

WESTERN AUSTRALIAN  
**TREASURY CORPORATION**

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**QUARTERLY REPORT**  
**For the quarter ended 31 December 2009**

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## INTRODUCTION

In accordance with section 21B of the Western Australian Treasury Corporation Act 1986, following is a report on the activities of the Western Australian Treasury Corporation (“WATC”) for the quarter ended 31 December 2009.

## OVERVIEW OF ACTIVITIES

### *Borrowing*

As the State’s central financing authority, WATC maintains a range of borrowing facilities in domestic and overseas markets which enable it to readily access funds at the cheapest cost to meet the borrowing requirements of the Western Australian public sector.

Following is an overview of WATC 's borrowing activities:

### Domestic Borrowings

As at 31 December 2009, WATC had approximately \$17,493 million of domestic securities in circulation. Of this, \$10,799 million was raised through WATC’s benchmark bonds, \$6,201 million in short term issues and \$494 million through other issues.

Details of WATC 's benchmark bonds as at 31 December 2009 are:

Coupon	Maturity	Amount on Issue as at 30 September 2009	Amount on Issue as at 31 December 2009	Change
7.50%	15/10/2009	\$1,363 million	0	-\$1,363 million
7.00%	15/04/2011	\$2,979 million	\$2,875 million	-\$104 million
5.50%	17/7/2012	0	\$ 987 million	+\$987 million
8.00%	15/06/2013	\$2,388 million	\$2,405 million	+\$ 17 million
7.00%	15/04/2015	\$1,787 million	\$1,915 million	+\$128 million
8.00%	15/07/2017	\$1,597 million	\$1,789 million	+\$192 million
7.00%	15/10/2019	\$ 573 million	\$ 828 million	+\$255 million

### Overseas Borrowings

#### *Bond Issues*

No new long term bond issues were undertaken by WATC in overseas markets during the quarter.

#### *Euro Medium Term Note Issues*

No new issues were undertaken by WATC through its Euro Medium Term Note Program during the quarter. The total face amount of Notes outstanding under the Euro Medium Term Note Program as at quarter end was AUD50.0 million.

### *Commercial Paper Issues*

During the quarter, issues through the Euro Commercial Paper (“ECP”) Program totalling USD3,786 million, GBP50 million and SGD20 million were transacted. All non-Australian dollar denominated issues were swapped into Australian dollars. The issues raised a total of AUD4,276 million for terms to maturity ranging between 23 to 181 days.

As at the end of the quarter, there were USD2,203 million, GBP50 million and SGD20 million of notes outstanding under the multi-currency ECP Program.

### ***Lending***

WATC provides a range of flexible lending products to meet the financing requirements of the Western Australian public sector and local governments. Funds are advanced to meet the short-term and long-term financing needs of clients, consisting of State government agencies and local governments.

As at 31 December 2009, the total face value of loans outstanding to WATC’s clients amounted to \$18,021.6 million. Net lending by WATC to its clients increased by \$1,600.6 million in the December quarter. The fair market value of WATC’s outstanding loans amounted to \$18,060.1 million.

### ***Funds Management***

As at 31 December 2009, WATC had Public Bank Account funds of \$2,960 million under management. These funds are invested in accordance with the Financial Management Act.

In addition to its management of the Public Bank Account, WATC has two investment products available to public sector agencies and local governments.

1. The Overnight Cash Deposit Facility enables clients to invest funds overnight at call. At 31 December 2009, WATC had \$53.3 million invested in this facility.
2. WATC has provided a term investment facility for clients by issuing its Short Term Inscribed Stock. At 31 December 2009, WATC had \$65.9 million in term investments from clients.

## **FINANCIAL PERFORMANCE**

WATC’s net loss for the six months ended 31 December 2009 was \$0.8 million, a slight improvement from the \$1.8 million loss reported through the September Quarter. It remains, however, \$4.2 million below plan.

Adverse drivers of this outcome include the continued reversal of favourable mark to mark revaluations in June 2009 that contributed to the 2008/2009 WATC profit of \$34.42 million. In particular, Swaps produced a loss of \$3.0 million compared to their \$8.7 million positive impact to profits last year, as the improvement in market conditions saw margins between WATC bonds and swaps contract. In addition, mismatches between client loans and funding particularly around one year maturities caused a loss. Gains in other parts of the portfolio helped to offset these outcomes.

We remain on track to produce a modest profit for the full financial year, as momentum began to turn more positive particularly in the month of December, though our original budget targets will remain challenging.

WATC were proud to have produced a consistent, cost effective debt product suite for all of our clients during the first half of this financial year, and will continue to do so for the remainder of the year.

### KEY PERFORMANCE INDICATORS

#### *Estimated Interest Rate Savings*

In order to gauge its effectiveness in providing competitively priced loan funds to clients, WATC calculates the estimated interest rate savings to clients borrowing from WATC and compares them 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 to date. 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 WATC does not include any guarantee fees collected by WATC on behalf of the State.

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

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

Term to Maturity (Years)	Year to 31/12/2009			
	AAA	AA+	AA	AA-
1 to 2	0.66%	0.94%	0.79%	3.11%
2 to 3	0.52%	0.78%	0.89%	2.02%
3 to 4	0.78%	0.81%		
4 to 5	0.54%			
5 to 6	1.08%			
6 to 7	0.87%			
7 to 8				
8 to 9				
9 to 10	0.77%			
10 to 11				
11 to 12				

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

#### *Administration Ratio*

WATC 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 WATC's clients.

*Note that in order to compare the year to date result with the annual administration ratio target, the net administration expense has been multiplied by 12/6.*

$$\text{Administration Ratio (\%)} = \frac{\text{Net Administration Expense} * 12/6}{\text{Average Lending Assets}} * \frac{100}{1}$$

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 period.

- Target:** Administration Ratio < 0.13%  
**Outcome:** Administration Ratio = 0.08% (01/07/09 to 31/12/09)

***Return on Capital***

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

$$\text{Return (\%)} = \frac{\text{Pre Tax Profit}}{\text{Adjusted Average Capital for the Year}} * \frac{100}{1}$$

Adjusted Average Monthly Capital for the Period is calculated as:  
 (AMC<sub>Jul</sub> + AMC<sub>Aug</sub> ..... + AMC<sub>Jun</sub>) / 12

Where:

- AMC = Adjusted Monthly Capital  
 AMC<sub>Jul</sub> = (Starting Capital)<sub>July</sub>  
 AMC<sub>Aug</sub> = AMC<sub>Jul</sub> - Dividend to the Government during the previous month  
 AMC<sub>Jun</sub> = AMC<sub>May</sub> - Dividend to the Government during the previous month

	Year to Date Target	Year to Date Return	Annual Target
6 Months to 31 December 2009	4.07%	-0.92%	8.1%

## **FINANCIAL STATEMENTS**

**WESTERN AUSTRALIAN TREASURY CORPORATION**  
**UNAUDITED INCOME STATEMENT**  
**FOR THE PERIOD ENDED 31 DECEMBER 2009**

	Note	2010 31-Dec-09 \$'000	2009 31-Dec-08 \$'000
<b><u>INCOME</u></b>			
<b>Revenue</b>			
Interest on Investments		48,604	94,941
Interest from Authorities		412,809	399,951
Fee Income		149	85
<b>Total Revenue</b>		<b>461,562</b>	<b>494,977</b>
<b>Other Income</b>			
Foreign Exchange Gain	4	0	84
Net Market Value Movement	5	0	9,320
<b>Total Other Income</b>		<b>0</b>	<b>9,404</b>
<b>Total Income</b>		<b>461,562</b>	<b>504,381</b>
<b><u>EXPENSES</u></b>			
<b>Expenses</b>			
Interest on Borrowings		454,692	475,941
Borrowing Related Expenses		275	257
Depreciation		101	96
Amortisation of Intangible Assets		402	194
Administration Expenses	3	5,843	5,792
Foreign Exchange Loss	4	11	0
Net Market Value Movement	5	1,044	0
<b>Total Expenses</b>		<b>462,368</b>	<b>482,280</b>
<b>Profit/(Loss) before income tax equivalent expense</b>		<b>(806)</b>	<b>22,101</b>
Income Tax Equivalent Expense	6	0	6,633
<b>Net Profit/(Loss) for the period</b>		<b>(806)</b>	<b>15,468</b>

The Income Statement should be read in conjunction with the accompanying notes.



**WESTERN AUSTRALIAN TREASURY CORPORATION**  
**UNAUDITED BALANCE SHEET AS AT 31 DECEMBER 2009**

	Note	2010 31-Dec-09 \$'000	2009 30-Jun-09 \$'000	2009 31-Dec-08 \$'000
<b>. ASSETS</b>				
- Cash Assets	7	1,172	3,033	1,663
- Investments	8	2,588,886	2,702,237	2,720,803
- Receivables & other financial assets	9	341,214	516,570	393,965
- Loans to Authorities	10	18,067,011	15,886,061	13,436,786
- Tax Assets	11	845	845	803
- Plant and Equipment	12	365	384	435
- Intangible Assets	13	892	1,287	930
<b>TOTAL ASSETS</b>		<b>21,000,385</b>	19,110,417	16,555,385
<b>. LIABILITIES</b>				
- Payables & other financial liabilities	15	188,249	438,730	228,852
- Borrowings	16	20,722,280	18,580,921	16,235,535
- Tax Liabilities	17	771	771	7,520
- Provisions	18	2,713	2,817	2,678
<b>TOTAL LIABILITIES</b>		<b>20,914,013</b>	19,023,239	16,474,585
<b>NET ASSETS</b>		<b>86,372</b>	87,178	80,800
<b>. EQUITY</b>				
- Retained Profits		83,372	84,178	80,800
- Reserves		3,000	3,000	0
<b>TOTAL EQUITY</b>		<b>86,372</b>	87,178	80,800

The Balance Sheet should be read in conjunction with the accompanying notes.

**WESTERN AUSTRALIAN TREASURY CORPORATION**  
**UNAUDITED STATEMENT OF RECOGNISED INCOME AND EXPENSE**  
**FOR THE PERIOD ENDED 31 DECEMBER 2009**

Note	2010 31-Dec-09 \$'000	2009 30-Jun-09 \$'000	2009 31-Dec-08 \$'000
Net Income recognised directly in equity	0	0	0
Profit for the period	<b>(806)</b>	24,089	15,468
<b>Total recognised income and expense for the period</b>	<b>(806)</b>	24,089	15,468
<b>Movements in Equity</b>			
<b>Swap Fair Value Reserve</b>			
Balance at start of period	3,000	0	0
Fair Value Adjustment transfer for the period	0	3,000	0
Balance at end of period	<b>3,000</b>	3,000	0
<b>Retained Profits</b>			
Balance at start of period	84,178	65,332	65,332
Total income for the period	<b>(806)</b>	24,089	15,468
Dividend paid	0	(2,243)	0
Transfers to reserves	0	(3,000)	0
Balance at end of period	<b>83,372</b>	84,178	80,800
Balance of Equity at end of period	<b>86,372</b>	87,178	80,800

The Statement of Recognised Income and Expense should be read in conjunction with the accompanying notes.

**WESTERN AUSTRALIAN TREASURY CORPORATION**  
**UNAUDITED CASH FLOW STATEMENT**  
**FOR THE PERIOD ENDED 31 DECEMBER 2009**

	2010	2009
	31-Dec-09	31-Dec-08
Note	\$'000	\$'000
<b>Cash Flows from Operating Activities</b>		
Interest received on Loans to Authorities	378,458	388,616
Interest received on Investments	48,757	101,755
Proceeds from Sale and Maturity of Investments	1,630,230	1,188,241
Payment for Investment Securities	(1,036,049)	(872,939)
Loans to Client Authorities	(5,685,752)	(3,338,772)
Loans repaid by Client Authorities	3,492,405	2,026,163
Other Receipt/(Payment) on behalf of Client Authorities	386	257
Proceeds from Issuance of Borrowings	18,288,246	10,172,450
Repayment of Borrowings	(16,228,782)	(8,966,036)
Fee Income	206	91
Interest and other Cost of Finance Paid	(401,348)	(405,668)
Administration and Borrowing Related Expenses	(6,929)	(6,679)
<b>Net Cash provided by Operating Activities</b>	<b>479,828</b>	<b>287,479</b>
20b		
<b>Cash Flows from Investing Activities</b>		
Payment for Plant & Equipment	(82)	(189)
Payment for Intangible Assets	(37)	(918)
<b>Net Cash used in Investing Activities</b>	<b>(119)</b>	<b>(1,107)</b>
Net Increase in Cash and cash equivalents	479,709	286,372
Cash and cash equivalents at the Beginning of the Financial Year	1,354,516	1,400,547
Unrealised foreign exchange gain/(loss)	(11)	84
Cash and cash equivalents at the End of the Financial Year	<b>1,834,214</b>	<b>1,687,003</b>
20a		

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

# WESTERN AUSTRALIAN TREASURY CORPORATION

## UNAUDITED NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 DECEMBER 2009

### **NOTE 1**

The Western Australian Treasury Corporation ("WATC") was established on 1 July 1986 under the Western Australian Treasury Corporation Act 1986 as the State's central borrowing authority. WATC is located at Level 12, 225 St Georges Terrace, Perth, Western Australia.

#### **General**

WATC's financial statements for the period ended 31 December 2009 have been prepared in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations). The financial report also complies with International Financial Reporting Standards.

In preparing these financial statements, WATC has adopted, where relevant to its operations, new and revised Standards and Interpretations from their operative dates as issued by the Australian Accounting Standards Board ("AASB") and, formerly, the Urgent Issues Group ("UIG").

The Australian Accounting Interpretations are adopted through AASB 1048 'Interpretation and Application of Standards' and are classified into those corresponding to International Accounting Standards Board ("IASB") Interpretations and those only applicable in Australia.

The AASB has decided to maintain the Statements of Accounting Concepts (SAC 1 and SAC 2) and has continued to revise and maintain accounting standards and the interpretations that are of particular relevance to the Australian environment, especially those that deal more specifically with not-for-profit entity issues and/or do not have an equivalent IASB Standard or Interpretation.

#### **Early adoption of standards**

WATC cannot early adopt an Australian Accounting Standard or Interpretation unless specifically permitted by Treasurer's Instruction ("TI") 1101 'Application of Australian Accounting Standards and Other Pronouncements'. No Standards and Interpretations that have been issued or amended but are not yet effective have been early adopted by WATC for the reporting period ended 31 December 2009.

### **NOTE 2**

#### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### (a) General Statement

- (i) The financial statements constitute a general purpose financial report which has been prepared in accordance with Australian Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board as applied by the Treasurer's Instructions. Several of these are modified by the Treasurer's Instructions to vary application, disclosure, format and wording. Such modifications are intended to provide certainty and ensure consistency and appropriate reporting across the public sector.

The Financial Management Act and the Treasurer's Instructions are legislative provisions governing the preparation of financial statements and take precedence over the Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board.

Where modification is required and has a material or significant financial effect upon the reported results, details of that modification and the resulting financial effect are disclosed in individual notes to the financial statements.

- (ii) The financial statements are presented in Australian Dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated.
- (iii) The accounting policies adopted in the preparation of the financial statements have been consistently applied throughout all periods presented unless otherwise stated.
- (iv) Comparative information has been adjusted to conform with current year presentation.

#### (b) Basis of Preparation

The financial statements have been prepared on the accrual basis of accounting using the historical cost convention except as noted below.

WATC maintains Investments, Loans to Authorities and Borrowings to fulfil its functions and has elected to designate these Financial Assets and Financial Liabilities as fair value through profit or loss, consistent with the provisions of AASB 139 'Financial Instruments: Recognition and Measurement'. WATC satisfies the eligibility criteria for this election as it manages its business daily on a fair value basis. In accordance with AASB 139, all derivative financial instruments are also accounted for on a fair value basis through profit or loss. All other assets, including receivables and prepayments, and other liabilities, including creditors, accruals and provisions, are stated at amortised cost. Plant and Equipment is also stated at cost less accumulated depreciation.

#### Critical accounting judgements and estimates

The judgements that have been made in the process of applying accounting policies that have the most significant effect on the amounts recognised in the financial statements relate to the use of mid prices instead of bid-offer prices for the measurement of Investments, Loans to Authorities and Borrowings. WATC aims to minimise its exposure to risk in these financial assets and liabilities. To the extent that the risk positions in these items are offset, mid prices are used with bid-offer prices being applied to any net open position, if WATC had them.

Key assumptions made in the valuation of financial assets and financial liabilities are disclosed in Note 19.

#### (c) Revenue

Revenue is measured at the fair value of consideration received or receivable. Revenue is recognised as shown below.

##### Fee Income

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

##### Interest

Interest revenue is recognised as it accrues using the effective interest method and includes items of a similar nature realised in managing the relevant portfolios. Any realised gains or losses on financial assets are also recognised as interest.

#### (d) Plant and Equipment

Items of Plant and Equipment costing \$5,000 or more are recognised as assets and the cost of utilising assets is expensed (depreciated) over their useful lives. Items of Plant and Equipment costing less than \$5,000 are expensed direct to the Income Statement (other than where they form part of a group of similar items which are significant in total).

All items of Plant and Equipment are initially recognised at cost. After initial recognition, Plant and Equipment are stated at cost less any accumulated depreciation and any impairment in value. Depreciation is calculated based on their estimated useful lives using the straight line method. The estimated useful lives for each class of depreciable asset are as follows:

	<b>2010</b>	2009
- Computer Equipment	<b>3-5 years</b>	3-5 years
- Other Equipment	<b>5-10 years</b>	5-10 years

#### Impairment

The carrying values of Plant and Equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of Plant and Equipment is the greater of fair value less costs to sell and the depreciated replacement cost.

Impairment losses are recognised in the Income Statement.

#### (e) Intangible Assets

Computer software is the only Intangible Asset which WATC has in its financial statements. The cost of utilising the assets is expensed (amortised) over their useful life.

Intangible Assets acquired separately are capitalised at cost as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets. The useful lives of these assets are assessed to be finite. Intangible Assets are amortised over a period of three years.

Intangible assets are tested for impairment where an indicator of impairment exists. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

#### (f) Investments

WATC classifies its investments as financial assets at fair value through profit or loss. WATC does not hold any investments that are classified as held to maturity or available for sale.

Investments are initially recognised at fair value on trade date and subsequently measured at fair value applicable at reporting date. Unrealised gains or losses arising from this policy are brought to account in the Income Statement. Fair values are derived using market quoted mid point prices to the extent that investments are held in offsetting risk positions, otherwise bid prices are applied.

Commonwealth and State 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 economically hedge WATC's benchmark bonds and are therefore held in the expectation of being realised within twelve months.

#### (g) Loans to Authorities

Loans to Authorities are initially recognised at fair value on trade date and subsequently measured at fair value applicable at reporting date and are recorded as assets in the Balance Sheet. Unrealised gains or losses arising from this policy are brought to account in the Income Statement. Fair values are derived using market quoted mid point prices to the extent that loans to authorities are held in offsetting risk positions, otherwise bid prices are applied. In normal circumstances, upon maturity, Loans to Authorities are either rolled over or refinanced.

(h) Borrowings

Borrowings are initially recognised at fair value on trade date and subsequently measured at the fair value applicable at reporting date. Unrealised gains or losses arising from this policy are brought to account in the Income Statement. Fair values are derived using market quoted mid point prices to the extent that borrowings are held in offsetting risk positions, otherwise ask prices are applied. In normal circumstances, maturities of borrowings are either rolled over or refinanced. Borrowing related expenses are charged to the Income Statement as incurred.

(i) Derivative Financial Instruments

Derivatives are used exclusively to provide an economic hedge of interest rate and foreign currency exposures. All derivatives are recognised in the balance sheet at fair value on trade date. All derivatives are classified as held for trading. The carrying value of a derivative is remeasured at fair value throughout the life of the contract. Unrealised gains or losses arising from this policy are brought to account in the Income Statement.

(j) Foreign Currency Translation

Foreign currency transactions are brought to account in Australian dollars at trade date at the rate of exchange applying at that date. At balance sheet date, all monetary assets and liabilities are translated at the exchange rates existing at 31 December 2009. Exchange gains or losses are brought to account in the Income Statement.

Both the functional and presentation currency of WATC is Australian Dollars ("AUD").

(k) Borrowing Costs

Borrowing Costs are recognised as an expense when incurred. Interest expense is recognised as it accrues and includes items of a similar nature realised in managing the relevant portfolios. Any realised gains or losses on financial liabilities are also recognised as interest.

(l) Employee Benefits

(i) Sick Leave

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

(ii) Annual Leave

This benefit is recognised at the reporting date in respect of employees' services up to that date and is measured at the nominal amounts expected to be paid when the liabilities are settled.

(iii) Long Service Leave

The liability for long service leave expected to be settled within 12 months after the balance sheet date is recognised in the provision for employee benefits, and is measured at the nominal amounts expected to be paid when the liability is settled. The liability for long service leave expected to be settled more than 12 months after the balance sheet date is recognised in the provision for employee benefits and is measured at the present value of expected future payments to be made in respect of services provided by employees up to the balance sheet date. Consideration is given, when assessing expected future payments, to expected future salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the balance sheet date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

#### (iv) Superannuation

The Government Employees Superannuation Board ("GESB") administers the superannuation schemes detailed hereunder.

Employees may contribute to the Pension Scheme, a defined benefit pension scheme now closed to new members, or to the Gold State Superannuation Scheme ("GSS"), a defined benefit lump sum scheme also closed to new members. Employees commencing employment prior to 16 April 2007 who are not members of either of these schemes became non-contributory members of the West State Superannuation Scheme ("WSS"). Employees commencing on or after 16 April 2007 became members of the GESB Super Scheme ("GESBS"). Both of these schemes are accumulation schemes. WATC makes concurrent contributions to GESB on behalf of employees in compliance with the Commonwealth Government's Superannuation Guarantee (Administration) Act 1992. These contributions extinguish the liability for superannuation charges in respect of the WSS and GESBS Schemes.

The liabilities for superannuation charges under the Gold State Superannuation Scheme, the West State Superannuation Scheme and the GESB Super Scheme are extinguished by payment of employer contributions to the Government Employees Superannuation Board and are therefore referred to as defined contribution schemes.

WATC also has an unfunded superannuation liability as a result of prior service of current staff who were previously within the public service. The liability for these future payments is provided for at reporting date in the Balance Sheet. The liability under this scheme has been calculated annually by Mercer Human Resource Consulting using the projected unit credit method. The expected future payments are discounted to present value using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

The superannuation expense of the defined benefit plan is made up of the following elements:

- Current service cost;
- Interest cost (unwinding of the discount);
- Actuarial gains and losses; and
- Past service cost.

Actuarial gains and losses of the defined benefit plan are recognised immediately as income or expense in the income statement.

The superannuation expense of the defined contribution plan is recognised as and when the contributions fall due.

#### (m) Dividend Policy

WATC's dividend policy has been formulated to ensure that WATC pays an appropriate dividend to the State which is consistent with sound commercial practice and has regard to the financial health of WATC. WATC's policy provides for dividends to be paid to the Consolidated Fund at a of 50% of WATC'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.

#### (n) Income Tax

WATC operates within a tax equivalent regime ("TER") whereby an equivalent amount in respect of income tax is payable to the Western Australian Treasury. The calculation of the liability in respect of income tax is governed by TER guidelines and directions approved by Government.

As a consequence of participation in the TER, WATC is required to comply with Australian Accounting Standard AASB 112 "Income Taxes".

The income tax expense or revenue for the period is the tax payable on the current period's taxable income adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.



Deferred tax assets and liabilities are recognised for temporary differences at the tax rate expected to apply when the assets are recovered or liabilities settled, based on those tax rates which are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

(o) Segments

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

(p) Impairment of Assets

At each balance sheet date, WATC assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, WATC makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and depreciated replacement cost. The risk of impairment is generally limited to circumstances where an asset's depreciation is materially understated, where the replacement cost is falling or where there is a significant change in useful life. Each relevant class of assets is reviewed annually to verify that the accumulated depreciation/amortisation reflects the level of consumption or expiration of the asset's future economic benefits and to evaluate any impairment risk from falling replacement costs.

(q) Receivables

Receivables are recognised at cost. The carrying amount approximates fair value, as they are generally settled within thirty days. An allowance for uncollectible amounts is made when there are indications that an asset is impaired. There is no previous evidence of amounts being uncollected due to the nature of WATC's clients.

(r) Payables

Payables are recognised when WATC becomes obliged to make future payments as a result of a purchase of assets or services at the amounts payable. The carrying amount approximates fair value, as they are generally settled within thirty days.

(s) Cash and cash equivalents

Cash assets in the Balance Sheet comprise cash at bank and in hand. The carrying amount approximates fair value as these items are short term in nature. For the purpose of the Cash Flow Statement, cash and cash equivalents includes cash in hand and short term deposits with original maturities of three months or less that are readily convertible to a known amount of cash and which are subject to insignificant risk of changes in value.

(t) Swap Fair Value Reserve

WATC enters into interest rate and currency swaps to mitigate interest rate and foreign exchange exposure on medium and long term debt raised to fund its clients' long term funding requirements. In accordance with accounting standards, changes in swap fair values are brought to account in the Income Statement. A capital reserve has been established to separately identify net profits created by this policy which may, in the future, be transferred to retained earnings upon maturity of the transactions.

<b>2010</b>	<b>2009</b>
<b>31-Dec-09</b>	<b>31-Dec-08</b>
<b>\$'000</b>	<b>\$'000</b>

**NOTE 3**

**ADMINISTRATION EXPENSES**

The following employee benefit expenses are included in Administration Expenses.

Salaries	<b>3,178</b>	3,087
Workers Compensation costs	<b>27</b>	9
Superannuation expense	<b>349</b>	352
Long Service Leave Provision	<b>(97)</b>	23
	<hr/>	
	<b>3,457</b>	3,471

**NOTE 4**

**FOREIGN EXCHANGE GAIN/LOSS**

WATC maintains balances in its foreign currency bank accounts for the payment of expenses incurred through its overseas borrowings. At 31 December 2009, after taking account of exchange fluctuations, a loss of A\$11 thousand (2009, profit of A\$84 thousand) had resulted on this balance.

**NOTE 5**

**NET MARKET VALUE MOVEMENT**

Market Value Adjustment - Investments	<b>1,047</b>	517
Market Value Adjustment - Loans to Authorities	<b>(19,398)</b>	720,807
Market Value Adjustment - Borrowings	<b>62,778</b>	(930,648)
Market Value Adjustment - Derivatives	<b>(45,471)</b>	218,644
	<hr/>	
	<b>(1,044)</b>	9,320

WATC 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 6****INCOME TAX EQUIVALENT**

**2010**  
**31-Dec-09**  
**\$'000**

2009  
30-Jun-09  
\$'000

2009  
31-Dec-08  
\$'000

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

Accounting Profit	<b>(809)</b>	34,420	22,101
Income tax equivalent expense at 30% (2009, 30%)	<b>0</b>	10,326	6,630
Tax effect of expenses that are not deductible/assessable in determining taxable profit			
Sundry expenses	<b>0</b>	5	3
Income tax equivalent expense	<b>0</b>	10,331	6,633

Income tax equivalent expense comprises movements in:

Current income tax equivalent expense	<b>0</b>	10,384	6,636
Deferred tax income relating to the origination and reversal of temporary differences	<b>0</b>	(70)	(28)
Deferred tax expense relating to the origination and reversal of temporary differences	<b>0</b>	17	25
Total income tax equivalent expense	<b>0</b>	10,331	6,633

Deferred Tax Assets:

Employee Provisions	<b>845</b>	845	803
Total (Note 11)	<b>845</b>	845	803

Deferred Tax Liabilities:

Payables	<b>5</b>	5	31
Foreign Currency Revaluation	<b>18</b>	18	0
Total (Note 17)	<b>23</b>	23	31

**NOTE 7****CASH ASSETS**

Bank Deposits	<b>972</b>	2,780	1,392
Overseas Bank Accounts	<b>200</b>	253	271
	<b>1,172</b>	3,033	1,663

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

**NOTE 8****INVESTMENTS - AT FAIR VALUE**

Investments comprise the following:

	<b>2010</b> <b>31-Dec-09</b> <b>\$'000</b>	2009 30-Jun-09 \$'000	2009 31-Dec-08 \$'000
Short Term Money Market Investments	<b>2,534,857</b>	2,627,705	2,720,803
Government Stock	<b>54,029</b>	74,532	0
Total	<b>2,588,886</b>	2,702,237	2,720,803

## Maturity Profile

At Call	<b>282,100</b>	198,300	493,200
Up to 3 Months	<b>1,872,911</b>	1,544,634	1,995,386
3 to 12 Months	<b>379,846</b>	959,303	0
1 to 5 Years	<b>37,041</b>	0	232,217
Over 5 Years	<b>16,988</b>	0	0
Total	<b>2,588,886</b>	2,702,237	2,720,803

## Repricing Profile

At Call	<b>282,100</b>	198,300	493,200
Up to 3 Months	<b>1,872,911</b>	1,779,522	2,227,603
3 to 12 Months	<b>379,846</b>	724,415	0
1 to 5 Years	<b>37,041</b>	0	0
Over 5 Years	<b>16,988</b>	0	0
Total	<b>2,588,886</b>	2,702,237	2,720,803

## Credit Exposure

Rating	%	%	%
AAA	<b>6.34</b>	10.50	5.87
AA	<b>52.14</b>	61.71	69.18
A	<b>41.52</b>	27.79	24.95
	<b>100.00</b>	100.00	100.00

**NOTE 9****RECEIVABLES**

Accrued Interest Receivable	<b>201,978</b>	168,457	177,800
Other Debtors	<b>0</b>	191,897	0
	<b>201,978</b>	360,354	177,800
Other Financial Assets	<b>139,236</b>	156,216	216,165
	<b>341,214</b>	516,570	393,965

Accrued Interest Receivable comprises accruals relating to advances made to clients and investments with financial institutions. Other debtors includes financial instrument transactions undertaken prior to balance date and due for settlement after balance date.

**NOTE 10**

	<b>2010</b>	2009	2009
	<b>31-Dec-09</b>	30-Jun-09	31-Dec-08
<b>LOANS TO AUTHORITIES - AT FAIR VALUE</b>	<b>\$'000</b>	\$'000	\$'000
<b>10a. Loans to Authorities - non derivative</b>	<b>18,060,117</b>	15,886,946	13,441,479
Maturity Profile			
Up to 3 Months	<b>4,623,600</b>	4,103,735	1,743,744
3 to 12 Months	<b>2,330,317</b>	2,168,519	2,423,755
1 to 5 Years	<b>6,325,782</b>	5,301,800	4,949,627
Over 5 Years	<b>4,780,418</b>	4,312,892	4,324,353
Total	<b>18,060,117</b>	15,886,946	13,441,479
Repricing Profile			
Up to 3 Months	<b>6,503,596</b>	5,961,251	4,081,191
3 to 12 Months	<b>2,218,649</b>	1,693,659	1,584,340
1 to 5 Years	<b>4,628,959</b>	3,989,348	3,520,871
Over 5 Years	<b>4,708,913</b>	4,242,688	4,255,077
Total	<b>18,060,117</b>	15,886,946	13,441,479
<b>10b. Loans to Authorities - derivative</b>	<b>6,894</b>	(885)	(4,693)
Maturity Profile			
Up to 3 Months	<b>1,442</b>	418	226
3 to 12 Months	<b>4,982</b>	(283)	(791)
1 to 5 Years	<b>597</b>	(422)	(2,158)
Over 5 Years	<b>(127)</b>	(598)	(1,970)
Total	<b>6,894</b>	(885)	(4,693)
Repricing Profile			
Up to 3 Months	<b>1,442</b>	418	226
3 to 12 Months	<b>4,982</b>	(283)	(791)
1 to 5 Years	<b>597</b>	(422)	(2,158)
Over 5 Years	<b>(127)</b>	(598)	(1,970)
Total	<b>6,894</b>	(885)	(4,693)
Total Loans to Authorities - at Fair Value	<b>18,067,011</b>	15,886,061	13,436,786

WATC 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 (97.3% of total (2009, 96.8%)) are guaranteed by the State whilst Local Government advances (2.7% of total (2009, 3.2%)) 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 19.

**NOTE 11****TAX ASSETS**

Deferred Tax Asset	<b>845</b>	845	803
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**NOTE 12****PLANT AND EQUIPMENT**

	2010 31-Dec-09 \$'000	2009 30-Jun-09 \$'000	2009 31-Dec-08 \$'000
Equipment (at cost)	1,612	1,530	1,592
Less Accumulated Depreciation	1,247	1,146	1,157
Total Plant and Equipment	<u>365</u>	<u>384</u>	<u>435</u>

**Reconciliation**

## Equipment

Opening balance	384	342	342
Additions	82	239	189
Disposals/Write-offs	0	(112)	0
Depreciation	(101)	(197)	(96)
Accumulated depreciation on disposal	0	112	0
Closing balance	<u>365</u>	<u>384</u>	<u>435</u>

**NOTE 13****INTANGIBLE ASSETS**

Computer Software (at cost)	7,526	7,519	6,955
Less Accumulated Amortisation	6,634	6,232	6,025
Total Intangible Assets	<u>892</u>	<u>1,287</u>	<u>930</u>

**Reconciliation**

## Intangible Assets

Opening balance	1,287	206	206
Additions	7	1,482	918
Disposals	0	0	0
Amortisation	(402)	(401)	(194)
Accumulated amortisation on disposal	0	0	0
Closing balance	<u>892</u>	<u>1,287</u>	<u>930</u>

**NOTE 14****IMPAIRMENT OF ASSETS**

There were no indications of impairment to Plant and Equipment and Intangible assets at 31 December 2009.

WATC held no goodwill or intangible assets with an indefinite useful life during the reporting period and at reporting date, there were no intangible assets not yet available for use.

**NOTE 15****PAYABLES**

Interest Accrued (at amortised cost)	187,124	193,793	163,830
Other Creditors (at amortised cost)	1,125	31,816	5,336
	<u>188,249</u>	<u>225,609</u>	<u>169,166</u>
Other Financial Liabilities (at fair value)	0	213,121	59,686
	<u>188,249</u>	<u>438,730</u>	<u>228,852</u>

Payables comprises accrued interest and sundry creditors relating to debt instruments and unrepresented cheques. Interest Accrued is owed to financial institutions. Other financial liabilities, which includes foreign currency payables, are discussed in more detail in Note 19. There are no foreign currency amounts included which are not effectively economically hedged. Other creditors includes financial instrument transactions undertaken prior to balance date and due for settlement after balance date.

**NOTE 16**

	2010 31-Dec-09 \$'000	2009 30-Jun-09 \$'000	2009 31-Dec-08 \$'000
<b>BORROWINGS - AT FAIR VALUE</b>			
<b>16a. Borrowings - non derivative</b>	<b>20,722,280</b>	18,580,921	16,235,535
Maturity Profile			
Up to 3 Months	6,522,734	5,213,942	4,138,694
3 to 12 Months	2,357,999	3,404,988	3,261,780
1 to 5 Years	6,680,336	5,660,305	5,029,376
Over 5 Years	5,161,211	4,301,686	3,805,685
Total borrowings at fair value	<b>20,722,280</b>	18,580,921	16,235,535
Profile by Repricing			
Up to 3 Months	6,649,102	5,277,547	4,138,694
3 to 12 Months	2,357,999	3,404,988	3,261,780
1 to 5 Years	6,553,968	5,611,020	5,029,376
Over 5 Years	5,161,211	4,287,366	3,805,685
Total borrowings at fair value	<b>20,722,280</b>	18,580,921	16,235,535
<b>16b. Borrowings - derivative</b>	<b>(93,350)</b>	(156,216)	(216,165)
Maturity Profile			
Up to 3 Months	1,096	292	220
3 to 12 Months	4,982	(32,971)	(39,555)
1 to 5 Years	(93,198)	(114,036)	(159,734)
Over 5 Years	(6,230)	(9,501)	(17,096)
Total derivatives shown as receivables (Note 10)	<b>(93,350)</b>	(156,216)	(216,165)
Repricing Profile			
Up to 3 Months	1,096	1,420	2,004
3 to 12 Months	4,982	(34,099)	(41,339)
1 to 5 Years	(93,198)	(114,036)	(159,734)
Over 5 Years	(6,230)	(9,501)	(17,096)
Total derivatives shown as receivables (Note 10)	<b>(93,350)</b>	(156,216)	(216,165)
WATC 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. WATC's borrowings are well diversified across markets and maturities. Further information on valuation methods is shown in Note 19.			
<b>BORROWINGS - AT FACE VALUE</b>			
Payable 12 months or less from 31 December and 30 June			
- Domestic	6,313,916	5,496,619	5,387,887
- Overseas	2,613,512	3,117,308	1,911,853
	<b>8,927,428</b>	8,613,927	7,299,740
Payable more than 12 months from 31 December and 30 June			
- Domestic	11,232,840	9,343,550	7,829,060
- Overseas	0	0	50,000
	<b>11,232,840</b>	9,343,550	7,879,060
Balance at face value	<b>20,160,268</b>	17,957,477	15,178,800

## OVERSEAS BORROWINGS

Includes Australian currency and foreign currency loans. Foreign currency loans have been translated using the exchange rates applicable at 31 December 2009 and are shown below:

Foreign Currency Borrowing	Exchange Rate Translation at 31/12/09	
	Payable 12 Months or Less from 31/12/09 \$A'000	Payable More than 12 Months from 31/12/09 \$A'000
USD 2,201,970,996	2,457,721	Nil
GBP 49,957,146	89,841	Nil
SGD 19,977,363	15,949	Nil

Foreign Currency Borrowing	Exchange Rate Translation at 30/06/09	
	Payable 12 Months or Less from 30/06/09 \$A'000	Payable More than 12 Months from 30/06/09 \$A'000
USD 2,431,308,805	2,995,986	Nil
HKD 324,668,127	51,621	Nil

Foreign Currency Borrowing	Exchange Rate Translation at 31/12/08	
	Payable 12 Months or Less from 31/12/08 \$A'000	Payable More than 12 Months from 31/12/08 \$A'000
USD 1,101,201,296	1,590,665	Nil
NZD 64,660,175	54,033	Nil
HKD 967,273,667	180,205	Nil

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



**NOTE 17**

	<b>2010</b>	2009	2009
	<b>31-Dec-09</b>	30-Jun-09	31-Dec-08
<b>TAX LIABILITIES</b>	<b>\$'000</b>	\$'000	\$'000
Current Income Tax Equivalent Liability	748	748	7,489
Deferred Tax Liability	23	23	31
	<u>771</u>	<u>771</u>	<u>7,520</u>

**NOTE 18****PROVISIONS**

Annual Leave	825	848	764
Long Service Leave	1,153	1,249	1,151
Superannuation	735	720	763
	<u>2,713</u>	<u>2,817</u>	<u>2,678</u>

The charge to the operating profit for the movement in the provision for employee entitlements during the period was \$ -104 thousand (2009, \$111 thousand).

**NOTE 19****FINANCIAL INSTRUMENTS AND RISK MANAGEMENT****POLICY**

WATC incurs risk in relation to the financial services it provides to its clients. These services include borrowing, lending, financial risk management and investment activities. The key risks that WATC manages are:

- Interest Rate Risk;
- Exchange Rate Risk;
- Credit Risk;
- Liquidity Risk;
- Funding Risk; and
- Operational Risk.

WATC's philosophy is to ensure that it maintains appropriate capital cover to mitigate these risks. In this regard, the Australian Prudential Regulation Authority ("APRA") sets guidelines in Prudential Standards APS 113 – Capital Adequacy: Market Risk (APS 113) and APS 112 – Capital Adequacy: Credit Risk (APS 112) for the quantification of the interest rate and credit capital requirements of banks. WATC applies those standards for the measurement of its capital requirements.

WATC has adopted the Basic Indicator Approach ("BIA") for the calculation of its operational risk capital requirements as provided for under Basel II ("International Convergence of Capital Measurement and Capital Standards: a Revised Framework" published by the Basel Committee on Banking Supervision of the Bank of International Settlements).

WATC, as a matter of policy, does not take any material exchange rate risk and seeks to minimise its liquidity risk and funding risk.

WATC enters into interest rate and currency swaps to mitigate foreign exchange and interest rate exposure on medium and long term debt raised to fund its clients' long term funding requirements. In accordance with accounting standards, changes in swap fair values are brought to account in the Income Statement. Unrealised gains or losses do not represent cash profit or loss to WATC.

## Interest Rate Risk

Interest rate risk is the risk that a movement in interest rates will cause a loss.

Consistent with APS 113, WATC's interest rate risk capital requirement is determined using a risk multiplier of 3 and a Value-at-Risk ("VaR") model based on a 99% confidence level and a 10-day liquidation period.

VaR models are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The distribution is calculated using exponentially weighted historical data. Due to the fact that VaR relies heavily on historical data to provide information and cannot clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under or over estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level. In practice, actual results will differ from the VaR calculation and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR model, actual outcomes are monitored to test the validity of the assumptions and the parameters used in the VaR calculation.

WATC gives high regard to the minimisation of interest rate risk. As a matter of course, all of WATC's interest rate risk exposures resulting from lending and market support activities are economically hedged. The effectiveness of these hedging arrangements is reviewed on an ongoing basis in order to minimise WATC's VaR and capital requirements.

There are three main sources of interest rate risk that must be managed by WATC, namely:

- Curve Risk;
- Spread Risk; and
- Basis Risk.

WATC does not manage these risks in isolation. From time-to-time, it is possible to reduce VaR and overall capital requirements by changing its hedging and hence interest rate risk mix.

Market exposures using VaR and other interest rate sensitivity measures are assessed daily. Risk control is further enhanced by the use of Stress Testing which is performed on a monthly basis or more frequently if required. Stress testing gives an indication of the level of possible losses that can be incurred under extreme market conditions. It also highlights those areas on the curve where WATC is highly sensitive to interest rate movements.

WATC's VaR measure related to market risk is detailed below:

<b>Value at Risk (VaR)</b>	<b>2010 31-Dec-09 \$'000</b>	<b>2009 30-Jun-09 \$'000</b>	<b>2009 31-Dec-08</b>
Average Daily Balance for Year	<b>(1,276)</b>	(841)	(681)
Lowest for Year	<b>(853)</b>	(504)	(504)
Highest for Year	<b>(2,076)</b>	(1,497)	(1,371)
Closing Balance	<b>(1,354)</b>	(1,258)	(792)

## Exchange Rate Risk

Foreign exchange risk is the risk of loss due to changes in foreign exchange rates. WATC's policy is not to take any foreign exchange risk apart from the minor exposure created by the need to maintain small balances in foreign bank accounts for operational purposes.

In practice, all of the foreign currency denominated liabilities of WATC are matched or backed off against foreign currency denominated assets in one or more of the following forms:

- a foreign currency denominated lending;
- a foreign currency denominated receivable under a cross currency swap;
- a foreign currency denominated receivable under a forward exchange rate contract; and/or
- a foreign currency denominated investment.

WATC undertakes foreign exchange transactions and currency options on behalf of clients in accordance with section 9(1)(g) of the Western Australian Treasury Corporation Act. Each market transaction is offset by a transaction with the client so that no exchange rate risk is borne by WATC.

### Credit Risk

Credit risk is the risk of financial loss due to a counterparty not meeting its financial obligations to WATC.

WATC's governing legislation only permits lending to Western Australian public sector agencies or to entities that have approval to borrow from WATC conferred by a written law. At present, all of WATC's clients are from the Western Australian public sector, which results in WATC's credit risk primarily being limited to derivative, investment and local government lending portfolio counterparties.

WATC has a comprehensive Credit Policy that is managed by its Credit Committee. The policy is designed to reduce credit risk by ensuring diversification of WATC's credit exposures and by setting minimum standards for the credit quality of counterparties.

The capital required to cover credit risk is based on the standards set out in APS 113 and APS 112 and varies depending on the market value of the investment, the maturity of the investment and the credit standing of the counterparty. These standards also require capital to be set aside to cover the credit risk associated with WATC's derivative exposures.

	<b>2010</b>	2009	2009
	<b>31-Dec-09</b>	30-Jun-09	31-Dec-08
Credit Exposure of Investments			
by Rating	%	%	%
AAA	<b>6.34</b>	10.50	5.87
AA	<b>52.14</b>	61.71	69.18
A	<b>41.52</b>	27.79	24.95
	<b>100.00</b>	100.00	100.00
Credit Exposure of Derivatives			
by Rating	%	%	%
AAA	<b>0.00</b>	0.00	0.00
AA	<b>66.09</b>	63.80	79.95
A	<b>33.91</b>	36.20	20.05
	<b>100.00</b>	100.00	100.00

### Liquidity Risk

Liquidity risk relates to WATC's ability to have sufficient funds available to meet its financial obligations as and when they fall due, without having to incur excessive losses or funding costs.

WATC minimises this risk in a number of ways, including:

- ensuring that its holdings of liquid assets and/or standby facilities are equal to or above a minimum level in accordance with APRA's "APS 210 - Liquidity", that is, 9% of liabilities;
- preparing a 50-day cashflow forecast on a daily basis and 10-day and 10-week cashflow forecasts on a weekly basis;
- carrying out scenario analysis for adverse market conditions;
- diversifying its funding activity across markets and across the maturity spectrum; and
- having access to an intra day overdraft facility in order to handle its intra day liquidity requirements.

By maintaining a minimum level of liquid assets, WATC ensures that it has sufficient liquidity to meet unforeseen large net cash outflows or temporary market disruptions. The minimum level of liquid assets was maintained throughout the year.

## **Funding Risk**

Funding risk is the risk that funding may not always be available because it is sourced from too small or concentrated a range of facilities.

This risk is minimised through the diversification of WATC's funding activity across domestic and offshore markets and across the maturity spectrum.

The Board requires the Asset and Liability Management ("ALCO") Committee to ensure that appropriate facilities and funding sources are maintained to minimise risk.

## **Operational Risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

WATC has adopted an Operational Risk Management Framework ("ORMF") that sets out the methodology by which its operational risks are identified, assessed, controlled and monitored. The key objectives of the framework are:

- to promote a culture which allows operational risk to be managed in a consistent manner;
- to ensure staff have a clear understanding of their responsibilities with respect to operational risk management;
- to effectively identify and manage operational risks so that strategic and business objectives can be met; and
- to calculate the level of capital that is commensurate with WATC's operational risk exposures.

## **Risk Management Governance**

WATC's Board of Directors ("the Board") is responsible for the performance of the functions of WATC under the Western Australian Treasury Corporation Act 1986.

In carrying out these functions, the Board ensures that appropriate risk management policies, systems and reporting processes are in place. To assist in fulfilling its obligations in this regard, the Board has implemented risk management policies covering market (interest rate, exchange rate and funding), credit, liquidity and operational risks.

The Board has established the ALCO which is responsible for:

- the provision of risk management policy advice to the CEO;
- the formulation of strategy in managing WATC's assets and liabilities;
- the oversight of risk management activities (including other risk management committees) within WATC; and
- maintaining WATC's Risk Management Policies and reviewing them annually.

The ALCO meets on a monthly basis prior to each Board meeting.

The Board has also established a Credit Committee which is primarily responsible for credit policy oversight and advice and a Operational Risk Committee which is primarily responsible for Operational Risk Policy (including business continuity management policy) oversight and advice.

## Capital Requirements

Under WATC's capital policy, a defined minimum amount of capital must be retained to cover its interest rate, credit and operational risk exposures. WATC considers retained earnings and reserves as its capital.

The minimum interest rate and credit risk capital requirement is calculated in accordance with APRA's APS 112 and APS 113 standards. In accordance with the Operational Risk Management Policy, an amount determined with reference to the ORMF is added to this amount for operational risk to derive WATC's total capital requirement. The calculation of WATC's total capital requirement is carried out on a daily basis and compared to WATC's available capital.

WATC's total capital requirements can vary significantly over time as a function of the level of client lending, the volume of market support activity and the availability of suitable funding/hedge instruments. Therefore, to prudently manage its capital retention levels, WATC makes forward projections (normally over a 3-year period) of its capital requirements. This information is used by the Board to determine the minimum amount of capital that must be retained to ensure sufficient capital is available to cover expected exposures over the projection period.

A review of WATC's capital requirements is carried out at least annually.

Consistent with WATC's adopted APRA standards, VaR is calculated using a 10-day liquidation period and a 99% confidence interval. To determine WATC's interest rate risk capital requirement, the calculated VaR statistic is multiplied by 3 or such other amount required under APRA standards.

Consistent with the APRA standards, WATC will monitor "back testing" results and increase the risk multiplier to a level consistent with APRA's guidelines if back testing results indicate weaknesses in WATC's VaR model. The minimum multiplier allowed under the APRA standards is 3 and the maximum is 4.

## MANAGEMENT

All financial assets and liabilities have been designated as fair value through profit and loss. Balances are recorded at fair value in the Balance Sheet and unrealised gains or losses are brought to account in the Income Statement. Fair values are derived using market quoted mid point prices to the extent that financial assets and liabilities are held in offsetting risk positions. Credit risk is not a significant determinant of fair value as WATC's liabilities are guaranteed by the Treasurer on behalf of the State and therefore changes in fair value are largely attributable to market related movements in prices and yields.

In carrying out its mission, WATC is a borrower from the capital markets. This necessarily involves the management of market risk because as a borrower, WATC's objective is the opposite to that of investors. In order to obtain funds at the lowest cost, it seeks to satisfy the needs of investors and therefore must, for example, accept maturities which approximate the terms of WATC's lending portfolio. Derivative instruments, including swaps, forward rate agreements and futures, are used to economically 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 WATC's estimate of its exposure at reporting date in the event of non-performance by counterparties. WATC has adopted the Australian Prudential Regulation Authority's "Current Exposure Method" to determine the credit exposure arising from its derivative transactions. At 31 December 2009, WATC 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.

	<b>Notional Amount \$'000</b>	<b>Net Fair Value \$'000</b>	<b>Credit Exposure \$'000</b>
<b>As at 31 December 2009</b>			
Futures	385,700	(276)	0
Interest Rate Swaps	2,181,800	100,520	127,372
<b>As at 30 June 2009</b>			
Futures	196,200	126	0
Interest Rate Swaps	2,886,800	130,595	164,554
<b>As at 31 December 2008</b>			
Futures	12,700	6	0
Interest Rate Swaps	2,884,800	211,466	232,277

Interest rate swaps allow WATC to swap long term fixed rate borrowings into floating rate borrowings with lower rates than if WATC 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 WATC's lending to client authorities. With interest rate swaps, WATC 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. Interest rate swaps are also used to provide term floating rate funds for client authorities. At 31 December 2009, WATC had lent funds amounting to \$A2,053,604 thousand (2009, \$A2,591,187 thousand) on this basis.

Forward rate agreements are used by WATC 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 WATC are the bank bill, 3 year and 10 year bond contracts.

WATC borrows in foreign currencies when the all in cost after swapping back into Australian dollars is cheaper than the equivalent domestic borrowing. Whereas WATC manages interest rate risk on a portfolio basis, it manages the exchange rate risk on foreign currency borrowings as part of the borrowing transaction. At 31 December, WATC had foreign currency swaps and forwards amounting to \$A2,564,152 thousand (2009, \$A1,826,413 thousand) with a fixed future obligation in Australian dollars of \$A2,518,266 thousand (2009, \$A1,886,100 thousand). Additionally, WATC has arranged forward foreign exchange transactions for clients amounting to \$199,671 thousand (2009, \$A117,913 thousand). These transactions are arranged with clients on a back to back basis and therefore Treasury Corporation does not have any net exposure. The fair value of \$6,894 thousand relating to these forward foreign exchange transactions receivable from authorities and payable to third parties is included in Notes 10(b) and 16(b) respectively.

All financial assets and liabilities have been recognised at the balance date at their fair value. For valuation purposes, WATC uses quoted market rates wherever possible to discount cash flows to present values. Those stocks without quoted market rates are valued using WATC's Zero Coupon Yield curves, which include adequate consideration for credit risk, to closely approximate market. As at 31 December, the market interest rates used by WATC for valuation purposes were:

	Coupon	<b>Market Rate 31-Dec-09</b>	Market Rate 30-Jun-09	Market Rate 31-Dec-08
Overnight	-	<b>3.75%</b>	3.00%	<b>4.25%</b>
90 days	-	<b>4.28%</b>	3.19%	<b>4.15%</b>
180 days	-	<b>4.47%</b>	3.31%	<b>3.70%</b>
15 April 2011	7.00%	<b>4.57%</b>	4.31%	<b>4.25%</b>
17 July 2012	5.50%	<b>5.10%</b>	-	-
15 June 2013	8.00%	<b>5.46%</b>	5.59%	<b>4.74%</b>
15 April 2015	7.00%	<b>5.87%</b>	5.98%	<b>4.81%</b>
15 July 2017	8.00%	<b>6.22%</b>	6.18%	<b>4.81%</b>

## **NOTE 20**

### **NOTES TO THE CASH FLOW STATEMENT**

#### **20a. Reconciliation of Cash**

For the purposes of the Cash Flow Statement, 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 Balance Sheet as follows:

	<b>2010</b>	2009
	<b>31-Dec-09</b>	31-Dec-08
	<b>\$'000</b>	\$'000
Bank Deposits (Note 7)	<b>972</b>	1,392
Short Term Money Market Investments	<b>1,833,042</b>	1,685,340
Overseas Bank Accounts (Note 7)	<b>200</b>	271
	<b><u>1,834,214</u></b>	<u>1,687,003</u>

#### **20b. Reconciliation of Net Cash provided by Operating Activities to Profit for the Period**

Profit for the period	<b>(806)</b>	15,468
Depreciation	<b>101</b>	96
Amortisation of Intangible Assets	<b>402</b>	194
Increase in Receivables	<b>(35,972)</b>	(11,721)
Increase in Accrued Interest Payables	<b>17,942</b>	6,603
Decrease in Other Creditors	<b>(651)</b>	(734)
Current income tax equivalent expense	<b>0</b>	6,636
Other Receipt on behalf of Client Authorities	<b>386</b>	257
Deferred tax asset	<b>0</b>	(28)
Deferred tax liability	<b>0</b>	25
Unrealised Foreign Exchange Gain/Loss	<b>11</b>	(84)
Increase/(Decrease) in Employee Benefits	<b>(104)</b>	111
Premium/Discount Amortisation	<b>37,177</b>	70,869
Market Value Adjustment	<b>1,044</b>	(9,320)
Cash decrease in Investments	<b>594,181</b>	315,302
Cash increase in Lending	<b>(2,193,347)</b>	(1,312,609)
Cash increase in Borrowings	<b>2,059,464</b>	1,206,414
Net Cash provided by Operating Activities	<b><u>479,828</u></b>	<u>287,479</u>

#### **20c. Financing/Lending Facilities**

WATC 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.

WATC no longer provides a committed lending facility (2009, US\$42.8 million (nil drawn down as at 31 December 2008) to Public Transport Authority, a state government authority. The facility was established to meet contingent obligations under a lease agreement that may have eventuated during the life of the lease.

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