

WESTERN AUSTRALIAN

TREASURY CORPORATION

FINANCIAL SOLUTIONS FOR THE BENEFIT OF ALL WESTERN AUSTRALIANS

1986|2011



Celebrating 25 years of leadership, integrity,
partnership, accountability and excellence

ANNUAL REPORT 2011





VISION

To be respected in markets, valued by stakeholders and sought out for our financial expertise.

MISSION

To provide leadership and innovation in the delivery of effective and efficient financial solutions for our Western Australian public sector clients.

VALUES

WATC is committed to transacting all business in accordance with its corporate values of:

Leadership

We provide an environment where our clients and colleagues feel valued and inspired. We have courage to pursue ambitious outcomes and to innovate and improve.

Integrity

We are open and honest. We adhere to the highest professional and ethical standards.

Partnership

We work collaboratively with common purpose. We act with care and respect.

Accountability

We honour our commitments. We take ownership of our actions and behaviours and accept responsibility for the results.

Excellence

We are committed to delivering excellence. We continuously improve to be the best we can.

WESTERN AUSTRALIAN
TREASURY CORPORATION

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THE HON. C. CHRISTIAN PORTER, MLA
TREASURER; ATTORNEY GENERAL OF WESTERN AUSTRALIA

In accordance with Section 63 of the *Financial Management Act 2006*, we hereby submit for your information and presentation to Parliament, the Annual Report of the Western Australian Treasury Corporation for the financial year ended 30 June 2011.

The Annual Report has been prepared in accordance with the provisions of the *Financial Management Act 2006*.



T M MARNEY
CHAIRPERSON

WESTERN AUSTRALIAN
TREASURY CORPORATION

19 August 2011



J M COLLINS
CHIEF EXECUTIVE OFFICER

WESTERN AUSTRALIAN
TREASURY CORPORATION

19 August 2011

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- In 2011, WATC celebrated its twenty-fifth anniversary, having been established as the State's central borrowing authority on 1 July 1986 and growing from a client base of 50 with a debt portfolio of \$918 million to servicing over 160 clients with a debt portfolio of \$23.33 billion at present.
- WATC supported the delivery of State infrastructure through the advancement of \$2.057 billion in net new loan funding to Western Australian public sector entities.
- WATC completed its largest benchmark bond issuance program to date of over \$9 billion. These funds were used to finance loans to clients and refinance maturing debt.
- WATC launched a new 5.50% coupon 23 April 2014 maturity benchmark bond line on 23 September 2010.
- On 15 April 2011, WATC successfully refinanced its largest benchmark bond maturity to date which peaked at over \$4.2 billion.
- WATC was responsible for client funds under management of \$5.018 billion at 30 June 2011.
- WATC partnered with a second major client in a comprehensive debt management strategy review. The review involved linking the client's purpose-built corporate financial model to WATC's stochastic interest rate and inflation models.
- WATC acquired a web-based, multi-bank, foreign exchange live pricing portal to assist in the provision of best available pricing for foreign exchange requirements.
- WATC developed a stochastic foreign exchange model in collaboration with clients to assist with the quantification and management of foreign exchange risk.
- WATC delivered a 'Foreign Exchange Masterclass' to Western Australian procurement practitioners.
- WATC Advisory Services undertook lead commercial and financial roles in major health and housing programs.
- WATC's quality of service to clients was rated well above financial industry benchmarks in a survey conducted by Peter Lee Associates.
- WATC conducted its first Staff Engagement Survey through Aon Hewitt, which noted 38% of staff are engaged and 39% are nearly engaged. Several projects have commenced to improve these ratings in future.
- At 30 June 2011, WATC had 18 staff who were fully accredited by the Australian Financial Markets Association.
- WATC entered into five bilateral Credit Support Annexes in the process of updating ISDA master agreements with derivative counterparties. This reduces credit exposures and should improve pricing.
- WATC was awarded a Gold WorkSafe Certificate of Achievement in Health and Safety Management.
- WATC's Wellness Program continued to expand and encourage greater participation in health-related activities, with over 50% of WATC staff taking part in the Global Corporate Challenge.



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FIVE YEAR SUMMARY



FIVE YEAR FINANCIAL SUMMARY

	2010/11	2009/10	2008/09	2007/08	2006/07
	\$m	\$m	\$m	\$m	\$m
FINANCIAL PERFORMANCE					
Profit before income tax equivalent	16.2	6.8	34.4	6.4	14.2
Gross Administration Expenses	14.8	14.0	14.3	11.3	9.9
Income Tax Equivalent Expense	4.9	2.0	10.3	1.9	4.3
Dividends Paid	3.1	12.0	2.2	5.0	5.2
FINANCIAL POSITION					
Investments	3,346.2	2,586.7	2,702.2	2,753.7	2,710.6
Loans to Authorities	24,054.3	22,078.0	15,886.9	11,406.8	10,002.1
Other Assets	862.3	904.4	522.2	778.7	336.6
Total Assets	28,262.8	25,569.1	19,111.3	14,939.2	13,049.3
Percentage Change in Assets (%)	10.5	33.8	27.9	14.5	4.1
Borrowings	27,609.9	25,173.3	18,580.9	14,075.2	12,637.8
Other Liabilities	564.7	315.9	443.2	798.7	345.7
Total Liabilities	28,174.6	25,489.2	19,024.1	14,873.9	12,983.5
Equity	88.2	79.9	87.2	65.3	65.8

FIVE YEAR KPI SUMMARY

	2010/11	2009/10	2008/09	2007/08	2006/07
Estimated Interest Rate Savings > 0.00%	Yes	Yes	Yes	Yes	Yes
Administration Cost Ratio	0.063%	0.072%	0.101%	0.101%	0.093%
Return on Capital	20.60%	8.40%	53.27%	10.78%	24.11%
Assessment of Client Satisfaction *	100%	92%	n/a	97%	n/a
Staff Survey **	38%	78%	84%	76%	51%

n/a: not available. * Client survey not conducted in 2006/07 and 2008/09. ** The 2010/11 survey assessed employee engagement as distinct from employee satisfaction in previous years.



During 2010/11, WATC helped the Public Transport Authority to secure debt finance for its bus replacement program, the purchase of additional railcars and the extension of the Joondalup Line to Butler.



**Public Transport
Authority**



PERFORMANCE AGAINST TARGETS FOR 2010/11

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

1. 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 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. (See page 70 for a more detailed explanation.)

Target: Savings > 0.00%

Outcome: Refer to Table 1 below.

*Table 1 – 2010/11 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	0.48%	1.63%	0.65%	1.30%
2 to 3	0.66%	2.71%	0.77%	
3 to 4	0.54%	1.59%	0.99%	
4 to 5	1.12%		1.08%	
5 to 6	1.00%		1.26%	
6 to 7				
7 to 8		1.67%		
8 to 9	0.84%		1.36%	

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

2. RETURN ON CAPITAL

WATC operates to achieve a return on capital consistent with the risk carried within its business. The Capital Asset Pricing Model is used as the basis for the determination of this return target. The formula used to calculate return on capital is as follows:

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

Adjusted Average Capital for the Year is opening equity adjusted to take into account the timing and amount of any dividends paid to government during the year.

Target: Return = 8.70%

Outcome: Return = 20.60%

3. ADMINISTRATION COST RATIO

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

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

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 period.

Target: Administration Cost Ratio < 0.13%

Outcome: Administration Cost Ratio = 0.06%

4. ASSESSMENT OF CLIENT SATISFACTION

WATC undertakes regular surveys to formally measure client satisfaction. The 2010/11 survey results indicated that WATC is well above related industry benchmarks in terms of quality of service, relationship management and debt financing capability.

Target: 100% client satisfaction level

Outcome: 90% satisfaction with the alignment of debt finance products to client needs.

100% satisfaction with the overall quality of service provided.



On behalf of Tourism WA, I would like to express our appreciation for the quality of service provided by WATC. The response to our enquiries is always very prompt and professional, and the patience in explaining the science of foreign exchange is also very much acknowledged. Both senior management and the commissioners greatly rely on the professional assistance we receive from WATC.

DAVID LOWE

Executive Director,
Corporate and Business Services
Tourism WA

CHAIRPERSON'S AND CHIEF EXECUTIVE OFFICER'S REVIEW

OVERVIEW

This year was less eventful than the past several, but remained filled with both challenges and opportunities. WATC was pleased to have funded and lent an additional \$2.1 billion for operations and infrastructure development in Western Australia at competitive interest rates – and at the times and maturities requested by clients. This brings total loans to authorities to \$24.1 billion at 30 June 2011. The WATC liquid asset portfolio was increased by \$760 million to \$3.3 billion during the year. In addition, WATC managed the Public Bank Account for the State Treasurer, which totalled \$4.9 billion at 30 June 2011. While varying over the course of the year, the average interest rate earned was approximately 50 basis points above the Reserve Bank of Australia's Overnight Cash Rate.

As WATC concludes its twenty-fifth year, it is appropriate to acknowledge and express appreciation to the seven staff (of the original twenty-two) who have been employed throughout that time – **Mr Wayne Currie**, Corporate Treasurer; **Mr Keith Jones**, Treasury Operations Manager and Registrar; **Mr Steve Luff**, Chief Financial Officer; **Ms Evonne Meath**, Manager Client Services; **Mr Bill McEwen**, Chief Risk Officer; **Mr Melvin Nunes**, Deputy Chief Executive Officer, and **Mr Mike Peters**, Chief Economist. An honourable mention applies to Mr Eric Schuppli, Client Account Manager, who commenced his career with WATC only months later. They have all been instrumental in the considerable success WATC has enjoyed, and value created for all stakeholders in Western Australia.

IMPROVING THE KNOWLEDGE OF AND RELATIONSHIP WITH CLIENTS

During the past year, client engagement remained a focal point for WATC. Lending Services became Client Services, and is now marketing investment products as well as loans. Relationship management training commenced, with the assistance of an external consultant during the year. Foreign Exchange management also received increased attention, with a new position created to assist clients in this area. Corporate Treasury acquired a multi-bank, web-based, foreign exchange pricing portal to ensure it is getting the best live pricing in the market at any point in time for its clients. WATC's Quantitative Financial Services unit concluded its second major client cash flow modelling project, resulting in the recommendation of some changes to the client's debt portfolio mix. The Asset and Project

Finance team worked successfully on an increasing number of procurement-related projects for various clients. At year end, there were ten staff employed in advisory units, supported by other WATC staff as appropriate, on this important project work.

This year's annual client survey was completed by Peter Lee Associates and was focused on WATC's middle tier of clients. The results were very positive but indicated some areas for increased emphasis in the future. WATC's first Board to Board meeting with one of its large clients occurred, with mutual benefits obtained.

Two economic presentations by chief economists of major banks were arranged by WATC and attended by a growing number of clients. WATC sponsored client attendance at a number of CEDA and other events. Several new client initiatives are being planned for the upcoming year.

DEEPENING AND BROADENING ACCESS TO FINANCIAL MARKETS

WATC increased its investor marketing program during the past year. This included opportunistic visits to central banks, banks, fund managers and insurance companies in Asia, North America, South America, Europe and Australia, as well as participation with other Australian states at a number of investor bond conferences. This helped to facilitate a reduction in funding costs this year and into the future by making more investors aware of the strong economic and fiscal management in Western Australia and the nation. During the year, an October 2014 benchmark bond was created and the 15 April 2011 benchmark bond matured. A significant amount of bonds was sold through investor-driven requests for WATC's benchmark bond lines. A total of \$25.49 billion in short-term debt was sold in varying maturities, while over \$7.8 billion of long-term debt was issued in the past financial year. Continuing on from last year, a number of bonds were swapped from fixed rates into floating rate and CPI structures for clients at favourable rates.

Last year, WATC commenced a program of Australian Financial Markets Association (AFMA) accreditation for financial markets and client-facing staff. At 30 June 2011, WATC had 18 AFMA-accredited staff, with 10 others at various stages of progression. Several changes to the WATC Fixed Interest Market Making Panel were effected in 2011. Barclays, Merrill Lynch and Nomura were added, which brings the total number of bank panel members for WATC's benchmark bond program to fourteen.



Geraldton Port Authority Board expressed their appreciation of the content and presentation of material supporting our Port Enhancement Project and repayment plans.

RICK POCHROJ

Finance Manager
Geraldton Port Authority



The team developed, and demonstrated, a thorough understanding of our requirements very quickly. The responsiveness of the team was flawless. I would, and already have, recommended WATC's services to others, both within and outside of our organisation. I can see great potential for Fremantle Ports to engage WATC on future projects.

SEAN CRAIG

Manager, Asset Strategy
Fremantle Ports

REVIEWING AND REFINING THE BUSINESS MODEL

WATC is continuing to build a systemically supported, continuous improvement culture which will provide stakeholders with better outcomes. More rigorous surveys – Client, Staff and Board – will help to identify areas for improvement rather than solely measure success. Better execution with experience in Individual Performance and Strategic Development Planning will allow a more aligned, objective and transparent set of outcomes.

BUILDING CAPACITY

Staff have been added, at varying levels of seniority, to key support areas including Risk, ICT, Corporate Treasury and Client Services. These additions will build depth and allow for succession planning. Bringing the project management function back in house last year has given WATC better control over the projects being completed.

FINANCIAL PERFORMANCE AND KEY PERFORMANCE INDICATORS

Profit before tax was \$16.2 million, an improvement over last year's \$6.8 million and well within WATC's targets. This will provide for a return to the State of just above \$12 million in tax equivalent payments and dividends.

WATC's other three financial KPIs were achieved this year, including a Return on Equity measure of 20.6 per cent against a target of 8.7 per cent. The Administrative Cost Ratio was 0.063 per cent of borrowings, an improvement from 0.072 per cent last year and less than half of the 0.13 per cent target. Similarly, the Interest Rate Savings again exceeded benchmarks established in previous years.

WATC's first employee opinion survey, conducted with Aon Hewitt, produced some useful results. It indicated key strengths of learning and development and work life balance, while areas to improve included career opportunities and communication. As a result, several executive and staff working groups were formed to identify and execute specific action plans to improve performance in several of these areas over the next year.

The second annual client survey using Peter Lee Associates focused on WATC's middle market clients. The results have been very encouraging. All debt finance-related questions produced positive outcomes of between 90 and 100 per cent, with 90 per cent of clients willing to recommend WATC to other organisations. Importantly, the results of this survey have identified several areas for increased emphasis in the future and work on most of these is already underway.

We thank our employees and the Board for their hard work and dedication in the year completed to achieve these positive outcomes for the State of Western Australia, of which we are very proud.

T M MARNEY
CHAIRPERSON

WESTERN AUSTRALIAN
TREASURY CORPORATION

19 August 2011

J M COLLINS
**CHIEF EXECUTIVE OFFICER
AND DIRECTOR**

WESTERN AUSTRALIAN
TREASURY CORPORATION

19 August 2011

OVERVIEW OF WESTERN AUSTRALIAN TREASURY CORPORATION

WATC fulfils the role of the State's corporate treasury services provider, working with its public sector clients to assist them to achieve sound financial risk management. Within this broader role, WATC's principal activities involve debt and interest rate risk management, the investment of the State's surplus funds, assisting clients in the management of foreign exchange risk and the provision of financial advisory services.

ENABLING LEGISLATION

WATC 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 WATC's role to include the provision of financial management services to the Western Australian public sector.

RESPONSIBLE MINISTER

The Hon C. Christian Porter, BA (Hons), BEc, LLB, MSc, MLA; Treasurer; Attorney General.

PURPOSE

To provide efficient debt funding, effective financial solutions and leadership in financial risk management to the public sector for the benefit of all Western Australians.

SERVICES PROVIDED TO THE PUBLIC SECTOR IN WESTERN AUSTRALIA

WATC provides a range of financial services to the public sector in Western Australia, principally:

- lending to clients through a range of debt funding structures;
- providing financial risk management services (primarily interest rate risk management and the management of foreign exchange risk);
- investing its clients' and the State's short- to medium-term cash surpluses with the aim of maximising returns within a conservative risk management framework; and
- providing advice to its clients and the State.

BOARD OF DIRECTORS

At 30 June 2011, WATC's Board comprised:

Timothy M Marney	Chairperson
Anthony M Kannis	Deputy Chairperson
John M Collins	Chief Executive Officer
Gaye M McMath	
Catherine A Nance	
Grahame J Searle	

The Secretary to the Board was Steven L Luff, Chief Financial Officer.

STATE GUARANTEE

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

CREDIT RATINGS

The debt of WATC is rated as follows:

Rating Agency	Long-Term	Short-Term
Standard & Poor's	AAA	A-1+
Moody's Investors Service	Aaa	Prime-1

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



WATC assisted FESA with the provision of foreign currency purchasing and hedging for the acquisition of a new state-of-the-art aerial firefighting appliance that will provide a significant boost to frontline emergency services. The combined ladder platform will enhance firefighting capabilities in the metropolitan area, allowing firefighters more access to confined spaces and greater capacity to respond quickly to emergencies.



BOARD OF DIRECTORS



TIMOTHY M MARNEY
CHAIRPERSON

Mr Marney has been Chairperson of the Board since his appointment to the position of Under Treasurer of the State of Western Australia on 20 June 2005, before which he had been Acting Chairperson since July 2004. He is also Chairperson of the Remuneration Committee. Mr Marney holds an Honours degree in Economics and has over twenty years experience in economics and finance, which includes working with the Reserve Bank of Australia prior to joining the Department of Treasury and Finance.



ANTHONY M KANNIS
DEPUTY CHAIRPERSON

Mr Kannis was appointed to the Board as Deputy Chairperson in March 2009. He is also a member of the Audit Committee. Mr Kannis holds the position of Executive Director, Infrastructure and Finance, in the Department of Treasury and Finance. In May 2008, he was appointed to the Board of Infrastructure Australia.



GRAHAME J SEARLE

Mr Searle was appointed to the Board as a director on 1 January 2009 and is a member of the Remuneration Committee. He is the Director General of the Department of Housing. Prior to this, Mr Searle held a number of executive positions, including Chief Executive Officer at Landgate, following a range of senior leadership and management roles in Victoria. Mr Searle holds a Bachelor of Business degree. He is an honorary Fellow of the Spatial Sciences Institute of Australia, past President of the Institute of Public Administration (WA Division) and a member of the WA Planning Commission.



GAYE M MCMATH

Ms McMath has been a director of WATC since 1 January 2003 and is also a member of the Audit Committee. She is the Executive Director, Finance and Resources, with the University of Western Australia. Prior to this, Ms McMath was the Pro Vice Chancellor (Resource Management) at Murdoch University (Perth) after a twenty-three year career with BHP Billiton in a wide range of financial, strategic planning, treasury and commercial management positions. She holds a Bachelor of Commerce degree, a Master of Business Administration degree and completed the Advanced Management Program, Harvard Business School, in 2008. She is a Fellow of the Australian Institute of Company Directors and CPA Australia. Ms McMath is a director of Gold Corporation and Verve Energy, and she is a member of the Commonwealth Government Solar Flagship Committee.



CATHERINE A NANCE

Ms Nance has been a director of WATC since 1998 and is also Chairperson of the Audit Committee and a member of the Remuneration Committee. She is an Actuary and Partner of PricewaterhouseCoopers, with over twenty years experience in the financial services industry advising governments and companies on actuarial and finance-related matters. Ms Nance has a Bachelor of Science degree in Pure and Applied Mathematics and Physics and a Bachelor of Arts degree in Statistics. She is a Fellow of the Institute of Actuaries of Australia, an Affiliate of the Institute of Actuaries (London), a Fellow of the Financial Services Institute of Australasia and a member of the CFA Institute. Ms Nance is a director of the Government Employees Superannuation Board and Community CPS Australia Limited and chairs an Institute of Actuaries national taskforce on retirement-related issues.



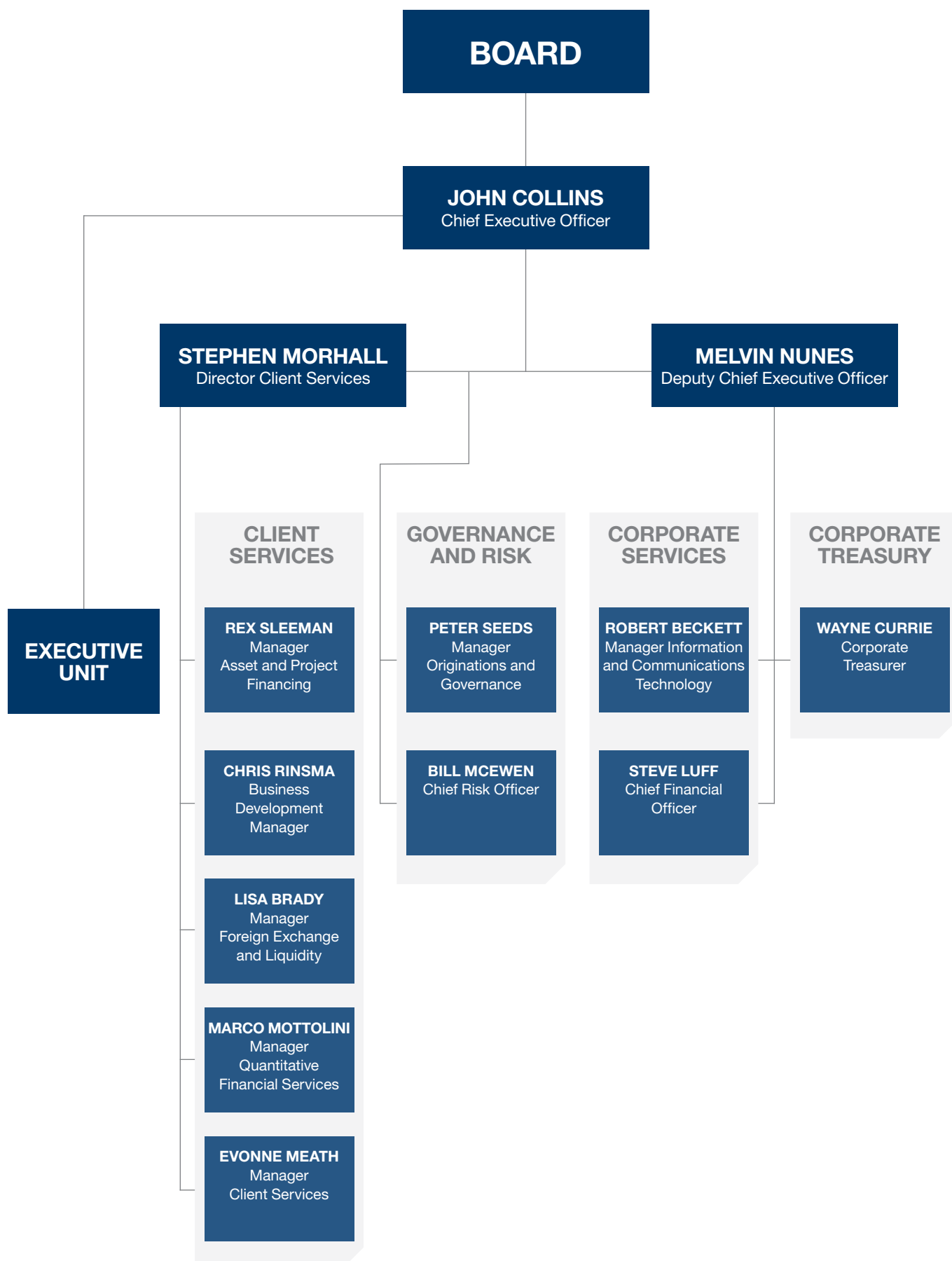
JOHN M COLLINS

Mr Collins was appointed CEO of WATC and a director of the Board effective 15 October 2009. He serves as a member of the Remuneration Committee. Mr Collins has previously worked in numerous senior banking and financial markets capacities in the US, Australia and Indonesia. This included almost ten years with Cargill Incorporated and nearly fifteen years with ANZ Bank, most recently as President Director of PT ANZ Panin Bank in Indonesia. Mr Collins has a Bachelor of Science in Business Administration degree with a major in Finance from the Ohio State University in Columbus, Ohio, and a Master of Business Administration degree with a specialisation in International Finance from the University of St Thomas in St Paul, Minnesota. He is currently AFMA accredited, is a graduate of the AICD Company Directors Course and has joined the School of Economics and Finance Advisory Board for the Curtin Business School.

WATC STAFF



ORGANISATIONAL STRUCTURE



THE WESTERN AUSTRALIAN ECONOMY

Overview

Western Australia is a leading producer and exporter of a wide variety of minerals, with the State accounting for over 42 per cent of the total value of Australia's merchandise exports in 2009/10. The value of Western Australia's merchandise exports in 2009/10 was \$85.2 billion, of which 91 per cent comprised minerals and petroleum exports.

The ongoing improvement in global economic conditions saw Western Australia's real Gross State Product (GSP) increase by 4.3 per cent in 2009/10, following 4.1 per cent growth in 2008/09, with 2010/11 real GSP growth estimated to be 4.0 per cent. The domestic economy was the major driver of GSP growth during 2010/11, with state final demand increasing an estimated 4.75 per cent, led by an estimated 10 per cent increase in private business investment. The external sector was a solid contributor to state income, with export volumes rising an estimated 3.0 per cent, while the terms of trade rose over 16 per cent.

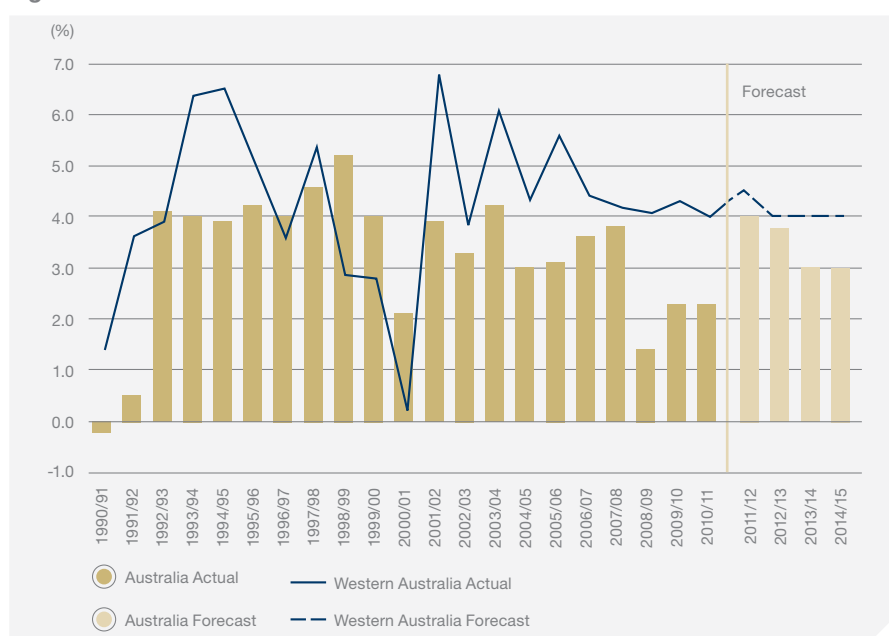
Outlook

Growth is expected to remain strong in 2011/12. Real GSP is forecast to rise 4.5 per cent, with business investment climbing 15 per cent, driven by a number of large resource projects. Export volumes are expected to increase 6.5 per cent in 2011/12, though the terms of trade are forecast to decline slightly from their current record level.

Fiscal Outlook

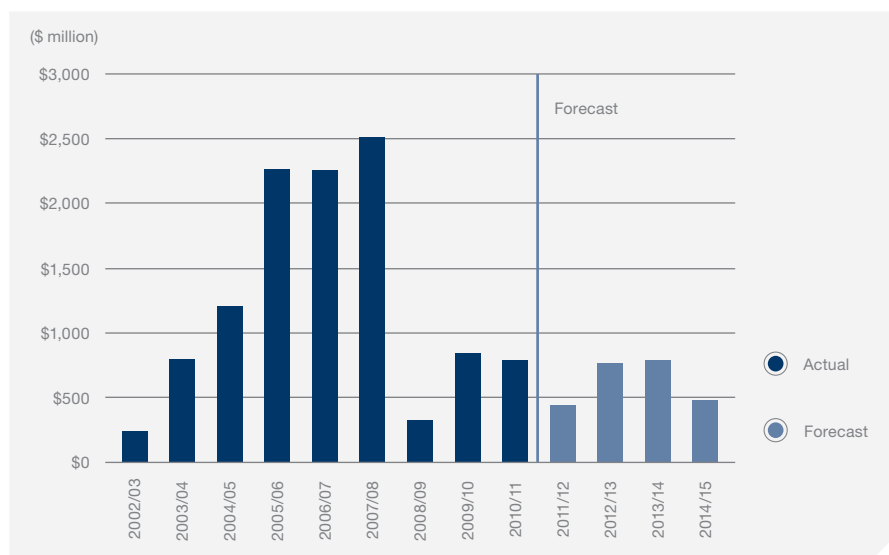
The State Budget forecasts a general government operating surplus of \$442 million for 2011/12, following an estimated surplus of \$784 million in 2010/11. The estimated decline in the surplus in 2011/12 is due to a drop in capital grants from the Commonwealth Government as a result of the unwinding of the Commonwealth stimulus package. The size of the surplus is projected to rise to \$768 million in 2012/13 and \$787 million in 2013/14. The expected increase is due to higher tax revenue and underpinned by an anticipated recovery in the property sector and an increase in the royalty rate on iron ore 'fines' to 7.5 per cent, to be phased in over the two years commencing 2012/13. This will be offset to some extent by declining GST grant revenue, due to the impact of sluggish consumer spending on the size of the GST pool and a decline in Western Australia's share of the pool.

Figure 1 – Gross Domestic Product / Gross State Product – Annual Growth



Source: Dept of Treasury and Finance, Commonwealth Treasury, Australian Bureau of Statistics

Figure 2 – Western Australian Government Net Operating Balance



Source: Dept of Treasury and Finance



THE GLOBAL ECONOMY

The post-crisis recovery is testing the mettle of policymakers who are being forced to respond on a number of fronts to address both short-term and longer-term problems.

THE GLOBAL ECONOMY

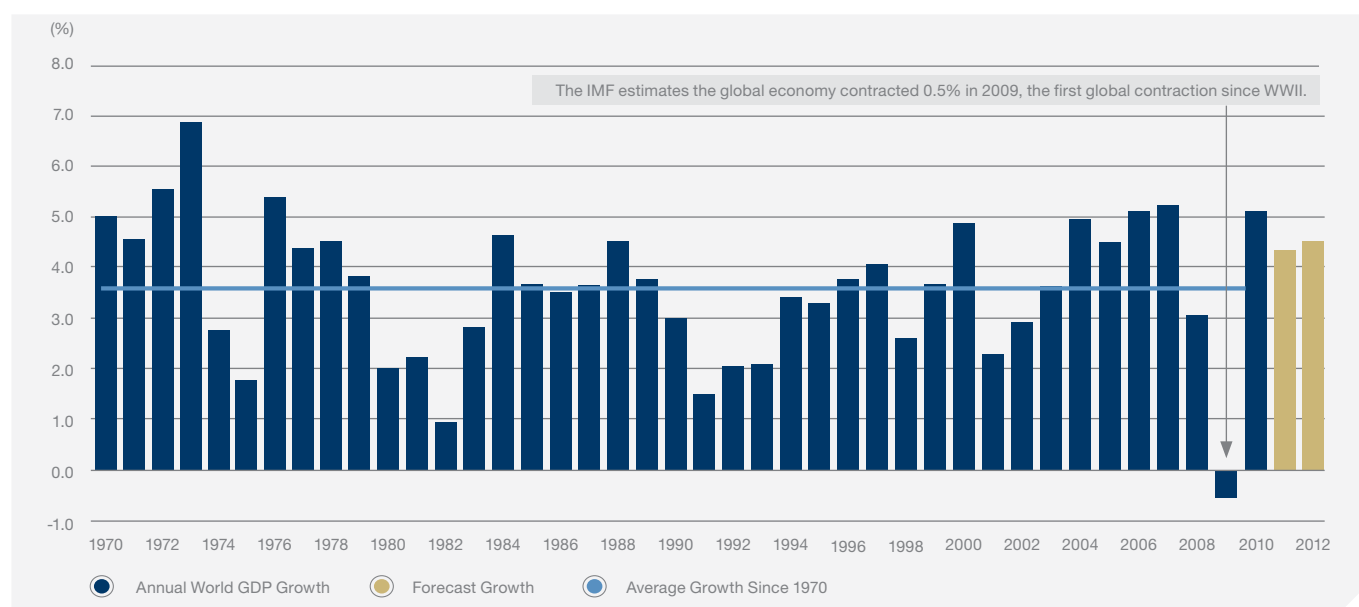
Overview

Despite some negative shocks, the global economy expanded at an above-average pace during 2010/11, although growth remains unbalanced, with many advanced economies still experiencing a weak and fragile economic recovery. Overall, the International Monetary Fund (IMF) estimated world output at 5.1 per cent in 2010 and is projecting growth of 4.3 per cent in 2011 and 4.5 per cent in 2012. Key among the negative shocks were a rise in oil prices associated with social unrest across the Middle East and Northern Africa; a devastating earthquake and tsunami, which hit Japan in March 2011 and impacted global supply lines; and heightened market concern about Europe's ongoing sovereign debt crisis.

Since 1970, global growth has averaged 3.6 per cent and needs to grow by at least 3.0 per cent to prevent a build-up in excess capacity and a rise in global unemployment. While global growth at face value was strong in 2010 and is expected to remain above average in both 2011 and 2012, it needs to be remembered that this period of recovery is being driven largely by emerging and developing economies and that it was preceded by a global financial crisis which precipitated the worst global downturn since the Great Depression of the 1930s. The history of post-financial crisis recoveries is that they are nearly always weak and fragile and both the US and Europe are displaying classic symptoms of this fragility, with unemployment rates in both economic zones still above 9.0 per cent more than two years into the economic recovery.

Figure 3 below shows the dramatic decline in global growth following the global financial crisis, along with IMF forecasts for 2011 and 2012.

Figure 3 – Annual World GDP Growth



Source: International Monetary Fund

The post-crisis recovery is testing the mettle of policymakers who are being forced to respond on a number of fronts to address both short-term and longer-term problems. Monetary policy settings in the key advanced economies continue to remain at their crisis lows of 2008/09, whereas in emerging and developing economies, policymakers responded to a rising inflation threat by increasing interest rates and taking other measures to tighten monetary policy. On the fiscal front, many advanced economies have debt overhangs that they are being forced to address via so-called austerity packages aimed at winding back budget deficits, which rose in many cases to double-digit levels as a percentage of Gross Domestic Product (GDP) during the global financial crisis.



THE AUSTRALIAN ECONOMY

After taking steps to remove its emergency cash rate setting in 2009/10, the Reserve Bank of Australia (RBA) made only one change to monetary policy during 2010/11 – a 25 point rise in the cash rate in November, taking it to 4.75 per cent.

THE AUSTRALIAN ECONOMY

Overview

The ongoing expansion of the Australian economy, which basically stretches from 1990, was briefly interrupted during 2010/11 after extreme weather conditions in late 2010 and early 2011 impacted aggregate production via a massive disruption to exports of coal and iron ore. Overall GDP declined by 0.9 per cent in the March quarter 2011 (the latest quarter for which data is available), the result of a 6.6 per cent slump in export volumes which, combined with a 2.4 per cent increase in imports, sliced a massive 2.2 percentage points off growth.

Despite this setback, the outlook for the Australian economy remains positive. Domestic demand continues to post solid growth, boosted by the terms of trade which have risen to a record high on the back of rapid growth in China and India. Australia's terms of trade are about 85 per cent above the 20th century average. This is providing a significant boost to national income at a time when the economy is close to full employment. Despite some moderation in the pace of employment growth during the second half of 2010/11, the unemployment rate edged lower during the financial year and stood at 4.9 per cent in June 2011.

With little spare capacity and an approaching mining boom, inflation concerns grew during 2010/11. Headline CPI rose to 3.6 per cent through the year to the June quarter 2011, although rising prices have been temporarily boosted by extreme weather conditions. In underlying terms, inflation has been in the bottom half of the 2 to 3 per cent target range, although inflation appears to have troughed and a gradual increase is expected over time.

Financial Markets

After taking steps to remove its emergency cash rate setting in 2009/10, the Reserve Bank of Australia (RBA) made only one change to monetary policy during 2010/11 – a 25 point rise in the cash rate in November, taking it to 4.75 per cent. The central view of the RBA is that further tightening of monetary policy is likely to be required at some point for inflation to remain consistent with the inflation target in the medium term.

The 10-year Commonwealth Government bond yield began the 2010/11 financial year at 5.08 per cent and traded in a relatively narrow range throughout the year from 4.76 per cent to 5.75 per cent, closing the year at its mid-point of 5.21 per cent. The 3-year Commonwealth Government bond had a slightly wider trading range, opening the year at 4.41 per cent and trading from 4.23 per cent to 5.38 per cent, before closing at 4.76 per cent.

Australian Dollar

After starting 2010/11 at \$US0.8435, the Australian dollar strengthened appreciably against the US dollar throughout the financial year, crossing parity during early November 2010 and reaching a post-1983 float high of \$US1.1010 in May 2011. Trade against the key cross rates was more volatile. Against the yen, the currency improved from ¥74 to ¥86, although it did suffer a significant but ultimately short-lived dip in March 2011 following the earthquake and tsunami. Against the euro, the currency started the financial year at €0.67, improved to €0.77 by the end of 2010, then dipped back to €0.70 in March 2011 before ending the year at €0.74.

OVERVIEW

WATC's borrowing activities during 2010/11 centred primarily on:

- issuing across the yield curve to fund lending to its clients;
- maintaining sufficient volumes on issue and enhancing the liquidity in its existing lines of benchmark bonds maturing in 2012, 2013, 2015, 2017 and 2019;
- converting its off-the-run 7 per cent 15 July 2021 bonds to benchmark bond status;
- launching the new 5.5 per cent 23 April 2014 benchmark bond through a tender process;
- examining opportunities to issue through its Euro Medium Term Note (EMTN) Program and other offshore markets to generate term fixed and floating rate funding;
- issuing short-term paper, either through domestic inscribed stock or the Euro Commercial Paper (ECP) Program for liquidity funding;
- transacting in interest rate swaps to meet WATC's asset and liability management requirements and to generate floating rate funding for its clients; and
- being responsive to investor demand for off-the-run stocks, which are fixed interest bonds issued into maturity dates longer than benchmark bond maturity dates.

The primary source of WATC's long-term borrowings is the domestic fixed interest market. Long-term funding, mainly through domestic benchmark bonds, comprises approximately 73 per cent of total borrowings.

WATC opportunistically issues off-the-run fixed interest bonds with a view to building future benchmark bonds.

Overseas, WATC's ongoing strategy is to tap markets on an opportunistic basis through bond issues, private loans and its range of continuous note issuance facilities, such as its EMTN Program. When borrowing overseas, WATC aims to:

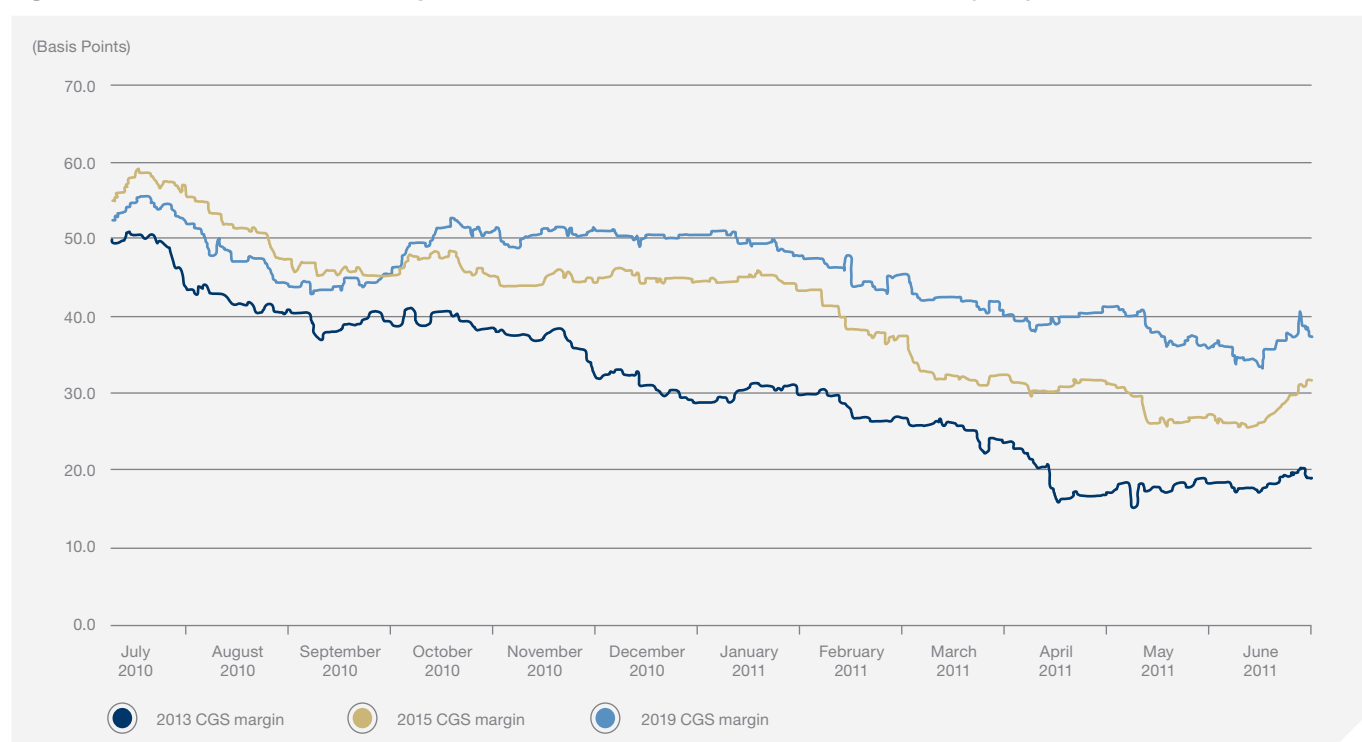
- save on the interest cost of borrowing, where it can obtain funding for the borrowing program at rates below equivalent domestic rates after hedging any foreign currency exposure;
- undertake issues in a range of currencies, with specific structures or of particular terms to meet any special portfolio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

LONG-TERM BORROWINGS

Domestic Fixed Interest

WATC's access to fixed rate funding and its issuing margins relative to Commonwealth Government bonds continued the improvements which began in mid-2009/10. The Commonwealth guarantee offered to the states (which Western Australia chose not to take up) lapsed in December 2010. Ongoing developments with respect to the Basel III global bank liquidity rules and their interpretation in the Australian context by APRA and the RBA continued to underpin solid investor demand from bank balance sheet managers. The strength of the Australian economy and, in particular, the positive story emanating from Western Australia also generated ongoing support from offshore fund managers and central banks.

Figure 4 – WATC Benchmark Bond Spread to Commonwealth Government Securities (CGS) – 2010/11



WATC continued to build volume and liquidity into its benchmark bond lines during the year, pre-funding client funding requirements when investor demand was evident. Late in the year, the volume outstanding in the 7 per cent 15 July 2021 off-the-run bond pushed through \$500 million and, as a consequence, was announced to the market as WATC's longest benchmark bond line.

At 30 June 2011, the outstanding in this line had grown to \$630 million. Also during the year, a new intermediate maturity benchmark bond was launched. The 5.50 per cent 23 April 2014 benchmark bond line was established by tender for \$538 million, followed by a consolidation process for a further \$616 million. At 30 June 2011, the outstanding in this new benchmark line was \$1.916 billion.

During the course of the year, WATC's 15 April 2011 benchmark bond line matured with an outstanding volume of \$2.39 billion. By the end of the financial year, benchmark bonds outstanding had increased from \$15.42 billion in 2009/10 to \$19.15 billion in 2010/11. The net increase is the result of \$7.87 billion of new issuance and \$4.14 billion of maturing debt.

Spreads between yields on semi-government benchmark bonds and Commonwealth bonds followed a narrowing trend for much of the year, before retracing slightly in the final months of the year as concerns over peripheral European sovereign debt issues re-emerged. Figure 4 on page 16 shows the movement in spreads for WATC's benchmark bond lines to the equivalent Commonwealth bonds.

Fixed Interest Market Making Panel

WATC's Fixed Interest Market Making Panel plays an ongoing key role in price-making and distribution of WATC's benchmark bonds. The Market Making Panel and contacts at 30 June 2011 are shown in Table 2 below. Taking into account overall performance throughout the year, the leading institutions on WATC's Market Making Panel for 2010/11 were:

1. ANZ Investment Bank
2. UBS AG, Australia Branch
3. Westpac Banking Corporation
4. Deutsche Capital Markets Australia Ltd
5. Citigroup Global Markets Australia Pty Ltd.

Table 2 – Market Making Panel at 30 June 2011

Panel Member	Contact	Telephone
ANZ Investment Bank	Mr Michael Walsh	(+61) 3 9095 0016
Barclays Bank plc, Australia Branch	Mr Stephen Ritchie	(+61) 2 9334 6160
Citigroup Global Markets Australia Pty Ltd	Mr Simon Walters	(+61) 3 8643 9820
Commonwealth Bank of Australia	Mr Jack A'Hearn	(+61) 3 9675 7498
Deutsche Capital Markets Australia Ltd	Mrs Vikki Grenot	(+61) 2 8258 1444
JP Morgan Australia Limited	Mr Adrian Janschek	(+61) 2 9220 1663
Merrill Lynch (Australia) Pty Limited	Mr Craig Maggs	(+61) 2 9226 5569
National Australia Bank Limited	Mr Kris Bernie	(+61) 2 9295 1166
Nomura International plc	Ms Kellie McKeown	(+61) 2 8062 8625
Royal Bank of Canada	Mr Richard Sheahan	(+61) 2 9033 3222
RBS Group (Australia) Pty Limited	Mr Nick Rutherford	(+61) 2 8259 2200
Toronto Dominion Securities	Mr Simon Christie	1800 646 497
UBS AG, Australia Branch	Mr Tim Riley	(+61) 2 9324 2222
Westpac Banking Corporation	Ms Emma Stephenson	(+61) 2 8204 2740

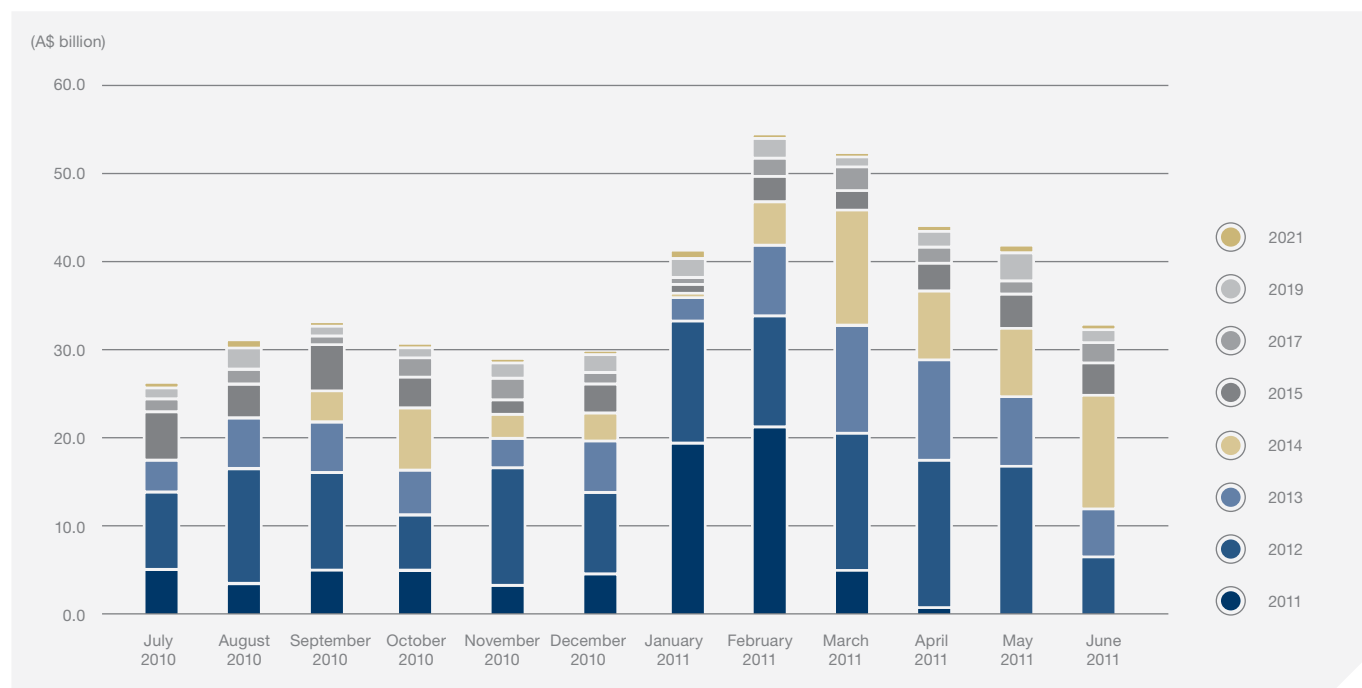
CAPITAL MARKETS ACTIVITY

CONTINUED

Turnover

Turnover in WATC's benchmark bonds for the financial year ended 30 June 2011 was \$444.8 billion.

Figure 5 – WATC Benchmark Bond Turnover – 2010/11



WATC's domestic benchmark bond volumes on issue at 30 June 2011 and the turnover volumes for the financial year were as follows:

Coupon	Maturity Date	Volume on Issue	Turnover Volume
% p.a.		\$m	\$m
5.50	17/07/2012	4,455	144,392
8.00	15/06/2013	4,910	77,672
5.50	23/04/2014	1,916	62,992
7.00	15/04/2015	2,688	40,098
8.00	15/07/2017	2,625	21,080
7.00	15/10/2019	1,930	22,636
7.00	17/07/2021	630	3,185

Retail Borrowing

Retail investors contributed \$53.9 million towards WATC's 2010/11 borrowing program through investment in State Bonds.

People required to buy a semi-government bond to qualify for a visa issued under the Business Skills category of migration administered by the Commonwealth Department of Immigration and Citizenship contributed \$28.5 million of this total amount. The balance was raised as either new capital or principal reinvested by existing stockholders who accepted WATC's invitation to roll over their investment at maturity.

To ensure retail investors received a competitive interest rate, market yields were monitored on a continuous basis and were adjusted in accordance with WATC's approved pricing policy.

Euro Medium Term Note Program

Since the establishment of WATC's US\$2 billion EMTN Program in 1990, 35 issues have been made in Australian dollars and other currencies.

Issues under this program can be made for terms from one month to 30 years, either through the dealer panel or on a reverse inquiry basis.

The dealer panel for the Program comprises:

- Citigroup Global Markets Limited
- Commonwealth Bank of Australia
- Credit Suisse Securities (Europe) Limited
- Daiwa Capital Markets Europe Limited
- Deutsche Bank AG, London Branch
- Merrill Lynch International
- Mizuho International plc
- National Australia Bank Limited
- Nomura International plc
- Royal Bank of Canada Europe Limited
- UBS Limited

Citibank, N.A. London, is the Fiscal Agent, Registrar and Transfer Agent for the Program. Citigroup Global Markets Deutschland AG & Co. KGaA is the Paying Agent.

During the year, the volume of offshore funding sourced by Australian banks continued to impact on foreign exchange basis swap pricing and meant that offshore funding was comparatively more expensive than equivalent domestic issuance. Opportunities in the Japanese retail market were assessed but considered to be outside WATC's pricing targets.

There were no Notes outstanding under the Program at 30 June 2011.

SHORT-TERM BORROWINGS

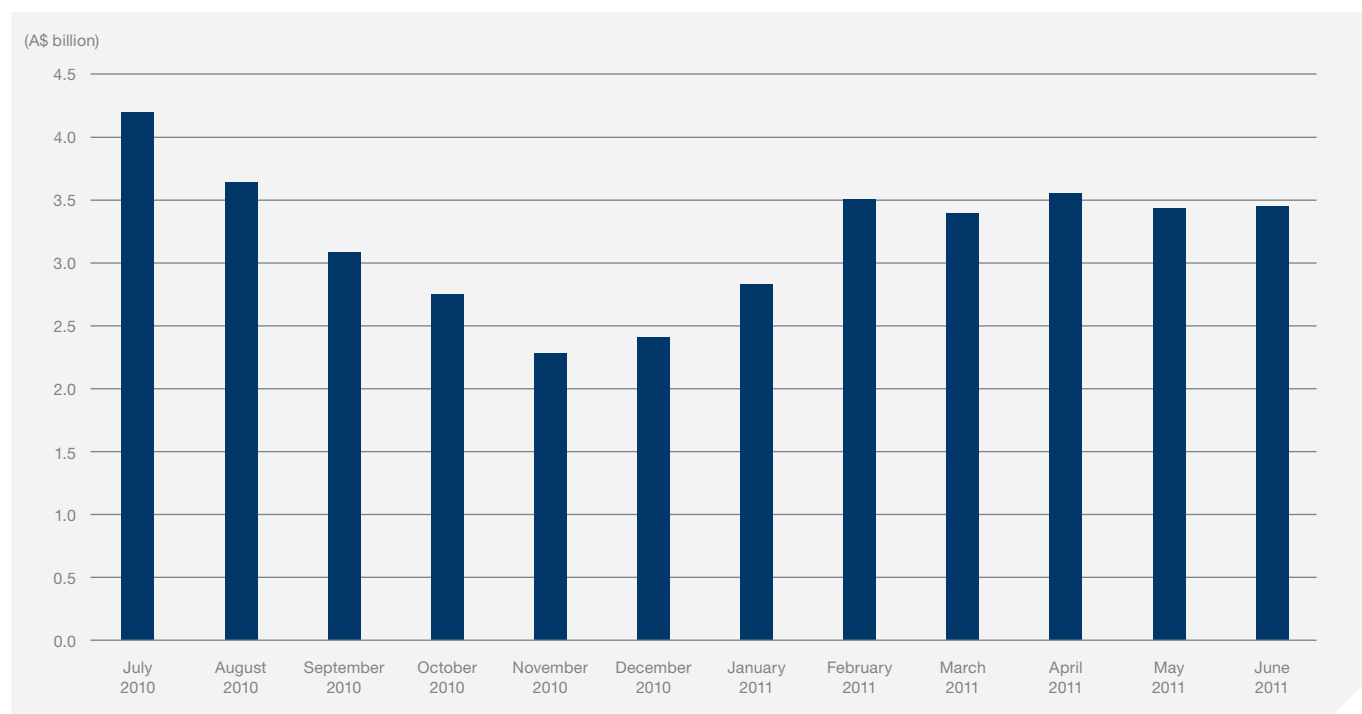
Domestically, short-term funds are raised through the issue of short-term notes in the form of inscribed stock. In overseas markets, WATC utilises its multicurrency ECP Program.

Short-Term Inscribed Stock

During 2010/11, WATC issued a total of \$9.774 billion of short-term inscribed stock with an average weighted maturity of 112 days. This continued to be a reliable source of domestic short-term funds for WATC. At 30 June 2011, \$3.445 billion was outstanding in short-term inscribed stock.

End-of-month outstandings of short-term inscribed stock are shown in Figure 6 below.

Figure 6 – Short-Term Inscribed Stock – Month End Balances 2010/11



The Town of Cambridge endorsed a \$12 million course upgrade to the Wembley Golf Course which has paved the way for the development of 'The Swing' Driving Range – the largest driving range in the southern hemisphere. The state-of-the-art facility has 80 bays spread over two tiers and fully automated golf balls teeing up every six seconds; and is at the forefront of golfing technology in Australia. A loan from WATC assisted the Town of Cambridge to provide this world class facility to the Western Australian public.



CAPITAL MARKETS ACTIVITY

CONTINUED

The leading institutions in terms of stock taken under WATC's short-term inscribed stock facility for 2010/11 were:

1. ANZ Banking Group Limited
2. Deutsche Bank AG
3. Westpac Banking Corporation
4. Commonwealth Bank of Australia
5. BNP Paribas.

Euro Commercial Paper Program

WATC maintains a multicurrency ECP Program. During the year, WATC issued ECP in a number of currencies including US dollars, euro and British pounds sterling. The limit on the Program is US\$6 billion.

The total amount of ECP issued over the year rose significantly, with outstandings peaking at an amount equivalent to US\$3.573 billion. Demand for WATC's ECP has remained strong as investors' preference for the security offered by high-rated debt paper prevailed. At 30 June 2011, on a transaction settlement basis, US\$3.3 billion of US dollar-denominated debt, €100 million of euro-denominated debt and £30 million of British pound-denominated debt was outstanding on this Program.

Issues under this Program can be made for terms from seven to 364 days through the dealer panel.

The dealer panel for the Program comprises:

- Banc of America Securities Limited
- Barclays Bank plc
- Citibank International plc
- Commonwealth Bank of Australia, Hong Kong Branch
- Credit Suisse Securities (Europe) Limited
- Deutsche Bank AG, London Branch
- National Australia Bank Limited, Hong Kong Branch
- UBS Limited
- Westpac Banking Corporation, Hong Kong Branch.

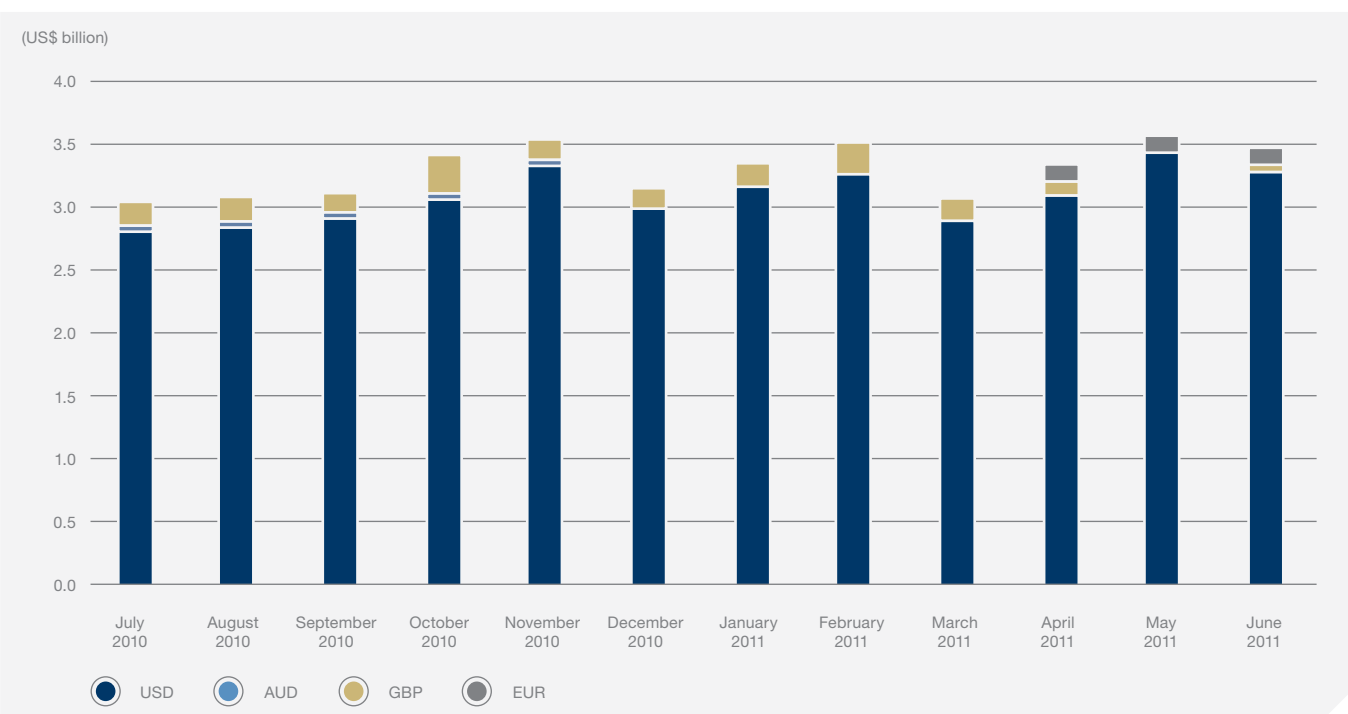
Citibank, N.A. London, is the Issuing and Paying Agent for the Program. The leading institutions on WATC's ECP Dealer Panel for 2010/11 were:

1. Banc of America Securities Limited
2. Barclays Bank plc
3. Citibank International plc.

Foreign Exchange Management

During the year, all non-Australian dollar funding raised through the ECP Program was swapped into Australian dollars through the foreign exchange market.

Figure 7 – Euro Commercial Paper Program – Month End Balances 2010/11



CLIENT SERVICES

WATC is the primary provider of corporate treasury services to the Western Australian public sector and provides a comprehensive range of financial products and services including debt funding, investments, foreign exchange, financial risk management and advisory services to assist WATC's clients to achieve their financial objectives.

WATC is committed to strengthening client relationships to ensure that its product and service offerings are aligned to client needs, both now and in the future. As evidence of this commitment, in 2010/11, WATC:

- undertook a restructure of the Client Services Division to improve the delivery and alignment of product offerings to client needs
- continued to seek feedback from clients on WATC's performance and how WATC can improve its product and service delivery. The positive feedback from clients across all forums on the quality of service is extremely satisfying and reflects WATC's commitment to meeting client requirements
- undertook client relationship management training to enable WATC to enhance existing client relationships and develop new relationships to highlight opportunities for WATC to partner clients to achieve their objectives
- took on an expanded role in providing educational services to the Western Australian public sector
- provided clients with opportunities to gain exposure to the financial markets through event sponsorship, economic presentations and secondment opportunities.

LENDING AND INVESTMENT SERVICES

In the year to 30 June 2011, WATC was required to provide substantial new borrowings to state authorities to deliver the State Government's committed investment in infrastructure. This strong demand for debt funding saw WATC provide a net increase in lending to clients of \$2.057 billion during 2010/11, bringing the amount of loans to clients to a record level of \$23.807 billion.

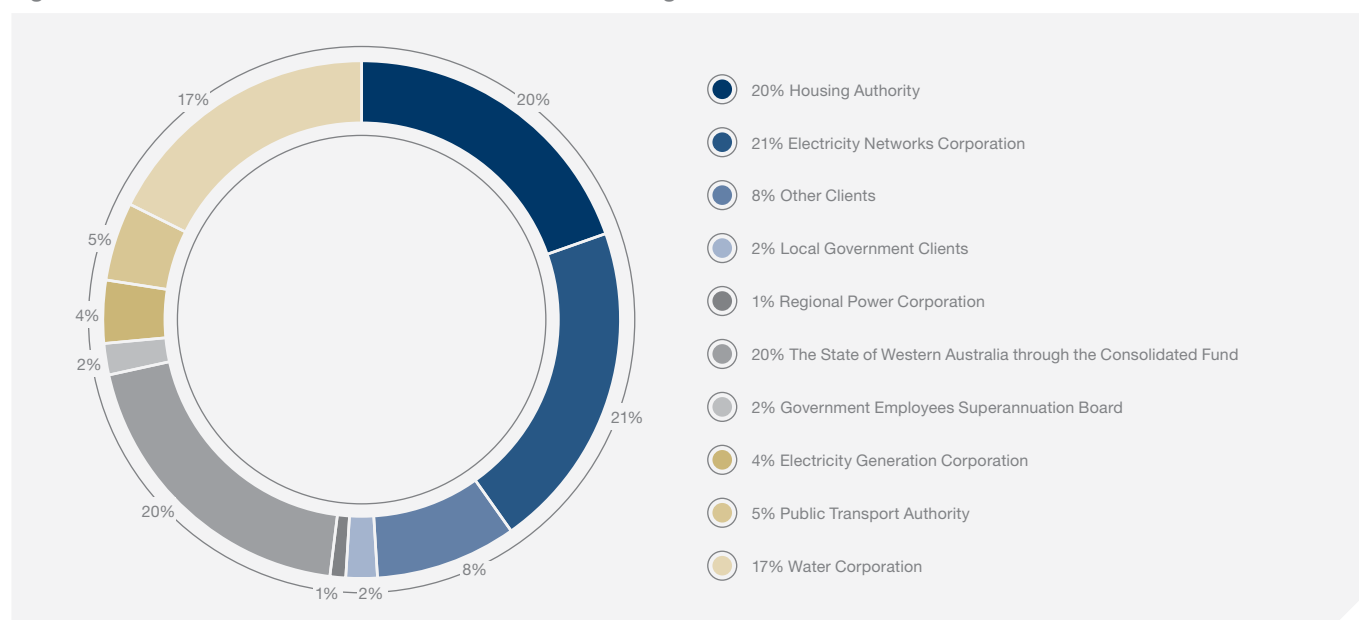
At 30 June 2011, WATC's clients included 38 state government authorities and 124 local governments. Figure 8 below shows the distribution of WATC's lending to its clients at 30 June 2011.

Loan Products

WATC offers its clients an extensive range of loan products that satisfies client needs and delivers cost-effective funding. A full review of WATC's lending products was conducted during 2010/11 to ensure the products remain cost-effective, align with clients' business requirements and satisfy each client's specific financing needs. The loan products currently available to clients include:

- Portfolio Lending Arrangements (PLA);
- Short-Term Loans;
- Compound Cash Rate Lending;
- Term Floating Rate Loans;
- Term Fixed Rate Lending, including;
 - Interest only loans;
 - Amortising loans;
 - Zero-coupon loans;
 - Structured loans designed to meet individual client needs; and
- Capital Indexed Lending.

Figure 8 – Client Authorities – % Share of Debt Outstanding at 30 June 2011



CLIENT SERVICES

CONTINUED

WATC's loan products provide the flexibility to structure loans that satisfy client-specific financing needs for terms from one day to more than twenty years.

Figure 9 below shows the mix of WATC's loan products at 30 June 2011.

State Government

During 2010/11, WATC continued to provide a significant amount of loan funds to the State of Western Australia to finance its Asset Investment Program.

Funds were provided to meet expenditure on:

- health;
- education and training;
- transport;
- law, order and public safety;
- community services for child protection, the disabled and assistance to seniors; and
- community sporting facilities.

Semi-Government

In the year under review, WATC provided loan funds to state authorities and enterprises to finance expenditure on key capital infrastructure across Western Australia. State authorities requiring large volumes of new funding were those engaged to deliver infrastructure and services in the following areas:

- maintenance of the State's water, wastewater and drainage services;
- electricity supply, transmission and distribution;
- extensions to and maintenance of the rail network;

- development and maintenance of port infrastructure;
- residential and commercial land development to meet growing demand; and
- fire and other emergency services.

At 30 June 2011, loans to state government agencies, public trading enterprises and universities amounted to \$23.231 billion. Of this amount, \$4.702 billion was provided to the State of Western Australia.

Local Government

WATC continued to be a major supplier of loan funds to the State's local governments. WATC has seen a consistent increase in the level of debt provided to local governments to finance a range of capital and community projects across the State including:

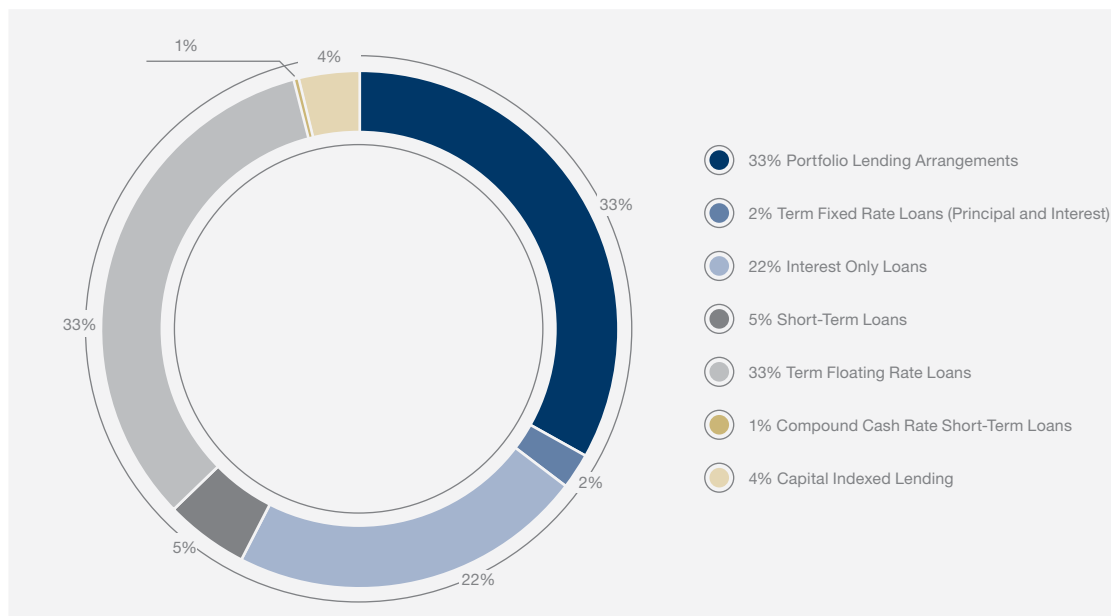
- construction of administration facilities and libraries;
- recreation, sporting and aquatic facilities;
- underground power;
- roadworks;
- commercial and residential land development; and
- aged care facilities.

In the year to 30 June 2011, gross lending to local governments amounted to approximately \$75.5 million, taking the total amount of debt provided to local governments to in excess of \$575 million.

Investment Products

During 2010/11, WATC's clients continued to take advantage of its State Government Guaranteed, AAA Rated at call and fixed term investment products.

Figure 9 – Debt Outstanding by Product Type at 30 June 2011



The investment products currently available to clients are:

- **Overnight Cash Deposit Facility (OCDF)** – The OCDF has been developed specifically to meet the short-term investment needs of clients. It enables clients to invest funds on an overnight basis and provides the flexibility of interest being paid out monthly or added to the balance of the account and reinvested. At 30 June 2011, the value of deposits held in this facility was \$79.126 million.
- **Fixed Term Investments** – WATC facilitates term investments for clients through its short-term inscribed stock. This enables clients to invest funds to a maturity date of their choice for any term from seven days to 365 days at a fixed rate. At 30 June 2011, the value of short-term inscribed stock outstanding under this facility was \$46.140 million.

FOREIGN EXCHANGE AND LIQUIDITY

The Foreign Exchange (FX) and Liquidity business unit strives to promote sound financial risk management practices throughout the Western Australian public sector by raising awareness of the risks associated with foreign exchange exposure and providing access to cost-effective foreign exchange advisory and transactional services. With its extensive experience in foreign exchange and financial markets, FX and Liquidity further extended its services to present two masterclasses on foreign exchange to procurement practitioners during the year.

FX and Liquidity has assisted clients to identify and manage exposures that have arisen in anything from day-to-day operational transactions through to large-scale asset procurement projects. These projects included:

- Fire and Emergency Services Authority's purchase of an aerial fire appliance;
- Perth Theatre Trust's engagement of the Berlin Philharmonic Orchestra to perform in Perth;
- a new regional radio network for WA Police; and
- the construction of the Southern Seawater Desalination Plant by Water Corporation.

In early 2010, WATC invited several clients to participate in a foreign exchange workshop. The aim of the workshop was for WATC to gain a better understanding of the information that is important to its clients when managing their foreign exchange risk. This information was then used to guide the development of a foreign exchange risk model by WATC's Quantitative Financial Services branch. This model was completed and presented to clients in September 2010 and is now used as an integral tool in the analysis of foreign exchange risk.

Treasury Services

WATC continued to fulfil a treasury services role for the Department of Treasury and Finance in relation to the investment of surplus funds standing to the credit of the Public Bank Account. The average daily balance of funds invested during 2010/11 was \$4.569 billion.

QUANTITATIVE FINANCIAL SERVICES

WATC's advisory services provide the State and Western Australian public sector entities with access to sophisticated financial modelling expertise to analyse and provide advice on a wide range of financial risks faced by clients. WATC also continued to provide the State, through the Department of Treasury and Finance, and clients with a diverse range of specialist general finance advice.

Some key advisory engagements undertaken over the past year are described below.

Water Corporation

WATC worked closely with Water Corporation staff to carry out a major review of the Water Corporation debt management strategy. This was a significant exercise as it involved linking a purpose-built Water Corporation corporate financial model to WATC's interest rate and inflation models. Rather than analyse the interest cost of differing debt structures in isolation, the objective was to model the joint impact of interest rates and inflation on the major drivers of both the expenses and revenues of Water Corporation and to gain a better understanding of how these factors ultimately affect the overall level and volatility of earnings.

Foreign Exchange Model

Another highlight for the year was the completion of the work on developing a model to quantify foreign currency risk. Following on from an earlier client focus group meeting, the model was developed to meet the requirements expressed by clients. A presentation was made to clients using a number of case studies to demonstrate the potential applications of the model in assisting to understand and quantify the foreign exchange exposure in situations that are typically experienced by WATC clients. It has proven its effectiveness and now forms an integral part of WATC's service in advising clients on their foreign currency risks.

Western Power

WATC previously assisted Western Power to restructure its debt portfolio to include a portion of inflation-linked debt. Following this restructure, WATC continued to work closely with Western Power on a number of engagements aimed at developing metrics to measure the performance of the new debt portfolio, in order to confirm that the expected advantages were being realised. Together with a number of other clients, Western Power has a keen interest in monitoring factors that influence the Weighted Average Cost of Capital (WACC) for an organisation. As an example, the calculation of one of the parameters, the debt risk premium, has been a challenge due to the diminishing availability of relevant corporate bond data. WATC continues to advise a number of clients on all facets of WACC.

ASSET AND PROJECT FINANCING

WATC's Asset and Project Financing (APF) business unit is committed to working in partnership to deliver effective financial solutions that enable clients to achieve their objectives. APF provides financial modelling, analysis support and financial and commercial advice across all stages of project development and procurement execution.

Following are examples of the unit's advisory engagements during the year.

Midland Health Campus

The Midland Health Campus will be a comprehensive secondary hospital with over 300 beds, providing services to public patients and replacing the existing Swan District Hospital. It is the State's intention that the Midland Health Campus will be procured in partnership with the private sector, which will be responsible for designing, building, and operating the hospital.

APF had previously supported North Metropolitan Area Health Service in its planning for project procurement. During the year, APF continued to provide lead commercial and financial advice for the project. APF provided quantitative analyses to develop frameworks for assessing value for money through the design of the Public Sector Comparator. APF contributed to the development of tender documentation and evaluation of Expression of Interest responses.

APF continues to play a lead role in this project as it moves through the procurement phase. Short-listed respondents are currently progressing through an interactive tender phase, formulating their detailed responses to the Request for Proposal document.

Department of Housing Asset Transfer Program

The Department of Housing invited Community Housing Organisations (CHOs) to tender for the ownership rights to housing assets developed under the Commonwealth Government Nation Building – Economic Stimulus Plan. The basis of the tender was for CHOs to propose the subsequent growth in social housing they could provide through leveraging off the value of the transferred properties and future expected operational surpluses derived from their management efficiencies.

APF provided a comparator financial model to aid the department in assessing the growth potential of proposals. APF also provided risk identification for the program. APF then assisted in preparing tender documentation and evaluating proposals, in particular, interrogating the veracity of the financial models submitted and comparing growth expectations proposed by CHOs with the comparator model.

APF developed a comprehensive methodology for ranking the financial viability of proposals and identified key risks with proposals, providing guidance for the department's subsequent negotiation with CHOs.



WATC representatives have understood our requirements through the astute and insightful clarification questions put to us and the resultant high quality outputs provided. WATC has provided an outstanding level of support and expertise always within a timely and efficient manner. There has never been an issue regarding the ability to contact WATC representatives or with poor communication on their part.

WATC staff have provided an expert service that exceeded expectations, their skills and knowledge are of the highest order. Queries and questions were always answered satisfactorily and promptly. WATC support and advice has been invaluable to the success of our project thus far. We would have no hesitation in recommending their services to others.

LIZ MACLEOD

Director Strategic Development
North Metropolitan Health Service



Often, the detail of the Department's requirements are not well known by the Department at the outset of a project. WATC have assisted by making useful suggestions as to approaches and requirements that have led to good outcomes. WATC have always responded promptly and have worked well delivering even when the Department imposed very tight deadlines.

The Department hired a top accounting firm to assist with the drafting of the financial criterion in an RFP for the transfer of Commonwealth Stimulus funding to the Not for Profit Sector. After considerable difficulties framing the criterion and developing the evaluation model, the Department eventually went largely with the model developed by WATC. As part of Government, WATC brings a real commitment to managing Government's risks, together with an intimate knowledge of Government processes and requirements that cannot be bought with external consultants.

STEVEN CARROLL

Manager, Strategy and Policy
Department of Housing

RISK MANAGEMENT

WATC is exposed to a range of financial and non-financial risks in conducting its day-to-day operations. To mitigate these risks, the Risk Management branch uses a Board-approved risk management framework to ensure that any adverse events do not exceed WATC's risk appetite and to ensure that WATC meets its obligations to clients and other stakeholders. This framework utilises systems, policies and processes to ensure that its risks are appropriately managed and communicated in a timely manner. WATC also maintains capital provisions in line with APRA standards and the Basel Accord to cover the financial impact of any adverse events.

The key risks faced by WATC, including any changes in risk profile or the approach to the management of these risks, are outlined in the following sections.

CREDIT RISK

Credit risk is the risk that WATC's borrowing counterparties are unable to meet their financial obligations when due. WATC's largest credit exposures flow from the need to maintain an investment portfolio with financial institutions in order to manage liquidity risk and to support the market in its debt paper. Over the past year, no counterparty has failed to meet its obligations to WATC. The credit environment was relatively stable in 2010/11, despite ongoing European sovereign debt issues and incremental downgrades to several financial institutions. Most of the increase in WATC's credit risk capital requirements during the year reflects the growth in WATC's investment portfolio, rather than a deterioration in WATC's counterparties' credit quality.

Credit risk exposure also arises from the derivative positions used to manage the market and liquidity risk associated with WATC's funding activities. In 2010/11, WATC reduced its credit exposure to derivative counterparties by executing five Credit Support Annexes (CSAs). These reciprocal agreements require counterparties to post collateral with WATC should derivative positions move sharply in WATC's favour.

MARKET RISK

Market risk is the risk of financial loss (realised or unrealised) as a result of changes in market factors such as interest and foreign exchange rates. WATC aims to manage, within agreed parameters, all market risks that threaten to have an adverse and unacceptable impact on its financial position. Market risk is monitored and reported daily using Value at Risk (VaR) techniques and is complemented with regular stress testing to ensure that the potential impact of extreme market events on WATC's portfolio exposures is communicated and fully understood.

Market risk capital provisions (which are a multiple of VaR) were lower in 2010/11 due to decreased interest rate volatility and improved hedging of the portfolio (facilitated by the launch of WATC's new 2014 benchmark bond).

LIQUIDITY RISK

WATC defines liquidity risk as the risk of having insufficient funds available to meet its financial obligations, as and when they fall due, without having to incur excessive losses or funding costs. WATC's liquidity risk is managed through a combination of maintaining a diverse range of funding sources and a level of liquid assets that is adjusted in accordance with balance sheet size and cash flow projections.

Market liquidity was strong in 2010/11. WATC was able to tap short- and long-term funding at competitive prices with strong demand for short-term inscribed stock and offshore Eurocommercial Paper, as well as long-term bonds.

OPERATIONAL RISK

Operational risks are inherent in all aspects of WATC operations. In order to manage these risks effectively, WATC has put a risk management framework in place that identifies and assesses these operational risks and ensures that existing controls keep risks within the Board's tolerance levels. There is a range of controls, such as segregation of duties, reporting of key risk indicators, documentation of procedures and internal audit checks, that assist in mitigating these risks. WATC also has a highly developed and tested Business Continuity Plan.

There were no significant operational risk events during 2010/11.

The methodology for calculating operational risk capital was changed towards the end of 2010/11 to bring it more closely in line with APRA's Standardised Approach. This resulted in a fall in operational risk capital requirements of approximately \$2.3 million.

The following table shows WATC's average and peak capital provisions during 2010/11.

Source of risk	Average 2010/11	Average 2009/10	Peak 2010/11	Peak 2009/10
	\$m	\$m	\$m	\$m
Credit Risk	26.4	19.6	32.8	25.7
Market Risk	8.9	11.3	15.6	19.7
Operational Risk	9.9	10.0	10.0	10.0
Overall	45.2	40.9	51.3	47.0

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

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

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

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

At 30 June 2011, the directors of WATC were:

Name	Position	First Appointed	Term Expires
Timothy Michael Marney	Chairperson	Statutory	Statutory
Anthony Michael Kannis	Deputy Chairperson	1 March 2009	n/a
John MacPherson Collins ¹	Chief Executive Officer	Statutory	Statutory
Gaye Marie McMath	Director	1 January 2003	31 December 2011
Catherine Anne Nance	Director	15 July 1998	31 December 2012
Grahame John Searle	Director	1 January 2009	31 December 2013

¹ The Chief Executive Officer is the only director with executive responsibilities. All other directors are independent directors.

BOARD RESPONSIBILITIES

The Board is responsible for the performance of the functions of WATC under the Act. These functions include:

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

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

- reviewing and establishing (with the Minister's agreement) WATC's Strategic Development Plan and Statement of Corporate Intent each year;
- monitoring the performance of WATC; and
- 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.

BOARD COMPOSITION

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

- the Under Treasurer as Chairperson;
- a Treasury officer nominated by the Under Treasurer from time to time as the Deputy Chairperson;
- the Chief Executive Officer or Acting Chief Executive Officer of WATC; and
- up to three other persons with relevant commercial or financial experience appointed by the Minister (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.

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, as set out in the Terms of Reference approved by the Board, is essentially to give the Board additional assurance regarding the quality, integrity, reliability and adequacy of WATC's accounting and internal control systems, financial reporting and compliance processes.

The Audit Committee is responsible for contact with WATC'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. At meetings of the Audit Committee, the external and internal auditors are invited to address the Audit Committee without management present.

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 2011 were:

Name	Position
Catherine Anne Nance	Chairperson
Anthony Michael Kannis	Member
Gaye Marie McMath	Member

All members of the Audit Committee are non-executive directors.

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
T M Marney	10	7			1	1
A M Kannis	10	8	4	2		
J M Collins ¹	10	10	4	4	1	1
G M McMath	10	9	4	4		
C A Nance	10	8	4	3	1	1
G J Searle	10	7			1	1

¹ John Collins was invited to attend Audit Committee Meetings.

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 WATC'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 WATC 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 terms and conditions of service for the Chief Executive Officer require the concurrence of the Minister.

The members of the Remuneration Committee at 30 June 2011 were:

Name	Position
Timothy Michael Marney	Chairperson
John MacPherson Collins	Member
Catherine Anne Nance	Member
Grahame John Searle	Member

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

WATC'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 Act 2001*.

In accordance with Clause 18 of Schedule 2 to the Act, directors are required to leave the room and not take part in deliberations of matters in which they have some material personal interest.

INSURANCE POLICY

An insurance policy has been taken out to indemnify members of the Board against liabilities under Sections 13 and 14 of the *Statutory Corporations (Liability of Directors) Act 1996*. The amount of the insurance premium paid for 2010/11 was \$61,815.

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 WATC's directors and staff and has established codes of conduct for directors and staff respectively.

During 2010/11, WATC developed a new Code of Conduct (the Code) to reflect and support its values and to provide employees with a clear, concise and relevant guide to standards of behaviour in the workplace.

The Code also applies to directors unless there is an inconsistency, in which case the Directors' Code of Conduct will apply.

WATC has also adopted the Western Australian Public Sector's Code of Ethics and endorsed, in principle, the code of conduct developed by the Australian Financial Markets Association.

PROFESSIONAL ADVICE

Directors are entitled, with the prior approval of the Chief Executive Officer, to obtain such resources and information from WATC, 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 WATC, to assist them to carry out their duties as directors.

PERFORMANCE EVALUATION

The Board evaluates its performance each year.

COMPLIANCE

The role of WATC's compliance function is to ensure that WATC maintains 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.

Auditors

External Audit

Section 21 of the Act states:

"The provisions of the Financial Management Act 2006 and the Auditor General Act 2006 regulating the financial administration, audit and reporting of statutory authorities apply to and in respect of the Corporation and its operations."

In accordance with the provisions of the *Financial Management Act 2006* and the *Auditor General Act 2006*, WATC's external auditor is the Auditor General for Western Australia. The Auditor General utilises the services of Ernst & Young to conduct the annual audit.

Internal Audit

WATC's internal audit function is outsourced to KPMG. Appointment to this role by WATC is subject to the Common Use Arrangements authorised by the Department of Treasury and Finance for accessing audit services and financial advice. The appointment, which commenced on 1 July 2009, is for a term of three years with the option to extend the term for a further two one-year periods at WATC's sole discretion.

INFORMATION STATEMENT

In accordance with Part 5 of the *Freedom of Information Act 1992*, WATC has prepared an Information Statement. This document is available for inspection at WATC's office at Level 12, St Georges Square, 225 St Georges Terrace, Perth.

LEGISLATION

Legislation Administered

Western Australian Treasury Corporation Act 1986

Legislation Impacting on WATC's Activities

State Legislation Impacting on Activities

- *Auditor General Act 2006*
- *Corruption and Crime Commission Act 2003*
- *Disability Services Act 1993*
- *Electoral Act 1907*
- *Electronic Transactions Act 2003*
- *Equal Opportunity Act 1984*
- *Fair Trading Act 1987*
- *Financial Management Act 2006*
- *Freedom of Information Act 1992*
- *Occupational Safety and Health Act 1984*
- *Pay-roll Tax Assessment Act 2002*
- *Public and Bank Holidays Act 1972*
- *Public Interest Disclosure Act 2003*
- *Public Sector Management Act 1994*
- *Stamp Act 1921*
- *State Records Act 2000*
- *State Superannuation Act 2000*
- *State Supply Commission Act 1991*
- *Statutory Corporations (Liability of Directors) Act 1996*
- *Workers Compensation and Injury Management Act 1981*

Commonwealth Legislation Impacting on Activities

- *A New Tax System (Goods and Services Tax) Act 1999*
- *Anti-Money Laundering and Counter-Terrorism Financing Act 2006*
- *Census and Statistics Act 1905*
- *Copyright Act 1968*
- *Fair Work Act 2009*
- *Fringe Benefits Tax Act 1986*
- *Income Tax Assessment Act 1936*
- *Superannuation Guarantee (Administration) Act 1992*
- *Taxation Administration Act 1953*

Changes in Written Law

There were no changes to the *Western Australian Treasury Corporation Act 1986* during the financial year.

MINISTERIAL DIRECTIVES

No ministerial directives were received during the financial year.



The Department of Housing has embarked on a program of partnering with the private and not-for-profit sectors to increase the supply of affordable and social housing across Western Australia. It aims to provide at least 20,000 affordable homes by 2020 as part of the State's new Affordable Housing Strategy 2010-2020: Opening Doors to Affordable Housing. This includes redevelopment of the heritage-listed Fort Knox building in Fremantle into 58 modern, one-bedroom units and a new 96-unit seniors development at Coodanup in Mandurah that was completed in April 2011. WATC assisted the Department of Housing by providing financial advisory and modelling assistance for its Asset Transfer Program which will facilitate Community Housing Organisations to increase housing supply through responsible use of debt finance raised from private financial institutions.



Government of **Western Australia**
Department of **Housing**



OUR PEOPLE

WATC's people management strategy focuses on building capacity to ensure that it has a workforce and work environment capable of delivering WATC's current strategic and operational business goals and developing its future strategic objectives.

OVERVIEW OF THE WORKFORCE

WATC's workforce possesses a high level of strategic, technical and professional capability. In 2010/11, WATC undertook a series of initiatives to help maintain and build its workforce capability, including:

- enhancing recruitment and selection practices through the development of a new briefing kit for prospective employees and use of streamlined selection processes;
- improving its performance management capability through the implementation of an internally designed Performance Management Framework encompassing an integrated series of policies, guidelines and forms relating to induction, probation, learning and development, performance appraisal and managing underperformance;
- continuing to provide support for technical development, professional development and tertiary studies, including supporting 18 employees with Financial Markets Accreditation through the Australian Financial Markets Association;
- implementing a three-tiered succession management program focusing on young professionals, emerging leaders and senior leaders in the organisation; and
- continuing to provide support for career development through its Individual Career Development Planning program.

WATC's workforce continued to grow in 2010/11, with a total of 68 employees at 30 June 2011 compared with 63 at 30 June 2010. The attrition rate of 11.94% was higher than in previous years and this increase was reflective of a number of employees relocating interstate and/or retiring from the workforce.

OVERVIEW OF THE WORK ENVIRONMENT

WATC's Values outline the key characteristics of the work environment and these are supported through a range of policies, procedures and initiatives.

WATC continued to demonstrate its commitment to appropriate workplace behaviour practices through a series of initiatives in 2010/11. A new Code of Conduct was developed to provide employees with a clear, concise and relevant guide to standards of behaviour in the workplace. Information sessions on Public Interest Disclosure were delivered to employees and Accountable and Ethical Decision-making training was provided to new employees. WATC did not have any complaints lodged under its Code of Conduct or any breach claims lodged under the Public Sector Standards in Human Resources Management.

WATC also continued to demonstrate its commitment to consultation and continuous improvement in the workplace. WATC supported the operation of the Joint Consultative Committee to review and discuss employment conditions and issues. WATC participated in the Aon Hewitt Employee Opinion Survey to provide it with greater capacity to measure employee engagement in the workplace. This has been supported through management and employee focus groups to work towards improving the work environment.



The Southern Seawater Desalination Plant, in the Shire of Harvey, will be the next major water source for Western Australia. The plant will initially produce 50 billion litres (gigalitres) of drinking water annually, with the capacity to expand to 100 gigalitres. During 2010/11, works to complete the initial 50 gigalitre capacity were near completion, with water production from the plant to commence in early 2011/12. WATC played a key role, both before and during construction, providing debt funding used towards the project construction, advice on the strategy used for hedging foreign exchange risk and foreign exchange requirements.



WATC's ongoing commitment to providing an inclusive environment that is free from bias and discrimination was evident during 2010/11. A more comprehensive and effective induction program was developed for new employees. Flexible workplace practices were reviewed and refined to reflect the requirements of WATC's workforce and changes in the legislative environment. WATC also reviewed and refined its Grievance Management Framework, including expanding the number of Contact and Grievance Officers available to employees.

OVERVIEW OF SAFETY, HEALTH AND ILLNESS/ INJURY MANAGEMENT

WATC is committed to an Occupational Safety and Health (OSH) management system that is comprehensive and consultative and allows for continuous improvement in working towards a safe and healthy workplace. The focus of the reporting period was to review and enhance WATC's OSH management system. WATC's achievements were recognised through the award of a Gold Certificate of Achievement by WorkSafe.

The formal mechanism for consultation is the OSH Committee, which is comprised of management representatives (including the Chief Executive Officer and Human Resources Manager), safety and health representatives and employee representatives. The OSH Committee meets on a quarterly basis and four meetings were held during the reporting period. In addition, the OSH Committee attended an information session on Safety and Health Leadership in June 2011. OSH information, including access to OSH Committee minutes, is made available to all employees through WATC's intranet and noticeboards within the office.

The OSH system is supported by delivery of training to employees. All new employees receive OSH training as part of the induction program. This is reinforced through annual information sessions for employees. There was a particular focus on stress management and workplace ergonomics for the sessions held during the reporting period. All employees have attended at least one safety and health training session in the past two years.

The OSH system was evaluated through an external audit, based on the WorkSafe Plan, by an approved WorkSafe auditor. The audit recognised WATC's efforts in making a sustained effort to implement and improve the OSH system. The key recommendation was to focus on storage of files and equipment within the office environment.

WATC has an Injury Management System, including relevant policies, procedures and guidelines. This includes an Injury Management Policy which has been endorsed by RiskCover as being compliant with the *Workers Compensation and Injury Management Act 1981 (WA)*. It also includes having one employee accredited in managing illnesses and injuries in the workplace.

WATC had no fatalities or injuries in the workplace leading to lost time injury during the reporting period, as outlined in the table below.

Indicator	Target 2010/11	Actual 2010/11
Number of fatalities	0	0
Lost time injury/disease (LTI/D) incidence rate	0	0
Lost time injury severity rate	0	0
Percentage of injured workers returned to work within 28 weeks	100%	n/a (no injuries during the reporting period)
Percentage of managers trained in occupational safety, health and injury management responsibilities	90%	100%

INFORMATION AND COMMUNICATIONS TECHNOLOGY

In 2010/11, the Information and Communications Technology branch focused on increasing performance and capacity for business operations, adding functionality to Summit and extending business continuity facilities.

The Summit treasury management system was maintained as the major platform for WATC's market activities. Work was undertaken to provide additional products to clients including:

- a review of government guarantee fee reporting;
- the introduction of more automated and improved settlement functionality;
- the introduction of new profit attribution reporting;
- the implementation of the Local Government Information Database; and
- a range of reports available through an enhanced intranet.

To facilitate better performance of business systems, and in line with the prescribed hardware replacement plans, the server infrastructure was replaced and the Storage Area Network (SAN) was extended with more storage capacity. To ensure the ongoing capability of the SAN, a review of its performance levels was undertaken to align it with business plans. The replacement of the servers and upgrade of the SAN meant consequential work in the provision of business continuity facilities.

The need for reliability, responsiveness and integrity of the business continuity facilities was highlighted through the ramifications of the floods in Queensland which closed the Brisbane central business district. This year, WATC's current facilities were upgraded with the implementation of Microsoft Exchange and a successful, comprehensive test of the capabilities of the remote site. Reliability was further enhanced with ongoing monthly testing of hardware and software at the remote site.

Work commenced on a review and redevelopment of WATC's internet website. This will provide an enhanced and more contemporary site with greater capability than the existing site and improved access to information.

The provision of information and communications technology was also reviewed and aligned with WATC's strategic business objectives in the Information Technology Strategic Plan.

REGISTRY AND TREASURY OPERATIONS

During 2010/11, WATC continued to engage Link Market Services Limited (Link) for provision of registry services to WATC's stockholders. Address details of the branch offices of Link are shown on the last page of this report.

Systems and services provided by the following suppliers were used to confirm and settle financial transactions during the year:

ASX Austraclear Limited	for A\$ cash, short-term money market, fixed interest and foreign exchange transactions
Bank of America	for foreign currency payments
Clearstream Banking	for repurchases of offshore issues
Citibank NA	for transactions in Eurocommercial Paper and Euro Medium Term Notes

FREEDOM OF INFORMATION (FOI)

WATC has an FOI Coordinator to facilitate the handling of requests and to be the first point of contact for FOI enquiries and requests.

For the year ended 30 June 2011, WATC received no Freedom of Information access applications in accordance with the *Freedom of Information Act 1992*.

INFORMATION MANAGEMENT

WATC undertook an internal audit of its recordkeeping systems in 2010. Overall, the results of the audit review were considered very satisfactory. Actions arising from this audit included the review of existing recordkeeping policies and procedures and WATC's recordkeeping training program.

WATC is currently implementing an online recordkeeping awareness training course which will be mandatory for all existing staff, and will be undertaken as part of the Induction Program for all new staff members. In addition, Information Management staff will conduct regular targeted training sessions in the use of WATC's electronic document and records management system, TRIM.

As part of WATC's Induction Program, all new employees receive advice and information relating to WATC recordkeeping systems and procedures. Also included is comprehensive training in the use of TRIM.

QUARTERLY REPORT

With the exception of the June quarter, WATC submits a report on its operations during the preceding quarter to the Treasurer. This report is tabled in Parliament by the Treasurer.

PRICING POLICY

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

ELECTORAL ACT DISCLOSURES

Under the Electoral Act, WATC is required to disclose any expenditure it makes to:

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

For the year ended 30 June 2011, the only disclosable expenditure incurred was in relation to advertising, where an amount of \$53,564 was spent for advertising of staff vacancies.



WATC has continued to support Port Hedland Port Authority in the construction of the Utah Point Berth by providing a full range of corporate treasury services. These include assistance with financial modelling, foreign exchange management and transaction services, investments and through the provision of debt funding and associated risk management services.



Over 10,000 Western Australians were part of history when they enjoyed world-class performances by the Berlin Philharmonic Orchestra at the Perth Concert Hall in November 2010. The two sold-out concerts have since been awarded two prestigious Helpmann Awards for 2011: Best Symphony Orchestra Concert and Best Individual Classical Performance for Sir Simon Rattle. WATC assisted Perth Theatre Trust in the management of foreign currency exposure associated with bringing this world-renowned orchestra to Perth.



FUTURE OUTLOOK

ESTIMATED BORROWING PROGRAM¹ – 2011/12

	\$ million	\$ million
FUNDING REQUIREMENTS		
<i>New Lending to Clients</i>		4,898
<i>Projected Maturities</i>		
Prefunding of July 2012 Benchmark Bond Maturity	4,600	
Short-Term (Commercial Paper Outstandings)	<u>6,651</u>	11,251
TOTAL FUNDING REQUIREMENT		16,149
SOURCE OF FUNDING		
<i>Borrowings</i>		
Long-Term	8,763	
Short-Term (Commercial Paper Outstandings)	<u>7,386</u>	16,149
TOTAL FUNDING		16,149

¹ The sourcing of WATC's funding is subject to conditions in the various markets and the market mix during the year may be amended as necessary to meet WATC's pricing, liquidity, lending and capital usage targets.

BORROWING STRATEGY

In order to meet its funding and debt management needs for 2011/12 WATC proposes to:

- issue across the yield curve to fund lending to clients;
- enhance the liquidity of its existing benchmark bond lines by supporting these securities in the marketplace and by issuing through the Fixed Interest Market Making Panel, either by tender or private placement;
- continue to be responsive to opportunities to issue stocks longer than ten years to hedge specific client lendings and target the maturities to comply with the program of future benchmark bonds;
- continue to issue short-term paper through domestic inscribed stock or the Eurocommercial Paper Program for liquidity funding;
- actively pursue opportunities to issue through its Euro Medium Term Note Program and other offshore markets to generate term fixed and floating rate funding; and
- transact in interest rate swaps to meet WATC's asset and liability management requirements and to generate floating rate funding for its clients.

BUDGET 2011/12

	\$'000
INCOME	
Interest on Investments	172,500
Interest from Authorities	1,529,688
Fee Income	550
	<u>1,702,738</u>
EXPENSES	
Interest on Borrowings	1,670,404
Depreciation/Amortisation	867
Borrowing Related Expenses	3,389
Administration Expenses	15,101
	<u>1,689,761</u>
Profit before income tax equivalent	12,977
Income tax equivalent expense	3,893
Profit for the period	9,084



FINANCIAL STATEMENTS CONTENTS



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STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

		2011	2010
	Note	\$'000	\$'000
INCOME			
Revenue			
Interest on Investments		173,114	108,369
Interest from Authorities		1,218,297	927,970
Fee Income		527	358
Total Revenue		1,391,938	1,036,697
Gains			
Net Fair Value Movement	7	31,718	0
Gains from Sale of Plant and Equipment	4	0	1
Total Other Income		31,718	1
Total Income		1,423,656	1,036,698
EXPENSES			
Expenses			
Interest on Borrowings		1,392,587	1,009,760
Borrowing Related Expenses		1,309	1,300
Depreciation		226	218
Amortisation of Intangible Assets		489	644
Administration Expenses	5	12,813	11,790
Foreign Exchange Loss	6	12	13
Net Fair Value Movement	7	0	6,197
Total Expenses		1,407,436	1,029,922
Profit before income tax equivalent expense		16,220	6,776
Income Tax Equivalent Expense	8	4,871	2,037
Profit for the period		11,349	4,739
Other Comprehensive Income		0	0
Total Comprehensive Income for the period		11,349	4,739

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

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

	Note	2011 \$'000	2010 \$'000
ASSETS			
– Cash Assets	9	2,751	1,110
– Investments	10	3,346,207	2,586,736
– Receivables and other financial assets	11	857,816	901,239
– Loans to Authorities	12	24,054,334	22,078,015
– Tax Assets	13	940	845
– Plant and Equipment	14	374	433
– Intangible Assets	15	344	680
TOTAL ASSETS		28,262,766	25,569,058
LIABILITIES			
– Payables and other financial liabilities	17	560,395	311,007
– Borrowings	18	27,609,912	25,173,316
– Tax Liabilities	19	1,196	2,059
– Provisions	20	3,121	2,803
TOTAL LIABILITIES		28,174,624	25,489,185
NET ASSETS		88,142	79,873
EQUITY			
– Retained Profits		85,142	76,873
– Reserves		3,000	3,000
TOTAL EQUITY		88,142	79,873

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011

	Reserves \$'000	Retained Earnings \$'000	Total Equity \$'000
Balance at 1 July 2009	3,000	84,178	87,178
Profit for the period	0	4,739	4,739
Other comprehensive income	0	0	0
Total comprehensive income for the period	0	4,739	4,739
Transactions with owners in their capacity as owners:			
Capital appropriations	0	0	0
Distributions to owners	0	(12,044)	(12,044)
Total	0	(12,044)	(12,044)
Balance at 30 June 2010	3,000	76,873	79,873
Balance at 1 July 2010	3,000	76,873	79,873
Profit for the period	0	11,349	11,349
Other comprehensive income	0	0	0
Total comprehensive income for the period	0	11,349	11,349
Transactions with owners in their capacity as owners:			
Capital appropriations	0	0	0
Distributions to owners	0	(3,080)	(3,080)
Total	0	(3,080)	(3,080)
Balance at 30 June 2011	3,000	85,142	88,142

The Statement of Changes in Equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2011

		2011	2010
	Note	\$'000	\$'000
Cash Flows from Operating Activities			
Interest received on Loans to Authorities		1,187,693	842,490
Interest received on Investments		155,324	105,327
Proceeds from Sale and Maturity of Investments		3,583,615	2,476,207
Payment for Investments		(4,778,816)	(1,776,083)
Loans to Authorities		(9,312,127)	(12,851,680)
Loans repaid by Authorities		7,266,934	6,931,300
Other Receipt/(Payment) on behalf of Authorities		1,493	(475)
Proceeds from Issuance of Borrowings		29,723,839	38,339,841
Repayment of Borrowings		(27,013,144)	(32,631,473)
Fee Income		527	415
Interest and other Cost of Finance paid		(1,244,742)	(830,211)
Administration and Borrowing Related Expenses		(14,748)	(13,036)
Payment of Taxation Equivalents		(5,830)	(748)
Net Cash provided by/(used in) Operating Activities	22b	(449,982)	591,874
Cash Flows from Investing Activities			
Payment for Plant and Equipment		(167)	(267)
Payment for Intangible Assets		(153)	(68)
Proceeds from Sale of Plant and Equipment		0	1
Net Cash used in Investing Activities		(320)	(334)
Cash Flows from Financing Activities			
Payment of Dividend		(3,080)	(12,044)
Net Cash used in Financing Activities		(3,080)	(12,044)
Net Increase/(Decrease) in Cash and cash equivalents		(453,382)	579,496
Cash and cash equivalents at the Beginning of the Financial Year		1,933,999	1,354,516
Unrealised foreign exchange gain/(loss)		(12)	(13)
Cash and cash equivalents at the End of the Financial Year	22a	1,480,605	1,933,999
Included in the above are the following			
Cash Flows to State Government			
Payment of Dividend		(3,080)	(12,044)
Payment of Taxation Equivalents		(5,830)	(748)
Net Cash provided to State Government		(8,910)	(12,792)

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

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 year ended 30 June 2011 have been prepared in accordance with Australian Accounting Standards. The term "Australian Accounting Standards" refers to Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB"). 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 AASB.

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.

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 Australian Accounting Standards that have been issued or amended but are not operative have been early adopted by WATC for the annual reporting period ended 30 June 2011.

NOTE 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) General Statement

- i. The financial statements constitute general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the AASB 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 Management Act and the Treasurer's Instructions are legislative provisions governing the preparation of financial statements and take precedence over Australian Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the AASB

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 the 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. By nature, the market quoted rates used for valuation of financial assets and financial liabilities include an allowance for credit risk.

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 21.

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 Statement of Comprehensive Income (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:

	2011	2010
Computer Equipment	3-5 years	3-5 years
Other Equipment	5-10 years	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 Statement of Comprehensive Income.

NOTE 2 (CONTINUED)**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 Statement of Comprehensive Income. 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 Statement of Financial Position. Unrealised gains or losses arising from this policy are brought to account in the Statement of Comprehensive Income. 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 Statement of Comprehensive Income. 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 Statement of Comprehensive Income 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 Statement of Financial Position 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 Statement of Comprehensive Income.

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 the end of the reporting period, all monetary assets and liabilities are translated at the exchange rates existing at 30 June 2011. Exchange gains or losses are brought to account in the Statement of Comprehensive Income. 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.

I) 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 reporting 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 end of the reporting period 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 reporting 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 end of the reporting period on national government bonds with terms to maturity 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 in accordance with AASB 119.

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 and 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 Statement of Comprehensive Income.

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

NOTE 2 (CONTINUED)**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 State Consolidated Fund at a level of 65% 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 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 reporting 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) Impairment of Assets

At each reporting 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.

p) 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.

q) Payables

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

r) Cash and cash equivalents

Cash assets in the Statement of Financial Position 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 Statement of Cash Flows, 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.

s) **Accrued Salaries**

Accrued salaries represent the amount due to staff but unpaid at the end of the financial year, as the end of the last pay period for that financial year does not coincide with the end of the financial year.

Accrued salaries are settled within a fortnight of the financial year end. WATC considers the carrying amount of accrued salaries to be equivalent to the net fair 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 Statement of Comprehensive Income. A discretionary capital reserve has been established which may be used to separately identify net profits created by this policy and which may, in the future, be transferred to retained earnings upon maturity of the transactions.

NOTE 3

DISCLOSURE OF CHANGES IN ACCOUNTING POLICY

Initial application of an Australian Accounting Standard

WATC has adopted all Australian Accounting Standards effective for annual reporting periods beginning on or after 1 July 2010 but none have impacted on WATC.

Future impact of Australian Accounting Standards issued but not yet operative

WATC cannot early adopt an Australian Accounting Standard unless specifically permitted by TI 1101 'Application of Australian Accounting Standards and Other Pronouncements'. Consequently, WATC has not applied early any of the following Australian Accounting Standards that have been issued that may impact WATC. Where applicable, WATC plans to apply these Australian Accounting Standards from their application date:

AASB 9 'Financial Instruments' includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 'Financial Instruments: Recognition and Measurement'. WATC does not expect any financial impact when the Standard is first applied in the year ending 30 June 2014.

AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 and 1038 and Interpretations 10 and 12]' Other than changes to disclosure, WATC does not expect any financial impact when the Standard is first applied in the year ending 30 June 2014.

NOTE 3 (CONTINUED)

The following new standards and amendments are not expected to have any impact on WATC:

AASB Amendment	Affected Standards
AASB 124	'Related Party Disclosures'
AASB 2009-12	'Amendments to Australian Accounting Standards [AASB 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 and 1031; and Interpretations 2, 4, 16, 1039 and 1052]'
AASB 2009-14	Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement [AASB Interpretation 14]'
AASB 1054	'Australian Additional Disclosures'
AASB 2010-4	'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, 7, 101 and 134 and Interpretation 13]'
AASB 2010-5	'Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 and 1038 and Interpretations 112, 115, 127, 132 and 1042]'
AASB 2010-6	'Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 and 7]'
AASB 2010-8	'Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]'
AASB 2011-1	'Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project [AASB 1, 5, 101, 107, 108, 121, 128, 132 and 134 and Interpretations 2, 112 and 113]'
AASB 2011-2	'Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements [AASB 101 and 1054]'
IFRS 10	'Consolidated Financial Statements'
IFRS 11	'Joint Arrangements'
IFRS 12	'Disclosure of Interests in Other Entities'

The impact of the following new standards and amendments has not yet been fully determined:

AASB Amendment	Affected Standards
AASB 1053	'Application of Tiers of Australian Accounting Standards'
AASB 2010-2	'Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements'
AASB 2010-7	'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 and 1038 and Interpretations 2, 5, 10, 12, 19 and 127]'
IFRS 13	'Fair Value Measurement'

	2011 \$'000	2010 \$'000
NOTE 4		
GAIN/(LOSS) FROM SALE OF PLANT AND EQUIPMENT		
Computer Hardware		
Gross proceeds of disposed hardware	0	1
Book Value of disposed hardware	0	0
Gain/(Loss) on disposal of hardware	0	1

**NOTE 5
ADMINISTRATION EXPENSES**

The following employee benefit expenses are included in Administration Expenses.

Salaries	7,467	6,701
Workers Compensation costs	62	27
Superannuation expense	864	685
Long Service Leave Provision	221	(39)
	8,614	7,374

NOTE 6 FOREIGN EXCHANGE GAIN/LOSS

WATC maintains balances in its foreign currency bank accounts for the payment of expenses incurred through its overseas borrowings. At 30 June 2011, after taking account of exchange fluctuations, a loss of A\$12 thousand (2010, loss of A\$13 thousand) had resulted on this balance.

	2011	2010
	\$'000	\$'000
NOTE 7 NET FAIR VALUE MOVEMENT		
Fair Value Adjustment – Investments	375	1071
Fair Value Adjustment – Loans to Authorities	19,123	252,407
Fair Value Adjustment – Borrowings	27,204	(219,002)
Fair Value Adjustment – Derivatives	(14,984)	(40,673)
Net Fair Value Movement	31,718	(6,197)
Add Interest movements		
Interest on Investments	173,114	108,369
Interest from Authorities	1,218,297	927,970
Interest on Borrowings	(1,392,587)	(1,009,760)
	(1,176)	26,579
Net gain on financial assets and financial liabilities at fair value through profit and loss	30,542	20,382

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 fair value movement represents unrealised fair value adjustments to be realised over the term of the underlying securities.

NOTE 8 INCOME TAX EQUIVALENT EXPENSE

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

Accounting Profit	16,220	6,776
Income tax equivalent expense at 30% (2010, 30%)	4,866	2,033
Tax effect of expenses that are not deductible/assessable in determining taxable profit		
Sundry expenses	5	4
Income tax equivalent expense	4,871	2,037
Income tax equivalent expense comprises movements in:		
Current income tax equivalent expense	4,966	2,054
Deferred tax income relating to the origination and reversal of temporary differences	(95)	0
Deferred tax expense relating to the origination and reversal of temporary differences	0	(17)
Total income tax equivalent expense	4,871	2,037
Deferred Tax Assets:		
Employee Provisions	936	841
Foreign Currency Revaluation	4	4
Total (Note 13)	940	845
Deferred Tax Liabilities:		
Payables	5	5
Foreign Currency Revaluation	0	0
Total (Note 19)	5	5

	2011	2010
	\$'000	\$'000
NOTE 9		
CASH ASSETS		
Bank Deposits	2,691	1,004
Overseas Bank Accounts	60	106
	2,751	1,110
Average Balance	1,774	3,136
Interest Revenue	444	219
Average Interest Rate	25.03%	6.98%

Cash Assets represent only those funds held in accounts with banks and does not include money market investments. To facilitate the maturity of one of WATC's benchmark bond lines, a larger than normal cash balance was left in the bank account overnight prior to the maturity. This resulted in higher interest revenue and a distortion of the average rate, which in normal circumstances would be in the range of 4% to 5%.

NOTE 10
INVESTMENTS - AT FAIR VALUE

Investments comprise the following:

Short Term Money Market Investments	3,346,207	2,586,736
Government Stock	0	0
Total	3,346,207	2,586,736
Maturity Profile		
At Call	472,700	436,000
Up to 3 Months	2,605,973	1,782,503
3 to 12 Months	267,534	368,233
1 to 5 Years	0	0
Over 5 Years	0	0
Total	3,346,207	2,586,736
Repricing Profile		
At Call	472,700	436,000
Up to 3 Months	2,605,973	1,782,503
3 to 12 Months	267,534	368,233
1 to 5 Years	0	0
Over 5 Years	0	0
Total	3,346,207	2,586,736
Credit Exposure		
Rating	%	%
AAA	10.08	5.77
AA	55.75	48.04
A	34.17	46.19
	100.00	100.00
Average Balance	3,609,428	2,697,596
Interest Revenue	172,428	108,151
Average Interest Rate	4.78%	4.01%

WATC invests its surplus funds in accordance with the Western Australian Treasury Corporation Act. Further information on valuation methods is shown in Note 21. All Investments are classified as financial assets at fair value through profit and loss.

	2011	2010
	\$'000	\$'000
NOTE 11		
RECEIVABLES AND OTHER FINANCIAL ASSETS		
Accrued Interest Receivable	302,315	262,769
Foreign Currency Receivable	0	49,886
Other Debtors	218,098	364,763
	520,413	677,418
Other Financial Assets (Notes 12b and 18b)	337,403	223,821
	857,816	901,239

Accrued Interest Receivable comprises accruals relating to advances made to clients and investments with financial institutions. Other debtors represent financial instrument transactions undertaken prior to 30 June 2011 and due for settlement after 30 June 2011. Other financial assets and foreign currency receivables are discussed in more detail in Note 21.

NOTE 12
LOANS TO AUTHORITIES – AT FAIR VALUE

12a. LOANS TO AUTHORITIES – NON DERIVATIVE	24,054,334	22,078,015
Maturity Profile		
Up to 3 Months	2,178,902	3,789,345
3 to 12 Months	2,181,602	4,900,105
1 to 5 Years	13,356,299	7,695,537
Over 5 Years	6,337,531	5,693,028
Total	24,054,334	22,078,015
Repricing Profile		
Up to 3 Months	8,188,405	8,077,642
3 to 12 Months	4,564,189	3,159,548
1 to 5 Years	5,622,220	5,326,131
Over 5 Years	5,679,520	5,514,694
Total	24,054,334	22,078,015

NOTE 12 (CONTINUED)

	2011	2010
	\$'000	\$'000
12b. LOANS TO AUTHORITIES – DERIVATIVE	5,077	8,058
Maturity Profile		
Up to 3 Months	678	6,507
3 to 12 Months	1,878	1,761
1 to 5 Years	2,356	107
Over 5 Years	165	(317)
Total derivatives shown as receivables and other financial assets (Note 11)	5,077	8,058
Repricing Profile		
Up to 3 Months	678	6,507
3 to 12 Months	1,878	1,761
1 to 5 Years	2,356	107
Over 5 Years	165	(317)
Total derivatives shown as receivables and other financial assets (Note 11)	5,077	8,058
Average Balance	22,652,864	18,601,398
Interest Revenue	1,218,297	927,970
Average Interest Rate	5.38%	4.99%

WATC advances funds to State Government and Local Government authorities within Western Australia. In normal circumstances, most advances are either rolled over or refinanced. State Government advances (97.60% of total (2010, 97.30%)) are guaranteed by the State whilst Local Government advances (2.40% of total (2010, 2.70%)) 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 21.

**NOTE 13
TAX ASSETS**

Deferred Tax Asset	940	845
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**NOTE 14
PLANT AND EQUIPMENT**

Equipment (at cost)	1,645	1,671
Less Accumulated Depreciation	1,271	1,238
Total Plant and Equipment	374	433
Reconciliation		
Equipment		
Opening balance	433	384
Additions	167	267
Disposals/Write-Offs	(193)	(126)
Depreciation	(226)	(218)
Accumulated depreciation on disposal	193	126
Closing balance	374	433

	2011	2010
	\$'000	\$'000
NOTE 15		
INTANGIBLE ASSETS		
Intangible Assets (at cost)	7,709	7,556
Less Accumulated Amortisation	7,365	6,876
Total Intangible Assets	344	680
Reconciliation		
Intangible Assets		
Opening balance	680	1,287
Additions	153	37
Disposals	0	0
Amortisation	(489)	(644)
Accumulated amortisation on disposal	0	0
Closing balance	344	680

NOTE 16
IMPAIRMENT OF ASSETS

There were no indications of impairment to Plant and Equipment and Intangible Assets at 30 June 2011.

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 17
PAYABLES

Interest Accrued (at amortised cost)	358,286	289,207
Other Creditors (at amortised cost)	86,635	21,800
Foreign Currency Payable	115,474	0
	560,395	311,007
Other Financial Liabilities (at fair value)	0	0
	560,395	311,007

Payables comprises accrued interest and sundry creditors relating to debt instruments and unrepresented cheques. Interest Accrued is owed to financial institutions. Other financial liabilities and foreign currency payables, are discussed in more detail in Note 21. There are no foreign currency amounts included which are not effectively economically hedged. Other creditors includes financial instrument transactions undertaken prior to 30 June 2011 and due for settlement after 30 June 2011.

	2011	2010
	\$'000	\$'000
NOTE 18		
BORROWINGS – AT FAIR VALUE		
18a. BORROWINGS – NON DERIVATIVE	27,609,912	25,173,316
Maturity Profile		
Up to 3 Months	5,051,503	5,953,162
3 to 12 Months	1,924,887	6,514,109
1 to 5 Years	14,552,383	8,352,110
Over 5 Years	6,081,139	4,353,935
Total borrowings at fair value	<u>27,609,912</u>	<u>25,173,316</u>
Repricing Profile		
Up to 3 Months	5,051,503	5,953,162
3 to 12 Months	1,924,887	6,514,109
1 to 5 Years	14,552,383	8,352,110
Over 5 Years	6,081,139	4,353,935
Total borrowings at fair value	<u>27,609,912</u>	<u>25,173,316</u>
18b. BORROWINGS – DERIVATIVE	(332,326)	(215,763)
Maturity Profile		
Up to 3 Months	465	6,296
3 to 12 Months	1,859	(66,044)
1 to 5 Years	(292,010)	(137,435)
Over 5 Years	(42,640)	(18,580)
Total derivatives shown as receivables and other financial assets (Note 11)	<u>(332,326)</u>	<u>(215,763)</u>
Repricing Profile		
Up to 3 Months	17,053	13,814
3 to 12 Months	8,188	(66,044)
1 to 5 Years	(304,144)	(140,488)
Over 5 Years	(53,423)	(23,045)
Total derivatives shown as receivables and other financial assets (Note 11)	<u>(332,326)</u>	<u>(215,763)</u>
Average Balance	26,247,973	21,157,554
Interest Expense	1,392,587	1,009,760
Average Interest Rate	5.31%	4.77%

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 WATC 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 21.

	2011	2010
	\$'000	\$'000
BORROWINGS – AT FACE VALUE		
Payable 12 months or less from 30 June		
– Domestic	3,762,297	8,795,374
– Overseas	3,248,178	3,647,850
	7,010,475	12,443,224
Payable more than 12 months from 30 June		
– Domestic	19,506,902	11,773,288
– Overseas	0	0
	19,506,902	11,773,288
Balance 30 June at face value	26,517,377	24,216,512

OVERSEAS BORROWINGS

Includes Australian currency and foreign currency loans. Foreign currency loans have been translated using the exchange rates applicable at 30 June 2011 and are shown below:

	Exchange Rate Translation at 30/06/11	
Foreign Currency Borrowing	Payable 12 Months or Less from 30/06/11 \$A'000	Payable More than 12 Months from 30/06/11 \$A'000
USD 3,297,521,793	3,068,644	Nil
GBP 29,968,260	44,929	Nil
EUR 99,725,229	134,605	Nil

	Exchange Rate Translation at 30/06/10	
Foreign Currency Borrowing	Payable 12 Months or Less from 30/06/10 \$A'000	Payable More than 12 Months from 30/06/10 \$A'000
USD 2,882,993,727	3,381,823	Nil
GBP 134,640,806	237,577	Nil
SGD 19,990,645	16,739	Nil

At reporting date, all foreign currency loans have either been economically 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 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.

	2011	2010
	\$'000	\$'000
NOTE 19 TAX LIABILITIES		
Current Income Tax Equivalent Liability	1,191	2,054
Deferred Tax Liability	5	5
	1,196	2,059

	2011	2010
	\$'000	\$'000
NOTE 20 PROVISIONS		
Annual Leave	924	884
Long Service Leave	1,431	1,210
Superannuation – defined benefit plans	766	709
	3,121	2,803

Gold State Superannuation Scheme**Accounting Policy**

Actuarial gains and losses are recognised immediately in the Statement of Comprehensive Income in the year in which they occur.

Scheme Information

Some former Pension Scheme members have transferred to Gold State Super. In respect of their transferred benefit, the members receive a lump sum benefit at retirement, death or invalidity which is related to their salary during their employment and indexed during any deferral period after leaving public sector employment.

The following disclosures are in respect of the employer-financed benefits only.

Reconciliation of the Present Value of the Defined Benefit Obligation

Present Value at beginning of year	708	720
(+) Interest cost	38	37
(+) Actuarial (gains)/losses	20	(49)
(-) Benefits paid	0	0
Present Value at end of year	766	708

These defined benefit obligations are wholly unfunded, such that there are no assets. WATC contributes, as required, to meet the benefits paid.

Reconciliation of the Fair Value of Scheme Assets

Fair Value at beginning of year	0	0
(+) Expected return on Scheme assets	0	0
(+) Actuarial (gains)/losses	0	0
(+) Employer contributions	0	0
(+) Contributions by Scheme participants	0	0
(-) Benefits paid	0	0
(+) Transfers in	0	0
(+) Contributions to accumulation section	0	0
(+) Settlements	0	0
(+) Exchange rate changes	0	0
Present Value at end of year	0	0

Reconciliation of the Assets and Liabilities Recognised in the Statement of Financial Position

Defined Benefit Obligation	766	708
(-) Fair value of assets	0	0
Deficit/(surplus)	766	708
(-) Unrecognised past service cost	0	0
(-) Unrecognised net (gain)/loss	0	0
(+) Adjustment for limitation on net asset	0	0
Liability/(asset)	766	708

	2011	2010
	\$'000	\$'000
<i>Expense Recognised in Statement of Comprehensive Income</i>		
Interest cost	38	37
Actuarial (gains)/losses	20	(49)
Superannuation expense/(income)	58	(12)

Scheme Assets

There are no assets in Gold State Super for current employees to support the transferred benefits.

Hence, there is

No fair value of Scheme assets;
 No asset allocation of Scheme assets;
 No assets used by the employer;
 No expected return of Scheme assets; and
 No actual return on Scheme assets.

	2011	2010
<i>Principal Actuarial Assumptions Used</i>		
Discount rate (active members)	5.28%	5.48%
Discount rate (pensioners)	5.28%	5.48%
Expected salary increase rate	4.50%	4.50%
Expected pension increase rate	2.50%	2.50%

The discount rate is based on the 10 year Government bond rate. The decrement rates used (eg mortality and retirement rates) are based on those used at the last actuarial valuation for the Schemes.

	2011	2010
	\$'000	\$'000
<i>Historical Information</i>		
Present value of defined benefit obligation	766	708
Fair value of Scheme assets	0	0
(Surplus)/Deficit in Scheme	766	708
Experience adjustments (gain)/loss – Scheme assets	0	0
Experience adjustments (gain)/loss – Scheme liabilities	10	(41)

The experience adjustment for Scheme liabilities represents the actuarial loss (gain) due to a change in the liabilities arising from the Scheme's experience (eg membership movements, unit entitlements) and excludes the effect of the changes in assumptions (eg movements in the bond rate).

	2012
	\$'000
<i>Expected Contributions</i>	
Expected employer contributions	53

NOTE 20 (CONTINUED)**Funding arrangements for employer contributions****a) Contribution recommendations**

WATC is contributing as required to pay benefits, when they fall due.

b) Funding method

The funding method used by WATC and other agencies, whose employees are members of Gold State Super, is the Pay-As-You-Go method. This method affects the timing of the cost to WATC.

Nature of asset/liability

WATC has recognised a liability in the Statement of Financial Position in respect of its defined benefit superannuation arrangements. GESB does not impose a legal liability on WATC to cover any deficit that exists in the Scheme.

NOTE 21**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 116 – Capital Adequacy: Market Risk (APS 116) and APS 112 – Capital Adequacy: Standardised approach to 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's operational risk capital provisioning requirement is calculated using an adjusted form of APRA's Standardised Approach which is set out in APS 114 Capital Adequacy: Standardised Approach to Operational Risk.

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

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

	2011	2010
	\$'000	\$'000
Unrealised Fair Value on Swap Portfolio		
Credit Sensitivity Analysis		
Unrealised fair value gain/(loss)	3,835	(4,626)
Basis Point Sensitivity	37,484	65,091
Increase of 80 basis points in credit spreads	2,999	5,207
Increase of 50 basis points in credit spreads	1,874	3,255
Increase of 30 basis points in credit spreads	1,125	1,953
Decrease of 80 basis points in credit spreads	(2,999)	(5,207)
Decrease of 50 basis points in credit spreads	(1,874)	(3,255)
Decrease of 30 basis points in credit spreads	(1,125)	(1,953)



Interest Rate Risk

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

Consistent with APS 116, 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 can not 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.

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:

	2011 \$'000	2010 \$'000
Value at Risk (VaR)		
Average Daily Balance for Year	943	1,198
Lowest for Year	669	836
Highest for Year	1,642	2,076
Closing Balance	839	885

NOTE 21 (CONTINUED)
Interest Rate Risk Exposure

The following table details WATC's exposure to interest rate risk as at the reporting date:

2011	Weighted Average Effective Interest Rate %	At Call \$'000	Up to 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	Non Interest Bearing \$'000	Total \$'000
Financial Assets:								
Cash and Cash Equivalents	25.03	2,751						2,751
Receivables								
– non derivative							520,413	520,413
– derivative			(16,374)	(6,310)	306,500	53,587		337,403
Investments	4.78	472,700	2,605,973	267,534				3,346,207
Loans to Authorities	5.38		8,188,405	4,564,189	5,622,220	5,679,520		24,054,334
		475,451	10,778,004	4,825,413	5,928,720	5,733,107	520,413	28,261,108
Financial Liabilities:								
Payables							560,395	560,395
Borrowings	5.31		5,051,503	1,924,887	14,552,383	6,081,139		27,609,912
		0	5,051,503	1,924,887	14,552,383	6,081,139	560,395	28,170,307

2010	Weighted Average Effective Interest Rate %	At Call \$'000	Up to 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	Non Interest Bearing \$'000	Total \$'000
Financial Assets:								
Cash and Cash Equivalents	6.98	1,110						1,110
Receivables								
– non derivative							677,418	677,418
– derivative			(7,307)	67,805	140,595	22,728		223,821
Investments	4.01	436,000	1,782,503	368,233				2,586,736
Loans to Authorities	4.99		8,077,642	3,159,548	5,326,131	5,514,694		22,078,015
		437,110	9,852,838	3,595,586	5,466,726	5,537,422	677,418	25,567,100
Financial Liabilities:								
Payables							311,007	311,007
Borrowings	4.77		5,953,162	6,514,109	8,352,110	4,353,935		25,173,316
		0	5,953,162	6,514,109	8,352,110	4,353,935	311,007	25,484,323



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 designed to reduce credit risk by ensuring diversification of WATC's credit exposures and by setting minimum standards for the credit quality of counterparties. WATC also reduces credit risk in relation to derivative instruments with the use of ISDA Master Agreements with netting provisions and Credit Support Annexes ("CSA"s).

The capital required to cover credit risk is based on APRA Prudential Standard APS 112 and varies depending on the market value of the investment, the maturity of the investment and the credit standing of the counterparty. The standard also requires capital to be set aside to cover the credit risk associated with WATC's derivative exposures.

	2011	2010
	%	%
Credit Exposure of Investments by Rating		
AAA	10.08	5.77
AA	55.75	48.04
A	34.17	46.19
	100.00	100.00
Credit Exposure of Derivatives by Rating		
AAA	0.00	0.00
AA	68.66	73.34
A	31.34	26.66
	100.00	100.00

NOTE 21 (CONTINUED)**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";
- preparing a 50-day cash flow forecast on a daily basis and 10-day and 10-week cash flow 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 policy mandated minimum level of liquid assets was maintained throughout the year.

Liquidity Table

The following are contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting arrangements:

2011	Up to 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	Total \$'000
Financial Liabilities:					
Payables					
Borrowings					
– non derivative	5,315,422	3,046,421	17,071,038	6,714,309	32,147,190
	5,315,422	3,046,421	17,071,038	6,714,309	32,147,190
Derivatives					
– derivative payable	2,590,268	864,020	3,426	1,355	3,459,069
– derivative receivable	2,528,498	1,000,636	273,529	51,992	3,854,655
Derivatives Net	61,770	(136,616)	(270,103)	(50,637)	(395,586)
Total	5,377,192	2,909,805	16,800,935	6,663,672	31,751,604

2010	Up to 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	Total \$'000
Financial Liabilities:					
Payables					
Borrowings					
– non derivative	6,063,427	7,494,471	10,405,827	4,945,378	28,909,103
	6,063,427	7,494,471	10,405,827	4,945,378	28,909,103
Derivatives					
– derivative payable	3,090,622	559,657	2,121	820	3,653,220
– derivative receivable	3,108,253	726,819	130,937	21,738	3,987,747
Derivatives Net	(17,631)	(167,162)	(128,816)	(20,918)	(334,527)
Total	6,045,796	7,327,309	10,277,011	4,924,460	28,574,576

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 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 and exchange rate), credit, liquidity and funding and operational risks.

WATC has established the Asset and Liability Management Committee ("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 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.

NOTE 21 (CONTINUED)**Capital Requirements**

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

The minimum market and credit risk capital requirement is calculated in accordance with APRA's APS 112 and APS 116 prudential standards. WATC's operational risk capital provisioning is calculated using an adjusted form of APRA's Standardised Approach which is set out in APS 114. 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.

In accordance with WATC's Market Risk Management policy (and consistent with APRA standards), VaR is calculated using a 10-day liquidation period and a 99% confidence interval. To determine WATC's market risk capital requirement, the calculated VaR statistic is multiplied by 3.

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

Investments, Loans to Authorities, Borrowings and Derivative financial instruments have been designated as fair value through profit and loss. Balances are recorded at fair value in the Statement of Financial Position and unrealised gains or losses are brought to account in the Statement of Comprehensive Income. 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 30 June 2011, 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 on page 63.

	Notional Amount	Net Fair Value	Credit Exposure
	\$'000	\$'000	\$'000
As at 30 June 2011			
Futures	51,300	214	0
Interest Rate Swaps	9,711,025	337,170	422,748
Forward Rate Agreements	1,122,000	19	51

As at 30 June 2010			
Futures	88,400	193	0
Interest Rate Swaps	5,482,950	223,548	248,709
Forward Rate Agreements	446,400	80	80

Interest rate swaps are used from time to time to manage funding risk by issuing fixed rate benchmark bonds and interest rate swaps to generate floating rate exposures. 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 30 June 2011, WATC had lent funds amounting to \$A7,916,167 thousand (2010, \$A4,873,560 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 30 June, WATC had foreign currency swaps and forwards amounting to \$A3,249,088 thousand (2010, \$A3,636,559 thousand) with a fixed future obligation in Australian dollars of \$A3,364,563 thousand (2010, \$A3,586,673 thousand). Additionally, WATC has arranged foreign exchange transactions for clients amounting to \$A90,136 thousand (2010, \$A181,011 thousand). These transactions are arranged with clients on a back to back basis and therefore WATC does not have any net exposure. The fair value of \$5,077 thousand relating to these forward foreign exchange transactions receivable from authorities and payable to third parties is included in Notes 12(b) and 18(b) respectively.

All financial assets and liabilities have been recognised at the reporting 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 30 June, the market interest rates used by WATC for valuation purposes were:

	Coupon	Market Rate as at 30 June 2011	Market Rate as at 30 June 2010
Overnight	-	4.75%	4.50%
90 days	-	5.00%	4.92%
180 days	-	5.07%	5.00%
15 June 2013	8.00%	4.89%	4.90%
15 April 2015	7.00%	5.04%	5.21%
15 July 2017	8.00%	5.26%	5.46%
15 October 2019	7.00%	5.51%	5.61%
15 July 2021	7.00%	5.61%	5.74%

NOTE 21 (CONTINUED)**Fair Value Hierarchy**

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: quoted prices in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie, as prices) or indirectly (ie, derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
30 June 2011				
Financial assets designated at fair value through profit or loss	472,700	26,927,841	0	27,400,541
Derivative financial assets	0	5,077	0	5,077
Total Assets	472,700	26,932,918	0	27,405,618
Financial liabilities designated at fair value through profit or loss	20,742,802	6,867,110	0	27,609,912
Derivative financial liabilities	0	(267,366)	0	(267,366)
Total Liabilities	20,742,802	6,599,744	0	27,342,546

30 June 2010

Financial assets designated at fair value through profit or loss	436,000	24,228,751	0	24,664,751
Derivative financial assets	0	8,058	0	8,058
Total Assets	436,000	24,236,809	0	24,672,809
Financial liabilities designated at fair value through profit or loss	16,877,643	8,295,673	0	25,173,316
Derivative financial liabilities	0	(296,703)	0	(296,703)
Total Liabilities	16,877,643	7,998,970	0	24,876,613

NOTE 22**NOTES TO THE STATEMENT OF CASH FLOWS****22a. 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:

	2011	2010
	\$'000	\$'000
Bank Deposits (Note 9)	2,691	1,004
Short Term Money Market Investments	1,477,854	1,932,889
Overseas Bank Accounts (Note 9)	60	106
	1,480,605	1,933,999

	2011	2010
	\$'000	\$'000
22b. Reconciliation of Net Cash provided by Operating Activities to Profit for the period		
Profit for the period after tax equivalent	11,349	4,739
Depreciation	226	218
Amortisation of Intangible Assets	489	644
Unrealised Foreign Exchange Loss	12	13
Gain on Sale of Equipment	0	(1)
(Increase) in Receivables	(20,086)	(85,226)
Increase in Accrued Interest Payable	63,977	82,166
(Decrease)/Increase in Other Creditors	(945)	125
Current income tax equivalent expense	4,966	2,054
Other Receipt/(Payment) on behalf of Client Authorities	1,493	(475)
(Increase) in deferred tax asset	(95)	0
Decrease/(Increase) in deferred tax liability	0	(17)
Tax Equivalent Payment	(5,830)	(748)
Increase/(Decrease) in Employee Benefits	318	(14)
Premium/discount amortisation	55,561	94,087
Fair Value Adjustment	(31,718)	6,197
Cash Decrease/(Increase) in Investments	(1,195,201)	700,124
Cash (Increase) in Lending	(2,045,193)	(5,920,380)
Cash Increase in Borrowings	2,710,695	5,708,368
Net Cash provided by/(used in) Operating Activities	(449,982)	591,874

22c. 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.

NOTE 23

REMUNERATION OF DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

Directors' Remuneration

T M Marney, Chairperson, A M Kannis, Deputy Chairperson, J M Collins, Chief Executive Officer, G J Searle, Director, G M McMath, Director and C A Nance, Director are the current directors of WATC. All directors other than J M Collins are non executive. The number of directors whose total of fees, salaries, superannuation and other benefits for the financial year fall within the following bands are:

	2011	2010	2011	2010
\$			\$	\$
30,001 – 40,000	1	1		
40,001 – 50,000	2	2		
80,001 – 90,000	-	1		
240,001 – 250,000	-	1		
350,001 – 360,000	1	-		
The total remuneration of the directors of WATC is:			481,809	450,030
Which comprises:				
Short Term Employment Benefits			443,589	415,865
Other Long Term Employment Benefits			1,562	0
Post Employment Benefits			36,658	34,165

NOTE 23 (CONTINUED)

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

No directors are members of the Pension Scheme.

Other Key Management Personnel Remuneration

Other Key Management Personnel are T W Currie, Corporate Treasurer, S L Luff, Chief Financial Officer and Board Secretary, W L McEwen, Chief Risk Officer, S J B Morhall, Director Client Services, M A Nunes, Deputy Chief Executive Officer and M T Udwadia, Human Resource Manager. The number of other key management personnel, other than directors, whose total fees, salaries, superannuation and other benefits, including payout of entitlements, for the financial year, fall within the following bands are:

	2011	2010	2011	2010
\$			\$	\$
50,001 – 60,000	-	1		
110,001 – 120,000	-	1		
130,001 – 140,000	1	-		
170,001 – 180,000	-	1		
180,001 – 190,000	1	2		
190,001 – 200,000	1	-		
200,001 – 210,000	1	-		
210,001 – 220,000	-	1		
220,001 – 230,000	-	-		
230,001 – 240,000	1	-		
260,001 – 270,000	-	1		
270,001 – 280,000	1	-		
The total remuneration of other key management personnel is:			1,233,472	1,201,276
Which comprises:				
Short Term Employment Benefits			1,057,235	1,064,398
Other Long Term Employment Benefits			53,951	14,332
Post Employment Benefits			122,286	122,546

The superannuation included here represents the superannuation expense incurred by WATC in respect of other key management personnel other than directors.

No other key management personnel are members of the Pension Scheme.

The total remuneration of directors and key management personnel is:	1,715,281	1,651,306
Which comprises:		
Short Term Employment Benefits	1,500,824	1,480,263
Other Long Term Employment Benefits	55,513	14,332
Post Employment Benefits	158,944	156,711

**NOTE 24
AUDITOR'S REMUNERATION**

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

226,600 220,000

NOTE 25 RELATED PARTY TRANSACTIONS

In its role as the State's central borrowing authority, WATC advances funds, which are guaranteed by the State, to various State Government authorities. As at 30 June 2011, 97.6% (2010, 97.3%) of total loans to authorities were advanced to State Government authorities. The loans are provided at the cost of borrowing to WATC plus a margin to cover administration expenses and have various maturities. Details of maturity profile, interest earned and average interest earned are shown in Note 12.

In addition, WATC receives services from various government departments and agencies in the normal course of business. These transactions take place on an arm's length basis.

	ACTUAL	BUDGET	VARIANCE	COMMENT
	\$'000	\$'000	\$'000	
NOTE 26 EXPLANATORY STATEMENT				
26a. ACTUAL/BUDGET COMPARISON 2010/11				
REVENUE				
Interest on Investments	173,114	135,000	38,114	
Interest from Authorities	1,218,297	1,333,086	(114,789)	1
Fee Income	527	500	27	
	1,391,938	1,468,586	(76,648)	
GAINS				
Net Fair Value Movement	31,718	0	31,718	3
Total Income	1,423,656	1,468,586	(44,930)	
EXPENSES				
Interest on Borrowings	1,392,587	1,439,113	(46,526)	2
Borrowing Related Expenses	1,309	2,115	(806)	
Depreciation	226	307	(81)	
Amortisation of Intangible Assets	489	872	(383)	
Administration Expenses	12,813	14,575	(1,762)	
Foreign Exchange Loss	12	0	12	
	1,407,436	1,456,982	(49,546)	
Profit before income tax equivalent	16,220	11,604	4,616	

COMMENTS – REASONS FOR VARIATIONS FROM BUDGETED AMOUNTS

1. The decrease in Interest from Authorities compared to budget was due to a lower than anticipated client authority borrowing program.
2. The decrease in Interest on Borrowings compared to budget was due to lower than anticipated debt levels. There was a corresponding decrease in loans to authorities.
3. The relationship between net fair value movement and interest income and expense is discussed at Note 7. The budget does not separately identify unrealised gains or losses.

NOTE 26 (CONTINUED)

	2011	2010	CHANGE	COMMENT
	\$'000	\$'000	\$'000	
26b. COMPARISON BETWEEN 2010/11 AND THE PREVIOUS YEAR				
REVENUE				
Interest on Investments	173,114	108,369	64,745	1
Interest from Authorities	1,218,297	927,970	290,327	2
Fee Income	527	358	169	
	1,391,938	1,036,697	355,241	
GAINS				
Gains from Sale of Plant and Equipment	0	1	(1)	
Net Fair Value Movement	31,718	0	31,718	
Total Income	1,423,656	1,036,698	386,958	
EXPENSES				
Interest on Borrowings	1,392,587	1,009,760	382,827	3
Borrowing Related Expenses	1,309	1,300	9	
Depreciation	226	218	8	
Amortisation of Intangible Assets	489	644	(155)	
Administration Expenses	12,813	11,790	1,023	
Foreign Exchange Loss	12	13	(1)	
Net Fair Value Movement	0	6,197	(6,197)	
	1,407,436	1,029,922	377,514	
Profit before income tax equivalent	16,220	6,776	9,444	

1. Interest on Investments has increased by \$64.745 million from the previous year mainly due to an increase in investments.
2. Interest from Authorities has increased by \$290.327 million from the previous year mainly due to increased lendings during the year.
3. Interest on Borrowings has increased by \$382.827 million from the previous year as a result of increased borrowings during the year.

**NOTE 27
COMMITMENTS**

There are no expenditure commitments contracted for and payable at 30 June 2011 (2010, nil).

**NOTE 28
SUBSEQUENT EVENTS**

There have been no events subsequent to balance date which would have a material effect on WATC's financial statements at 30 June 2011.

**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 Management Act 2006 from proper accounts and records to present fairly the financial transactions for the financial year ended 30 June 2011 and the financial position as at 30 June 2011.

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
CHIEF FINANCIAL OFFICER

WESTERN AUSTRALIAN
TREASURY CORPORATION

19 August 2011

J M COLLINS
CHIEF EXECUTIVE OFFICER

WESTERN AUSTRALIAN
TREASURY CORPORATION

19 August 2011

T M MARNEY
CHAIRPERSON

WESTERN AUSTRALIAN
TREASURY CORPORATION

19 August 2011

KEY PERFORMANCE INDICATORS

Mission Statement (2010/2011)

To provide efficient debt funding, effective financial solutions and leadership in financial risk management to the public sector for the benefit of all Western Australians.

Key Outcome

To be respected in financial markets, valued by our clients and sought out by the WA public sector for our expertise.

Key Output

A key output flowing from the pursuit of this mission is providing service of the highest quality to our clients through understanding their needs, offering expert financial risk management advice and providing financial products and services that are competitively priced.

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, WATC monitors the Australian corporate bond market. The following table shows the estimated savings to clients borrowing from WATC 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 WATC's clients currently issue bonds in their own name.

By way of example, the saving of 0.48% identified in the first row of the AAA 10/11 column represents the estimated interest rate saving to a client (able to borrow in the corporate bond market with an AAA credit rating) when borrowing from WATC.

The savings identified in Table 1 below would be significantly greater than shown for all but the largest of WATC'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 \$500 – \$750 million to avoid the risk of incurring a significant liquidity risk premium.

In this regard, WATC'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.

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

Term to Maturity as at 30/6/11 (Years)	AAA			AA+			AA			AA-		
	10/11	09/10	08/09	10/11	09/10	08/09	10/11	09/10	08/09	10/11	09/10	08/09
1 to 2	0.48%	0.62%	0.73%	1.63%	0.93%	1.55%	0.65%	0.76%	1.01%	1.30%	3.05%	3.07%
2 to 3	0.66%	0.48%	0.56%	2.71%	1.03%	0.44%	0.77%	0.84%	1.57%		1.86%	3.47%
3 to 4	0.54%	0.74%	0.39%	1.59%	1.14%	1.86%	0.99%		1.82%			2.51%
4 to 5	1.12%	0.56%	0.57%			0.98%	1.08%		2.45%			3.67%
5 to 6	1.00%	1.09%	0.26%				1.24%					
6 to 7		0.96%	0.71%						3.33%			4.36%
7 to 8			0.33%	1.67%					2.05%			4.33%
8 to 9	0.84%						1.36%					
9 to 10		0.90%										
10 to 11			0.53%									
11 to 12												
12 to 13												
13 to 14												

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



Cost Estimation Methodology

A number of corporate bonds were selected for the purpose of comparison to WATC'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 2010 and have at least one year until maturity at 30 June 2011;
- not be guaranteed by the Commonwealth or other central governments; and
- not be subordinated debt (i.e. 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 WATC'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 Cost Effectiveness Indicator – Administration Cost Ratio

In order to monitor its efficiency and cost effectiveness in funding client borrowing requirements over time, WATC 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. WATC's administration cost ratio for the previous five years is shown in Table 2 below.

Table 2 – WATC Administration Cost Ratio 2006/2007 to 2010/2011

Year	Net Administration Expense \$m	Average Loan Funds Outstanding \$m	Administration Cost Ratio
2006/07	9.630	10,352	0.09%
2007/08	10.982	10,908	0.10%
2008/09	13.910	13,741	0.10%
2009/10	13.593	18,790	0.07%
2010/11	14.310	22,778	0.06%

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

The economies of scale achieved by WATC 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 WATC would not be cost effective for an individual client to maintain.

WATC'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 WATC.

KEY PERFORMANCE INDICATORS

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 WATC's lending rates.

CERTIFICATION OF PERFORMANCE INDICATORS

We hereby certify that the key performance indicators are based on proper records, are relevant and appropriate for assisting users to assess the Western Australian Treasury Corporation's performance and fairly represent the performance of the Western Australian Treasury Corporation for the financial year ended 30 June 2011.



J M COLLINS

CHIEF EXECUTIVE OFFICER

WESTERN AUSTRALIAN
TREASURY CORPORATION

19 August 2011



T M MARNEY

CHAIRPERSON

WESTERN AUSTRALIAN
TREASURY CORPORATION

19 August 2011

INDEPENDENT AUDIT OPINION

To the Parliament of Western Australia

WESTERN AUSTRALIAN TREASURY CORPORATION

Report on the Financial Statements

I have audited the accounts and financial statements of the Western Australian Treasury Corporation.

The financial statements comprise the Statement of Financial Position as at 30 June 2011, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and Notes comprising a summary of significant accounting policies and other explanatory information.

Board's Responsibility for the Financial Statements

The Board is responsible for keeping proper accounts, and the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards and the Treasurer's Instructions, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

As required by the Auditor General Act 2006, my responsibility is to express an opinion on the financial statements based on my audit. The audit was conducted in accordance with Australian Auditing Standards. Those Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements are based on proper accounts and present fairly, in all material respects, the financial position of the Western Australian Treasury Corporation at 30 June 2011 and its financial performance and cash flows for the year then ended. They are in accordance with Australian Accounting Standards and the Treasurer's Instructions.

Report on Controls

I have audited the controls exercised by the Western Australian Treasury Corporation. The Board is responsible for ensuring that adequate control is maintained over the receipt, expenditure and investment of money, the acquisition and disposal of public and other property, and the incurring of liabilities in accordance with the Financial Management Act 2006 and the Treasurer's Instructions, and other relevant written law.

As required by the Auditor General Act 2006, my responsibility is to express an opinion on the controls exercised by the Board based on my audit conducted in accordance with Australian Auditing Standards.

Opinion

In my opinion, the controls exercised by the Western Australian Treasury Corporation are sufficiently adequate to provide reasonable assurance that the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions.

INDEPENDENT AUDIT OPINION

CONTINUED

Report on the Key Performance Indicators

I have audited the key performance indicators of the Western Australian Treasury Corporation. The Board is responsible for the preparation and fair presentation of the key performance indicators in accordance with the Financial Management Act 2006 and the Treasurer's Instructions.

As required by the Auditor General Act 2006, my responsibility is to express an opinion on the key performance indicators based on my audit conducted in accordance with Australian Auditing Standards.

Opinion

In my opinion, the key performance indicators of the Western Australian Treasury Corporation are relevant and appropriate to assist users to assess the Corporation's performance and fairly represent indicated performance for the year ended 30 June 2011.

Independence

In conducting this audit, I have complied with the independence requirements of the Auditor General Act 2006 and the Australian Auditing Standards, and other relevant ethical requirements.



COLIN MURPHY
AUDITOR GENERAL

24 August 2011

CLIENT AUTHORITIES FACE VALUE NET DEBT OUTSTANDING TO WATC AT 30 JUNE 2011

AUTHORITY NAME	BALANCE AT 1 JULY 2010	NET ADVANCES DURING YEAR	BALANCE AT 30 JUNE 2011
	\$'000	\$'000	\$'000
Albany City Council	20,142	(1,002)	19,139
Albany Port Authority	2,159	(909)	1,250
Armadale City Council	12,010	6,443	18,453
Armadale Redevelopment Authority	700	0	700
Ashburton Shire Council	1,832	2,351	4,183
Augusta-Margaret River Shire Council	4,711	6,347	11,058
Bassendean Town Council	1,868	(115)	1,754
Bayswater City Council	409	(58)	350
Belmont City Council	3,384	(496)	2,888
Beverley Shire Council	316	(34)	282
Boddington Shire Council	1,238	520	1,758
Boyup Brook Shire Council	516	(65)	450
Bridgetown-Greenbushes Shire Council	551	(15)	535
Brookton Shire Council	2,321	(84)	2,237
Broome Port Authority	10,560	1,603	12,164
Broome Shire Council	4,433	218	4,650
Broomehill-Tambellup Shire Council	373	(48)	325
Bunbury City Council	5,527	1,064	6,590
Bunbury Port Authority	10,617	(1,050)	9,567
Busselton Shire Council	5,559	(552)	5,007
Cambridge Town Council	12,225	949	13,173
Canning City Council	14	(4)	10
Capel Shire Council	2,756	316	3,072
Carnamah Shire Council	684	(79)	605
Carnarvon Shire Council	622	23	645
Chapman Valley Shire Council	724	(35)	689
Chittering Shire Council	569	(91)	478
Claremont Town Council	0	8,487	8,487
Collie Shire Council	449	5	454
Commissioner of Main Roads	30,766	(5,000)	25,766
Coolgardie Shire Council	2,152	(229)	1,923
Coorow Shire Council	760	(203)	557
Corrigin Shire Council	1,106	(195)	911
Cottesloe Town Council	6,827	(300)	6,527
Country High School Hostels Authority	20,630	(926)	19,704
Country Housing Authority	34,760	5,693	40,454
Cranbrook Shire Council	95	506	601
Cuballing Shire Council	295	(48)	247
Cue Shire Council	97	(17)	79
Cunderdin Shire Council	1,108	(130)	977
Curtin University of Technology	70,544	(1,927)	68,617
Dalwallinu Shire Council	1,602	9	1,610
Dampier Port Authority	68,499	(2,165)	66,334

CLIENT AUTHORITIES

FACE VALUE NET DEBT OUTSTANDING TO WATC AT 30 JUNE 2011

CONTINUED

AUTHORITY NAME	BALANCE AT 1 JULY 2010	NET ADVANCES DURING YEAR	BALANCE AT 30 JUNE 2011
	\$'000	\$'000	\$'000
Dandaragan Shire Council	962	578	1,539
Dardanup Shire Council	2,626	(237)	2,389
Denmark Shire Council	2,416	682	3,098
Derby-West Kimberley Shire Council	2,947	(748)	2,199
Donnybrook-Balingup Shire Council	1,145	(294)	851
Dumbleyung Shire Council	120	(13)	107
Dundas Shire Council	134	(33)	101
East Fremantle Town Council	605	(134)	471
East Pilbara Shire Council	8,048	1,090	9,137
Edith Cowan University	63,591	15,872	79,463
Electricity Generation Corporation	1,093,131	(231,652)	861,479
Electricity Networks Corporation	4,629,769	328,114	4,957,883
Esperance Port Authority	88,712	(3,006)	85,707
Esperance Shire Council	8,353	564	8,918
Exmouth Shire Council	809	241	1,050
Fire and Emergency Services Authority of Western Australia	0	47,129	47,129
Forest Products Commission	87,546	(4,739)	82,807
Fremantle City Council	11,047	(170)	10,876
Fremantle Port Authority	162,053	78,074	240,127
Geraldton-Greenough City Council	10,623	(1,480)	9,143
Geraldton Port Authority	149,900	(4,148)	145,752
Gingin Shire Council	4,214	(414)	3,800
Gnowangerup Shire Council	443	240	682
Gold Corporation	3,500	0	3,500
Gosnells City Council	31,771	(17,287)	14,484
Government Employees Superannuation Board	448,572	(28,496)	420,077
Halls Creek Shire Council	1,596	(82)	1,514
Harvey Shire Council	1,959	(200)	1,759
Housing Authority	4,787,168	(119,294)	4,667,874
Independent Market Operator	2,539	3,791	6,330
Irwin Shire Council	5,177	(1,289)	3,887
Jerramungup Shire Council	584	(64)	520
Joondalup City Council	10,256	1,681	11,937
Kalamunda Shire Council	3,674	2,483	6,157
Kalgoorlie-Boulder City Council	6,110	(1,597)	4,513
Katanning Shire Council	853	133	986
Kellerberrin Shire Council	687	1,413	2,100
Kent Shire Council	770	(55)	716
Kojonup Shire Council	298	(46)	252
Kondinin Shire Council	221	(4)	217
Kulin Shire Council	151	(8)	143
Kwinana Town Council	7,503	4,426	11,930

AUTHORITY NAME	BALANCE AT 1 JULY 2010	NET ADVANCES DURING YEAR	BALANCE AT 30 JUNE 2011
	\$'000	\$'000	\$'000
Lake Grace Shire Council	1,512	283	1,795
Laverton Shire Council	0	1,100	1,100
Mandurah City Council	23,101	8,039	31,140
Manjimup Shire Council	4,963	(396)	4,567
Melville City Council	4,310	(293)	4,017
Menzies Shire Council	118	(27)	91
Merredin Shire Council	1,342	(104)	1,238
Midland Redevelopment Authority	50,932	13,100	64,032
Mingenew Shire Council	1,039	(113)	926
Minister for Agriculture and Food exercising power under the Loans (Co-operative Companies) Act 2004	10,314	(1,497)	8,816
Minister for Commerce	602	(273)	329
Minister for Education	228,207	1,420	229,627
Minister for Fisheries	3,652	33,983	37,636
Moora Shire Council	2,847	(338)	2,509
Morawa Shire Council	819	(188)	631
Mosman Park Town Council	6,720	(337)	6,382
Mount Magnet Shire Council	115	294	409
Mount Marshall Shire Council	926	(126)	800
Mukinbudin Shire Council	727	(80)	648
Mullewa Shire Council	103	(103)	0
Mundaring Shire Council	5,229	(150)	5,079
Murdoch University	10,849	(564)	10,285
Murray Shire Council	3,282	128	3,410
Nannup Shire Council	22	414	436
Narembeen Shire Council	854	(299)	556
Narrogin Shire Council	469	(63)	406
Narrogin Town Council	744	(50)	694
Nedlands City Council	4,095	1,871	5,967
Northam Shire Council	3,307	1,684	4,991
Northampton Shire Council	1,034	(166)	869
Nungarin Shire Council	569	(45)	523
Peppermint Grove Shire Council	979	(16)	963
Perenjori Shire Council	1,563	(86)	1,477
Perth City Council	29,728	(191)	29,537
Perth Market Authority	46,838	(1,000)	45,838
Pilbara College of TAFE	534	(73)	462
Pingelly Shire Council	280	(13)	266
Plantagenet Shire Council	4,594	(2,265)	2,329
Port Hedland Port Authority	138,700	70,000	208,700
Port Hedland Town Council	6,471	3,282	9,753
Public Transport Authority	1,158,229	74,647	1,232,876

CLIENT AUTHORITIES FACE VALUE NET DEBT OUTSTANDING TO WATC AT 30 JUNE 2011

CONTINUED

AUTHORITY NAME	BALANCE AT 1 JULY 2010	NET ADVANCES DURING YEAR	BALANCE AT 30 JUNE 2011
	\$'000	\$'000	\$'000
Quairading Shire Council	320	(29)	290
Ravensthorpe Shire Council	2,196	(148)	2,047
Regional Power Corporation	308,499	9,079	317,579
Rockingham City Council	25,006	(2,626)	22,380
Roebourne Shire Council	17,680	(186)	17,495
Serpentine-Jarrahdale Shire Council	5,705	(1,294)	4,411
Shark Bay Shire Council	577	(61)	516
South Perth City Council	6,514	1,414	7,928
Southern Metropolitan Regional Council	53,130	(3,392)	49,737
Subiaco City Council	3,644	(724)	2,919
Subiaco Redevelopment Authority	4,688	(2,588)	2,100
Swan City Council	11,695	(1,010)	10,685
Tammin Shire Council	314	(64)	250
The Treasurer on behalf of the State of Western Australia	3,521,901	1,179,816	4,701,717
The Treasurer (utilising powers under the State Supply Commission Act 1991 as amended)	214,609	(24,807)	189,802
Three Springs Shire Council	434	(41)	393
Toodyay Shire Council	1,467	21	1,488
Trayning Shire Council	468	118	585
University of Western Australia	62,500	6,250	68,750
Victoria Park Town Council	10,562	(731)	9,832
Victoria Plains Shire Council	124	(31)	93
Vincent Town Council	14,042	(133)	13,909
WA Local Government Association	181	(181)	0
Wagin Shire Council	400	135	535
Wanneroo City Council	46,718	14,060	60,778
Waroona Shire Council	263	(31)	232
Water Corporation	3,640,000	535,000	4,175,000
West Arthur Shire Council	703	(47)	656
Western Australian Land Authority	38,000	57,000	95,000
Westonia Shire Council	677	23	700
Wickepin Shire Council	571	(92)	479
Williams Shire Council	177	194	371
Wongan-Ballidu Shire Council	1,690	(65)	1,626
Wyalkatchem Shire Council	506	(80)	426
Wyndham-East Kimberley Shire Council	3,434	(221)	3,213
Yalgoo Shire Council	541	(25)	515
Yilgarn Shire Council	129	(41)	88
York Shire Council	58	1,322	1,380
TOTAL	21,749,938	2,056,942	23,806,880

Note: Due to rounding some figures do not add.

CONTACT DETAILS



WESTERN AUSTRALIAN TREASURY CORPORATION

Addresses

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Registry Information

Link Market Services Limited is the agent for supplying registry services to WATC's stockholders.

Following are address details relating to offices of Link Market Services Limited:

Western Australia	Ground Floor 178 St Georges Terrace PERTH WA 6000
Victoria	Level 1 333 Collins Street MELBOURNE VIC 3000
New South Wales	Level 12 680 George Street SYDNEY NSW 2000
Queensland	Level 15 324 Queen Street BRISBANE QLD 4000

Stockholding Enquiries

Please call Link Market Services Limited on Freecall 1800 098 828 for all stockholding enquiries.

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