. The Corporation's borrowings are well diversified across markets, instruments and maturities. Further information on valuation methods is shown in Note 17.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002 (Continued)

NOTE 13 (Continued)

OVERSEAS BORROWINGS

Includes Australian currency and foreign currency loans. Foreign currency loans have been translated using the exchange rates applicable at 30 June 2002 and are shown below:

Foreign Currency Borrowing	Exchange Rate Translation at 30/06/02	
	Payable 12 Months or Less from 30/06/02 \$A'000	Payable More than 12 Months from 30/06/02 \$A'000
USD 512,155,825	906,791	Nil
JPY 10,000,000,000	Nil	148,192
HKD 1,202,607,915	272,985	Nil
GBP 39,597,897	107,021	Nil

Foreign Currency Borrowing	Exchange Rate Translation at 30/06/01	
	Payable 12 Months or Less from 30/06/01 \$A'000	Payable More than 12 Months from 30/06/01 \$A'000
USD 489,765,442	965,055	Nil
JPY 19,100,000,000	144,582	158,881
HKD 1,004,317,678	253,731	Nil
GBP 14,804,884	41,090	Nil

At reporting date, all foreign currency loans have either been hedged, swapped or covered forward specifically, invested in the foreign currency or the foreign currency proceeds lent to authorities participating in the central borrowing arrangements on a back to back basis. Consequently, any gain or loss on the translation of the overseas borrowing is matched by a corresponding loss or gain made on the foreign currency contract, the overseas investment or the back to back lending and the net exchange gain or loss is therefore zero.

NOTE 14	2002	2001
	\$'000	\$'000

TAX LIABILITIES

Provision for Income Tax Equivalent Expense	1,829	1,748
Provision for Deferred Income Tax Equivalent	5	5
	1,834	1,753

NOTE 15**PROVISIONS**

Annual Leave	589	515
Long Service Leave	1,010	875
Superannuation	1,062	988
	2,661	2,378

The charge to the operating profit for the movement in the provision for employee entitlements during the year was \$283 thousand (2001, -\$6 thousand).

NOTE 16**RETAINED PROFITS**

Opening Balance	64,005	58,465
Dividend Paid	(12,768)	(4,597)
Net Profit	5,402	10,137
Closing Balance	56,639	64,005

The dividend paid represents 50% of the 2000/01 after tax profit (\$5.1 million) plus \$7.7 million to repay the Corporation's identified capital surplus.

NOTE 17**FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

In carrying out its mission, the Corporation is a borrower from the capital markets. This necessarily involves the management of market risk because as a borrower, the Corporation's objective is the opposite to that of investors. In order to obtain funds at the lowest cost it must meet the needs of investors and therefore must, for example, accept maturities which are unlikely to match the terms of the Corporation's lending portfolio. Derivative instruments, including swaps, forward rate agreements and futures, are used to hedge, or minimise, the risks incurred.

The amounts to be exchanged on these contracts are calculated with reference to the notional amount and other terms of the derivatives. Credit exposure represents the Corporation's estimate of its exposure at reporting date in the event of non-performance by counterparties. The Corporation has adopted the weightings prescribed in the Original Exposure Method, as detailed by the Australian Prudential Regulation Authority, for the remaining term to maturity to measure the credit risk on derivatives. At 30 June 2002, the Corporation is confident that all its counterparties will meet their obligations.

Details of the notional amount, net fair value and credit exposure of the derivative instruments used for managing interest rate risk are shown below together with the credit rating quality of these exposures.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002 (Continued)

NOTE 17 (Continued)

As at 30 June 2002	Notional Amount \$'000	Net Fair Value \$'000	Credit Exposure \$'000
Futures	30,700	96	0
Interest Rate Swaps	2,575,665	10,078	60,439
Forward Rate Agreements	200,000	148	1,000
Credit Exposure by Rating			%
AAA			0.04
AA			99.67
A			0.29
			100.00

As at 30 June 2001	Notional Amount \$'000	Net Fair Value \$'000	Credit Exposure \$'000
Futures	143,300	766	0
Interest Rate Swaps	2,752,290	129,647	52,424
Forward Rate Agreements	0	0	0
Credit Exposure by Rating			%
AAA			2.20
AA			96.14
A			1.66
			100.00

Interest rate swaps allow the Corporation to swap long term fixed rate borrowings into floating rate borrowings with lower rates than if the Corporation had made the floating rate borrowings directly. At times, floating to fixed swaps are used to change floating rate borrowings to fixed rate borrowings in order to match the Corporation's lending to client authorities. With interest rate swaps, the Corporation agrees with counterparties to exchange at predetermined intervals the difference between fixed rate and floating rate interest amounts calculated by reference to an agreed notional face value.

Forward rate agreements are used by the Corporation to secure a guaranteed return or cost on known cash flows as and when they fall due. These agreements establish an interest rate on a notional principal over a specified period.

Futures contracts are used essentially for the same purpose as forward rate agreements. The contracts used by the Corporation are the bank bill, 3 year and 10 year bond contracts.

Liquidity risk involves the Corporation's ability to meet all financial commitments as they fall due. The Corporation maintains a minimum prudent level of highly liquid quality assets at all times to ensure that it will always meet its commitments.

The risk to the Corporation of not being able to fund itself is minimised through the diversification of its funding activity across domestic and offshore markets and across the maturity spectrum.

NOTE 17 (Continued)

With regard to foreign exchange risk, the policy for sometime has been, and is, not to take any foreign exchange risk apart from the minor exposure created by the need to maintain small balances in foreign currency bank accounts. The Corporation borrows in foreign currencies when the all in cost after swapping back into Australian dollars is cheaper than the equivalent domestic borrowing. Whereas the Corporation manages interest rate risk on a portfolio basis, it manages the exchange rate risk on foreign currency borrowings as part of the borrowing transaction. In instances where the Corporation advances funds to clients in a currency other than Australian dollars, the exchange rate risk is borne by the individual client authority. Foreign currency swaps and forwards amounting to A\$1,434,990 thousand (2001, A\$1,563,340 thousand) at 30 June 2002 have a fixed future obligation in Australian dollars of A\$1,480,599 thousand (2001, A\$1,497,427 thousand). Additionally, the Corporation has arranged forward foreign exchange transactions for clients amounting to A\$24,989 thousand (2001, A\$33,672 thousand). These transactions are arranged with clients on a back to back basis and therefore the Corporation does not have any exposure.

The Corporation regards the minimisation of these risks as a high priority. Accordingly, the Corporation has in place policies and management structures to monitor and manage these risks.

A Liability Management Committee comprising the Chief Executive Officer and other senior management provides policy advice to the Board in respect of the Corporation's financial risk management activities.

A comprehensive report on the Corporation's activities is prepared monthly for the Board.

A report is distributed daily to senior management detailing the value at risk, market value, modified duration and convexity together with basis point risk across the curve for that day for all portfolios.

In addition, the reporting arrangements include daily gap analyses and simulation analysis.

For valuation purposes, the Corporation uses quoted market rates wherever possible to discount cash flows to present values. Those stocks without quoted market rates are valued using the Corporation's Zero Coupon Yield curves. As at 30 June, the market interest rates used by the Corporation for valuation purposes were:

	Coupon	Market Rate as at 30 June 2002	Market Rate as at 30 June 2001
Overnight	-	4.75%	5.00%
90 days	-	5.12%	5.01%
180 days	-	5.26%	5.01%
1 October 2002	5.50%	-	5.19%
15 July 2003	8.00%	5.34%	5.58%
15 July 2005	10.00%	5.84%	6.03%
15 October 2007	8.00%	6.07%	6.24%
15 October 2009	7.50%	6.23%	6.36%
15 April 2011	7.00%	6.32%	-



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002 (Continued)

NOTE 18	2002 \$'000	2001 \$'000
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NOTES TO THE STATEMENT OF CASH FLOWS

18a. Reconciliation of Cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

Bank Deposits (Note 6)	2,421	1,556
Short Term Money Market Investments	2,078,696	2,434,549
Overseas Bank Accounts (Note 6)	709	210
	2,081,826	2,436,315

18b. Reconciliation of Net Cash used in Operating Activities to Net Profit

Net Profit	5,402	10,137
Depreciation	1,218	721
Increase in Receivables	(28,496)	11,058
Decrease in Accrued Interest Payables	(37,345)	4,216
Less prior year non cash interest adjustment	0	(13,528)
Decrease in Other Creditors	(209)	(72)
Provision for income tax equivalent expense	2,406	5,258
Future income tax equivalent benefit	(91)	18
Provision for deferred income tax equivalent	0	(30)
Unrealised Foreign Exchange Gain/Loss	19	0
Profit From Sale of Equipment	(6)	(8)
Increase in Employee Entitlements	283	(6)
Market Value Adjustment	(28,788)	(60,659)
	(85,607)	(42,895)

18c. Financing/Lending Facilities

The Corporation has available an offshore US\$60 million (2001, US\$60 million) back-up facility with a major international bank. The back-up facility has not been used. In addition, the Corporation holds a substantial portfolio of liquid assets that can be readily converted into cash. These assets comprise highly liquid money market investments and longer term state government and Commonwealth Government securities.

The Corporation provides a committed lending facility of \$750 million (nil drawn down as at 30 June 2002) (2001, \$750 million (\$50 million drawn down as at 30 June 2001)) to Homeswest, a state government authority. The facility provides Homeswest with a flexible and readily accessible term-funding facility through which it can borrow Australian dollars on either a floating rate or fixed interest basis.

The Corporation also provides a committed lending facility of US\$106.5 million (nil drawn down as at 30 June 2002) (2001, US\$108.9 million (nil drawn down as at 30 June 2001)) to Western Australian Government Railways Commission, a state government authority. The facility is to meet contingent obligations under a lease agreement that may eventuate during the life of the lease.

NOTE 19	2002	2001
	\$'000	\$'000

REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Directors' Remuneration

The number of directors whose total of fees, salaries, superannuation and other benefits for the financial year fall within the following bands are:

\$		
30,001 - 40,000	3	3
190,001 - 200,000	-	-
210,001 - 220,000	-	-
220,001 - 230,000	-	-
230,001 - 240,000	-	-
240,001 - 250,000	-	1
250,001 - 260,000	1	-

The total remuneration of the directors of the Corporation is: **352** 345

The superannuation included here represents the superannuation expense incurred by the Corporation in respect of the directors.

No directors are members of the Pension Scheme.

Senior Officers' Remuneration

The number of Senior Officers, other than Directors, whose total fees, salaries, superannuation and other benefits for the financial year, fall within the following bands are:

\$		
70,001 - 80,000	-	1
160,001 - 170,000	2	2
170,001 - 180,000	-	-
180,001 - 190,000	-	-
190,001 - 200,000	-	1
200,001 - 210,000	1	-

The total remuneration of Senior Officers is: **545** 599

The superannuation included here represents the superannuation expense incurred by the Corporation in respect of Senior Officers other than senior officers reported as directors.

No Senior Officers are members of the Pension Scheme.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2002 (Continued)

NOTE 20	2002 \$'000	2001 \$'000
AUDITOR'S REMUNERATION	105	81

Amounts paid or due and payable to the Office of the Auditor General for auditing the financial statements and performance indicators.

NOTE 21

EXPLANATORY STATEMENT

21a. ACTUAL/BUDGET COMPARISON 2001/02

	ACTUAL \$'000	BUDGET \$'000	VARIANCE \$'000	COMMENT
REVENUE				
Interest on Investments	72,220	100,000	(27,780)	
Interest from Authorities	547,188	612,654	(65,466)	2
Proceeds from Sale of Property & Equipment	466	0	466	
Fee Income	250	300	(50)	
Net Market Value Movement	28,788	0	28,788	1
	648,912	712,954	(64,042)	
EXPENSES				
Interest on Borrowings	631,280	691,908	(60,628)	3
Depreciation	1,218	1,300	(82)	
Administration Expenses	6,611	6,907	(296)	
Loan Raising Expenses	1,607	1,783	(176)	
Foreign Exchange Loss	19	0	19	
Other Expenses	460	0	460	
	641,195	701,898	(60,703)	
Profit from ordinary activities before income tax equivalent	7,717	11,056	(3,339)	

COMMENTS - REASONS FOR VARIATIONS FROM BUDGETED AMOUNTS

1. The relationship between net market value movement and interest income and expense is discussed at Note 4. The budget does not separately identify unrealised gains or losses.
2. The decrease in Interest from Authorities compared to budget was due to a lower than anticipated cost of funds and the unanticipated reduction in the client authority borrowing program.
3. The decrease in Interest on Borrowings compared to budget was due to a lower than anticipated cost of funds and the unanticipated reduction in the client authority borrowing program.

NOTE 21 (Continued)**21b. COMPARISON BETWEEN 2001/02 AND THE PREVIOUS YEAR**

	2002 \$'000	2001 \$'000	CHANGE \$'000	COMMENT
REVENUE				
Interest on Investments	72,220	121,542	(49,322)	1
Interest from Authorities	547,188	543,806	3,382	2
Proceeds from Sale of Property & Equipment	466	9	457	
Fee Income	250	250	0	
Net Market Value Movement	28,788	60,659	(31,871)	
	648,912	726,266	(77,354)	
EXPENSES				
Interest on Borrowings	631,280	702,080	(70,800)	3
Depreciation	1,218	721	497	
Administration Expenses	6,611	6,542	69	
Loan Raising Expenses	1,607	1,539	68	
Foreign Exchange Loss	19	0	19	
Other Expenses	460	1	459	
	641,195	710,883	(69,688)	
Profit from ordinary activities before income tax equivalent	7,717	15,383	(7,666)	

1. Interest on Investments has decreased by \$49.322 million from the previous year due to reduced levels of investment funds.
2. Interest from Authorities has increased by \$3.382 million from the previous year as a result of an increase in authority debt.
3. Interest on Borrowings has decreased by \$70.800 million from the previous year as a result of a decreased cost of funds and the early retirement of debt.

CERTIFICATION OF FINANCIAL STATEMENTS

The accompanying financial statements of the Western Australian Treasury Corporation have been prepared in compliance with the provisions of the Financial Administration and Audit Act 1985 from proper accounts and records to present fairly the financial transactions for the year ending 30 June 2002 and the financial position as at 30 June 2002.

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



S L LUFF, B.BUS, CPA
PRINCIPAL ACCOUNTING OFFICER
WESTERN AUSTRALIAN
TREASURY CORPORATION

16 August 2002



R N HUGHES
CHIEF EXECUTIVE OFFICER
WESTERN AUSTRALIAN
TREASURY CORPORATION

16 August 2002



J L LANGOULANT
CHAIRMAN
WESTERN AUSTRALIAN
TREASURY CORPORATION

16 August 2002



AUDITOR GENERAL'S OPINION OF FINANCIAL STATEMENTS

WESTERN AUSTRALIAN TREASURY CORPORATION FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2002

Scope

I have audited the accounts and financial statements of the Western Australian Treasury Corporation for the year ended June 30, 2002 under the provisions of the Financial Administration and Audit Act 1985.

The Board is responsible for keeping proper accounts and maintaining adequate systems of internal control, preparing and presenting the financial statements, and complying with the Act and other relevant written law. The primary responsibility for the detection, investigation and prevention of irregularities rests with the Board.

My audit was performed in accordance with section 79 of the Act to form an opinion based on a reasonable level of assurance. The audit procedures included examining, on a test basis, the controls exercised by the Corporation to ensure financial regularity in accordance with legislative provisions, evidence to provide reasonable assurance that the amounts and other disclosures in the financial statements are free of material misstatement and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements in Australia and the Treasurer's Instructions so as to present a view which is consistent with my understanding of the Corporation's financial position, its financial performance and its cash flows.

The audit opinion expressed below has been formed on the above basis.

Audit Opinion

In my opinion,

- (i) the controls exercised by the Western Australian Treasury Corporation provide reasonable assurance that the receipt, expenditure and investment of moneys and the acquisition and disposal of property and the incurring of liabilities have been in accordance with legislative provisions; and
- (ii) the Statement of Financial Performance, Statement of Financial Position and Statement of Cash Flows and the Notes to and forming part of the financial statements are based on proper accounts and present fairly in accordance with applicable Accounting Standards, other mandatory professional reporting requirements in Australia and the Treasurer's Instructions, the financial position of the Corporation at June 30, 2002 and its financial performance and its cash flows for the year then ended.

D D R PEARSON
AUDITOR GENERAL

August 30, 2002

KEY PERFORMANCE INDICATORS

FOR THE WESTERN AUSTRALIAN TREASURY CORPORATION

MISSION STATEMENT (2001/02)

To work with our clients to satisfy their financing needs.

KEY OUTCOME

The key outcome of this mission is that clients are able to borrow from the Corporation at a commercially competitive cost.

KEY OUTPUT

The key output flowing from the pursuit of this mission is the delivery of loan funds to clients.

GLOSSARY OF TERMS

A glossary of terms is provided at the end of this report to assist with the interpretation of the performance indicators.

KEY EFFECTIVENESS INDICATOR – ESTIMATED INTEREST RATE SAVINGS

In order to gauge its effectiveness in providing competitively priced loan funds to clients, the Corporation monitors the Australian corporate bond market.

The following table shows the estimated savings to clients borrowing from the Corporation compared to the estimated cost to clients of borrowing in the corporate bond market for the past three years. A direct cost comparison is impossible because none of the Corporation's clients currently issue bonds in their own name.

Table 1 - Estimated Interest Rate Savings to Clients by Reference Bond Credit Rating and Term to Maturity*

Term to Maturity as at 30/6/02 (Years)	AAA			AA+			AA			AA-		
	01/02	00/01	99/00	01/02	00/01	99/00	01/02	00/01	99/00	01/02	00/01	99/00
1 to 2	0.10%	0.13%	0.20%				0.15%	0.18%	0.38%	0.14%	0.19%	
2 to 3	0.11%	0.20%	0.22%			0.28%		0.25%	0.28%	0.13%	0.26%	0.34%
3 to 4	0.10%	0.22%	0.10%	0.46%				0.50%	0.28%	0.28%	0.26%	0.31%
4 to 5	0.27%	0.15%	0.21%		0.52%	0.31%		0.64%	0.47%		0.39%	
5 to 6	0.14%	0.36%	0.21%									
6 to 7	0.14%	0.20%	0.27%			0.31%			0.63%			0.68%
7 to 8		0.18%										
8 to 9	0.50%							0.85%				
9 to 10		0.55%	0.16%									
12 to 13	0.41%											
13 to 14		0.37%										
17 to 18	0.47%											
18 to 19		0.47%										

*A blank entry in the table means there is no reference bond available in the corporate bond market for comparative purposes.



KEY PERFORMANCE INDICATORS

FOR THE WESTERN AUSTRALIAN TREASURY CORPORATION (Continued)

By way of example, the saving of 0.10% identified in the first row of the AAA 01/02 column represents the estimated interest rate saving to a client (able to borrow in the corporate bond market with a AAA credit rating) when borrowing from the Corporation.

The savings identified in Table 1 would be significantly greater than shown for all but the largest of the Corporation's clients due to the relatively small size of individual client borrowing requirements. In reality, most clients would be unable to borrow at the interest rates available in the corporate bond market due to this constraint. In general, the market imposes a liquidity risk premium because a small issue volume implies a small secondary market in the bond. The premium compensates for the increased difficulty of selling at fair market prices in a small secondary market. As a guide, in the current market environment, issue volumes need to be of the order of \$250 million to avoid the risk of incurring a significant liquidity risk premium.

In this regard, the Corporation's effectiveness is further demonstrated by its ability to make available competitively priced loan funds to clients, with borrowing terms from 1 day to greater than 10 years, regardless of the size of client borrowing programs. By way of contrast, only the largest of corporate bond market participants are able to issue bonds with different terms to maturity. Having multiple bond issues helps to reduce the initial interest cost of bond issues by improving the secondary market and hence liquidity of a borrower's bonds.

Cost Estimation Methodology

A number of corporate bonds were selected for the purpose of comparison to the Corporation's Portfolio Lending Arrangement ("PLA") interest rates. To be selected, a bond had to satisfy the following: -

- be rated between AAA and AA-;
- be on issue at 30 June 2001 and have at least one year until maturity at 30 June 2002.
- not be guaranteed by the Commonwealth; and
- not be subordinated debt (ie debt issued by banks for capital adequacy purposes).

The month end traded interest rates for the selected corporate bonds were tracked over the year. The rate for each bond was compared to the rate for an equivalent term PLA bond net of the Corporation's on-cost margin. This margin was removed because it represents the loan issue and administration costs that clients would reasonably be expected to incur in arranging their own borrowing programs.

The estimated saving to the client for a given observation is defined as the observed corporate bond rate minus the net PLA rate. The savings shown in Table 1 are defined as the average of the monthly observations. Where more than one bond falls into a particular maturity category, the results are also averaged.

KEY EFFICIENCY INDICATOR – ADMINISTRATION COST RATIO

In order to monitor its efficiency in funding client borrowing requirements over time, the Corporation monitors its administration cost ratio.

The administration cost ratio is defined as the ratio of net administration expense to average loan funds outstanding expressed as a percentage. Net administration expense is defined as administration expenses (including loan raising expenses) less non-interest revenue while average loan funds outstanding is defined as the average of the opening and closing book value of loans to clients for the relevant year. The Corporation's administration cost ratio for the previous five years is shown in Table 2.

**Table 2 - WATC Administration Cost Ratio
1997/1998 to 2001/2002**

Year	Net Administration Expense \$M	Average Loan Funds Outstanding \$M	Administration Cost Ratio
1997/1998	6.556	6,859	0.10%
1998/1999	6.739	6,609	0.10%
1999/2000	7.170	7,387	0.10%
2000/2001	8.543	8,102	0.11%
2001/2002	9.180	8,440	0.11%

Clients are able to benefit from the economies of scale that result from the centralised or pooled borrowing arrangements of the Corporation. Through this pooling, the Corporation is able to reduce the administration cost per dollar of lending to the client.

The economies of scale achieved by the Corporation generate savings to the client that would not be available to individual clients attempting to fund their borrowing requirements directly from the market. In general, the level of specialisation and expertise provided by the Corporation would not be cost effective for an individual client to maintain.

The Corporation's administration cost ratio will fluctuate from time to time due to changes in aggregate debt levels as well as direct management action. Changes in aggregate debt levels are impacted by government asset sales and debt management policy in general which is beyond the control of the Corporation.



KEY PERFORMANCE INDICATORS

FOR THE WESTERN AUSTRALIAN TREASURY CORPORATION (Continued)

GLOSSARY OF TERMS

Term	Explanation
Liquidity Risk	The risk that a bond owner, wanting to sell a bond in the secondary market, is not able to find a buyer willing to pay a fair price for the bond having regard to currently observed market rates and the initial liquidity risk premium.
Liquidity Risk Premium	The increase in the interest rate required by the buyer of a bond to compensate for liquidity risk.
Maturity Date	The date on which the final bond payment is to be made.
Term to Maturity	The amount of time until the final bond payment is due.
Issue Volume	The face value amount at issue date. This is the amount that a bond issuer must repay on the maturity date of the bond.
Corporate Bond Market	The market in which bonds issued in the name of individual corporate entities are bought and sold.
Reference Bond	A corporate bond selected for comparison to the Corporation's lending rates.

CERTIFICATION OF PERFORMANCE INDICATORS

I hereby certify that the performance indicators are based on proper records, are relevant and appropriate for assisting users to assess the performance of the Western Australian Treasury Corporation and fairly represent the performance of the Western Australian Treasury Corporation for the year ended 30 June 2002.

R N HUGHES
CHIEF EXECUTIVE OFFICER
Western Australian Treasury Corporation

16 August 2002

J L LANGOULANT
CHAIRMAN
Western Australian Treasury Corporation

16 August 2002

AUDITOR GENERAL'S OPINION OF PERFORMANCE INDICATORS

WESTERN AUSTRALIAN TREASURY CORPORATION PERFORMANCE INDICATORS FOR THE YEAR ENDED JUNE 30, 2002

Scope

I have audited the key effectiveness and efficiency performance indicators of the Western Australian Treasury Corporation for the year ended June 30, 2002 under the provisions of the Financial Administration and Audit Act 1985.

The Board is responsible for developing and maintaining proper records and systems for preparing and presenting performance indicators. I have conducted an audit of the key performance indicators in order to express an opinion on them to the Parliament as required by the Act.

My audit was performed in accordance with section 79 of the Act to form an opinion based on a reasonable level of assurance. The audit procedures included examining, on a test basis, evidence supporting the amounts and other disclosures in the performance indicators, and assessing the relevance and appropriateness of the performance indicators in assisting users to assess the Corporation's performance. These procedures have been undertaken to form an opinion as to whether, in all material respects, the performance indicators are relevant and appropriate having regard to their purpose and fairly represent the indicated performance.

The audit opinion expressed below has been formed on the above basis.

Audit Opinion

In my opinion, the key effectiveness and efficiency performance indicators of the Western Australian Treasury Corporation are relevant and appropriate for assisting users to assess the Corporation's performance and fairly represent the indicated performance for the year ended June 30, 2002.



D D R PEARSON
AUDITOR GENERAL

August 30, 2002



CLIENT AUTHORITIES - FACE VALUE NET DEBT OUTSTANDING TO THE CORPORATION AT 30 JUNE 2002

AUTHORITY NAME	BALANCE AT 1 JULY 2001 \$'000	NET ADVANCES DURING YEAR \$'000	BALANCE AT 30 JUNE 2002 \$'000
Albany City Council	3,627	969	4,596
Albany Port Authority	7,389	5,622	13,011
Armadale City Council	412	183	595
Ashburton Shire Council	1,155	421	1,576
Augusta-Margaret River Shire Council	4,143	(358)	3,786
Bassendean Town Council	608	(18)	590
Bayswater City Council	1,216	23	1,239
Belmont City Council	2,225	(205)	2,020
Beverly Shire Council	375	(54)	321
Boddington Shire Council	31	119	150
Boyup Brook Shire Council	540	(31)	508
Brookton Shire Council	70	126	196
Broome Shire Council	2,991	(174)	2,817
Broomehill Shire Council	329	(55)	274
Bunbury City Council	3,468	872	4,340
Bunbury Port Authority	15,032	(337)	14,695
Busselton Shire Council	2,818	(319)	2,499
Canning City Council	1,535	(67)	1,468
Carnamah Shire Council	69	(43)	26
Carnarvon Shire Council	2,306	(243)	2,063
Chapman Valley Shire Council	119	(119)	0
Chittering Shire Council	278	338	616
Collie Shire Council	396	(91)	305
Commissioner of Main Roads	222,403	3,270	225,673
Coolgardie Shire Council	777	(76)	701
Coorow Shire Council	1,027	7	1,034
Corrigin Shire Council	291	361	651
Cottesloe Town Council	442	(49)	393
Country High School Hostels Authority	3,601	2,822	6,423
Country Housing Authority	0	5,297	5,297
Cranbrook Shire Council	200	(131)	69
Cuballing Shire Council	45	131	176
Cue Shire Council	311	(37)	274
Cunderdin Shire Council	884	(146)	738
Curriculum Council	150	(6)	143
Curtin University of Technology	29,034	(658)	28,376
Dalwallinu Shire Council	850	(53)	797
Dandaragan Shire Council	1,534	551	2,085
Dardanup Shire Council	2,229	(245)	1,984
Denmark Shire Council	1,618	(47)	1,572
Departmental Hospitals*	18,957	(707)	18,250
Derby-West Kimberley Shire Council	3,451	442	3,893
Disability Services Commission	7,254	(612)	6,643
Donnybrook-Balingup Shire Council	211	266	477
Dowerin Shire Council	47	(14)	33
Dumbleyung Shire Council	536	(74)	462
Dundas Shire Council	89	(8)	81
East Fremantle Town Council	2,755	(650)	2,105
East Pilbara Shire Council	857	(138)	719
Eastern Goldfields Transport Board	951	(229)	722
Eastern Metropolitan Regional Council	1,886	(222)	1,664
Eastern Pilbara College of TAFE	859	(32)	827

AUTHORITY NAME	BALANCE AT 1 JULY 2001 \$'000	NET ADVANCES DURING YEAR \$'000	BALANCE AT 30 JUNE 2002 \$'000
Edith Cowan University	2,713	(150)	2,562
Esperance Port Authority	34,561	23,469	58,030
Esperance Shire Council	960	(38)	922
Executive Director of the Department of Conservation and Land Management	3,810	(3,810)	0
Exmouth Shire Council	528	(149)	379
Fire & Emergency Services Authority of Western Australia	39,296	512	39,808
Forest Products Commission	75,748	4,328	80,076
Fremantle Cemetery Board	2,396	(166)	2,230
Fremantle City Council	12,113	(669)	11,444
Fremantle Hospital Board	2,223	(79)	2,143
Fremantle Port Authority	21,585	(1,096)	20,489
Geraldton City Council	3,186	(282)	2,904
Geraldton Port Authority	9,729	(508)	9,220
Gingin Shire Council	1,009	(104)	904
Gnowangerup Shire Council	694	143	837
Goomalling Shire Council	56	4	60
Government Employees' Housing Authority	137,372	(6,772)	130,599
Government Employees Superannuation Board	634,629	(15,566)	619,063
Greenough Shire Council	1,342	41	1,383
Halls Creek Shire Council	404	104	509
Harvey Shire Council	2,999	(161)	2,838
Irwin Shire Council	218	9	227
Jerramungup Shire Council	283	323	606
Kalamunda Shire Council	953	(156)	797
Kalgoorlie-Boulder City Council	12,911	(1,894)	11,017
Katanning Shire Council	1,610	(121)	1,489
Kellerberrin Shire Council	378	(50)	328
Kent Shire Council	407	(31)	376
King Edward Memorial and Princess Margaret Hospitals Board	14,589	(520)	14,069
Kojonup Shire Council	753	57	810
Kondinin Shire Council	618	(66)	552
Kulin Shire Council	27	(7)	20
Kwinana Town Council	300	(12)	288
Lake Grace Shire Council	735	(89)	646
Laverton Shire Council	118	222	341
Library Board of Western Australia	25,189	(1,231)	23,959
Local Government Association of Western Australia and Country Shire Councils' Association of Western Australia	1,124	(79)	1,044
Mandurah City Council	17,167	623	17,790
Manjimup Shire Council	1,521	558	2,079
Meekatharra Shire Council	18	(2)	16
Melville City Council	5,245	(27)	5,218
Merredin Shire Council	364	370	733
Metropolitan Health Service Board	65,484	(2,061)	63,423
Midland Redevelopment Authority	7,161	3,907	11,068
Mingenew Shire Council	108	159	267
Minister for Education	130,387	18,782	149,170
Minister for Agriculture, Forestry and Fisheries	3,870	(1,214)	2,656
Minister for Planning and Infrastructure	253,314	19,140	272,454



CLIENT AUTHORITIES - FACE VALUE NET DEBT

OUTSTANDING TO THE CORPORATION AT 30 JUNE 2002 (Continued)

AUTHORITY NAME	BALANCE AT 1 JULY 2001 \$'000	NET ADVANCES DURING YEAR \$'000	BALANCE AT 30 JUNE 2002 \$'000
Minister for State Development	7,309	(334)	6,976
Moora Shire Council	921	(203)	719
Morawa Shire Council	496	(85)	411
Mosman Park Town Council	232	(85)	147
Mount Marshall Shire Council	590	200	790
Mukinbudin Shire Council	717	(122)	595
Mullewa Shire Council	348	71	419
Mundaring Shire Council	440	(160)	280
Murchison Shire Council	75	(13)	62
Murdoch University	9,643	(1,169)	8,474
Murray Shire Council	1,012	709	1,721
Nannup Shire Council	384	2	386
Narambeen Shire Council	129	582	711
Narrogin Shire Council	108	159	267
Narrogin Town Council	584	3,189	3,772
Nickol Bay Hospital	3,409	(121)	3,287
Northam Shire Council	84	(14)	70
Northam Town Council	1,196	197	1,393
Northampton Shire Council	257	(28)	229
Nungarin Shire Council	282	(13)	269
Peppermint Grove Shire Council	210	(141)	69
Perenjori Shire Council	419	(97)	322
Perth City Council	13,823	(1,689)	12,134
Perth Dental Hospital Board	2,112	(75)	2,036
Perth Market Authority	48,095	(305)	47,790
Pingelly Shire Council	307	(53)	254
Plantagenet Shire Council	1,690	(41)	1,649
Port Hedland Town Council	2,612	727	3,339
Quairading Shire Council	292	(40)	252
Ravensthorpe Shire Council	301	2,355	2,656
Rockingham City Council	10,656	(1,738)	8,918
Roebourne Shire Council	1,163	(344)	819
Rottneest Island Authority	5,638	(652)	4,986
Royal Perth Hospital Board	25,326	(903)	24,423
Sandstone Shire Council	194	(95)	100
Serpentine-Jarrahdale Shire Council	1,464	52	1,516
Shark Bay Shire Council	500	227	727
Sir Charles Gairdner Hospital Board	6,780	(242)	6,538
South Perth City Council	141	(13)	128
South West Development Commission	10,744	(741)	10,003
Southern Metropolitan Regional Council	4,000	23,349	27,349
State Housing Commission	1,120,345	98,951	1,219,296
State Supply Commission	177,000	23,000	200,000
Subiaco City Council	22	(18)	4
Subiaco Redevelopment Authority	11,120	(5,219)	5,901
Swan City Council	5,459	(779)	4,680
Swan River Trust	177	(8)	169
Tambellup Shire Council	140	34	175
Tammin Shire Council	97	(18)	79
The Board of the Art Gallery of Western Australia	6,684	(276)	6,409
The State of Western Australia (liability transferred from WA Meat Commission)	8,307	(423)	7,884

AUTHORITY NAME	BALANCE AT 1 JULY 2001 \$'000	NET ADVANCES DURING YEAR \$'000	BALANCE AT 30 JUNE 2002 \$'000
The State of Western Australia through the Consolidated Fund	527,333	(91,590)	435,744
The State of Western Australia through the Loan (Financial Agreement) Act 1991	343,517	(11,421)	332,096
Three Springs Shire Council	10	(2)	9
Toodyay Shire Council	693	(14)	679
Trayning Shire Council	0	53	53
Upper Gascoyne Shire Council	80	(7)	73
Victoria Plains Shire Council	437	29	466
WA Building Management Authority	169,974	(8,709)	161,266
WA Coastal Shipping Commission	30,336	(1,764)	28,573
WA Government Railways Commission	692,969	19,574	712,543
WA Greyhound Racing Authority	833	(456)	377
WA Tourism Commission	60	(33)	27
Wagin Shire Council	49	(49)	0
Wanneroo City Council	300	0	300
Waroona Shire Council	45	37	82
Water and Rivers Commission	1,636	(200)	1,436
Water Corporation	836,799	72,201	909,000
West Arthur Shire Council	242	150	392
West Pilbara College of TAFE	232	(13)	219
Western Power Corporation	2,363,884	(31,107)	2,332,777
Westonia Shire Council	93	(9)	84
Wickepin Shire Council	412	(23)	389
Williams Shire Council	252	(36)	216
Wiluna Shire Council	326	(326)	0
Wongan-Ballidu Shire Council	585	(204)	381
Wyalkatchem Shire Council	85	(9)	76
Wyndham-East Kimberley Shire Council	914	(410)	504
Yalgoo Shire Council	172	(25)	147
Yilgarn Shire Council	387	(165)	222
York Shire Council	564	(85)	479
Zoological Parks Authority	19,157	(312)	18,844
TOTAL	8,372,994	133,835	8,506,829

* The authority name "Departmental Hospitals" represents the Board of:

Albany Regional Hospital
 Armadale-Kelmscott District Memorial Hospital
 Augusta District Hospital
 Bentley Hospital
 Broome District Hospital
 Esperance District Hospital

Kalgoorlie Regional Hospital
 Merredin District Hospital
 Mt Henry Hospital
 Osborne Park Hospital
 Port Hedland Regional Hospital
 Swan Districts Hospital

Note: Due to rounding some figures do not add.

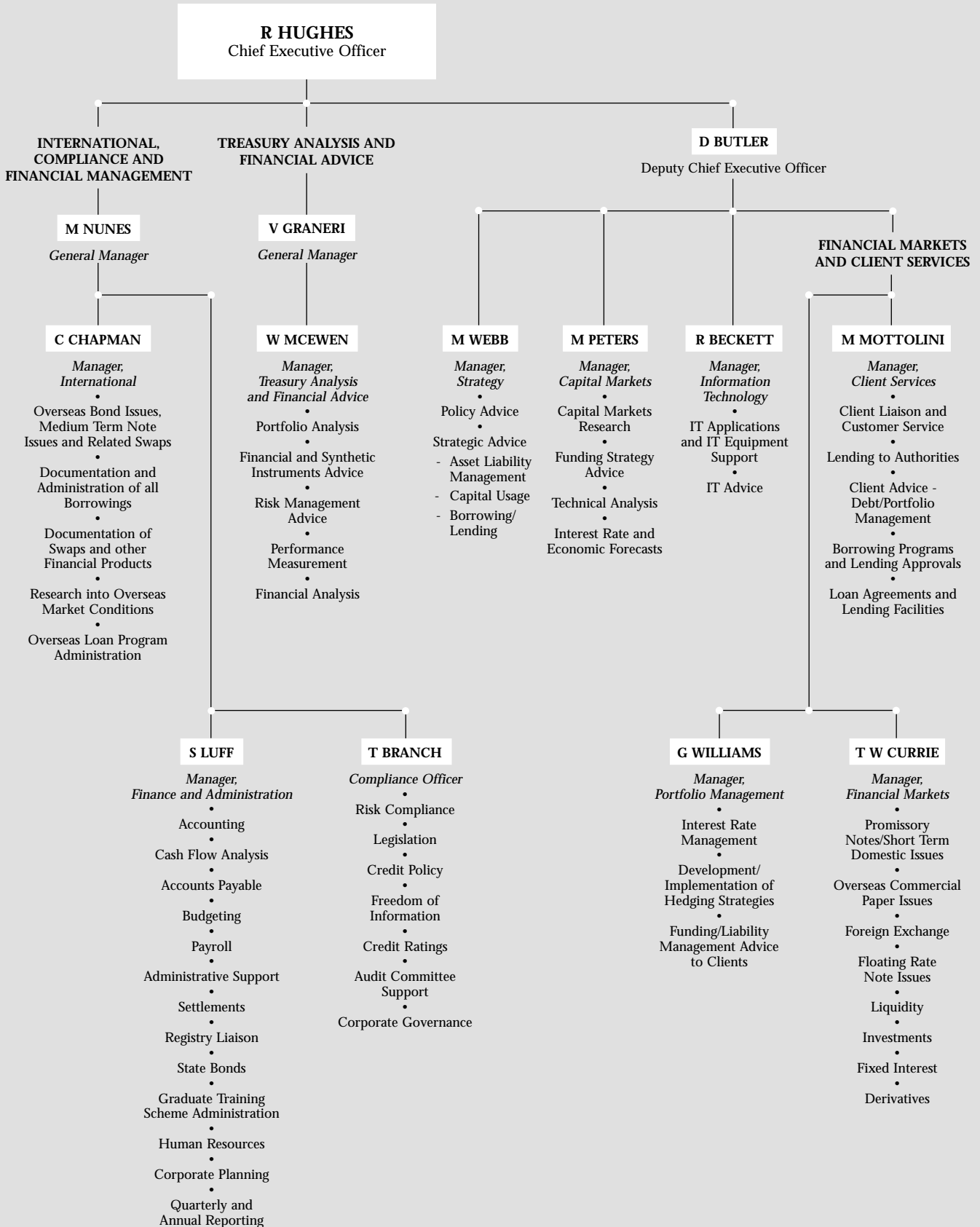


BUDGET

2002/03

	Estimate \$'000
REVENUE	
Revenue from ordinary activities	
Interest on Investments	100,000
Interest from Authorities	613,164
Fee Income	300
	<hr/> 713,464
EXPENSES	
Expenses from ordinary activities	
Interest on Borrowings	694,164
Depreciation	1,500
Loan Raising Expenses	1,815
Administration Expenses	7,235
	<hr/> 704,714
Profit from ordinary activities before income tax equivalent	8,750
Income Tax Equivalent Expense	2,625
Net Profit	6,125

ORGANISATIONAL CHART





WESTERN AUSTRALIAN TREASURY CORPORATION ADDRESSES

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BRISBANE QLD 4000

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ADELAIDE SA 5000

STOCKHOLDING ENQUIRIES

Please ring Computershare Investor Services Pty Limited on Freecall 1800 098 828 for all stockholding enquiries.

